CONFERENCE CALL SCRIPT - BANCOLOMBIA’s 3Q18 RESULTS

FORWARD LOOKING STATEMENT DISCLOSURE; NON-GAAP MEASURES DISCLOSURE
(Slide 2)

JUAN CARLOS MORA:
Good morning and welcome to the conference call for the third quarter.

Before presenting information about the bank, let me do a quick reference to the current MACROECONOMIC SITUATION.

In Colombia, we have seen a more dynamic economic growth during the quarter. Through this year, GDP has expended at higher rates with respect to those seen in 2017, thanks to a recovery in internal demand and two-digit growth in exports. For 3Q18 our growth estimate is 2.5%, and for 2018 is 2.6%. There is a scope for further acceleration in 2019, which will be driven by investment, leading to a growth of 3.2%.

Over the past few months inflation has remained within the Central Bank’s target range. As a result, interest rates have been stable as well. We forecast two hikes towards the second half of 2019, when the economy will be growing closer to its potential.

We have seen progress in the government’s efforts to address the fiscal deficit. Last week the administration submitted to the Congress a law proposal to modify the tax code. According to our estimate this initiative will allow the Central Government to meet next year’s deficit goal.

It will also introduce measures that will reduce the tax burden for private companies. The initiative also contemplates adjustments to the VAT which will exert a temporary pressure and inflation and a short-term deceleration of private consumption. Despite these effects, this proposal is a necessary step in the process of fiscal consolidation to which Colombian authorities are fully committed.

Finally, in the external front, we have seen a positive evolution in the trade balance. The current account deficit will remain close to 3.4% of GDP and current oil prices are supportive of this trend. Despite recent volatility in financial markets, our analysis show that the Colombian economy can address a further tightening of global financial conditions.

Having said this, I want to share with you the plans that we have implemented to execute our strategy and improve profitability. We have defined the following pillars:

- Grow faster in consumer loans and new product sales.
- Increase the customer base to generate new revenues and improve profitability
- Reduce the costs of the bank, especially those related to transactions, onboarding and operation.
- Adopt digitalization as a lever to integrate all the strategies and the 3 pillars I just mentioned.

Let me elaborate about these elements:
Regarding **GROWTH IN CONSUMER LOANS (slide 3)**, we want to be more convenient and focus our initiatives around clients, transactions and products. This will permit to increase the profitability of the bank by growing faster in retail and selling more products to existing customers. Digitalization plays a key role in this initiative as the adoption by customers is gaining more relevance.

Some facts that support this are:

- **In clients**, currently 50% out of 10 million customers in Colombia have digital presence.
- **In products**, 12% of new sales of retail products are conducted via digital channels. Currently, we can open a digital savings account in 7 minutes and that has permitted to move from opening 1500 new accounts per day to 2300 via digital. Also, 14% of the new personal loans are originated by digital channels.
- **Regarding transactions**, 75% of the total monetary transactions that Bancolombia performs are done through digital channels.

These facts are connected to other pillars of our strategy and intend to create new revenue streams, deliver products faster to the client and reduce operational expenses.

Regarding the **GROWTH OF THE CUSTOMER BASE (slide 4)**, we want to offer a complete financial solution through high service standards. This includes offering digital experiences to customers without paperwork and very low marginal costs for us.

Today, more that 3 million individuals use Bancolombia’s mobile platform and conduct about 200 thousand transactions per day. Also, more than 14 thousand SMEs perform daily transactions with the SMEs app.

There are two key components connected with this goal:

- **First, to make the onboarding process faster and easier.**
  - Today, we have more than 9 million personal clients in Colombia and the number is growing 10% per year. Also, we have more than 1.5 million SMEs and the number grows 15% per year. We want to bring as many clients to the bank as possible, in a profitable way.
  - Our digital bank Nequi and Ahorro a la Mano, serve more than 1.5 million clients on a regular basis. These channels grow rapidly in number of users, more than 50 thousand per month, and are a great way to bring unbanked individuals to Bancolombia with very little on-boarding cost.

- **Second, to use data and analytics** to make predict payment capacity of clients, potential troubled loans, allocate resources to better risk-adjusted clients, etc. This has permitted to go from 1.7 million pre-approved loans in 2015 to 2.5 million today, which represent new loans for 1.9 trillion pesos.

Regarding **COST CONTROL INNITIATIVES (slide 5)**, we want to implement processes and leading technology to provide a comprehensive platform to our clients with little marginal costs.

The main elements to do so are:

- **Robot Process Automation (RPA):** Today we have more than 300 hundred processes intervened with RPA, ranging from collections to reporting and underwriting. Similarly, at the desktop level, the use of automation has permitted to reduce the execution time of some client facing processes by 60%.
These robots have liberated 300 thousand man-hours per year and have tangible benefits like the reduction in costs by 7 million dollars per year and the improvement in the collection process, which has prevented the deterioration of 180 billion pesos in loans.

- The second element is to focus on more efficient channels, like mobile, internet and banking agents. The number of monthly monetary transactions in Bancolombia grew 12% over the last year. Nevertheless, transactions in branches declined 12% while transactions through mobile grew 31% and through banking agents grew 40% in the same period.

I want to make a special reference to the network of banking agents, which permits to offer clients an easier way to do transactions and liberate pressure from the network of branches. This is the fastest growing channel in terms of transactions and permits to turn fixed costs into variable costs.

Today, we have more than 11 thousand agents that conduct 18% of the total monetary transactions of the bank, that is more than 500 thousand per day. This is a great achievement that give us a unique competitive advantage in Colombia, where population is spread and stills uses a lot of paper cash.

No other bank in Colombia has a network of this size and currently, we are replicating this initiative in our operations in Central América.

A tangible benefit of the cost control initiatives is the evolution of expenses in the last year, decreasing 1.3% for the first nine months. We expect to end 2018 with an OpEx growth of 4% and sustain that pace in 2019, helping the cost to income to converge to our target of 45-46%

SUMMARY
In summary, we continue developing our strategy around digitalization to change the loan mix and grow faster our consumer base, enhance the funding strength and reducing expenses. Our goal is to improve margins, efficiency and to achieve the target profitability of 16%.

With these elements in mind, I want to ask José Acosta to give you an overview of the main topics that are driving the business today.

JOSE: Thank you, Juan Carlos.

After hearing this presentation about the strategy, I want to present the results of the bank. The Net Income for the 3rd quarter was 543 billion COP. We assess the performance of each line as very positive. We were able to maintain the NIM and keep expenses under control.

The most relevant event during the quarter was the anticipated review of the allowances related to three large corporate clients and as a result, the coverage increased in a significant way. These charges totaled 312 billion pesos.

Having said this, let me elaborate briefly about in three main topics that drove the results of the bank during the quarter:

- Loan Growth
- NIM evolution
- Provision and coverage
Regarding **LOAN GROWTH (slide 8)**, the portfolio presents a similar trend to the one observed during the first half of the year. That is, a slow pace of expansion due to weak demand from the corporate sector.

We continue our strategy to grow faster in consumer loans, still targeting low risk clients with better risk adjusted returns. As a result, consumer loans represent today 18% share of the overall consolidated portfolio. What is important here, is the fact that consumer loans present a good quality evolution and there is no deviation from the initial forecasts.

On a consolidates basis, the bank has grown 11.5% in consumer loans over the last year and 1.8% in commercial loans. The pace of growth is different among the different countries and is correlated to the economic cycle.

For example, Colombia is the operation that growths faster in consumer loans, at 16.2% year on year and Banco Agrícola in El Salvador follows with 4.1%. Regarding commercial loans, Banco Agrícola presents the fastest growth with 7.4% year on year.

In October, we saw a positive evolution of loan growth in both business lines: commercial and consumer.

For the year 2018, we estimate a total loan growth of around 5%. An in 2019, the growth should accelerate to 8 to 10%

Regarding **INTEREST REVENUE AND NIM (slide 9)**, we have seen the top line of the bank evolving in line with volumes rather than margins. Low volume growth is mainly, the result of lack of investments from corporates and SMEs.

This means that maintaining the NIM is key and has been a key focus of our strategy in 2018. During the third quarter we saw stability in margins and we concentrated efforts in maintaining the cost of funding in low records.

In the funding front, we concentrated our efforts in:

- Growing faster in savings and checking accounts.
- Reducing the duration of the CDs and lower the cost.

The NIMs per geography are the following:

- Colombia: 6.23%
- Banistmo: 3.92%
- Banco Agrícola: 6.83%
- BAM in Guatemala: 5.43%

The NIM expansion in Banistmo and Banco Agrícola is influenced by the interest rates hikes in the US and the fact that these banks operate in dollarized economies.

Also, the change in mix, and the greater proportion of consumer loans has permitted to maintain higher asset yields and contribute to NIM stability.
The current liquidity conditions in the market have permitted to increase our funding base from checking and savings accounts. We believe that we are reaching an end to the repricing of the balance sheet and therefore, we do not expect big movements in NIMs in the coming couple of quarters.

For the year 2018, we estimate a NIM of around 5.8%.

**PROVISIONS AND COVERAGE (slides 10 and 11)**

This is a key topic during this year. As you know, certain corporate defaults drove up the cost of risk during the last year. With the recent conversations with new government officials, the clients and the outlook for the resolution of Electricaribe, Ruta del Sol and Mass Transportation Systems in Bogotá, we did provisions that impacted the bottom line.

The rationale of this decision is to reach the coverage target of these clients and open the way for 2019, when we expect to have a lower cost of risk.

- In Electricaribe, we went from 63% coverage in June to 84% in September.
- In Ruta del Sol, we went from 19% coverage in June to 26% in September.
- In Consorcio Express, we went from 36% coverage in June to 54% in September.

Out of the 1 trillion COP in provision charges during the quarter, 312 billion were attributable to these three cases. In other words, out of the 2.5% cost of risk of the quarter, 80 basis points were due to them.

On a cumulative basis, out of the 2.4% cost of risk, 50 basis points are explained by the three corporate cases. For these, we have charge 540 billion in provisions during this year.

From an ROE stand point, if we normalize the provision charges, we find that the return would have been close to 13%.

A direct outcome of this acceleration in provisions, is the fact that we will enter 2019 without the impact of these clients and Net Income will normalize. That implies that Bancolombia would be posting double digit growth in Net Income next year.

Regarding the general trends of the portfolio, the pace of deterioration has declined and we have elements to believe that we are in the turning point of the credit cycle.

NPL formation for the quarter was 847 billion, 13% lower than 2Q and 12% lower than 3Q17.

SEMs deterioration has decelerated in recent months because of normalization of conditions for our clients. Similarly, consumer loans have performed within the risk standards and we have not experienced any deviation from our forecasts in this business line.

As a result, the NPL ratios start to present an improvements and coverage ratios also increase.

We expect to finish 2018 with a reported total cost of risk of 2.4% and a “normalized” cost of risk of 1.9%, that is, taking out the top three corporate cases.

The relevant forecast for 2019 are:
- Loan growth of 8 to 10%
- NIMs around 5.6 to 5.8%
Fee growth of 8%
Expenses growth of 3 to 4%
Cost of risk around 2%
Efficiency 48%

In summary, four items are key to understand the financial performance of Bancolombia:

- Evolution of Volumes of loans and change in mix, which we have seen moderate in 2018, but expect to accelerate in 2019.
- Evolution of NIMs, which are stable due to control of funding costs and a greater proportion of consumer loans.
- Normalization of the credit cycle and lower NPL formation, which opens the way for a better profitability in 2019.
- And finally, the very successful cost control strategy, that also prepares the bank for a reduction in the cost to income in 2019 and eventually, double digit growth in net income.

After elaborating on these key topics, we want to open the line for questions.

**Questions and answers**

**First question**

**Jason Mollin, Analyst at Scotiabank**

Thank you for the opportunity to ask a question. My question is on this strategic objective of focusing on the consumer and now with consumer loans at 18% of total and the importance I think to maintain the NIM both by changing the mix in the loans and keeping funding cost down, can you talk about how you see that mix in the consumer and retail funding going forward? And as part of that, I guess this is part of the objective of getting your long-term ROE to, I guess, you just said 16%. So if you normalize the quarter for these provisions that you talked about, you would be at 12 to 13. How quickly can you get to this 16% and -- incorporating this change in the consumer outlook and mix outlook? Thank you.

**Jose Humberto Acosta, Chief Financial Officer**

Thank you, Jason, yes as you said, we are growing faster in consumer and we are gaining market share. That process began two years ago where we decided to understand much better our current customer base and we have been growing at that pace that you mentioned. For the next coming years, we are expecting to again -- to gain more market share based on the same strategy. We are expecting for example to give anything on that consolidated basis to increase our loan portfolio in consumer around 12%. That assures to maintain that NIM.

What we expect in the next coming two to three years to maintain that composition of the assets in between 16% to 19% in total assets in consumer, but obviously, all of that depends of the economic cycle in the different geographies. The key pillar of consumer loan growth is Colombia, but also we are doing a very good job in El Salvador, for example, that we are growing at a very good pace. And may be in the next coming two years, you will see an increase in the loan book in consumer in our operation in Banistmo. That's the strategy for the medium term view.
How we are going to get the 15% that you mentioned, because of the combination of three factors. The first one is, loan growth. We expect the next coming two, three years to grow that at double digit. The second is to sustain the NIM or to maintain the same level. The third is to maintain the cost of risk between 2% next year and 18% -- and 1.8% in 2020. So if you combine those elements, you will find that we will be able to reach the 14% to 15% return on equity. Also the fact that the expenses growth is growing at a pace of inflation plus a 100 basis points that also assure that level of return on equity.

**Juan Carlos Mora, Chief Executive Officer**

And Jason, let me complement the answer that Jose Humberto just gave and that's from the loan book perspective. But if we see it from the funding cost, the -- also the strategy and have in mind that when Colombia has a big capillarity and we have our strength on our branch network, on our presence in the country, so growing our base of retail customers on the liability side, allow us to manage the cost of funding in a way that we can also look for the NIM that we are -- that we are targeting. So the combination of growing our business on the loan side, and also our ability to reach a big number of retail customers allow us to manage the cost and also within the NIM, which at the end, it's in line with our target ROE of 16%.

**Second question**

**Carlos Macedo, Analyst at Goldman Sachs**

Yes, good morning and thank you for taking questions. So first question, thank you for giving some outlook for 2019, talking about the 2% cost of risk, you are 2.5% now, 1.7% if you exclude the 3%, the cases you have, how do you get there? Is there -- is that a process where all of a sudden, those three cases, they're just going to stop demanding provisions and you're down to 1.7 and ROE jumps to 14%, but after that -- or is it going to be more of a gradual process as you go -- as you move along? Second question, if you -- you talked a lot about the digital platform. Thank you for giving us details. It's apparently, a very -- a deep transformation and a lot about the expenses. What about the fee side? Have you seen any spark there? Obviously a lot of transactions coming in, but anything that you can talk about how you expect that to help your efficiency ratio improve, given that growth has been pretty weak, around 4% year-on-year Thank you.

**Jose Humberto Acosta, Chief Financial Officer**

Thank you, Carlos. Regarding your first question, how we're going to get the 1.8 at the end of -- in two, three years of cost of risk, at 4% in next year, basically because as we mentioned in the presentation, the NIM that is -- is behaving much better in SMEs and consumer loans. So, we are forecasting in the next coming quarters, probably the level of provisioning in there will drop a little bit. And also if we have to increase our provisions in the three cases or any other corporate cases, we will have enough room to increase that provisions, because that would be offsetting because of the lowest level or lower level of provision in consumer and SMEs also. And also you have to consider the fact that we are expecting to grow 8% to 10% loans. That means that does leave the number will be diluted, that's the reason why we are convinced that we will get the level of 2% cost of risk at the end of next year. At the 1.8, let me tell you in this way.

It is a normalized cost of risk of the bank. Assuming that there were again our consumer loans will be 18% of the total, assets and main the rest the same mix. Regarding your second question, why the fee growth this year is weak or below expectations, basically because of the level of transactionality during the first half of the year was very low, but again if the economy reacts as Juan mentioned at the beginning of the presentation, we believe that there would be reachable and that would be feasible, the fee income growth around 8% next year. If you double check the numbers in our different geographies, you will see a much
better performance in some of our operations outside fee growth, the combination of those operations will help us to maintain the 8% fee growth, 2019.

Juan Carlos Mora, Chief Executive Officer
Let me add a comment on the digital platforms. We are really happy with the development of these platforms. The acceptance of our customers is, it was very good and we keep growing on that platforms and that allow us to reach a number of customers in a very efficient way. And also it's going to help us on fee generation in the future. So the development of the digital platforms and since we are adding new functionalities and new features to these platforms, we are very positive, that this is going to really leverage the growth of the bank in the future.

Third question

Thiago Bovolenta Batista, Analyst at ITAU.
Yeah, hi guys. I have two questions. The first one about the IFRS 9. Can you comment about the refining that the bank did in the IFRS 9 in this quarter and what caused this and the main impact and this was somehow related to the special case that you mentioned during the presentation, the Electricaribe presentation, et cetera actually. And the second one, about the loan growth. You had mentioned loan growth of 89% next year, which lines do you believe we will lead this expansion?

Jose Humberto Acosta, Chief Financial Officer
Regarding your first question, yes we have been modeling the IFRS 9 and we have been fine-tuning process in these first nine months. So, as a total, we increased the provisions from the 600 billion that we contemplated at the beginning of this year to almost 1 billion on this third quarter. And again, this is a fine tuning process with the auditors, how we did the metallurgy. So we don't expect to increase that number and remember that, those provisions, the 1 billion that I mentioned, it is against the equities, not affecting the P&L.

Regarding your second question, next year, we expect the key driver or the main driver of the loan growth will be again consumer and the consumer will be at around 13% to 14%, but it’s important to highlight that the commercial loans were expected to grow in between 9% to 10%. That will be, if you combine those numbers, the loan growth will be again 8% to 10% next year.

Fourth question

Andres Soto, Analyst at Santander
Good morning, everyone and thank you for the presentation. My question is related to the cost of risk this quarter. Thank you so much for the breaking up the number between the recurring cost of risk and the extraordinary cases. I understand that I’m on the extraordinary cases, you are only including Consorcio Express, but if I’m not wrong, you are also exposed to massive capital and other mass transit companies outside Bogota. I would like to understand what is your provisioning level for these other cases and how you feel -- how confident you feel about your coverage at this point in the cycle and more generally speaking, when I look at the so called recurring cost of risk of 1.7%, it sounds to me -- it was surprisingly low to me. So I would like to understand what can go wrong going forward regarding your structural portfolio, what if we can see surprises that could deviate from the guidance that you have given both for 1.9% for 2018 and 2% for 2019. Thank you.
Jose Humberto Acosta, Chief Financial Officer
Yes, Andres, we are showing the most relevant transaction, which is Consorcio Express, you’re right, it's 54%. But the other exposures that we have in different companies, their level of provision is above that. There is another exposure that we have, almost 80% of provisioning. So we are showing you the most relevant transaction or the amount of provision and the most important case of the massive transportation system. The main subsidiaries, we increased in all the five other companies, the level of provisioning. But we are not showing a breakdown here.

And again, our view is if we start to increase the provisioning, those corporate cases, we will have enough room next year because of the combination of loan growth and because probably we have to reduce our provisions in SMEs and consumer and consumer loans. The reason why 1.7 looks low this quarter is basically because, again the behavior of consumer and SMEs reflects a slower pace of growth in provisions. So that’s a combination, but definitely, for the – the end of that year, the normalized cost of risk will be 1.92%.

Juan Carlos Mora, Chief Executive Officer
Andres, that's an important point and you touched the cost of risk on the mid-term for Bancolombia should be around 1.7, 1.8. In the past and in a positive economic cycle, the cost of risk if you take a series and -- a long-term series of around seven to 10 years, you can see that the cost of risk for Bancolombia has been around 1.5 to 1.6 in that long series. We are forecasting -- or we have seen a little bit higher long-term cost of risk, because of -- we are adding more consumer loans to our books. So we are confident that the cost of risk of around 1.7, 1.8 for mid-term for Bancolombia is -- it's the right number. Having in mind that now, we are in a -- setting a cycling, an economic cycle that had been passed. We are -- started seeing much better conditions in the coming years, that will lead us to reach that cost of risk of around 1.7%, 1.8%.

Fifth question

Jorg Friedemann, Analyst at Citibank
Thank you for the opportunity. Good morning, Juan Carlos and Jose Humberto. I have two questions. The first one related to net interest margins. I appreciate the fact that you have been very good in managing both credit and funding mix. But I was noting in the press release that the net interest income for Bancolombia in Colombia continues to come down and particularly in this quarter, non-interest income was also supported by the good contribution in the other subsidiaries in Panama, El Salvador and Guatemala.

So my first question is how much comfortable are you or how comfortable are you with an interest margin resilience going forward, particularly related to this contribution in the other subsidiaries, if they are already close to the most that they can contribute? This is the first question. And the second question is related exactly to this, subsidiaries. I note that Banistmo is showing good results, but not growing that much. And the other two subsidiaries are observing a significant decline or in provisions or in other revenue lines. So if you could just provide a bit more color about the positives and the challenges for the subsidiaries and how much they could contribute for the results next year and in the more normalized basis, I would appreciate. Thank you very much.

Jose Humberto Acosta, Chief Financial Officer
Thank you, Jorg. Regarding your first point, you have to consider that the interest rate of the Central Bank drops a 100 basis points in the same period that you mentioned. And this is very important because remember that 70% of our loan portfolio in Colombia is asset sensitive, is floating. So that explains why the compression were a little bit, but while -- for the long run, we’re in a very good position.
You're asking if we feel comfortable. Remember that we are expecting that if inflation is parked in the second or third quarter of next year, probably interest rate will go up again 50 to 75 basis points. That implies, that next year we have a negatives and positives for -- regarding NIM, the first half of the year, the tonnage will be to maintain, but the second half of the year, probably it will help us to increase a little bit the NIM in their operation in Colombia. Regarding the international operation, just an example. In Banagricola, we expand the NIM, because we took advantage of the hike of interest rate in the US. We're maintaining the NIM in the operation in Panama and in Guatemala. So, if you combine those segments, we feel comfortable saying that the NIM will be between 5.6 to 5.8, the whole year, the next year.

Regarding your second question subsidiaries, I have to say, that Banagricola combines all the positives of the Group, which means, a very healthy loan growth, more than 5%, which means a very under control efficiency level, that would be at around 50%, fee income growth also is -- it’s at a level of more than 6% to 8%. The cost of risk there is very low, 1.2%. So, if you combine those factors, this is by far the most problemless and relevant operation. What happened in Panama in the economic cycle at the beginning of this year, we felt that the GDP will grow 4% to 5% today, the country probably will grow at the mid range of 3% to 4%, and also already they are impacted the operation in Banistmo. I don't know if Juan Carlos want to add something.

Juan Carlos Mora, Chief Executive Officer
Yes, Jorg. We are very happy with the developments in Panama, Banistmo, it's really on a trend that we see very positive, as Jose Humberto mentioned, the economic growth in Panama has been lower than we expected and I think that everybody expected. But the development of the bank is very positive. We have challenges in Panama around improving our technology there and we have a project and a program to improve that technology and that we will allow us to serve better that market and also to improve our efficiency in Panama. So, we are happy with the developments in Panama.

Regarding the El Salvador and Guatemala, El Salvador, for us the Banco Agricola is performing very well. The key measures of the bank are -- are positive. Even though the economy is not growing very fast or it's not growing at a good pace, we are growing and we foresee that the economy growth in El Salvador is going to perform better in the coming -- in the coming year. So we will -- I think we are ready to take advantage of those opportunities. We keep working on efficiency in El Salvador and there is room to improve our efficiency there. We are also pursuing our digital strategy and we are leading that strategy in the El Salvador market and we think we can take advantage of that position.

Regarding Guatemala, there we keep improving our presence in the market. As you know, our market position there is different than the other markets. We are forcing the market. So we are pursuing a strategy to gain additional volumes. The market -- the consumer loan book is growing fast, at around 30%, which is very good and shows that what we are doing there are, it’s showing positive results. We need to keep working on modernizing the bank in its structure and also with some investments in technology. Guatemala is facing election process in the next year, that could have some effects on the performance of economy and of the bank. But overall, I see that the Central American operations are on a good way, developing well and are adding positive results to Bancolombia.

Sixth question
Carlos Gomez-Lopez, Analyst at HSBC, New York
Yes, good morning. I have two brief questions, the first one is if you can give us an update on the implementation of Basel III and if you have an estimate about the impact that it will have on your capital ratios, positive or negative. And the second one is, if you can give us some guidance for your expected tax rate for the coming two years, now that you have a bit more clarity about the tax policies of the incoming administration. Thank you.

Jose Humberto Acosta, Chief Financial Officer
Thank you, Carlos. Yes, regarding Basel III, remember that Basel III focus on two factors, change in the risk-weighted assets and then, put in place some buffers. The first one, the density of the bank, assuming Basel III for -- as of June, the density will come down from 76% to 65% of density, that we obviously have. And the implementing of buffers are beginning of day, the Tier I capital will come from 10% on -- it is currently 10.2%, to almost 11.8%. So, the key measure here is, Basel III will help the bank in terms of the capital structure, will improve at least around 150 to 180 basis points.

Regarding your second question, the tax guidance for this year, we are expecting a tax at around 31% at the end of this year, and next year because of the statutory tax in Colombia will drop from 37% to 33%. The tax for the next year will be in between 29% to 30%. Remember then our operations, the breakdown of tax, the statutory tax is -- in Colombia 37, next year 33. In El Salvador, Guatemala and Panama for location operation, it is 25% and our offshore operation is 0%, the offshore operation accounts around 7% of the total book of the Group.

Seventh question

Sebastian Gallego Betancur, Analyst at Credicorp Capital
Hi, good morning, thanks for the presentation. I have two follow-up questions. The first one on the cases, I know you mentioned the coverage that you have conducted in the three cases, but can you give us a guidance, what to expect for 2019 in terms of the additional coverage you expect in these three cases. And the second question is regarding OpEx, once again and particularly branches. You reached almost 1,000 branches at the end of third quarter. And I just want to know if you have a particular target for branches going forward, particularly in Guatemala, where you had a plan or you commented in the previous call that you had a plan to reduce branches? Thank you.

Jose Humberto Acosta, Chief Financial Officer
Thank you, Sebastian. Regarding your first question about how we will -- the coverage that we reached on these cases that you mentioned, we feel comfortable that at this level of coverage, we are not expecting surprises. So, we could meet additional coverage, but that coverage will be marginal, and will not have material effect on provisions. So, with the level of coverage again, we feel comfortable.

Regarding branches, we have been optimizing our branch network in particularly in Colombia and as you mentioned in Guatemala. In Colombia, I think we reached a level at this point, we feel comfortable and any changes in number of branches in Colombia will be marginal. In the case of BAM in Guatemala, we will keep reducing the number of branches and we are expecting to close around 27 branches this year, that will help a lot on the efficiency ratio of BAM going forward.
Eighth question

Yuri Fernandes, Analyst at JP Morgan
Thank you, gentlemen. I have just a question on funding. You have been done a mix shift towards checking and savings account lately. This quarter was slightly lower on the same but if you -- this has been the trend in the previous quarters. My question is going on like you were talking about growing loan book back to double digits. And when you look to loan-to-deposit ratio, it's running high, just historical levels, 126. So how do you see funding on that, like do we plan to continue growing on savings, checking or time deposits, should start to accelerate in next year to help on your loan growth? Thank you.

Jose Humberto Acosta, Chief Financial Officer
Thank you, Yuri. Yeah, so regarding your question, funding, if you break down the operation, the loan to deposit ratio in Colombia, it is below 100%. Our strong customer base as we've mentioned, our way to touch the client with different tenants, assures us that we will maintain the same loan to deposit ratio. I mean, that we'll align the loan growth with the deposit customer base growth as well in Colombia.

What happened in the other geographies, is we at the beginning of the process, we used the capital markets to support the funding in those operations. You know that we have bonds in the three geographies in Guatemala, El Salvador and Panama, as a first stage. Today, because we have replicated the same experience in Colombia with a deposit base, with a technology, with the tenants, we are expecting to again align the loan growth in those geographies with the liability side as well. So we don't foresee any specific concern about loan to deposit ratio and the way we're funding is basically with a strong customer base.

Operator
And thank you, ladies and gentlemen. I will now turn the call over to Mr. Mora, Chief Executive Officer of Bancolombia for final remarks.

Juan Carlos Mora, Chief Executive Officer
Thank you, everybody for your interest in Bancolombia and for attending this conference call. We remain positive for the next year, the signs that we are seeing for this last quarter are positive from the front of both loan growth. And we expect that 2019 will consolidate a good year on the economic side, that will allow us to take opportunity of all the strategies that we are pursuing. Again, thank you so much for your interest and see you in the next conference call, in which we will present the results for 2018. Have a good day.