CREDIVALORES-CREDISERVICIOS ANNUAL RESULTS REPORT[1]

AS OF DECEMBER 31, 2019

Operator: Welcome to the Credivalores fourth quarter and full year 2019 results conference call. My name is Eric and I will be your operator for today's call**.**

At this time, all participants are in listen only mode. Later we will have a question and answer session. Please be aware that if you're in the web part only, you cannot interact verbally but still we can receive your questions via web.

Please note that this conference is being recorded.

I will now turn the call over to Mister David Seinjet. Mister Seinjet, you may begin.

David Seinjet (CEO):

Good morning and thank you for joining us today in our investor conference call to present our results for the 4Q and Full Year 2019.

My name is David Seinjet, I am the CEO and founder of Credivalores, and I am joined in the conference by Patricia Moreno our Investor Relations Officer, Héctor Chaves 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. To start the presentation please join me in slide 3 for an overview of our company.

Credivalores at-a-glance

Let me start this conference call by saying that we hope that you and your loved ones are keeping safe and healthy at home. We are living through one of the most challenging times in recent history and we can only hope that we can overcome this unprecedented situation resulting from the COVID-19 pandemic by working together. As many of you, we are working from home so please be patient in case we have any technical difficulties with the call. We have taken some time to assess and adapt our business model and financial expectations for 2020 and therefore we have delayed the conference call for the 4Q results.

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

In 2019 Credivalores consolidated its competitive position as the leading non-banking financial institution in Colombia targeting mid-to low-income clients. We offer a diversified portfolio of consumer credit solutions with innovative collections channels through the following products: payroll loans, branded credit cards, insurance premium financing and retail micro insurance. The Company has a track record of over 16 years and more than 827,000 clients, having issued more than US$29 billion in loans.

As of December 2019, we had a managed loan portfolio of US$485 million and a broad geographic footprint with 97 branches and points of sale in retail locations and 130 customer centers across the country in alliance with telecom companies in Colombia. Our sizable exclusive sales force with more than 1,500 sales representatives, allows us to reach almost 80% of the municipalities in 34

[1] The following transcript should be read in conjunction with our audited Financial Statements as of December 31, 2019. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities.

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.

Our shareholders' equity totaled US$86 million in 2019.

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

Overview of Product Portfolio

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

− We manage a portfolio of US$485 million, out of which payroll loans represent 59%, credit cards represent about 36% and insurance premium financing represents around 4%.

- Our product portfolio is well diversified with low concentration by loan size, geographical location and economic sector. The average term at origination of the whole loan portfolio is 74 months among all products nonetheless the average life of the portfolio is about 36 months, including prepayments. The average interest rate is about 29% (not including fees) and total yield is about 39% including fees and other commissions. Our average NPLs for the managed portfolio stood at 4.7%, showing an important improvement compared to the 6.3% level we had as of December 2018.

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

Competitive Advantage and Target Market

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

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

We differentiate from traditional banks in the following ways:

- On the commercial point of view, branch networks represent still the largest channel for commercial activity for banks, as opposed to our model, which approaches customers on-site through our proprietary sales teams.
- On the product stance, traditional banks focus on a broad portfolio and cross-selling strategies, while our portfolio is exclusively composed of three specialized credit products tailor-made for our market segment.
- On the market segment approach, our customization starts with the understanding of risk and the uniqueness of our target population and their financial needs.
- In terms of processes, we are focused on providing agile and simple products that suit our clients, while commercial banks have more complex internal processes.

We will continue the presentation with the recent developments of the fourth quarter 2019.

Recent Developments

Regarding our growth and profitability, in 2019 we had overall positive operational and financial results. Our total portfolio origination grew 17% year over year, especially in payroll loans with a 44% growth in this product year over year. Regarding our financial results, on a year over year basis, the net interest income increased 13% and our gross financial margin grew 4.6%. Although YoY, our operating income increased 31%, our net income decreased 31%, due to non-recurring items related to financial income from exchange rate differences.

We completed a legal corporate transformation to become a joint stock company under Colombian law. This transformation granted us access to the domestic capital market allowing the company to registry bonds and securities before the Financial Superintendence. During 2H 2019 we structured a securitization of payroll loan portfolio for up to $150 billion rated AA- locally by Fitch Ratings and we obtained the approval from the local regulator to launch this deal in 2020. Due to our strong cash position, after the successful US$300 million bond issuance in February 2020, and current market conditions due to the COVID-19 pandemic, we decided to postpone the issuance of this securitization for the second half of the year. We secured sources of funding for our payroll loan origination through the recent renewal of a secured syndicated loan with local financial institutions from COP$223 billion to COP$310 billion pesos, and through payroll loan portfolio transfers to BTG's mutual fund. As of December 2019, we maintained $274 billion in committed credit lines with financial institutions and 14% of these lines were available to use in the next 12 months. Our liquidity position remains strong in 2020, after the bond issuance carried out in February 2020, which increased our cash on hand to about US$120 million, allowing us to be in a better position to face market volatility and uncertainty for this year. In addition, this recent issuance extended the average life of our debt from 2.2 years to 3.4 years.

Our equity to assets ratio stood at 13.3% after the COP$12 billion pesos capitalization from all shareholders completed during the 2Q 2019. The leverage ratio stood at 5.2x. As of December 2019, the Company was in compliance with the covenants from all its financial obligations.

Finally, we had a significant improvement in total NPLs reaching 4.7% as of December 2019 down from 6.3% in the same month of 2018. This improvement was due to the effectiveness of the measures implemented during the 3Q of 2018 and the 1Q of 2019, including the digitalization of many of our processes and the launching of new digital platforms for our sales force. The credit card origination recovered by almost 50% between the 3Q and 4Q of the year due to the new digital underwriting platform launched in May 2019. As stated in past conference calls, we implemented several measures to improve the quality of our loan portfolio, especially in the credit card business, including technological improvements in the origination and collections processes, more conservative underwriting policies and new agreements with utility companies. In this front, we signed new agreements with Enerpereira and Electrohuila, which granted us access to more than 510,000 new clients, increasing our potential client base by 21% Our payroll loan origination continued to grow consolidating our leading competitive position among non-bank financial companies in Colombia as we reached 2.8% of total originations within the system.

2019- Main Highlights- Macro Conditions

Regarding the business environment in Colombia in 2019, inflation remained within the target of the Central Bank ending the year at 3.8%. The easing cycle of the Central Bank started in December 2016 and extended until May 2018. The reference interest rate of the Central Bank remained unchanged at 4.25% until March 2020, when the Central Bank cut 50 basis points amid the COVID-19 impact. The DTF rate, which is the 90 day CDs average rate, and the overnight repo rate have also decreased consistently since August 2016, in line with the IBR and the Central Bank's reference rate. GDP growth in 2019 was 3.3%, driven mainly by commerce, government and defense and professional and technical activities, which grew at 4.9%, 4.9% and 3.7% YoY, respectively.

Since September 2017, the calculation period of the usury rate changed from a quarterly to a monthly basis. Although the calculation formula remained unchanged at 1.5 times the average lending interest rate from banks, the usury rate has declined almost 438 basis points since the adoption of this measure.

The macro economic environment for 2020 is still uncertain as the government and the Central Bank are currently assessing the impacts of COVID-19 to announce new targets for this year.

The financial system in Colombia witnessed an increase in the NPLs in 2017 as a result of the slowdown in the economy and specific impacts on the commercial loan portfolio. During 2019 NPLs in the financial system recovered taking the average systems' NPLs to 4.3% and NPLs from consumer loans decreased to 4.7%. The financial system remains well capitalized showing a solvency index of 15.4%, above the 9% minimum regulatory.

Out of the total loan portfolio of the financial system, as of December 2019, 31% were consumer loans totaling about US$48 billion dollars. The consumer loan portfolio grew 14.7% year over year and payroll loans continued to represent the largest portion of this portfolio with a 35% share. Among the consumer loan portfolio, payroll loans and credit cards grew 12.6% and 10.5% year over year, respectively.

Now, we will present our results for the fourth quarter and the full year 2019.

4Q and FY 2019 Operating Results

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

Our client base increased on a quarterly basis, as a result of the recovery of credit card origination due to technological improvements and new digital platforms launched in May 2019 for our sales force. However, on a yearly basis the decline in origination in insurance financing and credit cards during the 1Q 2019 affected the total number of clients.

Our disbursements increased almost 1% quarter over quarter, as a result of the increase in the origination of credit cards and insurance financing and payroll loans experienced a contraction due to the cyclical behavior of this product due to end of year vacations for government officials, teachers and military. Year over year, origination grew round 17%, mainly as result of the growth in disbursements in payroll loans, especially among pensioners, and the important recovery in credit cards. Year over year, we have increased the share of pensioners of the total balance of payroll loans from 54% to 61%. Despite self-imposed restrictive and conservative underwriting policies to better control NPLs, total origination in credit cards and insurance financing picked up by the end of the year.

Regarding our owned portfolio, which includes the portfolio on balance and in free standing trusts, we had a 6.5% growth between the third and fourth quarter of 2019 due to the increase in origination of credit cards and payroll loans. The use of payroll loans portfolio transfers under the financing structure we have in place with BTG Pactual during the last quarter of the year affected the end of year balance of this product under the owned portfolio. Year over year we experienced a 7.9% growth in the owned portfolio reaching a total of about $1.25 trillion pesos, due to a fall in the balance of the credit card portfolio.

Our managed loan portfolio, which includes our owned portfolio and the payroll loan portfolio sales, increased 6.6% quarter over quarter totaling $1.59 trillion pesos, mainly due to the recovery in the credit card business.

The managed portfolio grew 13.9% year over year, due to a 19% growth in payroll loans and a 15% increase in credit cards. Our results confirm our origination capabilities and the resilience of our business model, allowing us to grow in line with consumer loans in the Colombian financial system.

If we review our managed loan portfolio by product type, as of September 2019, payroll loans If we review our managed loan portfolio by product type, as of December 2019, payroll loans represented the largest portion of the total managed portfolio with a 59% share while credit cards increased their participation to 36%.

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 0.55% of the portfolio and the average single exposure represents less than 0.10% of the total portfolio.

In addition to our diversification, 86% of the payroll loan portfolio and 51% 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 34%.

Geographically, Bogota represents only 26% of the portfolio and the remaining is well distributed among other regions and cities, as opposed to a 50% share that Bogota, the capital of Colombia, represents within the loan portfolio of traditional banks.

Now Juan Camilo will present the NPLs behavior for the 4Q and FY 2019.

Juan Camilo Mesa (CRO):

Between June 2018 and March 2019 our NPL levels for the credit card business increased affecting the performance of our overall portfolio. However, since June 2019 we have seen a decrease in NPLs in the total portfolio, mainly driven by an improvement in the quality of the credit card portfolio. As of December 2019, our total NPLs stood at 4.7%, in line with the average NPLs for consumer lending in the financial system and way below similar risk profile loans, such as the small amount consumer loans. We previously explained that the conservative and restrictive underwriting policies adopted in October 2018 and February 2019 to control further deterioration of our credit card business resulted in an increase of the NPLs of this product given the decrease in the origination and in the portfolio balance. While we maintained the underwriting policies, we were able to reduce the NPL levels in payroll loans and credit cards during the second half of 2019, remaining below the average consumer lending companies, which operate in products and market segments similar to those of Credivalores. After including write-offs of loans greater than 360 days, Credivalores reached NPLs of 11.8% showing a significant improvement more in line with our historical NPLs.

NPL coverage ratio of our managed portfolio and our owned portfolio, improved between September and December 2019. NPL coverage ratio stood at 111% for the managed portfolio and 121% for the owned portfolio, including FGA reserves. This result was due to a decrease in past due loans of more than 360 days resulting from write-offs and high recovery rates, while maintaining the calculation of impairments under the IFRS 9 model of expected losses.

In 2018 we saw strong signs of deterioration in the credit risk of our credit card business and thus we adopted several measures which allowed us to recover our historical NPLs levels, including:

-Restrictive and more conservative underwriting policies in the credit card business, resulting in a lower growth of the portfolio of this product compared to the market.

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

-Strengthening of the collections and risk areas under my supervision.

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

-New agreements with utility companies including Electrohuila and EnerPereira granting us access to more than 510,000 new clients for our credit card origination. This agreement could potentially increase our total client base in the credit card business by 21% reaching a total of more than 4.3 million potential clients among the agreements in place.

-The implementation of a new digital underwriting platform for the credit card business to significantly reduce the response time in the origination process. We also have implemented agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under the TIGO agreement.

-Finally, we have also included NPL targets per product in the variable wage of regional and zonal managers of our sales force.

Redesign and Digitalization of the Origination Process for Credit Cards

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

In May 2019, we launched a 100% digital origination platform for our credit card business. As of December 2019 we were able to obtain 159% increase in the number of clients approved showing already better performance on payment habits, 51% increase in productivity of our sales teams, 49% decrease in the response time to our clients delivering the credit card on site within 12 minutes and 37% decrease in origination costs. As you have seen so far in the presentation, all the changes we implemented in 2019 in our credit card origination process allowed us to recover the growing trend in this product, while maintaining conservative underwriting policies in place.

Now Patricia will present our financial results for the 4Q and FY 2019.

Patricia Moreno:

4Q and FY 2019 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 4.9% quarter over quarter due to a lower maximum rate and lower fees from the FGA alliance resulting from lower payroll loan origination in the quarter. Year over year interest income increased 8.9%, mainly as a result of an increase in interest income from longer dated payroll loans, income from the FGA Alliance, write-offs and portfolio transfers. Additionally, we experienced a decline in commissions and fees due to a lower amount of credit cards with administration fees compared to the previous year. The digitalization of processes allowed us to have a large increase in the number of consultations to our underwriting system from sales representatives, reaching almost 60,000 per month in the credit card business, which resulted in the recovery of the origination and balance of the credit card portfolio during the fourth quarter of the year.

The gross financial margin decreased 12.2% quarter over quarter, mainly due to a 22% increase in net impairment expenses. Year over year, gross financial margin grew 4.2%, due to a 13% increase in net interest income offset by an increase in net impairment expenses resulting from IFRS 9 adoption, which uses the expected loss model to calculate the expense in provisions for the portfolio.

The selling, general and administrative expenses, which are referred to as other expenses in our income statement, increased 8.2% quarter over quarter due to an increase in depreciation and amortization expenses, resulting from operating leases recognized in 2019 due to IFRS 16 adoption, and in expenses related to legal, insurance and taxes. Year over year, SG&A increased 3.7% mainly as a result of higher temporary services, fees and operating leases.

With regards to the operating income, quarter over quarter we experienced a 90% decrease due to a lower gross financial margin and higher SG&A expenses. Nonetheless, operating income increased 31% year over year, mainly due to the growth in net interest income from longer dated payroll loans, income from the FGA Alliance, write-offs and portfolio transfers.

Now moving to the non-operating results in the income statement, the net impact of non-recurring items, which include foreign currency rate differences, as of the fourth quarter the result was a financial income of $2.9 billion pesos and at the end of the year the result was a financial expense of $1 billion pesos. Year over year the positive impact from exchange rate differences captured before executing the long-term hedges of the 9.75% bond due 2022 during the first quarter of 2018, decreased since under our current hedging policy the positive or negative impacts on our debt from foreign currency volatility are completely offset by the valuation of the derivatives instruments in place.

As of the end of December 2019, 100% of our foreign currency debt was hedged to pesos through short-term forwards, cross currency swaps and options. Before adopting our current hedging policy during the first quarter of 2018, we recorded a positive impact from exchange rate differences in our P&L in the first months of 2018, and as we entered 2019 with a fully implemented new hedging policy all positive or negative impacts on our debt from exchange rate differences are offset by the valuation of the derivatives instruments in place. If we eliminate the impact of non-recurring items from our income statement, the net income before taxes would have reached $12 billion pesos as of December 2019.

When considering all the impacts from non-operating items, our net income before taxes exhibited a profit of $8.3 billion pesos as of December 2019. Our net income reached $5.1 billion pesos and was largely affected by higher net impairment expenses in the operating income and an impact from non-recurring items related to lower income from exchange rate differences. We had foreseen a decrease in the net interest income year over year resulting from a decline in interest income and fees and commissions related to a lower portfolio balance in the credit card business. Since this product has a shorter average maturity than the payroll loans, the decline in origination in the credit card, during the first half of the year, quickly led to a lower portfolio balance. We also had anticipated an increase in the net impairment expenses during 2019, due to the measures adopted to improve the quality of the recent origination of the credit cards.

2019 Financial Results- Balance Sheet

With regards to our balance sheet, we present the main financial ratios as of December 2019.

Our shareholders' equity increased to $283 billion pesos, showing a 13% growth compared to December 2018. This was mainly a result of the increase in retained earnings from the accumulation of the net income of 2018 and a $12 billion pesos capitalization from all shareholders to support growth.

Our leverage ratio of debt to equity stood at 5.2 times, declining from the December 2018 figure. This was a result of the 13% growth in our shareholders' equity and a 4% increase in the financial debt net of the FX impact. Our solvency ratio, calculated as equity to assets, stood at 13.3% 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 14.4%. Lastly, the capitalization ratio, measured as the total shareholders' equity divided by net loan portfolio, totaled 26.7% as of December 2019 remaining above the 13.5% level required by the covenant of the description of the Notes of the bonds due in 2022 and 2025.

Between December 2018 and 2019, total capitalization, including the FX impact on debt, increased 5.3% to $2.0 trillion pesos, mainly due to the impact of the capitalization in the shareholders' equity. Our ratio of unencumbered assets to unsecured debt, calculated accordingly to the Description of the Notes of the Offering Memorandum, stood at 141.2%, above the minimum 110%, required by the covenant.

Our average funding cost remained at 12.6% during 2019. Our cost of funding remains controlled due to a higher participation of the domestic debt of the total mix of financial obligations with lower financial costs. Also, the reference interest rates of the Central Bank and the average DTF from financial institutions remained stable during 2019 benefiting our financial cost, since about 78% of our debt is indexed to these floating rates.

Debt Profile- December 2019

In terms of our financial obligations by source as of December 2019, our 9.75% bond due 2022 represented 63% of our total financial obligations, the outstanding notes under the ECP Program represented 18%, the secured domestic sources represented 14% and the unsecured domestic sources represented 5%. In the past years we also secured enough sources of funding for our 2020 needs including: a local syndicated loan for payroll loan origination, a financing structure through a mutual fund with BTG Pactual, working capital lines with local financial institutions, overdraft lines and the issuance of Reg S Notes under our Euro Commercial Paper program. These sources add up to $1.2 trillion pesos, and as of December 2019 we had $340 billion pesos available under these lines. About $274 billion pesos of the total approved lines are committed credit lines with financial institutions and as of December 2019 we had $39 billion pesos available to use in the next 12 months for growth and debt amortizations.

Below, we present the debt maturity profile as of December 2018 and 2019. Average life of our debt stood at 2.2 years as of December 2019. The average life of our domestic debt is 2.1 years, as most of these credit lines are revolving and short-term, and the average life of our international debt is 2.2 years. The secured debt amortizations correspond to the IFC facility, which has about $18 billion pesos outstanding and to the local syndicated loan for payroll loans, which is revolving for the following 18 months. The US$300 MM bond issuance carried out in February 2020 allowed us to raise the funds needed to pay out the $115 billion pesos amortization of a note under the ECP Program due in May 2020. The rest of amortizations adding up to $112 billion pesos this year are from local revolving loan facilities with financial institutions.

Financial Obligations- December 2019

Finally, we present the status of our financial obligations as of December 2019.

Total financial obligations, net of the FX impact, increased 4.0% to $1.46 trillion pesos between December 2018 and 2019. By the end of 2019, 86% of our total debt was unsecured and 14% was secured, represented by the IFC facility and a peso denominated syndicated loan with local financial institutions. By currency as of the same date, 82% of our debt was denominated in US dollars and 18% in pesos, with 100% of our debt hedged to pesos. By term, 10% of maturities were due in less than 12 months and 90% were due in the long-term as a result of the strategy to extend the average life of debt.

Now, please join me in the Closing Remarks section.

Closing Remarks

With regards to our closing remarks, as seen throughout the presentation the resilience of our business model allowed us to significantly improve the NPLs in the credit card business through digital platforms for origination that resulted in reduced costs and improved efficiency and quality of the loan portfolio during 2019. Adoption of IFRS 9 increased our net impairment expense, specially under a period of deterioration of the asset quality.

The recent US$300 million bond issuance and the sources of funding secured during 2019, allow us to have a relative strong liquidity position to meet our 2020 debt amortizations and fund the operation during these challenging times. In addition, we have approvals in place to issue a securitization of payroll loans for up to $150 billion pesos in the local capital market once market conditions change. We estimate that the average life of our debt will remain above 3 years, especially after the issuance of the 5NC3 bond due 2025, allowing us to mitigate refinancing risks.

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

Finally, we developed new commercial channels in 2019, including telephones sales, mobile units and digital origination for payroll loans, which we expect to further develop in 2020, reducing origination costs and improving efficiency.

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

COVID-19 Action Plan and 2020 Outlook

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

Regarding our people and geographic footprint, we resized all active areas during the national quarantine, which will extend until May 11th, according to the most recent announcements, and the excess capacity of our staff went on vacations. Considering the exemption applicable to the financial services sector under the obligatory national quarantine decree, we developed protocols for our staff working at our offices to guarantee business continuity, including: social distancing, hygiene stations, disinfection of work stations and buildings, mandatory use of masks, work shifts and obligation to report any symptoms or suspicion of contagion.

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

With regards to our financial and liquidity position, as previously explained our liquidity position remains strong during 2020, after the US$300 million bond issuance carried out in February 2020, which increased our cash on hand to about US$120 million as of march 2020, allowing us to be in a better position to face market volatility and uncertainty for this year. We will pay the amortization of a US$35 million ECP Note due May 2020 and we will monitor market conditions to decide whether to prepay or not the US$40 million ECP Note due in April 2021. The available sources of funding for growth in 2020, include the renewal of the local syndicated loan for payroll loan origination for $310 billion pesos, working capital lines for $33 billion pesos and an overdraft line for $21 billion pesos. Moreover, as you have heard in the presentation, we have approvals in place to issue a securitization of payroll loans for up to $150 billion pesos in the local capital market once market conditions improve.

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

We also had to adapt our origination channels to the restrictions imposed to mobility and presence in retailers. We consider our payroll loan portfolio a defensive asset under current market conditions, considering our concentration among pensioners and government officials. Nonetheless, we also adapted the payroll loan origination to telephone sales between March and the first week of April using data analytics from our Data Warehouse to provide our sales force, returning to work, with attractive commercial offers to a list of pre-approved clients following recent changes in underwriting policies. Since March 2020, telephone sales have surged by 50% mainly for payroll loan renewals, becoming the main channel of origination. Our credit card business is also leveraging on this new channel, as sales representatives are focusing on increasing the number of active credit cards, which will increase average loan portfolio and commissions and fees from credit card with outstanding balance. Our insurance premium financing product is expected to be impacted by COVID-19 as clients decide to cancel insurance policies given change in economic and employment conditions. Life and burial insurance policies remain still attractive for our clients. As we explained, we prioritized all projects related to digital transformation and currently we have a strong pipeline of projects for the following months to achieve 100% self-service digital origination, expand collection channels to digital platforms from specialized agents, and offer online responses to our clients requests for financial reliefs.

We have taken some time to assess and adapt our business model and financial expectations to the uncertainty and volatility we are living through. Based on scenario analysis we present our best estimate with the current available information for the 2020 outlook of our business. As we face a completely new business environment, we believe we should share with you our pre-COVID and post-COVID expectations for some of the main KPIs of our business. In terms of managed loan portfolio growth, we expect a lower result under a post-COVID base scenario reaching a growth between 12% and 18% compared to 2019, especially driven by payroll loans among pensioners and government officials. Since payroll loans will probably represent the largest portion of the loan portfolio and loan origination, we expect total loan origination to fall from a pre-COVID expectation between 27% and 32% to between 5% and 6%. Given the important recovery in our credit card business during the second half of 2019, we expected to reach NPLs in 2020 between 5.3% to 5.5% for our total managed portfolio. Under a post-COVID base scenario we expect NPLs to increase to a level between 6.5% and 7.0%. Our operating income was expected to grow between 20% and 25%, but the impacts of COVID-19 will lead us to a decline compared to 2019. In our initial budget for 2020 we expected to have an efficiency ratio between 46% and 44% and the under a post-COVID scenario we expect to reach around 53% considering the strong reduction in variable expenses in origination and efficiencies of the new commercial channels in place. Our equity to assets ratio could decrease to 13% from an initial expectation to end 2020 at 14.5%. Finally, the post-COVID 19 base scenario results in an unchanged capitalization ratio, which is calculated as the shareholder's equity over the net loan portfolio, if the growth expectation for the managed loan portfolio are met.

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

Q&A Session

Operator: Thank you. We will now begin the question and answer session. First, we will go with the audio questions and then we'll read and answer questions from the web. If you have an audio question, please press * then 1 on your touchtone phone. If you wish to be removed from the queue, please press the # sign. If you're using a speaker phone, you may need to pick up the handset first before pressing the numbers.

Our first question comes from Nick Dimitrov. Please go ahead.

Nick Dimitrov:

Hi there. Good morning. Can we talk a little bit about your forbearance programs and give us some indication in terms of -- are you proactively reaching out to borrowers? Are they reaching out to you? What is the percentage of borrowers that have applied for one of the forbearance programs? What is the approval rate? Do you set aside provisions for these restructure loans?

David Seinjet: It's David Seinjet. How are you? So – I normally divide the answer probably in three parts. One, it varies per product. Let's say for example, let's focus on credit card business in which we received the highest amount of inquiries for the grace periods. Basically, we are following what other financial institutions are doing and it was probably an initiative by the local government. As you may know, Colombia was very proactive in terms of mandatory quarantine. We started the quarantine very early. We started in around mid-February so the government requested financial institutions to issue flexibility and grace periods in this type of consumer loans so we adapted a website in which the client can request the grace period. That's the first channel.

The second channel, we're reaching out clients that present – let's say five or day eights late payments. We reach them and ask if they need a grace period or not. That's the way that we approve the grace periods.

The second question is yes, we continue charging interest rates and the installment just becomes a longer term of the loan. That's probably the same information for the credit cards.

Nick Dimitrov: Sorry – In the grace period you continue to accrue interest, to charge interest. But the principal payments go in the end of the contract? Or how does it work?

David Seinjet: Yes. Basically, you continue, let's say, accruing interests, and they will go into the principal and basically you would add one or two installments at the end of the loan.

Nick Dimitrov: Ok. And what percentage of the credit card borrowers have applied for this type of restructuring, until now? I was wondering what percentage of borrowers have applied for this program.

David Seinjet: The latest number was around 57%.

Nick Dimitrov: 57. Ok. Ok. And what is the approval rate?

David Seinjet: Everything is approved unless there is a past due loan of more than 30 days, so basically, it's automatically approved. The only requirement is to be current.

Nick Dimitrov: And when you restructured – let's say, it was the current loan, right? Do you have to set aside more provisions?

David Seinjet: No. Now under the Colombian law we're still waiting for the changes in the provision requirements by the IFRS 9 so it might represent a higher provision level.

Nick Dimitrov: Ok. I was trying to kind of figure out what cost of risk is going to look like in Q1 and Q2, right? And naturally considering the fact that you adopted IFRS 9 post cyclical, this should be an uptake in your cost of risk, and your cost of risk is on average 4.55%, right? Where is your cost of risk going, considering the fact that you're doing a lot of restructuring but let's say, for some of it you might not need to set provisions, but at the same time IFRS 9 is very post cyclical and forward looking, so we should see a very substantial uptake, right?

David Seinjet: I don't – You're right. There is a discussion going on between the Colombian regulators and the external auditors because you're right. IFRS takes into consideration forward looking and we do not know. We don't have a lot of information what the external auditors are going to require in these variables taking into account the IFRS process so yes, it might go up. We don't have an exact number yet, but we can expect a higher provision level, yes.

Nick Dimitrov: Ok. And I was wondering, you know, because of the restructuring, and you said 57%, a pretty high number, and it's going to probably increase in the coming days, how is that going to affect your collections?

I mean, we should see a decline, right?

David Seinjet: We don't – We will see a decline in the cash flow, yes, because basically you're giving two-month grace periods in the principal. We have a cash flow that is taking into consideration that grace period. That's the first question. And the second one, and an additional comment, we're not calling this a restructuring. Basically, we're extending the life of the loan and we're not changing conditions in the loan. We're just extending the life of the loan for two months in order to take into consideration the two installments that are not paid during the mandatory quarantine.

Nick Dimitrov: Right. And the interest rate stays the same?

David Seinjet: Yes.

Nick Dimitrov: Ok. One question regarding your cash position. So, you came early in the year, you borrowed 300 million. I think you used US $150 million to pay off some of the bond maturities in 2022, so you have roughly US $150 million left, right? Which kind of puts you in a good position from a liquidity point of view. You said that you're going to use some of the money, like US $20 million, to pay off the ECM exposure. What are you going to do with the rest of the cash and are you going to use some of that to pay off some of your credit lines with the banks? I'm just looking at your credit line for the rest of the year with some of the Colombian banks.

David Seinjet: Ok. Patricia, do you want to help me with that answer?

Patricia Moreno: Sure. The net proceeds from the issuance of the bond in February were about US $130 million. With the hedging instruments that we had in place for the old bonds, for the 2022 bonds, we unwinded some of those positions and we received additional US $20 million so yes, your estimate of about US $150 million of net proceeds is right.

As of the end of March, our total cash position was about US $120 million, since we had already used part of those resources to fund growth during the first quarter of the year, which we expect to be more in line with our previous budget expectation for 2020, so the first quarter of the year probably is not going to be as affected as the rest of the year by the situation. We are going to pay out the US $35 million amortization that we have due in May 2020 for one of the ECP notes.

The rest of the liquidity, the excess cash that we have, we will dedicate it to the operation of this year. We are postponing additional indebtedness from other sources that we have locally. As I mentioned, the mutual fund that we have in place with BTG Pactual is more back ended of this year and we have lowered the estimated amount that we can have access to under this source.

We have also postponed the issuance of the payroll loan securitization that we have planned for the first part of this year to the second half of the year, just to be conservative, we will monitor market conditions.

And also, what we have done with the local secured syndicated loan for payroll loan origination is, since this is a revolving facility, what we did in March was to increase this total amount from COP $223 billion, which was the past amount, to COP $310 billion, just to have additional capacity from the banks to originate payroll loans, which we see as the product that will not be completely affected by the new dynamics of Covid-19. We see this as a defensive asset, and actually the last two weeks or so payrolls have been very positive in terms of results from telephone sales that our sales force have been carrying out, especially for payroll loans, and with the focus that we have on pensioners and government officials, this is the kind of product that we believe will continue growing during the year, and because of that we are saving funding sources from the secured local syndicated loan, from the cash that we have in hand, that will also be dedicated for the operation of the company, and from working capital lines that we have in place. Those are going to be the sources of funding that we are going to use for probably the second and third quarter of the year, and by the end of this year, according to how things evolve, we'll see if we need additional financing, for example from the securitization.

Nick Dimitrov: Ok. Now, I just want to make sure, and this is something that we discussed before, because obviously early in the year you already took the book and now it's a different world, and having US $120 million in cash was obviously a good position to be in, but at the same time you have the negative carry, right? So, it's kind of a lot of concern about the negative carry but it does seem that you have plans to use some of the cash to repay some of your standing borrowings. One question on capital. So, I was looking at your capital, tangible equity to tangible assets, 11.3%. Obviously, the book is going to come under pressure, cost of risk is going to go up. This is not a lot of capital to sit on. What are your thoughts on your current capital position?

David Seinjet: The question is regarding is if we're thinking of additional capitalization in the company?

Nick Dimitrov: I mean, that sort of boils downs to. Correct.

David Seinjet: No. We have not discussed with current shareholders additional capital into the company, even though that probably, as you may know, they're very supportive in different situations where we wanted to increase capital to basically improve balance structure. Current shareholders are open to discuss it. But at this point in time, we have not discussed or planned any additional capital in the company.

Nick Dimitrov: Ok. And just one request. David, we discussed before, same with Patricia, I mean, you gave us your statements 50 minutes before the call. Obviously, we can't update our models. And you know, you had that information for weeks, if not months, so I would really appreciate it if next time you give us those statements two days prior to the call where we can review the numbers, refresh our models, so we can kind of get a better idea of how the company is really performing. I mean, everybody is doing that. It's not – I mean, I'm glad that at least this time we got them before the call rather than say two hours after the call. This is just a request.

David Seinjet: You're right. We have talked about it before. You're right.

Nick Dimitrov: Yes.

David Seinjet: Sorry about that.

Nick Dimitrov: I appreciate it. Thank you.

Operator: And we have no further audio questions at this time, so I'll turn it back over to Patricia or any web questions.

Patricia Moreno: Thank you. Well, we have a lot of questions.

There's a question from Juan Nicolas Pardo regarding how much of our total portfolio our biggest utility agreement represents.

I believe – Juan Camilo is in the line to answer the question.

David Seinjet: He's disconnected. The largest utility represents around 25 to 28% and it's the company which is called Emsa, which operates in the southwest of Colombia.

Patricia Moreno: And in that regard, there is a question from Maria Cruz regarding how the collection is going to be affected. I believe she refers to “fraccionamiento” of bills, but I believe it has to do with the collection through utility bills for the credit cards.

David Seinjet: Maria, I can answer that question. There is a government decree which suspends the charges for public utility service to the population during the mandatory quarantine. Sorry, it's not mandatory, it's a government decree that creates an opportunity for the public companies in order not to charge the public utility service during the quarantine, so that has not yet been applied but anyway, since we run in their system, we ultimately will suspend charges to those clients and basically we reflect the grace period we talked about before in one of the questions.

Patricia Moreno: There is a question from Xavier De Romaña regarding the prices of the two bonds that we have outstanding at a discount. He's asking if we are considering taking any opportunity to buy back some of those bonds in the open market.

David Seinjet: The answer is no. Basically we are focusing right now on keeping liquidity in the company and basically being very careful about the liquidity in the cash flow of the company so we have no plans to repurchase existing bonds, neither the 2022, neither the 2025, only liquidity to pay out debt. We're paying off and ECP facility that comes due during the month of May and we are expecting to prepay an ECP facility that was due in 2021, but we have not decided yet to prepay that facility.

Patricia Moreno: If Juan Camilo is in the line, I don't know if we can answer. There's a question from Juan Berrio regarding the expectations on this year on our credit card delinquency ratio, especially because at the moment utility companies are not collecting some bills.

Juan Camilo Mesa: Yes. So, we don't expect a high increase in delinquency ratios in the credit cards that we invoice through the utility companies. As we told you earlier, what we are expecting in some of these utility companies is that the charge will be suspended for two months but then it will resume, so we expect our charges for the credit cards to resume with them.

For the credit cards that are not invoiced through utility companies, we think that we could see an increase between 20 and 30% NPLs while the situation normalizes in the country.

Patricia Moreno: There is another question from Martin Anidjar. One is if we could elaborate on the sector composition of the portfolio, to try to understand the impact of Covid and oil prices and the second one is regarding a more detailed explanation on the FX hedges that we have. I could answer that one, but I don't know if Juan Camilo or David could go ahead and answer the one regarding the composition of our portfolio of loans.

David Seinjet: Yes, sure. With Patricia during the presentation we talked about how the portfolio has been allocated so having a large portion of our managed portfolio on payroll loans and around 86% of those payroll loans are in government employees, we feel is a very strong portfolio. The risk in payroll loans is unemployment and we don't see -- we're not expecting any increase in unemployment due to changes in government employees. Pensioners represent around 56 out of those 85%, so pensioners don't get unemployed basically. When you become a pensioner, you die as a pensioner and all the loans to pensioners have life insurance, so we feel that our portfolio is very well allocated in terms of risk profile, in terms of geographical presence, with more presence in small rural areas. We feel that the credit risk is lower in these areas since they have net dependence in large companies or in the large economy of large cities, so we feel that our portfolio is well positioned, even though Covid-19 is something that we have never lived in the past. Let's say the economy right now in Colombia is basically not working at all. The country has been in a mandatory quarantine for – I think it's the seventh week, so it's very difficult to be very exact in the expected NPL levels but we feel, as a financial institution, that the portfolio has very low concentration per loan, large number of loans, and very high concentration in government employees and pensioners.

Patricia Moreno: And with regards to our hedging position, as you see on page 30, I was presenting that in the slide that you have in front of you, we included a summary of the hedging instruments that we have in place for both of the bonds that we have outstanding. Principal and interest of both bonds are hedged up to maturity. We did have to adjust some of the hedges in place at the end of March to be able to have additional hedging in the call spreads that we had in place because of the strong movement in the FX. Currently, as you see there, we have for the 2022 bond on the US $170 million that are outstanding today, US $75 million out of those US $170 million are hedged with call spreads, principal, and the range of hedging is up to COP $4,300 per dollar. Those levels were not yet tested, but we did reach a COP $4,100 per dollar as of the end of March.

Same thing happened for the 2025 bond. We hedged this bond completely as of the settlement date of the bond. We entered into a cross-currency swaps and coupon on these swaps and call spreads for the whole amount of the bond, as you see there. And in the part of the call spreads, currently we have hedging in place. We have call spreads in place up to COP $4,500 per dollar so under current market conditions we are completely hedged and under our hedging quality these transactions are 100% effective.

There is a question regarding – from Maria Cruz, also -- how much of our expenses are related to variable expenses and what percentage we expect will be reduced because of lower originations this year.

David?

David Seinjet: I can answer that question to Maria. Basically, in terms of savings, what we see is a large increase in the use of the digital platforms. It's something that we are planning to launch throughout the year, but we decided to expedite the implementation process of these digital platforms that will generate a significant amount of savings in the origination costs. As you saw probably in the presentation, in the credit card business alone there was like a 37% cost reduction in new loans or new credit cards issued so we are expecting a cost reduction in origination. We're expecting some cash reductions that we're doing in our underwriting facilities due to lower volumes. We're expecting reductions in cost of offices, probably there are some regions that are going to be taking longer to restart so the government issued a decree as well that we could renegotiate some lease agreements, lease terms, basically trying to look for savings throughout the production line of the company.

Patricia Moreno: There's a question from George Monserrat regarding our financial obligations for 2020. I guess we had it in the presentation. Let me try to go back because we presented as of December 2019 our debt profile.

We're about to send the presentation to all of you but that's on slide 24. You will see our debt profile as of December 2019. In 2020, the amortizations that we have add up to COP $227 billion, out of which COP $150 billion that you see there is the US $35 million ECP note that's due in May of this year, for which we already secured the funds through the issuance of the bond in February. The rest of the amortizations that we have due this year are related to local loan facilities that are revolving, either secured or unsecured, so they are not concentrated just in one month. They are distributed among all months and we have monthly amortizations under for example our secured syndicated loan for payroll loans and those add up to the US $58 million that you see there, but they are being paid on a monthly basis according to our cash flow so they do not represent like a large requirement of additional funding for those amortizations to be paid off.

With the cash position that we have today, we feel completely comfortable that we are able to meet those amortizations during the year.

There are some other specific questions but I guess they're more related to what we already explained in terms of how the grace period works, and the risk that we see from the utility billing for the credit card business, which really depends on the announcements by each of the utility companies. There have not been general announcements on that so I guess we can go ahead and finish the conference call for now and I will try to answer the other specific questions that you guy sent us in the webcast to each one of the investors.

Thank you everybody for joining us today and we hope you stay safe and healthy at home.

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