CREDIVALORES-CREDISERVICIOS QUARTERLY RESULTS REPORT[1]

AS OF JUNE 30, 2021

Operator: Welcome to the Credivalores second quarter 2021 results conference call. My name is Yenny 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 (Founder and CEO):

Good morning and thank you for joining us today in our investor conference call to present our results for the 2Q 2021.

My name is David Seinjet, and I am the founder and CEO of Credivalores. In the conference call I am also joined by Patricia Moreno, Funding and Investor Relations Officer, Héctor Chaves, our CFO, and Catalina Kempowsky, 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.

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.

Strong financial performance and resiliency despite challenging environment

Our 2020 results highlighted the resilience of our business model during one of the most uncertain times in recent history.

In a context of a massive GDP decrease for Colombia we managed to grow our loan portfolio by 9.4%, our NIM by 10.5% and maintain a strong capitalization ratio at 24.6%. This impactful performance in the year of the global pandemic shows how resilient our business based on payroll deductible loans responses under a high stress scenario.

In 2021, in terms of managed loan portfolio growth, we still expect a 22% to 25% growth compared to 2020, especially driven by the credit card business and payroll loans among pensioners and government officials. We intend to maintain a higher portion of the loan among payroll loans. We expect a loan origination growth between 28% and 32%.

Given the important recovery in our credit card business during 2021, we expect NPLs to increase between 6.5% and 7.0% for our total managed portfolio. Even though our credit card business is riskier and hence the higher NPLs ratio, this is also a product with a 44% average yield, including fees and commissions, providing us with a strong source of income.

[1] The following transcript should be read in conjunction with our unaudited Financial Statements as of June 30, 2021. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities.

Our NIM, efficiency, and capitalization ratios are expected to remain strong at levels similar to 2020.

Massive acceleration of digital plan

In addition to our resilient financial results, 2020 was a year in which we experience a massive acceleration in our digital plan. Covid was a very strong tailwind to accelerate our 5 digital business plan and deploy it within 1 year. As a result, we have experienced significant improvements in our operational metrics:

- Payroll loan disbursement went down from 48 hours at the end of 2019 to 4 hours by June 2021, resulting in a 92% reduction. Likewise, Credit card disbursement time went down by 99% from 24 hours at the end of 2019 to 0.25 hours (15 minutes) by June 2021.
- Number of monthly loan applications went up by 27%
- Net promoter score improved by 7%
- Payroll loan origination among agreements digitally integrated represents 85% of total origination
- And our customer acquisition cost went down by 28%
- We believe our digitalization strategy will continue with strong momentum by tirelessly pursuing innovation

Continued success for over 17 years, accessing new sources of funding

During our 17-year track record we have achieved many significant milestones:

I founded the company in 2003 with capital from friends and family and since then we have continuously grown and successfully expanded the reach of our business:

As of June 2021, after 17 years we have disbursed more than US$3.0 billion and have reached a loan portfolio of US$ 471 million. All of these only following an organic growth strategy.

On the equity front, we have seen continuous capital injections from our shareholders throughout the last 10 years, with aggregate capital injections of about US$50 million.

On the debt front, our funding sources have evolved from pure, local secured facilities to significantly diversified sources of funding, including multilateral financing, unsecured issuances in the international and domestic capital markets. Since inception, we have raised over US$1.3 billion through our multiple funding sources.

We secured our first loan from the IFC in 2009, which we then managed to upsize in 2015, reaffirming IFC's commitment to our business. This loan was completely amortized in January 2021.

In 2013, we launched our Euro Commercial Paper (or ECP) program in the international capital markets, through which we have completed 18 successful issuances for a cumulative amount raised of US$412 mm.

We then issued our debut 144A / Reg S senior unsecured dollar denominated bond in 2017, which we then reopened the next year.

In 2020, just before the COVID-19 outbreak, we launched a tender offer to repurchase the 2022 bonds and we issued a new US$300 million bond due 2025. We managed to repurchase almost 50% of the outstanding amount of the 2022s and raised funds that allowed us to fund our operation. Also, during this very challenging year, we increased the amount of a local syndicated loan for payroll loan origination by the equivalent in pesos to US$25 million and we issued a new US$20 million note under the ECP Program.

When the prices of our 144A / Reg S notes declined to levels below 60% in April and May 2020, we conducted Open Market Repurchases to further cancel the bonds. We repurchased and cancelled US$32 million of principal of the 2025 bonds and US$6.2 million of principal of the 2022 bonds.

In April 2021 we issued a new US$50 million note under the ECP Program and just yesterday we issued a new US$25 million note due March 2023. With these two issuances we refinanced 100% of the total amortizations due this year after using our cash flow to serve each one of the maturities.

Finally, in August 2021 we issued the first tranche of our debut domestic bond with a government guarantee. The amount of the first tranche reached $52.9 billion pesos with a 1.5 times oversubscription. The 3-year note had a 9.10% interest rate and was rated double A by FITCH. We expect to issue the rest of tranches during the 3Q and 4Q of 2021 to complete the $160 billion pesos total approved amount. The local market has a lower depth and less participants than the international capital market and the institutional investors require between 5-6 weeks to approve their investment in any private debt issuance. Thus, we decided to move forward with the issuance of a first tranche with the investors that were ready to participate and had their internal approvals in place.

Largest non-bank lender in Colombia providing access to consumer credit to underserved segments of the population

We have consolidated our competitive position as the largest non-bank lender in Colombia providing access to consumer credit to underserved segments of the population.

We have a broad geographic footprint in Colombia covering 23 provinces and 97.7% of the population. In over 17 years we have disbursed more than US$3.0 billion in loans, reaching a loan portfolio of about US$470 million.

We have developed strong digital origination capabilities in the recent years and currently 85% of total origination is done through digital channels.

We have developed a significant client base of more than 862,000 clients, equivalent to 6.6% of the adult population with a loan outstanding in Colombia.

We have a portfolio of high yielding products that drive our superior margins operating under an environment of capped interest rates.

Finally, we have successfully transformed our business model using digital onboarding and process automation along our underwriting process to reach highly competitive response times for our clients and improve operational and credit risk. 84% of our payroll loans are disbursed under 24 hours and 90% of our credit cards are delivered under 12 minutes.

Unique business model that supports a strong credit story…

These are the key factors that we believe distinguish our Company as a highly successful business:

1. Our leading position as a multi-product consumer lender in Colombia's underserved, attractive financial market.

2. Our focus on high quality products with stable sources of payment and attractive risk-adjusted returns.

3. The proven results from our digital transformation strategy to support growth and profitability objectives.

4. A sound balance sheet to support future growth while prioritizing asset quality.

5. Our continuously improving funding profile with access to increasingly diversified sources.

6. Finally, our institutional shareholder base, which supported by our strong management team, promotes best-in-class corporate governance practices.

Favorable payroll lending market in Colombia to that of regional peers…

Colombia remains a highly attractive consumer lending market, offering an attractive macroeconomic and fundamental backdrop, coupled with a sound regulatory framework for consumer lending.

1. On the regulatory front, Credivalores benefits from the Colombian consumer lending market's mature and stable regulatory framework, in which:

National laws have been implemented to protect both i) borrowers, by establishing maximum interest rates and limiting payroll deduction's share in individual paychecks, and ii) lenders, by allowing the deduction of installments directly from borrowers' paychecks based on an irrevocable mandate, having loans follow borrowers between employers and creating a central payroll registry for payroll loan originators.

Additionally, borrowers can directly select the lender of choice for a payroll loan, which may not be the case in other LatAm markets, where loan origination may be impacted by labor unions or other exclusive arrangements which can limit consumer choice.

2. On the market potential front, Colombia's consumer loan growth in the region has improved consumer loan penetration as percentage of GDP to 13.6%, but still provides local lenders with significant room for sustainable growth. The consumer loan portfolio in Colombia grew 5.0% year over year as of June 2021. Payroll loans represented 38% and credit cards 17%.

Given the recent news coming from the NBFI industry in Mexico, we consider it is important to highlight Credivalores' best practices, as we believe they prevent or make unlikely a similar accounting situation from occurring.

- First, Credivalores does not consider accrued interest of non-performing loans as accounts receivables.
- Second, we do not capitalize remaining interests of deferred / renegotiated loans.
- Third, we do not perform an upfront activation of the value of payroll loan agreements.

- Fourth, Credivalores adopted IFRS accounting principles since 2015 following international standards.

Focus on a large underserved market segment with high potential growth…

Although commercial banks are present in the payroll lending space, they are traditionally focused on the upper-income segment of the population working for private companies, while most of Colombia's population remains concentrated in the mid- to low-income segments.

1. Credivalores' strategy is based on reaching clients located in the segments 1 through 3, which represent nearly 40 million people or about 80% of the country's population.
2. We also focus on small- and mid-sized cities, in addition to rural areas where banking penetration is considerably low.
3. In the payroll loan product, we focus on pensioners, who have a low access to consumer loans and are included in the Silver economy. In the credit card, we focus on low-income individuals underserved by the traditional commercial banks leveraged on specialized and seasoned credit analytics to address the credit profile of our target population and their financial needs, based on non-conventional data from our alliances.

Strong origination capabilities and diversified product platform…

Credivalores currently manages a $1.76 trillion pesos portfolio that has grown at a 9.9% average rate in the last 4 years. On a YoY basis as of June 2021 we had a 7.9% growth rate in our managed portfolio, basically as a result of a 30% growth of our credit card loan portfolio and a 4.4% decrease in our payroll loan portfolio, due to loan portfolio sales to local financial institutions during the first half of the year.

Our origination capabilities remained strong during the first half of 2021, growing at a 26.7% on year over year basis, as a result of the increase in the use of digital channels to maintain loan origination even under lockdowns and curfews that were put in place during the third wave of covid-19 cases in Colombia between May and June 2021 and through the social demonstrations that took place in the same period.

Our managed portfolio, which includes our owned portfolio and the payroll loan portfolio transfers, is mainly comprised of payroll loans which represent 49%, credit cards which account for 48% and insurance premium financing which represents 2%.

During the 4Q 2020 the board of directors approved the decision to suspend the origination of insurance premium financing. This decision was taken after considering the difficulties to maintain the balance of this portfolio, given the short duration of less than 10 months, the new competitive environment of this segment, in which insurance companies have become important players and the need to optimize capital allocation. This loan portfolio will fade away in the following months.

The average life of the managed loan portfolio is 3.9 years, with an average interest rate of 35.8%, including fees and commissions and an average loan size of around US$600.

Our more than 862,000 clients, which account for 6.6% of the adult population with a loan outstanding in Colombia, are mainly concentrated in our credit card product, with more than 690,000 clients.

Innovative products designed to appeal to target clients…

Our product offering is designed to appeal to our target market segment.

1. For payroll loans, we have 546 operating agreements with pension funds and private and public employers mainly in small and medium cities. The average term at origination of this portfolio is 123 months, although the average duration is only 48 months.

   - The US$5,100 average loan size is considerable inferior to that of the financial system. The average interest rate increases from 22% to almost 29%, when including commissions and fees.
   - About 86% of our payroll loan portfolio is placed among pensioners and government employees, with a single client exposure of less than 0.1%.

2. For our Visa branded credit cards, we leverage our 15 agreements with Colombia's major public utilities, retailers, mobile service providers and other allied merchants, placing 83% of the loan portfolio in cities outside of Bogota. The average term at origination of this portfolio is 18 months and the average loan size is about US$1,100. This product has the highest yield in our portfolio, since the revolving feature of the credit card allows us to charge higher fees and commissions to reach a 42.4% average yield, including fees.

   Our credit card portfolio targets low-and middle-income individuals, also maintaining a very low single client exposure of less than 0.1%.

Unique distribution channels based on long-lasting partnerships…

Our unique distribution channels are based on long-lasting partnerships that help us reach the specific groups targeted by each product.

We successfully originate these products through distinct distribution networks:

1. For payroll loans, we have 546 agreements with private and public employers and pension funds that grant us access to 2.4 million pensioners and 1.2 million policemen, military, public servants, teachers and employees from private companies.

   The top 32 agreements, which represent 80% of total new loans issued, are digitally integrated today to our origination and operational systems improving the response time and lowering our operational risk.

2. For our credit cards, we have origination agreements for digital onboarding of our clients at the major retailers and at more than 300 points of sales of the mobile service providers and other allied merchants, which we have recently incorporated through digital channels. Collection agreements with utility companies allow us to incorporate non-conventional data to our credit analytics to address the credit profile of our target population and to bundle our bill to the utility bill, increasing the priority of payment of this credit card. In addition, the collection agreements with bank correspondents and financial institutions result in more than 16,000 points at which our clients can pay their bill.

3. The origination and collection agreements grant us access to 1.9 million clients from utility companies and more than 44 million clients from telecom companies. We calculate that recurrent traffic from clients at retailers and allied merchants could result in more than 1.7 million potential loan applications.

Deployment of digital transformation strategy to enhance operational results…

Between 2017 and 2018 we started a digital innovation of our business model. We began by upgrading our core systems and working on process automation, and then in 2019 we launched client-focus digitalization initiatives to improve agility in our origination process. These efforts allowed us to simplify the origination process bringing our value offering closer to our client during the purchase decision-making process. The result was a rapid growth of the origination through digital channels, which after only two years and half stands at 85% of total origination as of June 2021.

Along with the innovations in the front-end, we improved our operational capacity to process the increasing number of loan applications coming from new origination alliances. The number of monthly loan applications processed has grown by 27% since 2018.

Alongside, we have been able to control our risk appetite by reducing or increasing our approval rate according to the macro conditions and available funding. As of June 2021, we accessed a guarantee from the FGA to mitigate the credit risk from a specific group of clients under the credit card business, allowing us to increase the approval rate among this group. The FGA is a partially government owned entity which acts as a guarantor for loans.

We are implementing the recommendations and the roadmap built with Bain & Company to reshape our digital transformation strategy based on our strengths. We will profit from opportunities arising from strategic alliances with FinTech's, allowing us to attract the right talent and to develop new skills for the new competitive environment.

Sound balance sheet ready to support future growth…

Maintaining a sound balance sheet has always been a key operational focus for Credivalores.

- Our equity base has grown, with a 3.5% CAGR between 2018 and June 2021, driven by organic growth from retained earnings and our shareholders' capital commitments to the business. Between December 2020 and June 2021 our shareholders' equity declined 11.8% to $272 billion pesos due to a reduction in the valuation of the derivative instruments, specifically related to the change in the value of the options from the call spreads we have in place to hedge the principal of the 2022 and 2025 USD bonds.

- Shareholders' commitment is also demonstrated by its consistent policy of reinvesting 100% of the profits earned by Credivalores.

- Our total sources of capitalization grew at almost 12% CAGR between 2018 and June 2021, with total capitalization reaching $2.5 trillion pesos in June 2021, with a 2.4% year to date growth, which represents a solid funding base to support Credivalores' business.

- In addition, the NPLs coverage ratio remains compliant with IFRS 9 further enhancing the strength of our balance sheet. The coverage ratio of the managed loan portfolio declined during the second quarter of 2021 due to the stabilization of the net impairment expenses in the P&L amid the expected deterioration in the loan portfolio, especially in the credit card business.

- Finally, our leverage and solvency ratio stood at 6.7 times and 0.1 times due to the reduction in the shareholders' equity.

Improving core financial results underpinning long-term profitability

Credivalores' top-line growth has been in line with that of the loan portfolio since 2018, growing at an 8% CAGR. YoY in June 2021 the interest income grew 20% to reach $159 billion pesos, while the commissions and fees increased almost 32% totaling $55 billion pesos. This was the result of an increasing pricing power among our niche market in different regions. As a result, the yield of our loan portfolio increased to 24% in June 2021.

The cost-of-funding has remained under control driven by:

1. Increased participation of domestic debt at lower rates.
2. Lower local reference rate from the Central Bank.
3. Lower cost of hedging in cross currency swaps indexed to IBR.

These funding costs improvements have translated to enhanced margins, as our net interest income has continued to increase since 2018 at a 3.7% CAGR. The net interest income reached $175 billion pesos in June 2021, exhibiting an 8.4% year over year decline. This was due to a one-off event related to the net profit from the Open Market Repurchases on the 2025 bonds, which was registered as a lower financial cost in June 2020. As a result, the Net Interest Margin declined YoY from 11.3% to 10.1%.

The efforts to optimize SG&A expenses through process automation and controls has improved efficiency ratios. However, the annual decline in the net interest margin due to the recovery in the financial costs to historical levels deteriorated the efficiency ratio to 49% in June 2021.

These top-line improvements are expected to continue to translate more directly into Credivalores' bottom line in the following years to recover profitability. As of June 2021, net income was $1.8 billion pesos, exhibiting a 60% decline on year over year basis.

Asset quality in line with peer performance in Colombia…

Regarding our asset quality, total NPLs stood at 7.1% in June 2021, above the 5.5% average level of the consumer loans in the financial system. In terms of NPLs by product, payroll loans and credit cards stood 4.8% and 7.1%, respectively. As of June 2021, the financial system maintained forbearance measures in place in the consumer loan portfolio. The increase in our NPLs is due mainly to payroll loan portfolio sales during the first half of the year, which reduced the total managed loan portfolio. In addition, the total NPLs are due to the end of forbearance measures, especially in the credit card business, and to the social protests, which affected the collection processes for the credit card business specially in Cali, which represents 29% of the credit card portfolio. Not including the loan portfolio sales, the NPLs would have been 6.8%. NPLs for payroll loans among pensioners remains at 2.7%.

In spite of the result in NPLs, total collections recovered from last year increasing by 13.8% on a year over year basis reaching an average of $101 billion pesos per month in 2021.

For 2021 we expect total NPLs to end the year between 6.5% and 7.0% maintaining last year's guidance, as no additional forbearances will be granted, and the credit card loan portfolio will reveal additional deterioration of credit risk arising from the impact of higher unemployment and slow economic recovery. We do not expect additional impacts in our P&L, since our IFRS 9 model for the calculation of impairment expenses already includes the expected loss of our loan portfolio under current macroeconomic conditions. We maintain strict underwriting policies in place to control further deterioration of our loan portfolio, including smaller credit lines and tighter underwriting policies on private agreements. In addition, we developed new digital collection channels that improve contactability at a lower cost, new scoring models for collections and portfolio management. Also, we suspended the credit card origination in the regions most affected by the protests and higher unemployment.

After the declaration of the COVID-19 as a pandemic in March 2020, we imposed tighter underwriting policies and we offered 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. We granted forbearance measures to loans totaling $516 billion pesos in 2020, equivalent to almost 30% of the managed loan portfolio. As of December 2020, only $23 billion pesos remained under forbearance, equivalent to 1.4% of the managed loan portfolio and as of June 2021, $5.7 billion pesos of the total loan portfolio remained under forbearance, equivalent to 0.3% of the total managed loan portfolio.

The more restrictive underwriting policies resulted in a 96% concentration of the payroll loan origination among pensioners and government officials and in an 86% concentration among new clients with better credit profiles, including prime and super prime segments, in the credit card business.

Continuously improving funding profile with access to diversified sources

We have cultivated long-standing relationships with local and global financial institutions and multilateral agencies in order to support our funding base. This has been complemented and enhanced by our access to global capital markets. Through our diversified funding base, we have raised more than US$1.4 billion of funding in the past ten years to support growth.

As of June 2021, 74% of the financial obligations were the unsecured 144 A / Reg S bonds, 12% were notes under the ECP Program, 11% secured domestic sources and 3% unsecured domestic sources. Our current sources of funding include a local syndicated loan for payroll loan origination, a payroll loan financing structure through a mutual fund with BTG Pactual, working capital lines with local financial institutions, overdraft lines and Reg S Notes under our ECP Program. These sources and the cash at hand we maintain, add up to $1.5 trillion pesos, out of which $709 billion pesos remained available.

In addition to these funding sources, our relationship with Banco Credifinanciera provides an alternative funding source. Banco Credifinanciera has become a leading financial institution with a strong balance sheet and a solid deposit base growing at 12% year to date with over 11,500 deposit clients and an 80% renovation rate.

As of June 2021, the average life of our debt stood at 2.4 years. The secured debt amortizations in 2021 include the local syndicated loan for payroll loans, which is revolving for the following 18 months. As previously mentioned, with the issuance of a US$50 million note in April 2021 and the new US$25 million note issued yesterday, we already refinanced 100% of the amortizations of the notes due this year. The proceeds of the new issuance will be used to fund the loan portfolio growth.

As you all know, we are structuring new sources of funding for an aggregate amount of more than $950 billion pesos. We already secured $471 billion pesos for our 2021 cash flow needs, including a new $187 billion pesos note under the ECP Program issued in April, a $100 billion pesos structured financing for credit card origination through a mutual fund with BGT Pactual, a $53 billion pesos bond with the issuance of the first tranche of domestic guaranteed bonds, a new $94 billion pesos note under the ECP Program issued in September and a new $37 billion pesos working capital line with JP Morgan Bank in Colombia. We continue working on a secured loan backed by payroll loans for up to $260 billion pesos, which we expect to close during September 2021, and loans from multilateral agencies for up to $260 billion pesos during the 4Q 2021.

During the first half of 2020 the rating agencies, S&P and Fitch Ratings, announced a negative outlook and a negative credit watch, respectively, on our long-term debt international rating due to concerns on the macroeconomic impact of the COVID-19 on the quality of our loan portfolio and our profitability. However, the 2020 results confirmed the resilience of our business model under challenging macro conditions. In April 2021 S&P confirmed the 'B' rating with a negative outlook and in May 2021 Fitch Ratings removed the negative watch on our rating confirming the 'B+' rating. FITCH's decision was specially driven by the resilience of the credit card loan portfolio to macro -economic deterioration from the COVID-19 pandemic. The rating agency highlighted the more conservative underwriting policies adopted in last years and the technological improvements in the collection process.

…an increasingly robust credit profile…

Total financial obligations, net of the FX impact, increased 1.4% to $1.8 trillion pesos between December 2020 and June 2021. During the first half of 2021 we used funds from our own collections and from the loan portfolio sales to fund loan portfolio growth. By June 2021, 89% of our total debt was unsecured and 11% was secured and 95% of maturities were due in the long-term as a result of the strategy to extend the average life of debt.

Our ratio of unencumbered assets to unsecured debt, stood at almost 137%, above the minimum 110%, required by the covenant. The capitalization ratio, measured as the total shareholders' equity divided by net loan portfolio, totaled 22% remaining above the 13.5% level required by the covenant of the Notes due 2022 and 2025.

Experienced management and best-in-class corporate governance

On the corporate governance front, we believe that our management team, comprised of experienced professionals with deep knowledge of their areas of expertise, have been responsible for the successful development and growth of our business.

-On average, our principal officers have 18 years of experience in the financial services industry

-The combined knowledge, experience and commitment of our management team and our shareholders has been crucial in determining our strategy and building new initiatives

-Our Board of Directors is composed of seven principal members with their alternates: the main members include 2 members from Gramercy, 2 representatives of the Seinjet family, 1 member from ACON and 2 independent members.

-Credivalores is registered at the Single Registry of Payroll Loan Operating Entities, is subject to the surveillance of the Superintendency of Industry and Commerce and the Anti-money laundering and terrorism financing (AML/FT) regulations from the Superintendency of Corporations in Colombia. In addition, in 2021 the Board of Directors approved the directive to become a Collective Interest and Benefit Society, a Colombian government initiative to promote better practices in the corporate sector to generate a positive social and environmental impact, adopting GRI, ISO, SGD Compass and Accountability standards.

-In May 2021 we launched an anonymous on-line and phone line ethics and compliance hotline for employees to report bad commercial practices, frauds, conflicts of interests and misuse of resources.

Globally recognized shareholders, supporting Credivalores' growth

Finally, our globally recognized shareholders ACON and Gramercy and the founding family have continuously supported the company's growth path through capital injections throughout the last 10 years, with aggregate capital injections of about US$50 million.

After recovering some stability in the equity market and adapting the financial projections of the Company to the new reality under the COVID-19 restrictions, the Seinjet family will continue to study and proactively present exit alternatives for the private equity funds' analysis. The intention of the Seinjet family has always been to find a suitable partnership to accompany the future growth of Credivalores and to sponsor the efforts to deploy the digital transformation strategy defined.

This concludes our presentation for today. We will 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 to the audio questions and then we'll read and answer the questions coming from the web.

If you have a question, please press star (*) and 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 (*) and then one (1) using your touchtone phone.

We have a question from Nicolas Riva, from Bank of America. Please go ahead.

Nicolas Riva: Thanks very much, Patricia and David, for letting me ask questions. So, there were three topics that I wanted to ask you about.

First, on NPLs, if you can remind us why you don't write off loans which are overdue more than 360 days. So looking at your NPLs, there's a significant amount of NPLs which are overdue more than 360 days. And you know, the typical policy of financial companies is to write those off. So I wanted to ask you again if you can remind us why you don't do that. And also, if these loans which are overdue more than 360 days, if they are fully provisioned in all cases and what's the policy for provisioning, if it's based on days overdue of the loans. So that's the first topic, NPLs.

Second, I remember that you talked about in prior earnings calls and prior investor events about the possibility of the two private equity funds to exit the company and looking for new shareholders and a potential capital injection. If you can give us an update on that, on the potential exit of these two private equity funds and new shareholders coming into the company and a potential capital injection. And also, if you can remind us your leverage target in terms of debt to tangible equity or debt to equity. So that's the second topic on shareholders.

And then the third topic on the 2022 bond. I understand that you have mentioned that the base case was to look for other funding sources and probably not to refinance it in international debt market. Is that still the base case? And if you can give us an update in terms of the next funding sources. We saw the ECP issuance, the USD $25 million and then the issuance in the local market guarantee by the government. Great news. But if you can give us an update in terms of new funding sources and if really we should be basically looking for the next tranches of the local debt issuance guaranteed by the government or also if there is any other ECP issuance in the short term. Thanks.

Patricia Moreno: Hi, Nicolas, how are you? So regarding your first question on the NPLs, why we do not write off loans more than 360 days past due. We do write off some loans, especially among the credit card business and the insurance premium financing, according to our policies implemented in 2018 after we adopted IFRS 9. For the payroll loans, it's on a case-by-case basis. The policy was structured like that basically because we have a different regulatory framework than Mexico has, for example, in terms of payroll loans. As you know, and we explained it during the presentation, here in Colombia, if the employee loses his job or her job and they go to work somewhere else, we're able to find that employee over time and the loan might go past due more than 180 days or so. And after a while, because of the regulatory framework we work under, we could apply the discount and then the loan will be current again. That's one of the main reasons why we do not write off payroll loans right away.

The other reason is that just before we adopted IFRS 9, so almost 12 or 13 years of operations that we had until then, for all purposes, Credivalores is a corporate and not a financial institution for fiscal purposes. So, all the provision expenses that we had in our P&L were not completely accounted as expenses for our fiscal purposes. And so in terms of the net income, we would have had a different treatment of our provision expenses and not being able to account 100% of that expense during the past years. That's why we decided, before adopting IFRS 9, not to write off loans, otherwise, we would have a different tax treatment for those loans. After 2018, when we were able to come to an agreement on those two worlds, the accounting treatment and the fiscal treatment of those expenses, that's why we implemented the write-off policies that I just mentioned to you, especially for credit cards, once they go bad or once loans go past due after 180 days, we start writing off loans and in the insurance premium financing is the same after 180 days.

The second question that you had is…

Nicolas Riva: Patricia. Patricia?

Patricia Moreno: Yes?

Nicolas Riva: Sorry. A follow-up question on that. Is there any kind of structural reason why some of your payroll loans would be late even more than a year, but then you are still able to get repaid?

David Seinjet: Yes. There are two things that you need to consider. First, what Patricia mentioned earlier, it's the recovery rates. Recovery rates are fairly high for our NPLs. Let's say we recover around 1.5% to 1.7% of the total NPLs over 180 days.

Patricia Moreno: More. 45%.

David Seinjet: Right. 45%. Like 1.7% to 2% on a monthly basis.

Patricia Moreno: On a monthly basis. Yes. In general, about 40% of recovery rate of loans past due 180 days.

David Seinjet: Ok, so the recovery rate is very high and for payroll loans specifically, you might have a loan that hasn't its installment working and then the installment starts working because you basically enroll in installments and it will become operational once another installment or another judicial process disappears from the loan. So that's the reason why you might have loans that are due more than a year and then they become current again.

Patricia Moreno: Operational reasons.

David Seinjet: It's mostly operational reasons.

Nicolas Riva: Okay, thanks both.

Patricia Moreno: Second question regarding the provisions is: those loans past due more than 360 days are completely provisioned. They are related expenses and the P&L has already taken place.

On how do we provision loans?

Catalina Kempowsky: We have the IFRS 9 model and that's the way we provision what the model says.

Patricia Moreno: Stage one, two, three.

Catalina Kempowsky: We have the stage one, stage two, stage three, the PDLs, the LDDs. It's basically the IFRS model that that we have installed for the provision process.

David Seinjet: To complement what Cata is saying, basically the IFRS provision in system obligates the company to work in expected loss versus other companies that work in incurred losses. So basically, this model takes under consideration not just the risk profile of the borrower, but all the risk coming from the macroeconomic risk, the macroeconomic stages of the country itself. So it's a model that states and classifies each of the loans in certain tiers and that you have to provision, according to a statistical results of the model itself. So it's not just a rule that you have to provision X percentage of the loans that are in different tranches. It's basically done loan per loan.

Nicolas Riva: Understood. Thanks. And then on the shareholders?

David Seinjet: On the shareholders, liquidity event. Yes, I spoke about it in the non-deal roadshow that we had a couple of months ago. It's something that we are working. We are waiting for the recovery of the Colombian economy, recovery of the world economy, and it's something that we are exploring between the shareholders and it's something that might happen probably next year.

Nicolas Riva: Okay. So for now, in the short term, there are no plans in the short term for an equity injection.

David Seinjet: As I mentioned, it's something that we are working between the shareholders to find the strategy for a liquidity event or probably partnering with a strategic company in order to continue supporting the balance sheet of the company for future growth.

Nicolas Riva: Okay, thanks. So therefore, for your leverage target you're comfortable with this level of about 9.5 times debt to tangible equity.

Patricia Moreno: That debt to tangible equity, it's not like we're comfortable with those levels. We definitely will work to reduce those levels of leverage going forward, especially considering the new sources of funding. And now I'm answering also your last question. The new sources of funding that we're working on are basically the payroll loan backed facility with an SPV and also potential loans from multilateral agencies. So specifically, the payroll loan backed facility that will be an off-balance sheet facility not increasing the debt on balance, basically because there will be no recourse to Credivalores under that structure. And that's what we are foreseeing for the fourth quarter of this year to close that. Actually, we will be able to close the documentation in the third quarter during September of this year and we'll be ready to disburse during the fourth quarter of the year, if that's needed. But that will be enough balance sheet facility not increasing our leverage ratio for those COP 260 billion in addition that we are considering for these new sources of funding.

The rest of sources of funding that we might access to during the following months are loans from multilateral agencies. Basically, our intention is that those loans would be unsecured, we have to see how the negotiations unfold with counterparties. If that's the case, that will be on balance. But we intend also to use those proceeds to increase our loan portfolio, especially from payroll loans, and be able to contribute to the profitability of the company going forward.

Basically, those are the two main sources of funding that we're working on and that we foresee coming by the end of 2021, not for the cash flow needs for 2021, but basically already pre-funding or having the structure ready to fund the 2022 cash flow needs.

Nicolas Riva: So then Patricia would be even...

Yeah, go ahead.

David Seinjet: I think it's important to mention and to present that all the funding sources that we presented that were in process of approvals or being developed have been completed for the first two quarters of 2021. The remaining funding sources that we announced for third quarter 2021 and fourth quarter 2021 are in the process of being implemented. So we feel that we have been very successful implementing all funding strategies throughout this year and being ahead of the funding needs of 2022.

Nicolas Riva: So, it really sounds as if the plan is not to come to the bond market, at least for the remainder of this year, and to basically rely on that local market, that local issuance guaranteed by the government and then the payroll backed SPV and then the loans from the multilateral agencies, basically.

Patricia Moreno: Yeah, basically that and we also got access to a new working capital line with JP Morgan Bank in Colombia for USD 37 million. It's probably their first loan in Colombia also, plus the structured mutual fund with BTG Pactual for credit card origination, which was also closed during the third quarter of the year for COP 100 billion. So yes, all of those are domestic sources of funding that we are working on.

We are not considering an international bond issuance to refinance our amortization of the 2022 bonds going in July of 2020. Basically, current conditions are not competitive enough for us to consider this market right now. We will have to keep monitoring the levels of our bonds to see if they are at some point also an alternative to refinance the 2022's.

Nicolas Riva: Great. Thanks very much for all of that, Patricia and David.

Operator: Thank you. Our next question comes from Carlos Rivera, from DoubleLine.

Carlos Rivera: Hi, good morning, everyone. Thanks for taking my questions. So the first one is going to be on asset quality. Your NPL ratio as of the third quarter is slightly above your guidance of 7.1. That's higher on the range, as you mentioned. Would you say this is the peak and then is going to be decreasing in the fourth quarter? Or we could see a revision of the guidance for the NPL ratio?

And on this same topic, I would like to know what is driving the increase in delinquencies on the payroll loan. Is this the loans to employees in the private sector or is there some problems in collecting from employees in the government sector? And on this topic, also what is the implied coverage ratio that would be the guidance based on what you disclosed? That would be my first question on asset quality and then on the funding sources I also have a follow up. But let's talk about asset quality first. Thanks.

Catalina Kempowsky: So, in terms of the NPLs, yes, we are a little bit higher, but in the fourth quarter, we projected to maintain between the 6.5% and 7.7% of last year's guidance. We had specifically two reasons why in June it was a little bit high. First of all, the sales of the payroll loan portfolio tended on the total NPLs to grow a little. But as the commercial strategy to focus on pensioners will make that the NPLs go lower to the levels we estimated at the beginning of the year.

Also, in December of 2020, we had some operational reasons that made the NPLs grow, but they are all closed. We don't have those problems anymore. So that's another reason for us to think that we're going to get back on track and lower our levels.

Patricia Moreno: Basically, with private companies, operational issues with private companies.

Catalina Kempowsky: Yes. And also because our commercial strategy is based on pensioners, which we have an NPL of 2.7%, so we are tending to lower those levels.

Patricia Moreno: So yes, June was the peak of our NPLs, as expected, and we foresee that during the third and fourth quarter of the year, we will get back into the guidance that we gave at the beginning of the year.

Carlos Rivera: Ok. Are you seeing any problems in collections from payroll loans from the government employees or not? And what is the coverage ratio implied in the guidance, please?

David Seinjet: The question is…

Patricia Moreno: Collection.

David Seinjet: The first question, collections, no. Basically in Colombia, government payroll works very well and we have been able to digitally integrate to around 30 alliances which represent around 85% of the total new loans, so operational risk are very low and are going to be even less in the coming months. It's important to mention as well that government pensioners represent around 95% of total new loans issued during the first half of the year. So we are very confident that the NPL levels are going to continue improving the level.

Patricia Moreno: And coverage as of June that we showed the managed portfolio has a coverage ratio of 104% and the own portfolio 109%. We expect those levels to remain similar. We expect the end of the year to remain similar to those levels, considering that there will not be further deterioration to the peak that we had as of June and that our impairment expenses are stabilizing in the P&L, as we already mentioned, as of June.

Carlos Rivera: Ok, great. Now let's talk a little bit about funding. You mentioned potential help from Credifinanciera. Would have been in the source of loans? Or would that be in the source of they acquiring portfolios from you? And also, on funding, I see that many of the strategies have a check, like mutual funds, credit card, domestic bond, FNG guarantee. But I understand those are not completed yet. Can you confirm how much of this is already completed? And maybe by when do you expect to have more progress on this? My impression is it is taking a little bit longer than expected and given the upcoming maturity of the '22 you might not have so much more time before we get closer to that date.

David Seinjet: Can you repeat your first question, please?

Carlos Rivera: Sure. Okay, so

Patricia Moreno: On Credifinanciera, yeah.

David Seinjet: On Credifinanciera. Ok.

Basically, Credifinanciera is a full banking license in Colombia, which have common shareholders of Credivalores and Credifinanciera has a very strong balance sheet, high liquidity levels, and the relationship or the alliance that we have with them is basically we can sell portfolio to Credifinanciera instead of selling to other financial institutions. So it's an additional funding source for future growth of the company.

Patricia Moreno: All of these transactions are done on an arm's length basis, as done with other lenders, this is also part of the growth strategy from Banco Credifinanciera to buy the payroll loan portfolio from other originators in Colombia.

Carlos Rivera: Ok, so it would be sale of portfolios but not direct loans from Credifinanciera.

Patricia Moreno: Exactly.

And second, on the funding sources, I honestly do not understand your question because as of June, we already told you that we were working on COP 964 billion of total funding sources that we had already identified at the beginning of the year. And as of June, we already secured COP 471 billion out of those sources with the issuance of a new USD 50 million ECP program note in April of this year. Another USD 25 million note issued just yesterday. Those were to refinance 100% of the USD 75 million that were due this year. But as we mentioned, we paid out those maturities first with our own cash flow and then we were able to renew the note. So it wasn't like the refinancing went straight ahead to pay out the debt. This works in a different way with this ECP program note. So these new sources, these new funds that we got, for example, yesterday we did USD 25 million. We will be able to grow our loan portfolio going forward. The mutual fund structure with BTG Pactual for credit card origination, that's also a new source of funding, its domestic, COP 100 billion. It will give us new fresh resources to originate credit cards in 2021. The domestic bond issuance was approved for COP 160 billion but as I mentioned before, the depth of the local capital market and the number of institutional players that we have in Colombia is lower than in international capital markets. So that's why our strategy to place this bond was to do it by tranches. We already issued the first tranche in August of this year for COP 52.9 billion. We initially offered COP 35 billion to the market and we received 1.5 times over subscription for this issuance.

Going forward, we expect during the fourth quarter of this year to place at least COP 50 billion more of the COP 160 billion to complete COP 100 billion issued this year and we can extend the authorization from the Financial Superintendence up until next year to issue during the first half of 2022 the remaining amount.

But offsetting that situation, we also accessed a new working capital line with JP Morgan Bank that I told you about, that's a COP 37 billion loan that we already disbursed during August, making up all of this for the COP 471 billion that we explained during the presentation.

The only two sources that are pending, out of the ones that we identified from the beginning of the year and those are to cover our cash flow needs for 2022, are the payroll loan backed facility, the SPV that I just talked about before for COP 260 billion, and the loans from multilateral agencies for

COP 260 billion, also for 2022. Those are the two only sources that are pending right now out of the whole list that we presented to you a couple of months ago.

Carlos Rivera: Ok. So overall, you would say you are confident you can pay or find alternative sources for 2022 without tapping the international markets.

Patricia Moreno: Yes. That's the idea. That's why we are securing these two sources. We are moving into transactions that we could eventually announce as committed. We do not have that confirmation yet, but our expectation is that we could have access to this COP 260 billion payroll loan backed facility on a committed basis, which is something that will give us peace of mind during the first half of 2022 and with all the sources that we just raised this year, we also were able to increase or to fund the growth of our payroll loan portfolio, to have the assets that will be needed for this payroll loan backed facility exactly. So the origination of our payroll loans right now is increasing during September and the fourth quarter of 2021 in order to be ready to transfer or sell that loan portfolio to this structure, eventually during the first half of 2022 and be able to refinance the bonds in July.

Carlos Rivera: Ok. Thank you. And the last question would be on the net interest income. I understand the decline year over year because the boost of last year due to the purchase of the bonds at a discount, but quarter over quarter, it also declined 17%. What is driving this?

Patricia Moreno: Quarter over quarter. We only have a reduction of the net interest income of about 17%. As you see, interest income and similar is basically the reason, financial costs of interest remain almost the same between the first quarter of the year and the second quarter. But we had a reduction in the interest income coming from payroll loan portfolio sales in the second quarter of this year. As you know, during the first quarter and second quarter of this year, we sold payroll loan portfolios to Banco Credifinanciera and of course, that reduced our interest income.

Carlos Rivera: Ok. And one question there, on the sale of portfolios last quarter, when you sell them, if you sell them around at a premium, I assume you book a one-time gain. If I'm correct on that, where do you book that? Which I assume was in the first quarter. And if you have a sense of the approximate amount of this additional income in the first quarter.

David Seinjet: Portfolio sales to Credifinanciera and other financial institutions are done at a market value. There is an increasing appetite for this type of loans in Colombia. As I mentioned during the presentation, payroll loans represent around 38% to 40% of total consumer loans in Colombia and due to the lower risk appetite from financial institutions, these loans on pensioners are very attractive. So, there is a market and we sell them to Credifinanciera at market value. That's the way we do it.

Patricia Moreno: The premium.

With a premium.

Carlos Rivera: It's a premium over what you have in the book, right?

David Seinjet: Yeah, obviously, yeah, you have to set it at a premium in order to cover your origination cost and administrative costs. Yes.

Patricia Moreno: And we showed that in the interest income within the commissions and fees line in the P&L.

Carlos Rivera: Ok, and do you have a sense of the amount that this portfolios sale in the first quarter represented the last quarter?

David Seinjet: We don't have that.

Carlos Rivera: It's fine. We can follow up later. It's a very big question. I'm just curious about that.

David Seinjet: Thank you.

Carlos Rivera: Ok. Thank you very much for the answers.

Operator: Thank you.

David Seinjet: Can we move to the web questions?

Operator: We have no audio questions, no further audio questions.

Patricia Moreno: Ok, great.

Yeah, we already answered some of these questions, for example, the question from Maria Teresa Cruz on why the NPL ratios of payroll loans and credit card continue an upward trend. That's what we explained before.

There's another question from Leo. Could you please provide us with an update on your interest in buying Colombian portfolio from Alpha? How are things going on that front? How would you fund the purchase of the portfolio to address your expressed interest in it?

David Seinjet: We have been looking at the Alpha portfolio. Yes, it's a portfolio that has a perfect fit with our strategy to grow in government pensioners. It's something that it's in process. I don't have much information about that. It'll be funded with secure facilities provided by two large financial institutions from the U.S. That's probably all I can say for now.

Patricia Moreno: And the funding.

David Seinjet: Funding comes with a secured facility, off balance, in an SPV security provided by large financial institutions from the U.S.

Patricia Moreno: There is a question from Ivan Felipe Agudelo. "Do you consider any impact from the new tax reform in your result or strategy?"

David Seinjet: No.

Patricia Moreno: According to the bill that we have seen so far, we do not foresee any potential impacts for our business in Colombia.

I don't think it was very clear how Credifinanciera participates in our funding structure because I've seen many questions in this regard. Let me just explain it again. Banco Credifinanciera, as you all know, it's a completely different entity from Credivalores, it's regulated by the Financial Superintendence in Colombia, but we do share the same shareholders in both companies. The way we see Banco Credifinanciera as a potential source of funding is through the sales of our payroll loan portfolio to Banco Credifinanciera on an arm's length basis. This is something that is part of the growth strategy of Banco Credifinanciera, it's been always to buy loan portfolio from other originators in Colombia, not only grow through their own sales forces. Credivalores is one of the many payroll loans originators in Colombia, and that's why we eventually have these transactions between Banco Credifinanciera and Credivalores.

For Credivalores, these transactions, as we explained before, are one, a source of funding, and two, since they are done with a premium, and we register that premium upfront, once we sell this loan portfolio, we receive interest income and similar in our P&L and we stop servicing that loan portfolio. We completely sell that loan portfolio to Banco Credifinanciera, who then becomes the new servicer of that loan portfolio. That's the only way we see Banco Credifinanciera participating as a source of funding for Credivalores. Just wanted to clarify that part.

There's another question from Patrick Hoffman. "Could you please repeat how much of your portfolio is under forbearance as of June?"

Catalina Kempowsky: It's 0.3%. That's COP 5.7 billion of our total loan portfolio.

Patricia Moreno: And basically, those are all the questions that we have today. Thank you all for joining us. And thank you, operator. We can close the conference call now.

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