OPENING REMARKS

RESULTS SUMMARY
Slide 2

JUAN CARLOS MORA: Good morning everyone. Welcome to our conference call for the fourth quarter of 2017.

INTRO AND MACRO VIEW
I would like to start this call, with a brief description of the main events that drove our business in 2017.

1) The efforts we did in cost control and efficiency fronts permitted to have a real decline in the operating expenses. I would highlight the decline in labor cost and the positive impact of our strategy to re-balance the branch network. The cost to income ratio declined below 50%, which was the goal that we set for 2017.

2) We were able to grow fees not only in real terms but also faster that Net Interest Income, despite the adverse effects of the higher Value Added Taxes in Colombia, which was a drag for growth, in particular in the first half of the year. The efforts to enhance fee generating services is a key component of Bancolombia’s strategy to improve profitability and use the capital of the bank in a more efficient way.

3) We were able to maintain the Net Interest Margin despite the interest rate cuts conducted by the Colombian Central Bank during 2017. Our strategy in this front was concentrated in managing the funding of the business; reducing the sensitivity of the balance sheet to interest rate cuts and growing faster in retail clients with higher risk-adjusted returns.

4) The cost of credit for 2017 was 2.2%, above our estimations at the beginning of the year. In particular, deterioration of corporate clients caused significant provision charges. SME clients were also affected by the economic slow down and the depreciation of the peso, therefore, we accelerated provision charges in order to cover them and protect the book. On the other hand, consumer loans behaved in line with our expectations and towards the end of the year we saw stability on the quality of the portfolio.

5) In the digital front, we continue making progress by growing faster in mobile and internet banking. As we have shared with you, our goal is to migrate more transactions to low cost channels and release pressure form the branch network so we can turn them into points of sale, and increase the cross selling ratio.

Some achievements in this front are:
- More than 10 thousand banking agents, which perform 5% of the total transactions and enhance the capillarity of the branch network.
- 2 and a half million regular users of the Bancolombia’s mobile platform
300 thousand users of our digital bank Nequi in Colombia and 20 thousand in Panamá, just 10 months after its launch.

Digital sales have grown steadily and today, we open 40 thousand products on line every month, including e-credit cards, CDs, savings accounts, among others.

The capacity to open savings accounts completely on-line has permitted to bring 45 thousand new clients to the bank via this channel during the last year.

6) Also, we continued introducing several products and services in our Central American operations in Banistmo where we see more upside. This strategy made possible to grow fees 13% during 2017 and complement the portfolio while using the bank’s capabilities in a more efficient way. Similarly, in Banco Agrícola, insurance distribution became the largest fee generator and in BAM, the credit card fees grew.

The reduction in cost to income in Banistmo was also, an important achievement as it came down from 58% to 52% in 2017.

7) We continued strengthening the origination process by using data analytics in order to predict our client’s indebtedness capacity and behavior. This is the key element that permitted to grow consumer loans by more than 15% with a moderate increase in the cost of risk attributable to this segment. Similarly, we have implemented Robot Process Automation in several back office processes. These were typically labor intensive processes and as a result, the gains in efficiency have been significant, especially in labor costs.

Now, I would like to share with you the main aspects that will guide our strategy in 2018.

1) We aim to continue managing the risk and the credit cycle in order to reduce the cost of risk from current levels towards 2% for 2018. In particular, we highlight the fact that it seems like the NPL ratio has reached a plateau and in our view, it should improve towards the end of the year.

We continue doing provisions related to large corporate clients

2) We will concentrate efforts in maintaining the Net Interest Margin as high as possible by managing the funding structure in a way that cost of deposits is reduced and the duration of the liabilities is also reduced.

Additionally, the strategy that we have implemented in the last year to grow faster in consumer loans, while keeping the risk under control, should permit to offset the NIM pressures.

3) In the cost and efficiency front, we intend to continue our plans to bring down the cost to income ratio towards 48% by growing costs below 5% and aiming for high single digit to double digit growth in revenues. The digital strategy and Central America play a key role in this initiative.

4) In Central America, in particular Banistmo and BAM, we intend to increase profitability by promoting the fee generation and a more efficient loan mix.

Across Central America, we are conducting a program to cut cost that we estimate will save 100 million dollars per year. This includes optimization of the branch network, automation of processes, among other. Similarly, revenue initiatives

5) One particular point of attention right now, is the optimization of processes where we interact directly with customers. Our goal here is to reduce the time our clients spend at the branch and move more transactions to digital platforms and banking agents. The ultimate goal here is to continue turning the
branch into a sales point rather than a transaction point and eventually increase the cross-selling ratio from the current 2,3 products per client to 3,5 of above.

6) Finally, and regarding to the use of the network of branches we continue re-balancing it in order to reach the right coverage and enhance capillarity. As I mentioned, we progressed in Colombia last year and today our efforts will be concentrated mainly in Guatemala.

Having said this, I would like to continue with the presentation of Bancolombia’s financial results for the fourth quarter of 2017. Now, I will turn the presentation over to our Chief Economist Juan Pablo Espinosa, who will elaborate on the main economic topics, Juan Pablo.

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

**Slide 3**

The most recent indicators confirm that economic activity in Colombia bottomed in 2017. During the fourth quarter of 2017 GDP grew 1.6%, 0.1 pps below our forecast. This result reflects a moderation in agriculture, retail, manufacturing and transport. Incorporating upward revisions to previous quarters, in 2017 the economy expanded 1.8%, the lowest reading since 2009.

Going forward, we reiterate that growth will accelerate to 2.5% in 2018. Recently we have seen that although some leading indicators stopped deteriorating in the past months of 2017 the weakness of demand that marked 2017 persisted. However, some of the factors that will lead to greater dynamism in economic activity this year have strengthened. Among them is a more positive global economic context, a recovery in terms of trade and a more accommodative monetary policy. As a result, we anticipate that the acceleration in growth will take full force from the second half of 2018.

Regarding prices, we have reduced our inflation forecast for December 2018 to 3.4%. Recently, the short-term inflationary risks have moderated, while the increase in the VAT rate at the beginning of 2017 is generating a favorable base effect. In the second half of the year the correction would be limited as a consequence of the persistence of core inflation and a slight acceleration in food prices.

In terms of monetary policy, despite the Central Bank’s board stated in January’s meeting that with the available information the cycle of rate cuts was completed, we foresee there will be room for an additional 25 bps cut in Q2. Thus, we maintain our previous base scenario, in which the repo rate will reach 4.25% and will remain at that level for the rest of the year. The positive surprises of prices and the subsequent corrections of inflation expectations in a context of a negative output gap will lead the Central Bank to make this decision.

On the external front, we expect the current account deficit to correct from 3.6% in 2017 to 3.5% of GDP in 2018, as a result of greater exports growth, partially offset by an acceleration of imports and an increase in profits transferred abroad. Thus, the country’s external imbalance will be closer to its sustainable levels, although it will remain higher than that of other BBB sovereigns.

On the other hand, recent events reinforce our expectation that this year the Central Government will meet its deficit target of 3.1% of GDP. However, despite higher oil prices we think that additional effort will be required to comply with 2019’s target.
[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.

JOSE: As usual, I would like to give you a brief overview of the status of our operations across the region.

Please go to slide number 5 where we can see a snapshot of the four main business.

Please be aware that this numbers are reported under full IFRS and differ from the numbers filed with regulators, they present cumulative numbers as of December 2016 and 2017.

Also note that these numbers do not include our offshore Operation Bancolombia Panamá, Puerto Rico and Peru, as a result, the sum of the operations presented in this slide account for 95% of the loan portfolio.

I would like to highlight two points in particular:

- In Banistmo: a significant improvement of ROE due to:
  - Cost to income reached 51% as a result of to cost control. Costs declined 4.5% and fees grew 13, thanks to the introduction of new products and services.
  - Also, in 2017, the was a recovery of provisions associated to the Wisa assets that were finally sold and drove down the cost of credit.

- In Banco Agrícola in El Salvador:
  - Fee growth was 9% as a result of the introduction of banc assurance.
  - We maintain a low level of past due loans of 1.7% with a coverage ratio of 208% in a strategy to protect the balance sheet.
  - And finally cost control programs caused expenses to decline 2%.

Now; I would like to move to slide 5 of the presentation, where we can see the evolution of assets and their composition.

**Slide 6**

The loan structure of the bank reflects the new strategy to change the mix. During the last years we have put emphasis in growth of consumer loans, which went from 14% of the loan portfolio in 2016 to more than 17% today.

As a result of these efforts, the composition of the loan book today is:

- Corporates and SME:69%
- Consumer loans: 17%
- Mortgages: 13%

We highlight the consumer loan growth, levered on our large base of clients, focusing on those with mid and high income and using better analytical tools. Today, 35% of the consumer loan portfolio has been originated with pre-approved loans, result of these analytical processes.

Loan growth for 2017 was 6%, certainly, confirming the moderation that we had seen during the first three quarters.

Nevertheless, there was a significant difference between growth in commercial and retail loans. Commercial loans grew 3.4% for the year while consumer loans grew 15%.
Our strategy is to balance the portfolio towards consumer loans in order to improve the overall profitability of the lending business.

Loans denominated in dollars account for 34% of the loan portfolio.

The dynamics of loan growth is reflected in Colombia, where the loan portfolio grew 8%. On the other hand, we saw consistent demand for dollar denominated loans, in particular in Panamá.

The securities portfolio remains around 7% of the assets and in the fourth quarter in particular, contributed with a good performance to NII.

Regarding the outlook for the rest of the year and according the macroeconomic environment, we believe that loan growth will be faster in the second half of 2018. Our expectation is to grow around 9% in 2018.

**Slide 7**

Moving on to slide 7, we present the situation of the credit quality as of December.

30 day Past due loans presented a slight improvement in 4Q17, mainly due to the reduction of corporate PDLs. Nevertheless, 90 day PDLs posted deterioration due to run-off of clients who were already past due.

Here, we highlight the fact that the pace of deterioration seems to be slowing down due to measures taken to curb this process. We remain cautious about the evolution and the underwriting standards. Due to seasonal effects, we might see some deterioration in the first months of 2018.

The coverage ratio for 90 day PDL was 164%, in line with our targets and we expect to keep it around that level in 2018.

**Slide 8**

The next slide, number 8, presents the provision charges of the quarter.

We continue having high provision charges during the quarter, most of them related to commercial loans. One goal for 2018 is to reach the optimal level of coverage of large corporate clients and maintain the desired coverage ratio.

During the quarter, we saw an improvement in the pace of deterioration of the loan portfolio. New past due loans totaled 622 billion pesos and in particular, we saw an improvement in the corporate book.

We remain cautious with the quality of the loan portfolio and in the next months, we expect to have provisions similar to the ones we have had in the second half of 2017.

Our forecast for costs of risk for 2018 is to be around 2%, based on the assumption that the loan growth will be 9%, which will dilute the charges.

**Slide 9**

Moving on to slide number 9, we see the evolution of Net Interest Income and the funding cost.

Net Interest Income presented a positive performance during the quarter and during the year. It grew 8% during the whole year while the gross loan portfolio grew 6%.

The performance of NII is explained by three conditions:
   1) First: 6% loan growth during the year.
2) Second: the change in mix of the loan portfolio, growing faster in retail.
3) Third, the efforts to bring down the cost of funding, in an environment of interest rate cuts.

Regarding the cost of funding, our strategy has been focused on:
1) Reduce the cost of long term debt by rolling over the bonds.
2) Promote Saving Accounts, which grew 11.5% versus growth of 2.4% in Time Deposits.
3) Reducing 7.8% the stock of funding with international banks.
4) And finally, perhaps the most important one, the reduction of the duration and cost of the Certificates of Deposits in Colombia.

The combination of these factors have permitted to bring down the Loan to Deposit Ratio to 115%.

**Slide 10**

In the next slide, number 10, we present the NIM.

In 2017, we offset the NIM compression despite the 300 basis points in the interest rate. For the whole year, NIM went from 5.96% to 6.07%.

On the other hand, securities, had a good performance during the year, although with some volatility. In the fourth quarter, Colombian government securities appreciated due to the reduction of interest rates and contributed to the 2.6% NIM.

We expect the reference rate in Colombia to come down 25 basis points and an improvements in dollar margins as a result of higher US rates.

As a result, we estimate the NIM for 2018 to come down 20 basis points and reach the level of 5.8%.

**Slide 11**

On slide 11, we can see the evolution of fees.

Due to seasonal factors and more economic activity in the last months of the year, we saw a positive performance of fees in 4Q17.

Fee growth was 8% for 2017, which was a faster loans and NII growth, adding value to the results. This growth was driven by credit cards, asset management and bancassurance.

Fee evolution in Colombia has been impacted by the deceleration of the economy and also, the increase in Value Added Taxes. On the other hand, in Central America, the growth of fees has been at double digit pace.

Our strategy is to introduce new products and services in the three geographies.

Banistmo, which grew fees 13%, had a very positive performance in banking fees and credit cards. Banco Agrícola, which grew fees 9%, continues making progress in bancassurance and today, that is the largest fee generator for the bank.

Our forecast for fee growth in 2018 is 12%.

**Slide 12**

Now, moving to slide 12, we present the evolution of expenses, which declined 13% during the quarter.
As we have mentioned in previous conference calls, we have normalized operating expenses during the year in order to avoid seasonal variations that typically, affected the fourth quarters of previous years.

For 2017, we are pleased to highlight an OpEx growth of 3.5%, which is below inflation and below our initial estimations.

In particular, three aspects contributed to reduction in expenses during the quarter:
   1) The reduction in personal expenses
   2) The adjustment to the calculation of bonuses based on the final results for the year.
   3) And the positive migration towards low cost channels and reduction of the network of branches.

As a result of the strategies implemented, the level of efficiency was 49.2%

For 2018, we expect to grow Operating Expenses between 4 and 5% and the cost to income ratio to be around 48%.

**Slide 13**

In slide 13, we present the evolution of the main channels.

As we have mentioned during the year, one of our main goals in client experience and efficiency, is to promote the digital channels that have little marginal cost. The pie in the bottom right shows how mobile and internet represent the largest portion of total transactions in Bancolombia.

Similarly, the growth in capillarity through Banking Agents permits to optimize the role of the physical branch and reaching clients with a channel that has variable cost instead of fixed costs.

In 2017 we grew 16 hundred banking agents, reaching more than 10 thousand and shut down 117 branches.

We will continue enhancing the offer of digital services to our clients, maintaining a strict cost control, continue rebalancing the existing network and focusing in optimization.

**Slide 14**

Now, let’s move to slide 14 where we present the evolution of the capital position of the bank.

In line with the trend that we have seen during the year, the bank has operated above 10% Tier 1, and is in the process of accumulating capital.

As we have shared with you, we feel comfortable with the current levels of capital, 10.2% Tier 1, and consider them optimal for the business plan that we have set for the bank.

Let’s remember that this level of capital does not include the earnings generated in 2017, which will be appropriated in the Annual General Meeting next march. That should put our Tier 1 around 10.7%

Finally, we would like to mention some seasonal effects on the income statement that impacted the 4th quarter:

1) We had Other Operating Income gains related to the return of 86 billion of income taxes from previous periods and 88 billion related to gains of the real estate assets that we have through our Fondo Inmobiliario Colombia and other assets.
2) We posted a higher equity method contribution due to income from our investments in Tuya S.A and other non-controlling subsidiaries.
3) Third, a 173 billion impairment of our stake in Tuya due to the annual appraisal of this vehicle.
4) The net impact of the gains on investments was offset by this impairment

**Slide 15**

Finally, we present the ROE for the period, which was 16%. For the full year it was 12%.

Our forecast is to gradually improve ROE towards the 16% target that we have for 2020. In particular, we estimate that in 2018, we should be in the 13 to 14% range.

After these positive results in 2017, I would like to highlight that for 2018 we expect:

- Recovery in loan growth towards 9-10%
- A small compression in NIM, reaching 5.8%
- Growth in Operating Expenses between 4 and 5%, and cost to income reaching 48%.
- A 12% fee growth across all geographies
- Cost of risk around 2%, with the same amount of provisions in nominal terms.
- An finally, effective tax rate of 33%.

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

**Questions And Answers**

**Operator**

thank you. we will now begin the question-and-answer session.

**First question**

**Tito Labarta, Analyst Deutsche bank.**

Hi, good morning everyone. Thank you for the call. My question, I guess is on expenses given the -- the sharp improvements that we saw this quarter, and I understand your guidance of 4% to 5%, but I guess how should we think about it on a quarterly basis, we saw lot of movement there. Should we always expect either a jump or decline every fourth quarter, just trying to understand that. And if you could also just give some -- some more color on how you are able to reduce that, I understand lower bonuses and less expenses, but maybe if you can give a little bit more -- more clarity on that and why the sharp reduction as well? Thank you.

**Jose Humberto Acosta, Chief Financial Officer**

Thank you, Tito. Yes, the reason why you see high volatility during the -- during the 2017 were basically because we try to normalize the level of expenses quarterly. What we -- you will see in 2018 that would be a very stable line in terms of expenses, again, 4% to 5% will be the expenses growth. We are expected to maintain our headcount under control. We are expected to continue processing the new products and services through digital channels, reducing cost.

So you don't expect a high level of volatility. The reason why we reduced the provisions for bonds were because our original budget were impacted by the high level of provision. So that was the reason why in the last quarter, we reduced our provisions. But it's not a one-off, it's a normalization of the level of provisions that we design annually.

**Juan Carlos Mora, Chief Executive Officer**

And Tito one more, even though we tried to normalize the effects of accounting, the fourth quarter is the one in which we account for all the adjustments even because we know the results of the year. So we work to normalize and to have the expenses distributed to the quarters. But fourth quarter usually is the one that in which we do all the accounting adjustments and in this case, were a reduction on expenses. We will try hard
to normalize as much as we can the expenses through the year, so it can be forecast easily the expenses. But let me tell you that our focus now is to work on -- on one aspect is to grow the expenses between 4% and 5%. So we can cost control. And let me emphasize that we have been working very hard on these cost control projects and the efforts during '18 it to make them sustainable through the different periods, not one-offs or one effect that is in one point, but to make them and structural way in the bank operates. We have to highlight another factor that -- it is reflected in the fourth quarter, Tito, which is the provisions for long-term benefit plans. We have also to reduce those provisions because the headcounts dropped 1,000 employees. So you can imagine that in terms of provisions for bonus, for vacations, for different aspects, so we'll reduce also that level of provisions.

Second question

Felipe Ikari, Analyst from Itau BBA.

Hi, good morning. Thank you for taking my questions. I have a question regarding 2018 expectations. You indicated 12% expansion fees for 2018. In the fourth quarter, we saw enough expansion in Bancassurance fees by more than 20%. Do you expect this line to be the one driving fee growth for 2013? And you also mentioned earlier today that you expect to increase the products per client to 3.5. Could you give us a little bit more color on what are the initiatives being taken to increase cross-selling? Thank you.

Jose Humberto Acosta, Chief Financial Officer

Regarding, our fee income growth, yes, Bancassurance is showing a very solid trend in the last three years and the growth there, CAGR will be at around 25%, we are expecting the same. The reason why the number dropped in the Colombia operation during 2017 was because of the activity. The activity reduced, you see that the GDP growth were only 1.7%. So that is impacted the transactional level of the operation. But how we'll do it the 10% to 12%, we are putting as a guidance because the economic activity will be much better in 2018. The second half of this year would be improved after -- after elections. So we perceive that the number would be achievable.

Juan Carlos Mora, Chief Executive Officer

Felipe, let me add something. Definitely, Bancassurance is one focus and we'll continue driving the fee growth during '18 in Colombia and particularly in Central America. It's a new line of business for those banks and its improvement, it's very good. But it's not just Bancassurance, our focus on having new products to have a different offer for our customers on fee-related products is going to drive the growth of fees during '18. So it's not just Bancassurance even though it's going to be a leader on fee growth, but is -- all -- the all - - all the products that we are presenting to our customers. And related to your question about the cross-selling index. We have a customer base of around 10.5 million customers and we have a large base of customers with just one product basically or two products, basically, one savings account and debit card. What we are doing is that we are designing new products for these large base of customers, who transact with us on a very basic way to offer them products that can help them in their everyday lives microloans, different offers in cards that are just designed for these kind of customers. So that -- that is going to be the driver of the growth on cross-selling in our base clients.

Third question

Ernesto Gabilondo, Analyst from Bank of America Merrill Lynch

Hi, good morning, Juan Carlos and Jose Humberto. Congrats on your results and thanks for taking the questions. I have three from my side. The first one is, how do you see the economy evolving and the political environment, how is government expenditure and internal demand in a presidential year. Can you share with us, who are the candidates leading the polls and what are the key proposals differentiating them? Secondly, how do you see the net interest income growth in 2018 with loan growth of 9%, 10% and NIM
pressure of 10 basis points. And finally, we have seen cost of risk continues to be high, but as you mentioned there are expectations, it could come down in 2018. So I just want to know how much of the large corporates that were facing some problems are already provisioned? Thank you.

Juan Pablo Espinosa, Chief Economist
Well, regarding the performance of the economy, we think that as we mentioned at the start of the call, we were expecting a higher growth rate based firstly on the global conditions and the performance of the external sector, which we think that will add positively to growth. And most importantly, I think is a recovery in internal demand, which has been lagging in over the past few years. Why is that? Because we are expecting more dynamic private investment on the one hand and we also think that private consumption is going to recover. This will be in the -- in a context in which the central government is reducing expenses, but at the same time, we are seeing a higher activity of local government. So overall, we think that the combination of private and public demand will add up to growth this year. And regarding the election process, well, I think that the impact of elections on the economy is mainly confidence issue. So we think that once the electoral process is finished by mid this year, we are going to have a much positive confidence environment and that will lead that recovery in internal demand to take full force.

Jose Humberto Acosta, Chief Financial Officer
Ernesto, regarding the NII growth, yes, you are right, we are expecting to loan growth 9% and assuming the compression of the NIM 10 bps to 20 bps, the NII with grow at around 7%. How we are planning to maintain that growth? Again, the loan expectation growth for consumer in 2018 will be 15%, meanwhile, the loan expectation for corporate will be at around 7.5%. Probably, the economic activity of the second half will help of the corporate side, but that's the way we are designing the NII structure. Regarding the third question, cost of risk at around 2%. Now, how we are posted and how we are today beginning the year. I have to say that we have one of the highest level of provisioning for 90-day past due, you see that we have 164% beginning this year. What -- what means for the -- for during 2018, maybe we'll have to increase our provisions for corporate, but at the same time, we will see a decreasing of provision on -- on consumer side and SME side. So at the end of the day when we talk about to maintain the same level of provisions in nominal terms, we are assuming that, assuming an increase on corporate, but decrease on retail and SMEs. That's the reason why we are talking about at the end of this year 2% of cost of risk.

Fourth question
Nicolas Riva, Analyst from Citi.
Yeah. Thanks, Jose Humberto for taking my question. My question is on your profitability. I mean, of course, you had a very good quarter, fourth quarter '17 with some special items like for example, in your operating expenses, your reported ROE was about 16%, but again -- but you had the one-time tax refund of COP86 billion. So the question is, for this year given the guidance that you provided for some line items like, for example, loan growth, net interest margin and credit cost, what would be a realistic level of ROE for 2018? Thanks.

Jose Humberto Acosta, Chief Financial Officer
Okay. Thank you, Nicolas. Yes, we have a good quarter and I have to say that we have a good year because if you see the 12 months in a row that that was a very positive. The way we are reaching the optimal of return on equity that we talk about 16% in three years, four years, the main driver will be efficiency level. Our return on equity this year will be in between 13% to 14% assuming that we are optimizing the cost growing only 4.5 and reaching an efficiency level of 48%. Obviously, one of the main driver to gain return on equity is the cost of credit. The cost of credit for the medium term for Bancolombia
would be at around 1.8 and that will be 1.8 because we are growing on consumer more than corporate. It used to be 1.5, five years or six years ago because we were more focused on corporate. So the newest standard for Bancolombia for three years, cost of credit will be 1.8. If you do the math, assuming 1.8 of cost of credit and assuming an efficiency level of 46%, you will get a level of 15% to 16% in the medium-term range.

Fifth question
Jorg Friedemann, Analyst from Citibank.
Thank you very much for taking my questions. I have, I know, two follow-ups. One, in terms of the equity income that we saw grew more than 400% in the quarter, more than 1,700% year-over-year. I understand that it comprises among other things Exito, but I was doing some research about Exito's performance in the fourth quarter and it seems that it was not right. So just wondering where is it coming from and what is the recurring level for the next quarters?
And my second question is, just to understand the drop in personnel expenses, despite not accompanied by a reduction in personnel, particularly in this quarter, so understand that could have some actuarial changes. Just wondering if those are also related to lower tax rate in Colombia, and if you could see further adjustment in those actuarial metrics going forward? Thank you very much.

Jose Humberto Acosta, Chief Financial Officer
Okay. Regarding the equity income, I have to clarify that we are not talking about Exito. We are talking about our JV that we have with them with the name of Tuya. Yes, on equity income, you see a positive number, but again, the impairment of the company was COP170 billion negative. So that is a reflection of the real momentum of the economy. Remember that Tuya is a credit card business, so the past due increased, the level of consumption decreased, so the interest rates were high. So that was the reason we are setting -- setting off the income statement from this impairment.
Regarding the expenses, yes, it's not a reduction of the headcount in the fourth quarter. The reduction of the headquarter has been taking place since 18 months ago. It is because the provisioning of these actuarial benefits you made the calculation in the last quarter. So you realize that you have to have less provision because you have 1,000 less employees that was the reason, why you see the drop of the number.
We don't understand the correlation between this impact and the tax rate. The tax rate that we have right now, it is 31%, now we expect to have a tax rate for 2018 at around 32%. The reason why the tax rate for the Colombia operation in 2017 were 31% is most of the net income comes from other geographies in which the statutory tax is below that 25% for the Banistmo operation, and 0% from our offshore operation. So we expect this year an statutory -- an tax rate of at around 32%.

Sixth question
Domingos Falavina, Analyst from JPMorgan.
Thank you. I have actually also two questions. And the first one is just to get an update from you. I understand there is a large exposure on the mass transportation system and I just like to get an idea on how provisioned you are for -- for those operators. And what's the total exposure, just to see how it's tracking?
And then -- and then I'll ask the second question?

Juan Carlos Mora, Chief Executive Officer
Thank you, Domingos. We have been working on the mass transportation system exposure, meanwhile, we have been doing provisions. Our coverage on -- in the case of Bogota is around 35% and in the case of Cali, it's around 65%. So we will be as I mentioned working on solving or helping to solve the situation on a more structural way, meanwhile doing --doing provisions. So we'll keep going on that way. And let me tell you these, the forecast or the guidance that we're giving around the cost of credit includes the provision that
we estimate we need to make to cover those risk on a level that we will feel comfortable. So we won't expect any surprises for -- from that front. It's included in the 2% guidance cost of credit that we are giving you.

Seventh question
Alonso Garcia, Analyst from Credit Suisse.
Thank you. Good morning, everyone. My question is actually if you could provide some update on the competitive landscape in Colombia across segments and also in Central America. And second related to that, how do you see your digital capabilities compared to -- to your competitors in Colombia? Thank you.

Jose Humberto Acosta, Chief Financial Officer
Regarding the landscape, the competition in Colombia, I have to say that it's rational. The top -- the top five banks today accounts more than 50% in the consumer market share and more than 70% in the corporate market share. I would say that we are gaining market share consistently because one of the key elements in doing banking in Colombia is, how you will maintain a very solid structural funding. In our case, we have maybe the lowest cost of funding in Colombia because we have been using different ways to get that funding. We are touching the market on the DCM, not only in international, also local. We shift our funding structure from time deposits to savings accounts. So I would say that the competition will be focused right now in maintaining our funding costs under control and to provide to clients' the best options for maintaining the loan portfolio not only in corporates, also in consumer.

Eight question
Ricardo Sandoval, Analyst from Davivienda Corredores.
Hi, thank you for the presentation. I have just two questions. One is, what is the reason for the increase in the equity method income. And the second is, what boost the increase in the other operational income. That -- that are my two questions? Thank you.

Jose Humberto Acosta, Chief Financial Officer
Thank you, Ricardo for your question. We have been answering both questions in the previous participation of the analyst and the equity method is basically because one of our investment that we have in Tuya, so we'll receive an dividend and -- from them. And the other operational, as I mentioned before, it is also because we received from valuations from the companies, in which we are invested in terms of real estate. Those are the explanation. They usually happens in the last quarter of every year.

Juan Carlos Mora, Chief Executive Officer
More than -- than real estate is our investment on the -- on the real estate fund, we call Fondo Inmobiliario Colombia, in which we have a majority stake.

Jose Humberto Acosta, Chief Financial Officer
Exactly.

Ninth question
Rodrigo Sanchez, Analyst from Ultraserfinco.
Good morning and thank you. Thank you for taking the call. My first question is that some weeks ago, an article mentioned that the Super Financiera is going to design and implement a new indicator to measure the liquidity of the banking system in Colombia and I understand that this indicator will measure the length of time that deposits remain in the institution. So could you please comment on what you know about this? What the minimum standard is? And where does Bancolombia stand in relation to this measure.
My second question is, are you expecting additional cuts on the staff for 2018. And my last question is a follow-up on the massive transportation system. Could you tell us what your nominal exposure is and if you’re expecting if you could tell us something about what your expectations are regarding the provisions for the year? Thank you.

Jose Humberto Acosta, Chief Financial Officer
Rodrigo, could you repeat the last part of your question. We didn't catch that -- the last part.

Rodrigo Sanchez, Analyst from Ultraserfinco.
Yeah. Yeah. If you could tell us what your nominal exposure is for the massive transportation systems. And if you’re expecting additional provisions for the year, if you could give us a little bit more of color on that part, please?

Jose Humberto Acosta, Chief Financial Officer
Okay. Regarding your second question, Rodrigo, regarding the staff. It's not a plan to reduce the headcount. The plan of Bancolombia is to optimize the way we sell products, the way we operate maybe as a result, the last year, were a reduction of branches, but we are not contemplating as a goal reducing headcount or reduces branches. Again, our goal is to maintain the high level of service with the structure that we are having. Probably this year, you see a very flat level in terms of the headcount, unless the robotics or unless the digital banking reflects that we -- we don't need to use some -- some areas of the bank, but -- but again, it's not our formal goal that we are having.

Regarding your first question about liquidity, the way we manage the liquidities, we manage the liquidity individually in each operation, I mean, we don't have the cash pool. We have every single operation that they have their own liquidity business. Our pillars in the bank are basically based on three pillars, capital, risk, and liquidity. Liquidity for us, it's extremely important and we have today on average, the capacity to maintain the bank of at around 80 days with a comfortable level of liquidity. We don't know -- we don't have clear signal how will be the new regulation. When we have the new regulation, we will send you the message, how we will manage that.

Juan Carlos Mora, Chief Executive Officer
And regarding mass transportation systems, as you know, there are several in Colombia. We have an exposure with some of them particularly as I mentioned in the case of Cali, the improvement is clear and we have a coverage there around 65% on provisions and we expect to do some additional, but not much provisions. In the case of Bogota, we are concentrated in probably one, two of the operators in which we feel more comfortable with that operators. The solution it's advancing and we think that there are going to be improvements during this year. Meanwhile, as I mentioned, we will have a coverage of around 35% of our total exposure and we will continue improving that exposure, meanwhile, working on help -- to have an structural solution for the mass transportation system, which has to come because is how at the end Bogota operates and moves all the citizens. So we are positive or we are confident that this work is going to pay out and meanwhile, we will be covering on a very conservative way, the exposure of -- we have on those systems.

Tenth question
Rodrigo Torres, Analyst Valero Analytics
Thanks guys for the presentation. I have three questions. The first one is, can you give us please a little more color on the spending cuts in Central America, you mentioned $100 million, so I want to have more info about that. The second question is, what are the clients -- corporate clients could affect the level of operation this year. And the third question is, you said that you’re going to concentrate on more consumer
clients' right more than corporates. So I want to know if this could imply that you will not finance, for example, more projects like 4G or infrastructure projects in Colombia? Thank you, guys.

**Juan Carlos Mora, Chief Executive Officer**

Thank you, Rodrigo. Regarding spending cuts on the international operation, our efficiency, remember that efficiency is a function of two, of the income and of the expenses. Just to give you an idea, in our operation, in Guatemala, we are expecting to optimize the level of branches. So in that book, we will focus on expenses. But in Banistmo, we are focusing right to increase the loan portfolio in corporates and retail business that implies that that would help us the NII in the Banistmo operation. So it's a combination. And in 2017, the upside were because expenses grew almost negative in the three operations, but this year, obviously, we will have this year, the benefit because of the income statement.

In the case of our exposure with corporates, we -- as I mentioned before, we will keep working on the solution of those big corporates and the provisions, we expect to make on those customers are already included in our guidance. In the case of increasing our mix on consumer loans, we are clear that that's going to help our NIM and we are very confident that it's not going to increase our risk profile. So I think we will -- we are reaching a level in which we feel comfortable. So now it's maintaining that mix, which is going to help the -- the developing of our strategy and the numbers that we are providing to you.

**Jose Humberto Acosta, Chief Financial Officer**

Let me -- let me remind you, Rodrigo that we are planning to grow this year on corporate 7.5%, which is a lot of money. It's being on the business in the region and in consumer 15% that means also that we are not concentrated, we are diversificating the loan portfolio. Regarding your question about our participation on infrastructure projects, I want to be very clear that we are analyzing every project we look in the -- on the numbers and see what are the risk and we will -- we will be participating in the projects that we consider that have a regional risk return. So we will keep analyzing projects. We will keep participating, but being clear that we will participate in the projects that we feel that the risk return equation, it's good for the bank.

**Eleventh question**

**Andres Duarte, Analyst from Corficolombiana.**

Good morning. Thank you for taking my question. I wanted to know, if I mean, do you have an estimate on the amount of loans, whose conditions were modified without being restructured using the -- or applying sorry, the regulation that was issued back in October that's the first question. And the second question is, what's your forecast or what are you forecasting for the year's end in asset quality measures? Thank you very much.

**Juan Carlos Mora, Chief Executive Officer**

Andres, the regulation regarding the -- how are we restructuring clients was applied and the final result was an increase on provisions. So that is also one factor that accounted from part of the cost of risk increase in 2017. So we apply that regulation and it was -- the final effect was an increase on provisions and it was -- apply to around 28,000 customers. It affects the Colombian balance sheet, but it doesn't apply for the consolidated basis -- balance sheet. That's -- that's an important remark. It's -- it affected the numbers we present under the Colombian regulation, but not on a consolidated basis.

**Operator**

We have no further questions at this time. I'd like to turn the call over to CEO, Mr. Mora for final remarks.
Juan Carlos Mora, Chief Executive Officer
I would like to thank you for your interest on Bancolombia and for participating in this conference call. We saw a year that is going to be a one in which we consolidate some of the strategies that we have been implementing during the last year. It's going to be -- there are going to be challenges related to the cost of risk. We are aware of that and we are working hard to really, really assess the risk that that the bank has and working on -- on -- be sure that the risk profile that we have on our books is the one that we want to have. So the focus will be continuing on the line of working on efficiency, which is key for us and it's the base of our results and focusing on -- on cost of risk. Again, thank you very much for your participation, and we hope to see you in the conference call in which we will present the results of the first quarter of '18. Have a good day. Thank you so much.