OPENING REMARKS

RESULTS SUMMARY
(Slide 2)

JUAN CARLOS MORA: Good morning everyone. It is great to be back with you today to comment on the performance of the bank during the first quarter of 2017.

OPERATING RESULTS

I want to start by highlighting the consolidated results of the bank during the first quarter of 2017.

- The net profit of 609 billion represented an increase of 53% as compared to the same quarter of the previous year. In general, we see very positive trends in the operational performance and despite higher deterioration; these results are in line with our expectations.
- We have operated in a more challenging environment and that has been reflected in the moderate credit demand and higher provision charges.
- Nevertheless, our efforts in finding new sources of revenue, such as fees and optimizing many processes across the organization have permitted to offset these headwinds and to maintain a solid operational performance of the business.

CENTRAL AMÉRICA

In second place, I wish to give you an update of our Central American operations. This is the most relevant component of our strategy to improve overall profitability of Bancolombia. Combined, our operation in Panama, El Salvador and Guatemala, represent 25% of our assets and 20% of our profits. This incorporation process of Banistmo in Panama and Banco Agromercantil in Guatemala process has involved homologation of risk, technology and operational standards.

Now we are focusing our efforts in three main fronts:

- Efficiency gains, in particular in Panamá and Guatemala, where we have been optimizing the size of the branch network as well as several operating processes.
- Fee generation, which today represent around 13% of total revenues, a lower proportion than what fees represent for the whole group. We see fees as the perfect way to increase profitability while using the capital base of the bank in an optimal way.
- Introduction of new products. Connected to the fee generation strategy, we intend to develop new products that we already have in the market in Colombia but do not exist in the central american markets. A good example is the distribution of insurance in El Salvador, which did not exist 5 years ago and today is the largest contributor to fee generation in Banco Agrícola. Services that we plan to develop include regional cash management services, investment banking and structured finance products as well as corporate trusts in the corporate side; and asset management, credit and debit cards in the retail front.
- Finally, we are fine-tuning some aspects such as product portfolio and loan mix in order to obtain a NIM expansion.
These initiatives aim to improve the ROEs across the geographies.

**NET INTEREST MARGIN**

In third place, we saw a positive evolution of the NIM during the quarter, despite the reduction of interest rates by the Colombian central bank. The NIM expansion to 6.3% was the combined effect of:

- Higher spreads on originations of new loans
- A very good performance of the securities portfolio helped by interest rates cuts,
- And most importantly, the efforts that Bancolombia has done in the reduction of its funding cost.

The franchise and the distribution network have permitted to cut rates on deposits as the central bank in Colombia has also cut rates. Additionally, we started to see the benefits of the full integration of Leasing Bancolombia’s operations, as the funding for that portion of the business now occurs under the Bancolombia’s book. We have been able to reduce the cost of funding with financial institutions and deposits as well, with a positive impact on the overall NIM. We estimate that we have been able to reduce our funding cost by COP 70 billion per year due to this integration.

Regarding the portion of our loan book in US dollars, we should see a positive impact on NIMs product of interest rate hikes in the US.

**DETERIORATION OF LOANS**

We have seen a significant Past Due Loan formation, which we believe is explained by two main reasons:

- First, the corporate loans that reached the 30 day threshold during the quarter and,
- Second, the seasonal effects that tend to cause a higher deterioration in the first months of the year.

The most relevant sectors where we saw PDL formation are those related to Small and Medium Enterprises, some large corporate loans, credit cards and mortgage loans. As we have seen since the third quarter of last year, we have accelerated the pace of provisioning for these loans and we remain with a cost of credit of 2% during this first quarter. This provisioning strategy aims to maintain a prudent coverage ratio of at least 150% on a 90 day basis.

We also believe that we will continue with some PDL formation in the second quarter and we intend to keep the provisions around 770 to 800 billion for the next couple of quarters in order to maintain the coverage ratios and the pace of charge offs.

In April and May, we have had some progress regarding particular corporate clients as we have worked with the government and the clients to restructure the operations; as a result we expect an improvement in the credit quality metrics in the second half of 2017.

**CAPITAL**

Fifth, as we have shared with you over the last years, the focus on capital optimization and organic generation of it, is paying off as the Tier 1 of Bancolombia has increased steadily over that timeframe. With the retention of 68% of the 2016 net income during the General Shareholders’ meeting held last March, we reached 10.5% of Tier 1. This is a level that provides comfort and permits to have the fuel for future periods of growth. We should continue accumulating capital during 2017 as the loan growth is moderate and profitability is higher.
Our capital allocation plans for the coming two to three years consist in using the Bank’s capacity to generate capital organically and maintain a comfortable level of Tier 1 and using it in our intermediation business. As we have said in past conference calls, we do not intend to allocate capital in new acquisitions.

Having said this, I would like to continue with the presentation of Bancolombia’s financial results for the First 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 three (3) in the presentation.

**Slide 3**

The Colombian economy started 2017 at a slow pace. During the first quarter GDP grew 1.1%, slightly below our expectation. In that period the diffusion index across productive sectors was 44%, the lowest reading in this century. The four activities that expanded were agriculture, financial services and social services. On the other hand, mining registered the largest contraction, due to the negative effect of oil production.

Overall, this performance reflects the weakness of internal demand, which has been affected by the effects of the tax reform, particularly the increase in the VAT and the higher tax burden for individuals. Other negative factors include the increase in unemployment rate and the fact that financial conditions remain tight.

However, we continue to predict that as the year goes by, productive activity will gradually gain traction. The main catalysts of this change of direction will be moderation of inflation, the reduction of interest rates and a positive base effect.

In fact, during the past few months several leading indicators have registered more constructive readings. Energy demand, construction licenses, retail sales, industrial production, retail sales and exports grew in March, while consumer confidence has bottomed. Finally, outstanding loans are again growing in real terms. Going forward, we estimate that GDP will accelerate so that in the second half we will see growth rates above 2%. Therefore, we keep our FY 2017 2% growth forecast.

In terms of prices and interest rates, we foresee that in the next few months inflation will continue to soften thanks to abundant food supply and a positive base effect. However, since September we anticipate some payback; thus, we foresee that inflation will close the year at 4.2%, above the ceiling of the target range. This will gradually reduce for the Central Bank to accommodate its monetary policy stance. We anticipate 3 cuts of 25 bps for the remainder of the year, so that intervention rate by the end of the year will be 5.75%.

In the case of El Salvador, we anticipate that the economy will expand this year in line with potential. After expanding 2.4% in 2016, our GDP growth forecast for 2017 is 2.1%. Our expectation is based on a solid performance of internal demand, which will be favored by strong remittances flows as well as low and stable inflation. In addition, our forecast incorporates the complex negotiations between Government and Congress around fiscal measures and the beginning of the electoral cycle that will end with local elections in March 2018. While the payments related to pension liabilities resumed at the start of May, the negotiations around a fiscal consolidation plan with the support of multilateral agencies are expected to
continue until June. In parallel, the Salvadorian financial sector displays a sound performance, which allows the credit channel to operate robustly.

[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 ACOSTA: I would like to start the presentation of the first quarter 2017 results, by elaborating on the evolution of assets and their composition. We can go to slide 4.

Slide 4

Today, peso denominated loans represent 64% of the total portfolio of Bancolombia while dollar denominated represents 36%. The COP appreciated 3.8% over the last twelve months, and the same percentage value over the past quarter as well.

Total assets grew 3% YoY, impacted by the general appreciation of the peso during the year. When analyzing the growth by currency and geography, it was explained by three main components:

- Loans in pesos in Colombia, which grew 10.4%
- Loans in dollars in Colombia which decreased 10%
- And loans in dollars in Central America which grew 7.4%

Now, when we see the portfolio by segment, we see the following:

In consumer loans, which grew 16% YoY, we executed a strategy targeting high income individuals and segments with low indebtedness levels, while avoiding the riskier segments of the population. The main input for our scoring models is the track record of the client along with the payment capacity, and this dynamism has also been an important driver of fees. In particular, we have been using data and analytics to estimate credit capacity and offer lines of credit to clients that present attractive risk adjusted returns.

Corporate loans, which grew 3% YoY, had a slow start of the year and we attribute this trend to low appetite of corporations to undertake new capital expenditure programs. Also the low GDP growth of Colombia in 1Q17 contributes to a lower pace of growth in corporate loans. We should see more demand in the coming quarters.

We expect to grow 8 to 10% in 2017.

We will continue to benefit from sectors such as manufacturing, agribusiness and infrastructure. Exports are perhaps not as dynamic as we would have expected a few quarters ago, but we believe the second half of the year will bring higher growth, as inflation continues on its downward trend and as the Central Bank accelerates its expansive monetary policy.

Slide 5

Next, we can take a look at slide 5, where we show key financial highlights for our Central American operations.

As we can see, Central America represents today 25% of the consolidated business.

On the last three years, the main achievements of our Central American strategy have been:
• Implementation or a corporate model to run different entities under a coordinated strategy.
• Introduction of new products that Bancolombia has in Colombia but were not in the central American markets.
• Enhancement of the funding structure of each balance sheet, which is independent for the other operations.
• Enhancements of the capital position of each business.
• Optimization of several processes along with other initiatives to improve efficiency.

We should benefit from higher NIMs in Central America this year, coupled with greater loan growth in Panama and cost cutting in every bank. Fees will continue to be a primary driver of revenue, because of bancassurance, credit and debit cards as well as structured banking services.

We have seen good improvement in efficiency in Banistmo and Banco Agricola, and will double our efforts to bring down the cost to income ratio in Agromercantil. This ratio came down in Banistmo, from 56.2% in 1Q16 to 53.6% in 1Q17. We will continue to monitor each operation closely though the next quarters and aim to bring ROEs to the 15-16% target level in the medium term as well as changing the mix in loan portfolio that delivers the highest risk-adjusted returns.

We want to stress that improving efficiency in Central America, is a key initiative to reach the under 50% goal for the Group in the next couple of years. Improving profitability in Central America is management’s top priority, now that we have achieved important milestones regarding regional integration and product innovation in the region. We are fully aware that the banks operate in a challenging macro scenario in the region, especially since the new U.S. administration took over in January. However, we are confident in the countries’ longer term prospects as well as in the local banking sectors and our banks’ relevant market shares in every geography. We believe we will continue to benefit from Panama’s high income per capita and dynamic economy, which becomes evident through the 9% CAGR in loan portfolio over the past four years.

Slide 6

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

Credit quality deteriorated with PDLs to total loans jumping to 4.1%, mainly explained by:
• Electricaribe moving into the past due category in January.
• Deterioration in SMEs in Colombia due to weather conditions in agribusiness, logistics problems in mid 2016 and drop in retail sales
• Deterioration in credit cards and mortgages in Banistmo in Panama.

Electricaribe, owned in its majority by the Spanish Grupo Fenosa, is being actively intervened by the government due to the fact that it provides basic utility services in northeastern Colombia and its operational shutdown is not an option. This is a lengthy restructuring process and the outcome will depend on negotiations that we are currently holding with the government and owners. In this regard, we have reached an agreement with the government to assure the company’s payments of installments for the next four months, that is, until September 2017. As a result, we will see an improvement in quality metrics in May.

Ruta del Sol Tramo II is a relevant infrastructure project in Colombia, where Odebrecht, Episol, and minority stakeholders were part of a consortium developing a highway concession project included in the 4G program. The Odebrecht corruption scandal led to the restructuring of this client, and this had an impact on the provisions needed to be made by different banks. We have reached an agreement with the government and stakeholders in this project, where we will be paid back the debt (interest and capital) going forward and have extended a grace period for the company, which means it is not past due as of the first quarter 2017. The government has mechanisms to guarantee the payment of interest to the banks (known as vigencias futuras), which is part of the government’s ongoing budgeting to provide financial support for 4G projects.
We expect payments will be made and there will be no significant deterioration to our P&L and Balance Sheet due to this client. However, we have made some provisions in the meantime, because our conservative risk management approach deems it appropriate in scenarios where clients are being restructured or where there is a renegotiation process for credit payment schedules.

As we stated in the prior quarter, underwriting standards for consumer loans tightened notably and asset quality improved on the 90 day standard. We effectively focused the sales teams on targeting higher income customers and minimizing exposure to riskier buckets of the population.

As far as corporate loans go, these had an increase in PDLs for 90 days from 1.7% a year ago to 2% in 1Q17. Particular cases related to corporate clients are being permanently monitored and we expect, in some cases, to begin receiving capital and interest payments in the upcoming month based on the ongoing restructuring agreement with the government and related parties.

We are paying special attention to new originations in the corporate and infrastructure loans, setting up high underwriting standards, and defining our risk criteria with a conservative approach. Also, we are using data analytics and advances in credit scoring to go after the best risk adjusted credits in consumer and growing while improving the credit metrics.

The most important highlight on the balance sheet, regarding credit quality and coverage, is the fact that Bancolombia has today a 184% coverage ratio. We feel 90-day coverage ratios above 150% gives us a solid standing and guarantees that the bank has enough cushion to absorb any potential default of a client.

Slide 7

Slide number 7 shows the provision charges, which were COP 774 bn for the quarter, up 44% YoY and flat compared to 4Q16. Cost of risk was 2% for the quarter, in line with our expectations.

Provision charges were, generally speaking, due to deterioration in specific corporate clients and a more challenging consumer market because of last year’s VAT increase and the persisting economic slowdown. The provisions made during the quarter were specifically designated to cover the vintages that have deteriorated or run-off toward higher levels of delinquency.

New Past Due Loans were COP 1,594 billion, explained by deterioration in Colombia, which accounted for 75%. The remaining 25% is explained by Central America, mainly by Banistmo in Panamá.

The main segments where we experienced marginal deterioration over the quarter were:

1) Corporate Loans in Colombia, mainly concentrated in large tickets, including Electricaribe. Which accounted by 39% of new PDLs
2) Small and Medium Enterprise loans in Colombia, mainly concentrated in the transportation and commerce sectors. This deterioration is an outcome of weather conditions in agribusiness, a legacy of logistics problems in mid 2016, which accounted for 35%.
3) Consumer and mortgage loans in Colombia, in the mid to low income segments, mainly connected to economic slowdown, which accounted for 10%
4) Finally, Consumer and mortgage loans in Panamá, which accounted for 16% of the new PDLs

Our actions to prevent further PDL formation include tightening the consumer and mortgage loan underwriting standards in Colombia and Panamá. Be more selective with new corporate loans, in particular those related to infrastructure in Colombia, and pay special attention to the evolution of vintages generated in the last couple of quarters. We are confident that the new model of classification of clients in the consumer segment will help us to allocate loans to clients with low risk of default.

We forecast cost of risk in 2017 will be around 2%.
Moving on to slide number 8, we see the evolution of net interest income (NII) and funding costs along with funding performance.

NII growth has remained resilient, and reached 14% yoy and 6% for the quarter. Although margins have expanded significantly, we do see moderate volumes that limit the upside potential for this line. The Central Bank continues to lower rates, which ended at 7% for the quarter and 6.5% in April, showing their intention to help growth in the near term. Inflation rate at 4.7% keeps the door open for additional cuts. We are expecting inflation to end the year at 4.2%, with GDP growth of 2% and Central Bank’s rate of 5.75%.

As rates continue to fall, the DTF has gradually decreased and we were able to lower funding cost during the quarter from 3.89% to 3.72%. This led to the better spreads, in part, and we have also kept the loan to deposit ratio stable at 117%.

Let’s keep in mind that the integration of the Leasing Bancolombia’s operations, permitted to reduce our annual funding cost by 70 billion Colombian pesos, and this benefit was already reflected in our 1Q17 funding cost.

During 1Q17 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. The outcome of this strategy has been the slight improvement in the lending NIM that we saw in the first quarter. The fact that around 60% of Bancolombia liabilities are either floating or re-price during the next 12 months, leads to believe that we have room to mitigate impacts of rate cuts by reducing the funding cost.

It is worth mentioning our savings and checking accounts represent 42% of the total funding structure which places us in a unique position in the system.

ADICIONAL: Finally, we wish to do a specific mention to the liquidity situation in the operations in Central America. As we have mentioned in the past, our strategy is to fund each bank independently, mainly by deposit taking activities. Today, we have comfortable levels of liquidity and El Salvador in particular has operated normally and deposits have been quite stable, despite the noise created by the political turmoil of recent weeks.

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

The year 2016 was clearly very positive for NIMs and moving into 1Q17 the margin continued to strengthen.

Our NIM was 6.3%, up 66 bps over the last year. The main reason for this expansion was the higher rates on new originations as well as the repricing of existing variable rate loans, coupled with a lower cost of funding in 1Q17.

In 1Q17, we saw the loans net interest margin increase to 6.6%, and a very positive 3.2% in investment NIM, which led to the 30 bps increase QoQ.

The investment performance is explained by the increase in price of TES securities during the quarter, as we saw Central Bank rates begin to come down. 10 year TES were yielding 6.9% in December 31, 2016 and today they are yielding 6%.

In 2017, we have seen the Central bank making substantial rate cuts, the most recent in April, and the repo rate now stands at 6.5%. Our forecast for year-end repo rate stands at 5.75%.
We are focusing our efforts in keeping the deposits at low cost as possible, in particular: savings accounts as a vehicle for our clients to keep their money within Bancolombia’s pipeline; current accounts which benefit from our transactional capacity and CDs as a mechanism to provide stability of funds and enhance the maturity profile.

Our NIM forecast for the rest of the year is to be between 5.8 and 6%.

Slide 10

The evolution of fees is presented on slide number 10.

This is a front where we continue making progress in all geographies, as can be seen in recent results.

During 1Q17 fees increased by 6% and they grew 11% as compared to the same period a year ago.

The main drivers for fees are credit and debit cards (particularly debit), bancassurance, cash management, and trust activities.

We continued to see more credit and debit cards transactions, as a result of our commitment to promote the use of electronic methods for in-store transactions. The number of credit cards grew 8% during the year and the billing grew 20%.

Today, Bancolombia has a 24% market share of the system billing and 13% of the number of cards outstanding in the Colombia.

Banking services and asset management are also important drivers for fee growth as we attained 9% growth in these segments. In particular, the assets under management that Bancolombia manages today account for 30 trillion Colombian pesos and have increased 30% in the last year.

In addition, we saw a sustained performance of insurance distribution fees, which grew 8% over the past year.

These fee initiatives are not limited to Colombia, and we are focusing on steadily growing the credit card segments in El Salvador, Guatemala and Panama. We highlight the relevance of continuing to cross sell products across geographies and taking advantage of opportunities to boost banking penetration in Guatemala and El Salvador.

Finally, we forecast a fee growth of 12% to 14% in 2017, slightly up from our guidance earlier in the year.

Slide 11

Now, moving to slide 11, we present the evolution of expenses, which grew only 5% during the year.

The cost to income ratio for the year was 51%, below the 54% from last quarter. This decline was mainly explained by the consistent revenue performance and strict cost control initiatives across all geographies. Our target is to maintain this number under 50% for the year in the short term, and around 51% for this year. It is important to highlight that the cost to income ratio for the last twelve months is 50.3%.

Operating expenses consist primarily of personnel expenses and administrative expenses which have been kept under control in their respective currencies, and which decreased qoq as shown above. Of course, keep in mind December and 4Q16 is typically very high in expenses and it is common to see a much lower number for the first quarter of the year.

These results are currently being impacted by our digital strategy and the use of analytics, which aim to:
• Control and lower expenses,
• Create better pricing strategies,
• To be more accurate approval processes and commercial synergies,
• More efficient processing of operations, via use of robotics.
• To maintain the size of the bank in terms of branches, as other low cost channels represents the most efficient way to grow.
• And finally, to allow sales teams to deliver better service and products in an efficient and revenue boosting manner.

Our guidance for 2017 is an increase of expenses by 6 to 8% on an organic level, which we believe will be key in obtaining stronger profitability levels in the upcoming years.

Slide 12

Moving on to slide 12, we see the evolution of capital position of Bancolombia.

The Tier 1 ended at 10.53%. This is a very good ratio and most importantly, the continuous growth in the metric leads us to re affirm the fact that we are in a period of capital accumulation. Considering the dividend pay-out ratio of 32%, we effectively saw a substantial jump in primary capital this quarter.

Nevertheless, as we have shared with you in the past calls, the capital levels that Bancolombia present today are optimal for the business plan that we have designed.

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 1Q17 with 3.9% for a total BIS ratio of 14.5%, significantly 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 11.4% and ROA was 1.2%, impacted by higher provisions, a moderation in NII, and COP 58 billion in wealth tax paid for the last time this year. The ROE for the last twelve months is 14.5%.

We expect to continue growing net income, although at a moderate pace, while maintaining solid solvency indicators for the rest of the year and demonstrating the strict cost control and effective pricing we have mentioned during the past quarters now.

Profitability will be constrained this year due to the probable growth of equity and relatively high cost of risk that will pervade throughout the year.

Our estimated ROE for 2017 rests between 12 -13%, while the medium term target continues to sit at 16%.

RECAP AND FINAL MESSAGE:

After presenting these slides and discussing our first 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

Guilherme Costa, Analyst BBVA

Hi, good morning, and thank you for the presentation and the opportunity. My question is about the margins. Could you comment on the evolution of margins going forward. We saw a very good performance in this quarter due to the increase of spreads with such a growth in the local currency loans and also the contraction in the cost of funding. But considering the further contraction in the monetary policy rate, how do you see your margins evolving in the coming quarters? Do you expect a part of those positive effects we saw during this quarter to set the contraction in the monetary policy rate?

Alejandro Mejia Jaramillo, Investor Relations Manager

Thanks, Guilherme. That's a good question very relevant. For today's rate environment, indeed, we are expecting more rate cuts in Colombia, but we have been positioning the balance sheet in a way that these effect is not as high on our NIMs especially in the lending NIM.

We have been promoting the origination of loans with a higher spreads and that's basically the main reason for the expansion we saw in the fourth quarter 2016 and the first quarter 2017. Of course, we had a benefit from the performance of investments which we believe is not sustainable in the rest of the year. So we're basically putting our efforts in two fronts. First, is maintaining the cost of funding of the bank as low as possible. We have around 60% of our total funding repricing or taking new rates within the next 12 months, so that's an advantage.

And, second, we're implementing some methodologies to better price each product that we originate today. That's, I would say, the main component of our strategy, to price better our assets and maintain margins as high as possible. For the rest of the year, we forecast NIMs, where combined loans and investment should range or move between 5.8% and 6%. So, the 6.3 that we saw in the first quarter, we don't see it as a sustainable metric for the second or third quarter, it should experience some compression.

Second question

Carlos Macedo, Analyst Goldman Sachs

Good morning, guys. Hopefully, everybody is all right over there on the other side. Quick question, first on taxes. 40% effective tax rate in the quarter. Last year, you had similar kind of behavior and then the fourth quarter, you reversed the bunch of taxes. Just trying to get understanding what should we think about the tax rate for this year. And for the next quarters, really, are we going to see similar kind of path as last year? Second, asset quality. You talked a lot about the different categories and what got hit. Just wanted to see if you had any visibility on two things. One, if there was already some sort of impact from the higher VAT on your newer vintages and even some of the older vintages in consumer lending in Colombia? And second, whether your forecast for higher unemployment in Colombia through the end of the year means more pressure on the asset quality in the consumer side.

It was weaker on a 30-day, but it was stronger on a 90-day NPL kind of comparison? Thanks.

Alejandro Mejia Jaramillo, Investor Relations Manager

Sure. Thank you, Carlos, for your question. Regarding taxes, remember, we have this year a tax regulation, which basically eliminates some of the volatility that we had in 2016 in relation with the performance or the evolution of the FX. We were affected in our effective taxes that we paid in 2016 by the conversion of dollar-denominated liabilities to pesos. And that created these high effective tax rate in 1Q and a reversion in the last months of the year.

We do not forecast this volatility in 2017. As a matter of fact, we are working ourselves with an effective tax rate, ranging from 35% to 37%, very much in line with the figure that we saw in 1Q. We are confident that we'll be able to forecast pretty accurately the income before taxes and, therefore, this line should be less volatile and more predictable basically around 400 to 500 basis points below the statutory tax rate in Colombia. Remember we had some operations, we have some operations outside Colombia paying a lower statutory tax rate.

Regarding asset quality, especially in the consumer side indeed, we have seen a deceleration in consumption patterns and some loss of traction in the job creation process in Colombia. Basically, we have not seen that figure reflected yet in unemployment. But we are considering a potential negative impact in our performance, especially in credit demand and perhaps some deterioration in these retail loans somehow related to the VAT increase that we had in 2017.
Juan Pablo Espinosa Arango, Chief Economist

Regarding unemployment rate in Colombia, it has been flat during the last month. We consider that it is not in that way for the next months, but we tightened credit policies in the last quarter of 2016 and we consider that for the end of the year we are going to have a better behavior of the consumer portfolios in both countries in Panama and Colombia that are the largest ones.

Third question

Jason Mollin, Analyst Scotiabank

Hi, thank you. My question is related to the overall profitability levels and we heard ROE and ROA. We heard some comment that the near-term -- and I guess, putting everything together, the margin expectation, the NIM expectation 5.8% to 6%, expense growth in the 6% to 8%, provisions in the 2%, cost of risk provisions to loans in the 2% range. It sounds like we're talking about ROEs in the 12% to 13% range going forward. When can we see -- when should we see some kind of turn? I mean, we're going to have the pressure on from on margins from rate. But when can we see this turn to the longer-term 15% target that was mentioned as well for ROE? Thank you.

Alejandro Mejia Jaramillo, Investor Relations Manager

Thank you. Thank you, Jason. That's a very relevant question for the strategy of Bancolombia. In this year we are forecasting a ROE ranging from 12% to 13%. This is a year when our forecast net income is going to be relatively flat as compared to 2016, mainly impacted by high provision charges. As we saw in the first quarter, we are finally seeing a positive impact of the efforts made in the efficiency front that should materialize in a better way in the second half of 2017. And we also forecast that in 2018, when the loan portfolio starts growing, we complete this credit cycle of higher NPL formation and provision charges. That should be a boost for the bottom line of Bancolombia.

So, it is going to be a greater process of ROE improvement. We intend to keep a similar level of leverage as the one we have today. So, ROA gains will be the main driver for these ROE expansion, which again should happen between 2018, 2019, and 2020, hitting this target of 16% over the next three years. That is going to be a combined effect of lower provision charges, growth in the loan portfolio, therefore growth in NII, sustained fee growth, and cost control.

Fourth question

Nicolas Riva, Senior Associate Citi.

Yeah, thanks, Alejandro for taking my question. My question is in loan loss provision. So I look at the cost of risk. In the first quarter, it was 2%, which was just below last quarter. And you're guiding for 2% this year, as you just said. This level, this 2% level is still quite above the historical average for Bancolombia. If I go back 10 years, the average has been around 1.7%. And given the higher emphasis that you have commercial loans for many years in which cost of risk was even like 1.1%.

So, my question is, looks like the outlook for this year for loan loss provision is it's not going to be much of a change from the first quarter. But when can we expect the cost of risk to go back to your historical average? Thanks.

Alejandro Mejia Jaramillo, Investor Relations Manager

Well, we think that the situation in Colombia is not going to behave well, as Juan Pablo told us in the economic review. But we think the cost of credit is going to be 2% during this year. The trend for the next year is going to be 1.6%, 1.5% as the economic conditions improve for the next two years. So, I think that it is a year that we are going to see these levels 2%, 1.9%. But for the next year, we are going to come back to the trend that we had during the last five or six years.

Nicolas Riva, Senior Associate Citi.

Sorry, so you said for next year, you are seeing the cost of risk -- did you say at 1.5 to 1.6? Did you say that, for next year?

Alejandro Mejia Jaramillo, Investor Relations Manager

I think that is for the next years, I mean, the 2018, 2019. But for this year, it's going to be around 2%.
Fifth question
Ernesto Gabilondo, Analyst Bank of America Merrill Lynch.
Hi, good morning, and thanks for taking my call. Almost all of my questions have been answered, so just one from my side. So, what are the challenges ahead for Bancolombia? How do you perceive the risks related to Electricaribe, Sistema Integrado de Transporte de Bogota? What is happening in El Salvador, and Grupo Wisa in Panama? On the other hand, despite Central Bank continues to lower rates, how do you see the NIM for the year? I think you are no longer expecting NIM compression of 10 basis points, right? So that's it. Thank you.

Alejandro Mejia Jaramillo, Investor Relations Manager
Thank you, Ernesto. Certainly, interesting question. Several challenges some of them are under the control of Bancolombia, some of them are not. In particular, the macro environment of the countries where we operate. Central America is a challenging region. You have seen the evolution of trends in Guatemala and El Salvador. We have two significant operations that we also intend to improve in terms of profitability. So, the macro in Central America as well as in Colombia will drive a significant portion of the growth that we will see in the coming years. And we are confident that the Colombian economy in particular will rebound and will grow faster in 2018 and 2019 driving credit demand and revenue generation. That's somehow connected to the expectations and the challenges that we have in Central America. That's an operation that as Mr. Mora mentioned at the beginning of this call has been already integrated, but we still have many processes to be fine-tuned and improve in order to reach the levels of profitability that we want to have from these operations, bringing them at towards the average of the group and helping the overall improvement in performance of Bancolombia. For this particular time in 2017, we are very concentrated on keeping the quality of the book. We saw already what happened in the first quarter in terms of NPL formation. We intend to keep the formation under control in line with our risk appetite and that involves making decisions to originate loans with better standards and follow the existing loans that you just mentioned, such as Electricaribe to try to recover those loans, if possible; otherwise, to make sure that we are conservative enough to make the provisions and to keep the coverage ratio in the levels that we intend to have, high 100s or the 90-day standard. And finally, a long-term challenge or decision that we have followed in the recent years is to improve the efficiency levels and the way that Bancolombia operates in an ever-changing environment, basically developing the products and the channels that we require for the coming years to be more efficient in the distribution process of our products.

Ernesto Gabilondo, Analyst Bank of America Merrill Lynch.
Thank you, Alejandro. About the expectations that the Central Bank continues to lower rates, how do you see the NIM for the year?

Alejandro Mejia Jaramillo, Investor Relations Manager
Yeah. We are forecasting a year-end rate of the Colombian Central Bank at 5.75. Nevertheless, as we mentioned before, the sensitivity of our balance sheet today is lower than it used to be some years ago. And we are positioning it in a way that we will not experience a NIM compression or at least a significant NIM compression from this trend. We're paying special attention to the funding side of the business. It is very relevant. It permits to keep the funding cost relatively stable and low. But most importantly, we are doing most of our -- we're doing significant efforts in keeping the origination rates as high as possible using better pricing strategy, selecting the best risk-adjusted returns in our clients, using all the tools in our portfolio to maintain the NIM as high as possible. Again, we forecast 5.8% to 6% for the rest of the year.

Sixth question
Marcelo Telles, Managing Director Credit Suisse.
Hi. Good morning, gentlemen. Thanks for your time. My question is with regards to asset quality. You did mention the impact on your past due loans related to Electricaribe. But I don't know if you could share with us what the impact was on the -- on your provision expenses?
And the other question still related to asset quality is, you mentioned some like a revamped client origination and risk policies, particularly on the consumer side. Can you detail a little bit more what are you doing on that front, to be more specific terms the initiatives or the systems that you have that is allowing you to be more or to better assess the risk of your client base? Thank you.

Alejandro Mejia Jaramillo, Investor Relations Manager
Okay. On the consumer side, we have tightened policies, as I said, since the last quarter of 2016 in both countries Panama and Colombia. We had grown to other markets like low income that we are not going to be very emphasizing on that segments of the market. So then you are (inaudible) that are the new loans that we write in January and February, those are quite good. So we expect that -- the deterioration that we accumulate in the last year, we are not going to have it in the second half of the year. So we consider that on the consumer side, it is going to improve for the second half of the year.

Regarding SMEs, as we mentioned, we had problems last year with climate factors and transportation problems with the sector in Colombia. But we keep with that problems. But we consider that at the end of the year, we are going to have on that portfolio of the SMEs loans a better behavior. So we target policies on consumer side and SMEs side in Colombia and Panama. The other countries are behaving well, and we don't consider problems in Guatemala and El Salvador.

Seventh question
Sebastian Gallego, Analyst Credicorp Capital
Hi, good morning, thanks for the presentation. I have two questions. Can you provide a breakdown of the deterioration on PVLs within the mortgage segment per CD in Colombia and how -- can you provide a bit more color on that front. And also the second question is related to the Central America operation. Can you provide a target of ROEs for each of the operations in Panama and El Salvador and Guatemala? Thank you.

Alejandro Mejia Jaramillo, Investor Relations Manager
The deterioration in the mortgage portfolio is more in the North part of Colombia and in the Central part, that's we have seen. It's not very different among regions, the range is about 5.5% and 7%. But it's not very different, the behavior in the different segments in Colombia. And the second question, Sebastian, was regarding?

Sebastian Gallego, Analyst Credicorp Capital
The second question was regarding the targets for ROE among the operations in Central America.

Alejandro Mejia Jaramillo, Investor Relations Manager
Yeah, sure. Yeah. Today, as you saw in the presentation, Central American operations combine our operating in high single-digits ROE under the IFRS standard. That is going to be a gradual process of improvement. We mentioned fee generation, changes in mix of the loan portfolio, downsizing the size of the network, in Guatemala in particular. We believe having the right size is paramount for achieving efficiency levels that we intend to have.

And we wish to keep similar levels of efficiency across regions. And certainly, Central America is a region that presents opportunities for improving these metrics, bring it down to levels of low 50s, more in line with the operation of the combined Group. So for the next years, we will reforecast an ROE expansion of around 1% per year, moving up towards the 14%, 15% that we have today in Guatemala. So the net contribution of this again will be an improvement in the ROE on a consolidated basis for Bancolombia.

Eighth question
Edgar Romero, Equity Analyst BBVA.
Hi, good morning. Thanks for taking my questions. I have two actually. The first one is, can we expect during the second half this year more new PBLs from Electricaribe? And the second one is related to ban in Guatemala. I would like to have more detail on the result, as well as even though there was a big drop in efficiency from 80% to 66% and net income actually dropped $10 million to $21 million. So what actually explains this drop in profitability? Thanks.
Excuse me, could you repeat the question please? We didn't hear you.

Okay. The second one is related to ban in Guatemala. Even though the efficiency actually dropped from 80% to 66% in the quarter, the net income actually dropped $10 million from $31 million to $21 million. So I'd like to see a little bit more detail on the result. So what actually explains this drop in net income?

Yeah. Thank you, Edgar. In particular in Guatemala keep in mind that net income does not fully reflect the efficiency condition of a bank. Efficiency is calculated or we reported as the operating expenses into operating revenues, that's before provision charges and Guatemala has been a market where we have accelerated the pace of provisioning, which of course impacts the bottom line that you mentioned. And I would say the most relevant part for our strategy in Guatemala is to reach the right size of the book of the network of branches excuse me, basically providing the platform that permits the bank to continue growing in this economy with the same infrastructure and capacity that we currently have adjusting the bank to the right size. And additionally I would like to compliment is that we have accelerated the pace of amortization of intangibles that we have in that particular operation.

We have no further questions at this time. I'd like to turn the call over to Mr. Alejandro Mejia, Investor Relations Manager.

Yeah. Thank you. Well, thank you, all, for being with us today in this 1Q17 results. We expect to have you again in August when we report the second quarter numbers. And if you have any further questions, please feel free to contact us. We will be happy to help you. Thank you very much. And have a great day.

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