CONFERENCE CALL SCRIPT
BANCOLOMBIA’s 2Q16 RESULTS

FORWARD LOOKING STATEMENT DISCLOSURE; NON-GAAP MEASURES DISCLOSURE

OPENING REMARKS

RESULTS SUMMARY
(Slide 2)

JUAN CARLOS MORA: Good morning everyone. It is a pleasure to be here with you today to share some of the recent developments at the Bank as well as key strategic objectives as we move forward in the second half of the year.

The evolution of the business during the second quarter was positive and in line with our expectations. After a first quarter with higher tax provisions, but similarly strong performance of NIMs, net loan volumes, and fee generation, the strong profit level for the second quarter has put us in line with our financial targets for the year.

During the quarter, we generated 733 billion pesos in net income, which represents an annualized ROE of 15.2%. In particular we saw good revenue performance and improved efficiency.

During this quarter, we continued seeing a moderation in the pace of economic activity. Nevertheless, we have also seen resilience in the most important sectors, such as construction, manufacturing and services. The depreciation of the peso over the last two years has created the conditions for import substitution and today we see a natural adjustment of the economic structure of the country. Less dependence on oil and more emphasis on local production.

In our business, we see the positive trends that we have shared with you in the previous months. In particular, we see five main topics:

1) First off, we see a convergence of the growth of the loan portfolio towards the target of 10% for the year 2016. The corporate sector and mortgages are leading that growth, despite the fact that companies in Colombia are more cautious in their CapEx decisions. Residential real estate construction remains dynamic, and the first infrastructure projects are starting to gain traction. Meanwhile, the consumer book begins to moderate to our projected pace of growth for the year. The pace of growth in the pesos denominated portfolio was 15% year on year while the USD denominated portfolio decreased 1% when we exclude Banco Agro Mercantil’s assets.

2) Second, as we were expecting and shared with you in previous calls, we are still benefiting from the interest rate hikes by the Colombian Central bank (leaving the repo rate at 7.5% at the end of June). NIMs continue to expand and that has allowed us to grow cumulative net interest income at a pace of 33% compared to 2015. Coupled with higher loan volumes, Bancolombia has been able to transfer the higher rates to the existing loans, via re-pricing and to new loans, via higher spreads. This is evident when you take into account half of corporate loans are indexed to the DTF which increased 56 basis points during the quarter. At the same time we
maintain our efforts to keep the funding cost as low as possible while extending the average life of the stock of term liabilities.

It is important to highlight the fact that the loan book mix has not changed and our market share in Colombia remains at 23%.

3) Third, despite a weaker economic environment and a more challenging credit cycle, we saw moderate formation of new past due loans. This quarter we reached a restructuring agreement with Conalvias and the client stopped being considered past due; nevertheless, we kept the allowances on our balance sheet. Additionally, we experienced very good performance of the dollar denominated portfolio in Panama and El Salvador, which also contributed to the general health of the book in the quarter.

We continue making significant provisions in order to keep the coverage ratio at a level that gives us comfort and the origination standards and scoring models have been adjusted to include a lower forecasted GDP growth. The ultimate goal is to prevent generalized credit issues in the coming year.

4) Fourth, fees continue growing in a very healthy way: 17% for the first six months of the year. In particular banking fees and insurance distribution are the leading services. We are very content with the performance of the line of revenue and look forward to continue developing our strategy to enhance fee generation.

5) In the capital front, we are very happy with the trend that we saw in this quarter. As we had projected and keeping in mind our comfort range to operate, 8 to 9%, we saw how the Tier 1 level of the bank ended at 8.5%. This has been a combined effect of moderation in the loan growth and some actions taken to improve the capital consumption.

6) And last but not least, we saw a very positive trend in the efficiency front. Our efforts can be summarized by our exhaustive cost cutting and budgeting (in all geographies) as well as by stellar growth in operating income. As a result, efficiency improved and ended at 48% for the quarter.

To summarize, the operational performance of the business is very positive and we estimate that second half of the year will continue down this path.

In addition to the financial performance, we wish to share some aspects of our strategy regarding innovation and client experience. This part of our business plan focuses on addressing the challenges that the industry will face in the future:

1) First, we reached an exclusive agreement with First Data in order to provide more POSs to merchants across Colombia. This will expand the existing network of acquiring companies, but at a much faster and cheaper pace. Let’s remember that Bancolombia represents about 45% of the financial transactions that occur in Colombia and has nearly 30% market share in billing with credit and debit cards. As a result, we expect that acquiring fees will grow faster and more of our clients will be able to pay with cards. This agreement does not imply significant expenditures for Bancolombia.

2) Second, we are proud to mention the progress that we are making in the operational efficiency of our processes:
• We have automated the process of forex trading for our corporate clients, making the purchase and remittance of dollars to their foreign operations and providers much easier.
• Also, we have simplified the process of retail client engagement in order to provide that capability 100% digitally, without the need for paperwork. This will make the process of opening new accounts faster, cheaper and more convenient for our clients.
• Additionally, we have automated the disbursements process in order to reduce the time needed to originate a loan operation.

These three steps contribute to the improvement of the operational metrics of our processes and our customer experience.

3) On the international front, we’re proud to say we are improving efficiency in Panama, El Salvador, and Guatemala, as well as adjusting the product mix and loan portfolio to mirror our Colombian operation. We seek to continue to tighten underwriting standards so that risk management practices are shared among all banks, and to continue to reap sales and strategy synergies with the parent company.

4) Lastly, we continue making progress in our digital banking strategy. Our platform NEQUI is fully operational and continues to bring more users to the system. The idea behind NEQUI is to provide unbanked retail clients with an easy-to-use platform to manage their cash, transfer it to relatives and friends at no cost whatsoever and with no minimum balance requirements.

Our financial results for the period are the backbone of achieving superior ROEs and I will reiterate the bank’s focus and commitment to generating desirable and sustainable levels of profitability. I would like to also emphasize that lifting profitability in all geographies added to boosting efficiency will be the two fundamental drivers going forward to reach our performance objectives in the stipulated time periods.

Having said this, I would like to continue with the presentation of Bancolombia’s financial results for the second quarter of 2016. Now, I will turn the presentation over to José Acosta who will elaborate on the main topics that impacted our business in this period, José.

Slide 3

JOSE ACOSTA: Thank you Mr. Mora.
Slide number 3 shows the profitability of the bank.

As you can see, the second quarter shows a much improved bottom line, thanks to the superb performance of the bank’s revenues, in particular Net Interest Income, coupled with lower effective tax rate and no wealth tax charge-off as seen in the first quarter. Profit before tax continues to demonstrate strong growth at 23% yoy. Also, provisions have been increasing this year due to the trepid economic environment and this understandably puts a drag on net income growth.

We forecast an effective tax rate of approximately 38% for the year, assuming a year end FX rate similar to the current one: three thousand pesos per dollar. Nevertheless, as we have previously mentioned, the tax
rate for the year will be subject to any variation in exchange rates. We will only know the taxes payable at the very last day of the year.

All included, we are very satisfied with these results because they show the strengths of Bancolombia: the ability to fund the bank at the lowest cost in the markets where we operate, the capacity to transfer interest rates to the asset side and the ability to generate capital in an organic manner. Moreover, we take advantage of our strong distribution network (more than 7 million customers in Colombia), along with our bank’s strong local capital markets position.

Now, we would like to continue with a brief discussion about the economic environment. For this purpose, we have Juan Pablo Espinosa, Bancolombia’s Chief Economist who will elaborate more on these matters, go ahead Juan Pablo.

FACTS ABOUT THE COLOMBIAN ECONOMY

JUAN PABLO ESPINOSA: Thank you José. Now, I will ask you to go to slide number four (4) in the presentation.

Slide 4

During the past few years Latin America has been experiencing a period of poor economic growth, due to the combination of global headwinds, internal bottlenecks and limited policy support. However, beyond this general trend there are significant differences across countries. While some economies will still be stuck in recession, other will grow below trend and a last group will manage to expand above the average of the past decade.

In Central America, several countries are benefiting from low commodity prices and a stable growth in the US. As a result, we forecast that this year Guatemala and El Salvador will expand by 3.6% and 2.3%, respectively. In the case of Panama, we expect that growth will continue to converge to its potential rate, with an estimate variation of 5.7% this year. Moreover, over the medium term we expect these countries to accelerate further, and this would allow credit to grow at a consistent pace.

For Colombia, leading indicators suggest that the moderation in economic activity intensified during 2Q16. In fact, we recently revised our FY 2016 growth forecast from 2.6% to 2.4%. We think that growth will be affected by contractive monetary and fiscal policy measures, which will coincide with a lackluster performance of private investment and a less solid internal consumption.

Moreover, due to the lack of significant short-term growth catalysts and the uncertainty surrounding the discussion of the tax reform, which will be possibly submitted to the Congress next October, we think that risks to our baseline scenario are biased to the downside. In a less rosy scenario GDP growth would moderate to 1.8%.

Due to the procyclical nature of credit markets, we expect that this deceleration of economic activity in Colombia will translate to a less dynamic growth of loans, particularly in the commercial and mortgage segments, which are more sensitive to the changes in interest rates and in confidence levels.
Regarding inflation, Colombia is the exception in a tendency of low price pressures. In fact, the latest twelve-month inflation print in Colombia is almost 9%, the highest since the inflation targeting regime was introduced in 2000.

But as the second half passes and the economy cools off, we expect that price pressures will lose steam. We foresee that inflation will close this year at 6.5% and that it will converge to the ceiling of the target range in late 2017. With the prospects of a moderating inflation and higher risks to growth in mind, our monetary policy call is that the Central Bank will remain on hold for the remainder of the year.

Given that the transmission of monetary policy actions to interest rates, particularly those of loans and the DTF, has been traditionally a slow and lengthy process, we expect that during the next months the market will continue to absorb the tightening cycle that has taken place so far. In turn, this should lead to a stable behavior of net interest margins in the Colombian financial sector.

In Guatemala, we expect that inflation will close this year at 3.8%, and that a 25 pbs hike in the reference rate is likely in order to keep inflation expectations under control. Finally, in the dollarized economies of Panama and El Salvador inflation and interest rates will remain low, in line with the trend in advanced economies.

Let me conclude this section by saying that the different macroeconomic trends across the countries in which Grupo Bancolombia operates will be evident during the rest of 2016, and this should bring important diversification benefits going forward.

[JUAN PABLO ESPINOSA: After this overview of the economic environment, let me turn the presentation to Jose Humberto Acosta, who will discuss the Bank’s results.]

JOSE: Thank you, Juan Pablo.

Slide 5

On slide 5, we see the evolution of assets and their composition.

Some important facts about Bancolombia’s assets and loan portfolio
- Today, peso denominated assets represent 59% of the total assets of Bancolombia (and is organically growing at 12%), while dollar denominated represents 41%. Also, the COP appreciated 2.7% against the USD during the second quarter.
- Loans outside Colombia represent 38% of the total book.
- Our loan portfolio in USD decreased 1% during the yoy.
- All the products are growing in line with our expectations.

Total assets grew 19% yoy, in line with our organic target rate of 10% growth for the year. The incorporation of BAM’s assets six months ago along with a peso of depreciation of 12%, explains this growth momentum. Loan portfolio growth is primarily driven by commercial loans which continue to exhibit sustained growth around 10% for the year.

The average yield to maturity for the investment portfolio is 7.3% and we continue to maintain a structural debt portfolio primarily for liquidity management. Also, the duration of the securities portfolio continues to remain low at 18.5 months, which minimizes risks in a very volatile environment.

We continue originating loans with strict underwriting standards, in order to maintain the high credit quality of the loan portfolio, especially in the consumer and SME segments.
The loan portfolio in USD decreased during the quarter, affected by the FX rate we just mentioned and by a moderation in credit demand. The loan portfolio is growing less than what we saw last year in 2015, which is perfectly fine and in line with our risk and credit standards, since the Colombian economy will be growing around 2.4% in 2016, and 2.7% in 2017.

Nevertheless, we are starting to perceive opportunities in some sectors of the economy such as manufacturing, tourism and infrastructure. Many of these sectors have been positively impacted by the weak peso. That is why we are slightly increasing our growth forecast for 2016 to 10%. We will still focus our growth in the less risky products as we want to maintain a very healthy balance sheet.

It is also important to mention that Bancolombia’s Balance Sheet is matched in terms of currency, which reduces impacts of FX variations on the shareholders’ equity.

Last, but not least, we want to highlight a fact that is very important to understand our view on capital. That is the high regulatory capital consumption of all our assets. The proportion of risk weighted assets plus market risk to total assets is 88%, a ratio that is very high but also gives us comfort because the risk weightings are very conservative in the Colombian regulatory framework.

Slide 6

Now on slide 6, we present the snapshot of the credit quality at the end of the quarter.

In general, we saw a deterioration in the quality of the consumer loan portfolio and the coverage ratio for C, D & E loans. The consumer book was impacted by three key elements:
  - The truck drivers strike in Colombia.
  - The end of a quarter usually known for new past due loan formation.
  - Deterioration of credit card business in Banistmo.

The overall coverage ratio improves however, because of the restructuring of Conalvías which has a significant impact.

The 30 day past due loans to total loans ended at 3.1%, below the 3.3% we had in 1Q15. Also, the coverage ratio increased to 121% from last quarter’s figure of 106%.

Remember, last quarter we finished the provisioning for Conalvías, making a small COP 30 billion dent in our P&L.

We forecast to have a 30 day coverage ratio ranging from 110% to 120% in the medium term, which we believe is more than enough to absorb potential credit losses. Similarly, 30 day PDLs should represent between 3% and 3.2% of gross loans. These forecasts includes any foreseeable deterioration of corporate clients.

At the bottom of the table, we compare 30-day past due loans, which is the Colombian standard, and 90-day past due loans which is a better indicator of credit quality as we have a significant portion of our assets in countries that use that standard.

90-Day past due loans have been very stable over the last two years, however they slightly improved during this quarter, not surprisingly because of the restructuring of Conalvías. They represent 1.9% of gross loans as of June 2016 with a coverage ratio of 194%.

Slide 7
Slide number 7 shows the provision charges, which were 628 billion COP during the quarter. They represented 1.7% of average gross loans when annualized.

In the shaded row of the table at the bottom, we present the amount of loans that became 30-day past due during the quarter, which is impacted by seasonal factors. The COP 24 billion new past due loans is very low specifically due to the restructuring of Conalvías and the incorporation of COP 260 billion that was now not considered past due. Furthermore, total PDLs totaled COP 4,357 billion.

As we have talked about in recent months, the Central Bank continues to hike rates, and we are now at an all-time high, which translates positively into better margins but does have a negative effect over the broader economy. Delinquencies are on a rise and the bank must decide between growing less or otherwise taking on more risk. We believe we have a sufficient amount of risk appetite and have not made a change to our initial strategy from the beginning of the year.

We will continue monitoring the performance of the portfolio and making sure that the new vintages are disbursed under more stringent underwriting standards.

Slide 8

Moving on to slide number 8, we see the evolution of net interest income (NII) and funding costs along with funding composition.

This is unquestionably, the most positive trend in our business because over the last twelve months, we have been able to grow NII much faster than the volumes of loans, and as a result, the operating income of the bank has grown steadily as well. This is a combined effort on two fronts: first, optimizing the funding terms and structure and in order to keep costs as low as possible and second, pricing loans at higher spreads.

NII for 2Q16 was 2.4 trillion COP, 37% greater than the same quarter of the previous year, driven by
- Higher loan volumes, which grew 20% over the last year.
- Higher spread on new originations.
- Depreciation of the Colombian Peso versus the US Dollar, 12% in the last twelve months.
- The 265 basis points increase in the DTF, which is the benchmark rate that we use to price a significant portion of our loans.
- And as a result, an improvement in NIMs.

Bancolombia’s funding cost was slightly pressured upwards mainly by higher costs on long term debt and also by the Central Bank’s interest rate hikes and a relatively tighter liquidity environment has increased funding competition among banks. The total funding cost increased by 27 basis points during the quarter while the Central Bank’s reference rate increased 125 basis points and the DTF increased 50 basis points. These increases exemplify one of Bancolombia’s competitive advantages, which is the fact that about half of our deposits in our operation in Colombia are not sensitive to the interest rates, and therefore, our funding cost grows significantly less than the Central Bank’s rates.

On the other hand, a larger proportion of loans re-price with higher rates and the NII and NIMs grow as a result of this dynamic.

During this year we have focused our efforts not only on keeping the funding cost as low as possible, but also on increasing the average time to maturity of the stock of liabilities, in particular time deposits and Long Term Debt. On a positive note, we feel we were very competitive in the funding market during the second quarter, although there was some pressure on Time Deposits and we had to recognize a higher interest on new CDs, as you can see with cost of deposits rising 36 basis points over the quarter.
The trend in interest rate hikes, increasing funding costs and NIM expansion that we have seen in recent months, should stabilize in the second half of the year as we believe that we have captured a significant portion of the benefits already.

Our goal is to keep funding costs as low as possible, which we have been able to achieve over the past months, while maintaining a conservative approach to liquidity risk management, in an effort to defend or expand the NIM and grow NII. We have in our favor the before mentioned asset sensitive condition of our balance sheet which is beneficial for margins.

Slide 9

Turning the page to Slide number 9, we show the Net Interest Margin.

During 2Q16, we saw an incredible upside in the reported Net Interest Margin at 6.1%, 44 basis points above last quarter’s, explained unequivocally by the loans net interest margin.

In particular, three main factors positively impacted the investments NIM during the quarter:

1) The appreciation of Colombian Treasury’s (or TES) and some other securities, even though the investment portfolio is only 7% of total assets.
2) Investments flows, mainly from international player entering the Colombian fixed income market.
3) More clients demanding structured products for hedging purposes, such as FX swaps, options, etc.

In the lending business, we have to link the stronger NIMs to the asset sensitive condition of the balance sheet and to the higher spreads of new originations.

Also briefly, Colombia shows the strongest NIMs because of the repeated rate hikes during the quarter, while NIMs in Central America are significantly lower. At the end of the quarter, we had an unconsolidated NIM for Colombia of 7.1%, compared to 3.8% in Banistmo, 6.4% in Banco Agricola (a very positive number in our view), and 4.7% in Guatemala for Banco Agromercantil’s operation. Despite the lower numbers in Panama and Guatemala specifically, we did benefit substantially from the higher rate environment in Colombia.

Slide 10

A breakdown analysis of Fees is presented on slide number 10.

Fees are another front where we continue to reap success as can be seen in recent results.

During the second quarter Net fees increased by 6% compared to last quarter despite an expected setback in transaction volume momentum. BAM contributed with 2.6% of the fee growth. Net fees grew 12% yoy and 18% on a gross level.

Electronic services and ATM, debit and credit cards fees were a key driver of fees during the quarter. We are experiencing sustained growth in cards and usage in Colombia, due to rising wages and also the promotion of these as a method of payment.

We continued to see more credit and debit cards transactions, as a result of our commitment to promote the use of cards for in-store transactions. In addition, we’re tapping into new business segments when it comes to promoting and introducing numerous benefits and customer rewards initiatives. Today, Bancolombia has 20% of the number of cards outstanding in the market and 33% in debit. Also, the bank has 26% market share of billing in credit cards and 44% in debit. This creates an enormous opportunity because the plastic usage is not only a fee generator but also a source of efficiency.
Banking services and asset management were also a major contributor for fee growth during the quarter, as well as asset management.

In addition, we saw a sustained performance of insurance distribution fees, which generated 91 billion COP during 2Q16, and grew 35% year over year.

Fees represented 17% of 2Q16 operating income, which is a good share since these are transactions that do not require a significant amount of capital compared to lending.

Our non-banking correspondent channel is steadily growing as we find new, cheaper ways to bring banking to Colombia’s most underpenetrated geographies and client segments. Today, we have more than six thousands of them.

These fee initiatives are by no means limited to Colombia, and we are focusing on steadily growing the credit card segments in El Salvador and Panama.

Finally, we forecast a fee growth of around 10% in 2016.

Slide 11

In slide 11, we present the evolution of expenses.

Total operating expenses grew 21% year over year or 287 billion COP. When analyzing this growth in marginal terms, we find that BAM at the end of 2Q16 represented 29% of the increase. In other words, excluding BAM, the yoy growth would have been 15%, which is also affected by the depreciation of the COP against the USD over the last year.

The cost to income ratio improved significantly good because of ongoing cost control initiatives and strong NII growth, and was 48% in 2Q16. Our target is to get this number under 50% for the year in the short term.

Operating expenses consist primarily of personnel expenses and administrative expenses which have been kept under control in their respective currencies.

As we stated last quarter, Bancolombia is committed to developing lower cost channels, based on technological innovation and optimal customer segmentation, as we strive to grow expenses in line with nominal GDP.

Our guidance for 2016 is an increase of expenses ranging from 8 to 10% on an organic level, which we believe will be key in obtaining strong profitability levels.

Slide 12

Moving on to slide 12, we see the evolution of the net loans to deposit ratio, which ended the quarter at 116%, slightly above the figure shown last quarter. This ratio has become relatively stable over the last year and is a lever where we feel comfortable.

The proportion of loans that we do not fund with deposits is funded with long term debt in order to have a similar duration in both sides of the balance sheet. This strategy reduces the volatility in the net income and shareholders' equity. It makes more sense to us, to fund long term loans with long term liabilities and that’s why the 116% is a level that gives us comfort about the liquidity position of the bank.

Regarding capital, on the bottom right hand side, we show the Capital Adequacy ratio. The Tier 1 ended at 8.5%, 400 basis points above the regulatory minimum of 4.5%. This is a very good ratio and most importantly, the continuous growth in the metric leads us to reaffirm our estimation that 2016 will be a year of capital accumulation.
Now that we talk about capital, we wanted to make a reference to the rating action taken yesterday by Fitch. Considering the recent reviews of the sovereign rating of Colombia, influenced by current account and fiscal deficits; as well as the impact of the depreciation of the Colombian peso on Bancolombia’s Tier 1 ratio, Fitch decided to reduce the rating of Bancolombia from BBB+ to BBB. With this rating, Bancolombia is at the same level of the sovereign rating and despite it is a downgrade, it is still investment grade. We continue our conversations with the rating agencies to share with them the evolution of the business and in particular, our capital accumulation process.

Nevertheless, as we have share with you in the past calls, the capital levels that Bancolombia present today are optimal for the business plan that we have designed, in particular, we identify four factors to support our thesis:

1) First, The Colombian regulation is very conservative, and the risk weightings of assets is very high. Nevertheless, Bancolombia is well above the regulatory capital level and that fact give us comfort.
2) Secondly, the simple leverage of Bancolombia is very low.
3) Third, when we run our models to estimate the economic capital required to operate the bank, we find that the requirement is to have a Tier 1 of 4.4%, which is very similar to the regulatory requirement.
4) Fourth, we have 22% of our equity is in dollars, which mitigates the impact of the depreciation of the Colombian peso on risk weighted assets.
5) Finally, given the business cycle that we are going through today, we do not see the need to have more capital. The credit growth forecast for this year is very moderate and we will organically generate the capital to achieve that growth. We do not plan to pursue more M&A opportunities in the coming years as we are focused in the optimization of our operations in Central America.

As we have said before, we look to operate the bank at an optimal Tier 1 ranging from 8 to 9%.

For the Tier 2 ratio, we ended 2Q16 with 4.7% for a total BIS ratio of 13.2%, above the regulatory threshold of 9%.

Slide 13

Slide number 13 shows the ROA and ROE of the bank.

The ROE for the quarter was 15.2% and ROA was 1.5%. ROE rebounded as anticipated after the improvement in NIMs and NII. This quarter marked more of a normalization of profitability keeping in mind the oncoming headwinds for the rest of the year.

We expect to continue growing net income, although at a moderate pace, while maintaining solid solvency indicators for the rest of the year and improving profitability.

Our target ROE for 2016 is 13 to 14%, while the medium term target continues to sit at 16%.

After presenting these results to you, wish to re-affirm two main goals for the future:

1) First, our focus on profitability. This will come from a combined effect of growth in our lending business, and sustained development of our portfolio of services. The lending business should benefit from higher volumes and better margins, as well as an optimal diversification and risk management criteria.

2) Second, our focus on efficiency. This is a necessary condition to sustainability and profitability. Our efforts in digital transformation, increase capillarity of our channels and process optimization will
contribute to this initiative and will permit the business to continue delivering value for our shareholders.

After presenting these slides and discussing our second quarter results, I would like to invite our audience to ask any questions you might have and we'll gladly take it from there.

First question

Ernesto Gabilondo from bank of America Merrill Lynch

Good morning and thanks for taking my call, after the recent increasing in interest rates, the reprising in loans and the economy growth slowing how do you perceive the credit demand in the coming quarters and in the next year? and another question about the assets quality, we saw and improvement in NPL's but some deterioration in the cost of risk I think that was mainly due to the consumer segment so I just want to know at what extend do you expect the ratio to continue trending up or what are the reasons behind a stable behavior?

Jose Acosta: thank you Ernesto, regarding to your second question about the assets quality, at the beginning of the year we talked about our cost of credit will be about 1.7% and today is currently 1.7%. We saw as you mention a deterioration in the loan portfolio but we don't expect a huge deterioration we believe that at the end of the year that our cost of credit will be between 1.7% and 1.8%

All the difficulties of the economic cycle, we foresee a specific deterioration, basically in the consumer loans. What happened in our operation was a deterioration in the Panama operation that we have now under control, we don't expect a mayor deterioration in the loan portfolio in the second quarter and we believe we will be at 1.7% or 1.8% cost of credit.

Regarding your second question we took advantage of the high interest rates hikes of the central bank, we believe that we will be able to sustain the NIM of the second quarter, the challenge will be focus basically on the cost of funding.

And about the credit demand, yes, we believe that the credit demand will be align at the level of 10%. We saw an increase the first quarter but then we see a reducing pace of growth in the second quarter and third and fourth quarter we will see exactly the same trend. So we don't expect a mayor increase in the loan portfolio, neither we don't expect a drop in the number. We are expecting as you probably heard from our chief economist meanwhile the economy of Colombia is growing at a level or pace at 2.4% and we are growing in a different pace of that, cause of the GDP growth on those countries are at different level. So meanwhile, the loan growth in Colombia will be 8% to 10%. And for example in Panamanian operation is growing at a pace of 10%, Guatemala is growing 8% to 9%. So as a combination of that we see ups and downs but at the end of the day 10% will be the number to the end of the year.

Second question

Tiago Batista for itau BBA

Hi guys, thanks for the opportunity, I have two questions the first one on fees. You pull a material expansion of bancassurance fees could you give us a little more color on your strategy of the bancassurance business? And the second one, just to follow up on your expectation of loan growth, you said you expect a loan growth of 8% to 10%, if I am not wrong in the first half of the year your loan book expanded almost 1% or around cero. Is it possible to see this big improvement in loan portfolio expansion during the second half of the year?

Jose Acosta: ok regarding your second question about the loan growth, the situation is as follows: Remember that almost the 65% of our loan portfolio is in local peso, the local peso is behaving at a pace of the 10% to 11% growth the last 12 months in the US Dollar track we are not growing. We are growing only 1% and that situation is explained mainly by the loan book in US dollars in Colombia, what happened in Colombia is that the corporate credit demand for US dollars shift from US dollar to local currency so we are experiencing a decrease in the US dollars loan book in Colombia.
Meanwhile the other loan books in the offshore in the international operation is growing at a good pace but the combination of factors we are only growing 1%. What we expect for the rest of the year? We are expecting the same in both currencies, maintaining the growth in local currency in peso to align 10% and to maintain the loan growth in US dollar outside in between 5% to 10%.

Regarding your first question, fees, what’s going on with bancassurance is that we are the number one dealer of insurance for Suramericana for example, so we are penetrating in our consumer segment with those bancassurance and the numbers are growing at a pace in the last 3 years at around 20%. What we expect in the next coming months? We are expecting same level of growth because we are promoting the use of insurance in our branches; remember that we have more than 6 million clients in Colombia.

Other, it is a very successful business in our operation in Agricola in El Salvador we are growing also at a pace of 20%, 25% only the numbers still very low but we are promoting the use of insurance and it is reflected because of a new composition of the society. People are beginning to realize that buying insurance is a very good business, so it’s a sustainable fee income at least for the next two years in the same numbers as a growth of 20%.

Third question

Tito Labarta from Deutche Bank

Hi, good morning and thanks for the call, my question is, a net interest margin is falling up a little bit more and I understand you said that you expected it to remain kinda stable for the rest of the year, but that means that you don’t see anymore increased spreads? and you know we saw some good performance this quarter so, I just wanna make sure your thinking that you can increase the spreads more? but also on the funding side I understand you feel comfortable with to loan to deposit ratio but we have seen deposits fall now for two quarters. Do you think that could add some more pressure on the funding side? That maybe you know could negatively impact the margin? And also I understand you expect rates to remain stable for the rest of the year, but if the rates raise some more what do you think you will feel more pressure on assets side? Were you will increase spread again or would that add more pressure to your funding cost? Particularly in your loan to deposits ratio, I just wanna get a little bit of color at your outlook for margins. Thank you.

Jose Acosta: ok thank you Tito, what we expect the second half of the year is, we took advantage of the momentum of increase of the interest rate and the DFT will increase as well. The second half of the year we expect a flat interest rate in terms of DFT and we expect a minimum increase of the central bank interest rate so for that reason we are not expecting on the assets side a better indicator of NII. We are expecting to maintain it as you said: What is the challenge? The challenge is to maintain the funding cost under control and that will be very challenging again because obviously the cost of funding is increasing. So what we did is trying to prefund and to lock part of our funding, remember that 1/3 of our funding structure is CD’s, so we already lock part of them and we will take advantage of that. So we believe that third and fourth quarter we will try to maintain funding cost under control and this is basically because as we mention in the speech half of our deposits are not price sensitive because is retail business. So again the guidance here is to sustain the NIM at the same level. The challenge will be in 2017 because probably in the inflation change and the interest rates goes down and because we are assets sensitive we will feel pressure on the NIM and that will be the second half of next year.

Regarding your second question that if the interest rate will remain stable, again the structure of funding, we are funding basically from… what happened with loan to deposits ratio is in the operation on Panama we are growing in a pace of 10% but on the liabilities side we are not growing at the same pace, we are growing at a pace to 7% to 8%. So we are covering that GAP with medium term loans from international banks. That’s the reason why the number of loan to deposits ratio changed. But again in our Colombian operation we have a ratio of loan to deposits around 100%. The situation is in our international operation because is mainly driven in US dollars and we have to use the international facilities, that’s the reason why we went to the market with DCM and we raise money for Banco Agricola a year ago and we raise for Banco Agromercantil two years ago.

Fourth question
Nicolas Riva from Citigroup

Thank Jose Humberto for taking my questions. My first question is on capital so your tier 1 increase 30 basis points Q/Q now is a 8.5% which is one of your guidance of 8% to 9%, and the increase seems to be driven by a reduction in the RWA which were down 2% Q/Q. Now, I know loan growth was quite low Q/Q only 1%. However, I wanted to know what was the reason really of the reduction in the RWA on Q/Q basis?

And then my second question on taxes, the tax effective rate has being quite volatile in the recent quarters 49% in the first quarter, 32% in the second quarter and overall this year has being higher than the last year that was 20%. So I wanted to ask what is driving volatility in taxes and also what is the guidance in tax rate for the second half of this year. Thanks

Jose Acosta: thank you Nicolas, yes the reason why the RWA reduces is because of VAR. Remember that we allocate part of our liquidity, 7% of our assets are allocated in the investment portfolio mostly in sovereign treasuries. So we are using less VAR and that is why the number increases in terms of Tier 1 which implied that we are using our capital in the best possible way and trying to allocated in the best possible way and you will see that we are trying to maintain that number again 8% to 9%.

The second question regarding taxes remember that the first quarter we were impacted because of appreciation, the FX rates came from 3,150 pesos to 3,000 pesos that was an appreciation of the currency very important that affect us in terms of taxes. So for the year the guidance is that we are expecting a tax rate base of 38%, assuming that the FX will be a kind of stable, which means that we believe, as our chief economist said, that the FX rate will be at the end of year at 3,000 pesos. If it is what it is 3,000 pesos the tax rate base will be 37% but if something happens in terms of appreciation or depreciation that will change the tax interest rate.

Fifth question

Catalina Araya from JP Morgan

Hi, thank you, my quick question is following up in consumer lending, I was surprised by the increase in the acceleration of consumer loans, which this quarter grew around 19% y/y versus only 8% y/y in the first quarter. You said at the beginning of the call that in terms of risk, you are being conservative especially in the consumer segment but we see this huge or accelerating in growth and NPL’s increases 20 basis points so I wanna know or understand where this growth is coming from. And then my second question just following in bancassurance you talked about 6 million clients in Colombia, how many of this clients have insurance products. Thank you.

Jose Acosta: thank you Catalina, regarding your first question what happened with consumer loans is that we decided to go to the high income individuals and we use a new tools inside the bank which is analytics and we are right now very efficient in the preapproval process to those population so as a result of that, we increase the level of loan portfolio for those individuals and also we are offering them more term, instead of lending for 1 year we are lending for 2 or 3 years.

But as you mention Catalina mostly focused on high income individuals in order to avoid deterioration on the loan portfolio and remember that the deterioration of the loan portfolio part of it is seasonal, the other part is because of the Panamanian operation and the other part is because some corporate clients it is not related mostly to the consumer business it is related with the whole range of business that we are offering. So the answer is we are very focused with high income individuals and we try to take advantage of that and to lend them more money.

Juan Mora: Jose Humberto, let me, Catalina, let me precise a little bit what are our expectations around loan growth as we said we expect our book to grow around 10% how do you divide that growth, mortgages are going to growth 12%+ so that is going to be the leading part of our portfolio, commercial loans will grow around 8% to 10% and as we mention there are some corporate projects of infrastructure in Colombia and other corporates in the country so that part of the book will grow between 8% and 10% and retail is going to grow
around 5% to 6% so we are expecting that retail part of the business is going to grow at a pace that is going to be lower for the rest of the year.

**Jose Acosta:** and also remember Catalina that 58% of our loan book is basically commercial loans so we are talking about that the loan growth will be basically on that segment. Regarding your second question of bancassurance out of the 6 million clients we have right now a 100,000 clients using bancassurance so you see a huge potential in growth and that’s the reason why we believe that the number of growing at a pace of 20% will be sustainable at least for the next 2 years.

**Juan Mora:** and let me expand a little bit on that. We have been building a strategy around insurance for the last 3 to 4 years and it’s a business that is growing at a very good pace. Insurance penetration in our countries is very low but we have costumers and we have a distribution network that is very powerful so we are taking that product on our distribution network and the results have been very good and we expect that pace to continue since we see a regular demand for this kind of products not just in Colombia but as we mention before in the other countries where we are present.

At this time, we have not further question.