CONFERENCE CALL SCRIPT -
BANCOLOMBIA’s 4Q18 RESULTS

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

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

FACTS THAT IMPACTED THE BUSINESS IN 2018
I would like to start this call presenting the net income for 2018. During the year we posted a 2.7 trillion pesos net profit or 1.7% increase versus the result of 2017. We consider this, as a very positive result given the challenging economic environment in Colombia.

During the fourth quarter, we generated 1 trillion pesos in net income, and we assess the performance of each line as very positive because we could maintain the NIM, keep expenses under control and most importantly, to reach a turning point in the credit cycle.

Now, I would like to elaborate about the performance of the bank. In the last months, we started to see a change in the trends of some metrics of the business. We experienced a faster growth of the loan portfolio, which suggest that in 2019, the trend will continue and will reach high single digits. This evolution is particular to Colombia where we see improving demand from corporates.

The second element that I want to highlight is the change in the credit cycle and a reduction in provision charges. The quarterly new past due loan formation was close to zero and shows clear signals of a better situation among customers and better originations over the last six months.

For 2019, we believe that the trend will continue and the stock of past due loans will decline. Regarding provisions, we saw the peak in the third quarter of 2018 and the trend suggests that the cost of credit for 2019 will be 2%.

Third, higher provisions during the quarter and the year lead to an increase in coverage. We went from 164% in 2017 to 180% in 2018.

Fourth, we continue our cost control program which permitted to grow expenses only 3.5% and is producing very positive results in our business strategy. We aim to continue improving the efficiency levels and the cost to income ratio will go down to 48% in 2019 as the top line will grow faster.

Finally, some relevant achievements during 2018 are:
- 10% growth in our base of personal customers, which represent 1 million new clients.
- 25% growth in the number of transactions performed by the bank in Colombia. The fastest growth occurred in internet and mobile channels.
- We reached 9.5 million debit cards in Colombia, 11% growth. These cards perform 43% of debt card purchases in the whole country and have become the first line of fee revenue.

The consolidation of these trends observed in 4Q18, such as credit growth, quality improvement and efficiency gains lead us to believe that Bancolombia will have positive numbers in 2019 and that net income will grow above 20%.

Having said this, I want to ask José Acosta to elaborate on the main topics that are driving the business today.

JOSE: Thank you, Juan Carlos. For all of you following the presentation, let me remind you that at the end, you will find additional information that complements the bank’s numbers and that might be useful.

I want to start this presentation making a reference to the very good performance of the core business during the last quarter. In particular, two facts explain this:
One is Net Interest Income after provision charges, which increases 17%, due to a positive change in the performance of the loan portfolio.
The other is the 10% growth of net fees due to a greater number of transactions.

Three one-offs impacted the net income of the quarter:

- First, we conducted the annual appraisal of the investments that we do not consolidate. One of them, Tuya presented a significant increase in value of 174 billion pesos, due to the recovery of impairments done in 2017.
- Second, the agreement to sell SUAM announced in December, generated a pre-tax profit of 63 billion pesos. Or a net profit of around 15 million dollars.
- The third one is the recovery of income taxes from previous periods, which was the result of clarification about certain Bancolombia’s tax positions by the Colombian tax authority. The impact for the year was 149 billion pesos, and for the quarter was 98 billion pesos.

Now, I want to elaborate about the results of the bank.

- Loan Growth
- NIM evolution
- Provisions and coverage
- Cost control

Regarding LOAN GROWTH, slide 3, the portfolio started to show signals of recovery as commercial loans grew at a faster pace than in previous quarters in the Colombian operation.

The Central American operations grew around 2% when expressed in dollars.

As a result, the annual growth reached 8%. The fastest pace was observed in Colombia with 7% growth and El Salvador with 6%.

Two factors impacted the loan portfolio growth in the fourth quarter:

- First, the seasonal effect during the last months of the year, that present a more dynamic economic environment. As a result, corporate credit demand, which had been slow until September, picked up and the portfolio expanded. 
  In the consumer front, we maintain the pace of expansion of the portfolio, which reached 18.5% of the loan book, in line with our strategy to change the mix and improve margins.
- Second, the 9% depreciation of the peso versus the dollar, contributing also to the faster growth of the portfolio when expressed in pesos.

After considering these signals of recovery, we are estimating a loan growth around 7% in 2019, with Colombia growing around 9%.

On slide 4, we see the evolution of MARGINS. Core margins remained stable during the quarter.

Nevertheless, we had a positive impact in NII of 120 billion pesos, due to the reduction of the stock of loans classified in Stage 3. This contributed to a 20 basis points pick up in lending NIM.

This fact, has the opposite effect in provision charges, which are 120 billion higher in the quarter and as a result, it’s neutral to the bottom line of the bank.

Isolating that impact, two factors explain the stability in NIM, despite interest rates cuts in the first half of 2018

- One is the change in mix over the last year, with consumer loan contributing to a higher asset yield. As you can see, consumer loans represent 18% of the portfolio today, versus 16% two years ago.
- Two, the reduction in funding costs through retail deposits and the reduction of cost of CDs.
We don’t forecast big variations in margins during the year and we are expecting a NIM of around 5.8% for 2019. The funding strategy for some geographies will be to replace long term debt with clients’ deposits and promote checking and savings accounts.

In slide 5, we present **PROVISION CHARGES**.

The three large corporate cases, the red bar in the chart, represented 130 billion in charges during the quarter, or 30 basis points of the reported cost of risk.

As of December, they presented the following status

- In Electricaribe, we went from 84% coverage in September to 91% in December.
- In Ruta del Sol, we went from 26% coverage in September to 34% in December.
- In Consorcio Express, we went from 54% coverage in September to 57% in December.

The blue bar, as we just mentioned, also includes 120 billion in charges associated with the reduction of the stock of clients classified in Stage 3, which increases the Net Interest Income and provisions. Additionally, as we do every fourth quarter, we updated the parameters and historical data to run the provisioning models. These adjustments caused a one-off charge of 140 billion pesos, which are not directly related to any specific case.

So, taking out these three components, the normalized provision cost was 600 billion pesos, which indicates a clear improvement in the credit conditions of our portfolio.

**The next slide, number 6** shows the **QUALITY of the loan portfolio** during the quarter.

PDL ratio declined for both commercial and consumer loans for 30 and 90 days. The 90-day PDL ratio went down to 3.08%, which shows an improvement of the loan portfolio across all segments, particularly in Colombia. Regarding the other countries we do not see major impact in the trends.

Similarly, coverage is increasing for both 30 and 90-day PDLs.

The most important metric regarding the credit cycle is the amount of New Past Due loans generated during the quarter. The 4 billion indicates a strong recovery in the overall credit conditions of the portfolio, especially in the corporate and SME segments.

We expect to maintain the recovery path in 2019 and we forecast the cost of credit to be 2%. This metric includes additional charges that we might require to increase the coverage of some corporate cases mentioned before.

**Slide number 7** shows the evolution of **EXPENSES AND EFFICIENCY**.

The key point in 2018, was the annual growth in expenses of 3.6%. This is the result of our cost control initiatives and process optimization.

We forecast to maintain this path in 2019 and as a result cost to income will be around 48%.

As we can see in **slide number 8**, the bank continues its strategy to increase capillarity and migrate to low cost **CHANNELS**. The distribution of products and transaction cost are two of the largest cost of Bancolombia. Therefore, it is key to increase the operational leverage.

The total number of transactions increased by 12% in 2018. Nevertheless, when we analyze each channel, we see a structural trend: the fast growth in banking agents and mobile and the reduction in physical branches. This is the shift that we are looking for.

The outcome of our strategy is a reduction on the average cost per transaction, and the capacity to grow faster than the market.
The next slide, **number 9**, shows the outcome of our **BUSINESS STRATEGY** in the consumer and SME segments during 2018. We grew 10% our base of personal clients, which equates to more than 1 million new clients.

Several products also grew in line with our commercial strategy. Credit and debit cards in particular, are growing at high single digits and the market share of billing and purchases in Colombia hit record highs: 25% in credit and 43% in debit.

Finally, we wish to highlight our strategy to grow the consumer loan portfolio which contributes to the loan portfolio mix that we want to have.

Our expectations are based on the fact that the trends defining the future of the banking operation are positive.

- Growth will remain in line with our forecast for all geographies, reaching 7% for the year.
- Regarding margins, we will continue optimizing the funding structure and promoting retail loans in the portfolio mix, in order to maintain NIMs around 5.8%.
- Fees should maintain a positive trend given the growing number of transactions in Colombia and the launching of new products in other geographies. We forecast 10% fee growth.
- In 2019, we see a normalization of the cycle, the stock of past due loans is not growing and we forecast a cost of risk of 2%, which includes provision charges for large corporate clients.
- Similarly, we do not forecast large PDL run-offs, and as a result, the 90-day PDL ratio should be around 2.7%.
- We will keep our cost control initiatives in order to have an annual growth in OpEx of 3.5% and reach a cost to income of 48%.
- With this combination, we forecast an ROE of 12.5%.

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. Talking about this 12.5% ROE, let's call it guidance -- soft guidance for 2019, how should we think about that versus -- I'm imagining that's a recurring run rate because we're not going to have special case provisions or you're -- you didn't mention any kind of one-off issues in that number. Where would you say the ROE was in 2018 kind of normalizing in a comparable basis? And an important part I guess of that 12.5% ROE would be what are you -- what is your outlook for taxes given the recent increase in the corporate tax rates for financial -- for banks in Colombia? Thank you very much.

**Jose Humberto Acosta Martin, Chief Financial Officer**

Okay. Thank you, Jason. Regarding taxes, we have not seen an incremental in tax -- the statutory tax for 2019 will be 37%. And the last tax reform implies that the tax will be this year 37%, next year 35%, 2021 34%, and 2022 30%. Based on that consideration of the statutory tax, we are contemplated to create a level of return on equity of around 15% in 2020 assuming the normalization of cost of risk will be at the area of 1.8%. So again this year we are expecting 2%, but next year cost of risk that that will be take the shift transition that return on equity will be at a level of 15%.

**Second question**

**Yuri Fernandes Analyst at JPMorgan**

Thank you, gentlemen, for the opportunity of making questions. I have a question on your cost of risk, the 2% number. I understood that this includes one-off provisions let's say the corporate cases. But does the number include reversals of those provisions and how do you plan to treat the payment of Ruta del Sol that you received in January? Should that be like a reversal of provisions? Should you book that as NII just like you -
- and also if you can give some color if you expect to receive the missing 50% of that loan. Just provide some color on that exposure. Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
Thank you, Yuri. Just to put it on nominal terms, our expectation of provisions in 2019 would be COP3.5 trillion in provisions. That is contemplating increased provision in certain cases like for example, in massive transportation system we get a level at around 75%. The year-end was 57% coverage so we have contemplated that and it is included in the 2% cost of risk. Also remember that in the case of Electricaribe, at the end of this year our level of provision was 93%. So, also we have contemplated just a marginal increase in provisioning. So again assuming that we have to increase provisions in those clients. That's our expectation the COP3.5 trillion at the end of the year.

Juan Carlos Mora Uribe, Chief Executive Officer
And Yuri, let me elaborate a little bit on your question. We are expecting the cost of credit of around 2% as you mentioned and that's taking into consideration the additional provisioning that we need to do on those corporate customers. We don't include the reversal of any of those provision, it's not included there. And related to your question about Ruta del Sol, we are -- with this particular case, we received a payment as you mentioned. It's already included on the outstanding debt and we are in conversations and they are some -- also some legal procedures around this case that we think will lead to additional payments in the future. Meanwhile we have a coverage of 34% in that case and we think that it's enough due to the situation of this particular client at this point.

Third question

Thiago Bovolenta Analyst at Itau
Hi, everyone. Thank you for taking the question. I would like to ask about loan growth. You mentioned during the call that you expect high single-digit growth for 2019. But can you give us a sense of the growth you are expecting for each of your segments? Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
Okay. Thiago, thank you. Yes, we are expecting on the upper side of the loan growth the consumer loans that would be of the area of 11% to 12%. In the middle of the range will be the mortgage business, especially in Colombia, the loan growth will be at around 10%. And on the lower part will be commercial, which includes corporations and SMEs, and the loan growth will be 8% to 9%. I have -- we have to highlight that these trends would be particularly different in commercial loans because the commercial loan grew last year -- last week was below 6%. So that's the key driver of loan growth this year, the commercial loans.

Fourth question

Sebastian Gallego Betancur, Analyst
Hi, good morning. Thanks for the presentation. I have two questions. The first one, you didn't say much during the call about Panama. Can you elaborate on the results of Panama and what you're expecting going forward? And the second question is related to capital and particularly to Basel III. Can you provide any more color on any progress regarding Basel III and what you expect going forward on timings on -- regarding Basel III? Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
Thank you, Sebastian. Yes, regarding the Banistmo operation, to put some context. Remember the GDP growth for the country has been dropping and the number at the end was on the low 3% of GDP and that impacted our business in that operation. We -- the loan growth was close to zero. We are expecting for this year to gain some traction and to begin to grow in between 5% to 6%. What's happening with Banistmo is they have been doing a big effort in efficiency as they -- and they are right now at the area of 52% efficiency level. So, we expect Banistmo in 2019 will help and provide to the bank in a consolidated basis with loan growth, with lower level of expenses, and in fee income growth as well because we have replicated the same products in Panama. That's the situation with Banistmo.
Juan Carlos Mora Uribe, Chief Executive Officer
So, again let me summarize what Jose Humberto said. We are happy with the trend. We have some challenges coming from the macro of the country, which is not bad at all, but it's slowing down a little bit. Efficiency of the bank is around -- of Banistmo is around 50%, which is very good for us. The ROE is in the low double digits. Still we have a way to go, but we are happy with the trend again. We have challenges related to loan growth in 2019 and also fee growth, but we are happy -- we are happy with the trend in Panama.

Jose Humberto Acosta Martin, Chief Financial Officer
Regarding your second question Sebastian, Basel III. We make calculations assuming that change of risk-weighted and just to give you a precise number of our density because of the change of risk-weighted asset will come from 76% to 65%. So if you do the math, that implies that beginning next year under Basel III probably our Q1 will increase in between 100 basis points and 150 basis points.

Fifth question

Ernesto Gabilondo, Analyst at Bank of America Merrill Lynch
Thank you. Hi. Good morning, everyone, and thanks for the opportunity. Sorry, I entered late to the call. So, can you provide again your guidance for the year? And then two questions. The one -- the first one is in terms of expenses. How much room do you see to maintain low single-digit growth in this line? Can you provide more details on your digital channel strategy to maintain those levels? And then the final question is a follow-up in terms of Basel III. So, what will be the timeline for this and if you're expecting lower risk-weighted assets while implementing Basel III? Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
Okay. Ernesto, four questions there. First answer is Basel III, that will be implemented in January the 1st and that will be implemented in -- during four years increasing the buffer, but fully implemented in Tier 1 in January the 1st and the implementation of the result will be a higher level of Tier 1 because of the change of the risk weighted. Regarding your second question or your first question, the guidance. Again loan growth at around 7%, NIM that would be at the area of 5.8%, fee income growth that would be on a level of 10%, cost of risk which is relevant for your models could be at around 2%, the level of past due for 90 days that would be a level of 2.7%. Regarding your second question, expenses. I will say that this is one of our flagship.

The way we are controlling the expenses and we expect to build the area of inflation and this year again in 2019 we are expecting 2.5% and this is supported basically because of the cost control initiatives. Regarding your question, the digital channel. In digital channel, we are doing very interesting things. There are many clients using the digital channels. In Colombia for example, out of the 10 million clients that we have, 4 million out of -- 4 million is using digital channels; the app, the Internet. It's more than 70% of the transactions on a daily basis. So, we are moving the clients to use those channels. And also this is interesting because the things that we are doing in Colombia, we are replicating in our other geographies so you will expect the same trend in our operations in Banistmo, in Guatemala, and in El Salvador.

Ernesto Gabilondo, Analyst at Bank of America Merrill Lynch
Thank you very much, Jose Humberto. And are you providing guidance in terms of net income growth?

Jose Humberto Acosta Martin, Chief Financial Officer
Yes. The guidance is that will be double-digit income growth and more specific items would be the return on equity could be at around 12.5% at the end of this year.

Sixth question

Mark Lien, Analyst at Lazard
Thanks for the opportunity. You shared with us new customers you’ve acquired in the past year. Could you just provide some granularity on how these customers were acquired and also maybe share with us what you expect the rate of customer acquisition going forward?

**Juan Carlos Mora Uribe, Chief Executive Officer**
Thank you, Mark, for your question. Yes, we are very happy with the result and the acquisition of new customers. As you mentioned, there are new -- 1 million net new customers, around 800,000 were persons, individuals and around 200,000 SMEs. The strategy is basically we are adding new functionalities on our relation with the customers. Digital -- digital is a key part of this strategy and many of the customers can enroll and acquire products now with Bancolombia through the digital channels. So, that has been key. And also our digital strategy related mobile banking, we have two platforms that are growing really, really -- like very good pace. In the case of Ahorro A La Mano, we have now 1.3 million customers.

To just remind you, that platform, it's just mobile platform and it's targeting low income individuals to do basic banking. But for us is the door to enter to the financial world. We also have another digital platform, we call it Nequi; it's more -- it's targeting young adults that's starting doing their business and their transactions and that also has been very successful. Today, you have close to 900,000 customers on that platform. And also on the traditional banking, we are also offering additional features. And the other key element on acquiring customers, it's analytics. We are doing or performing an analysis that allow us to target new customers in a very precise way.

**Seventh question**

**Natalia Corfield, Analyst at P Morgan**
Hey. Thank you for the question. I have two questions. The first one is related to the coverage levels that you just mentioned about company Ruta del Sol and Electricaribe in massive transportation. I would like to know if this is related to Colombian GAAP or if this is IFRS. And also connected to this, it would be good to refresh if your capitalization the number of 13.47%. Is this taking into account IFRS or is it based on Colombian GAAP? Those are my two questions.

**Jose Humberto Acosta Martin, Chief Financial Officer**
Thank you, Natalia. All the numbers that you are seeing are under full IFRS so it is contemplated all the regulation.

**Natalia Corfield, Analyst at P Morgan**
Of 57% for the -- for instance the mass transportation companies. This is based on IFRS not Colombian GAAP.

**Jose Humberto Acosta Martin, Chief Financial Officer**
Exactly, it's IFRS which is tougher in terms of provisioning level. And the capital level that you are seeing is also under IFRS contemplated, all the risk-weighted assets as well.

**Eighth question**

**Andres Soto, Analyst at Santander**
Hi. Thank you for the opportunity. My question is regarding net interest margin. If I understood correctly, you guys are expecting stable NIM for 2019. I would like to understand what is the assumption that you are making there in terms of central bank rate in general terms in terms of the rate of your loans and how these place -- how in a context of some credit growth acceleration that probably is going to put some pressures on the funding side. Thank you.

**Jose Humberto Acosta Martin, Chief Financial Officer**
Thank you, Andres. We are going to transfer it to Juan Pablo to answer the view of the interest rate in Colombia.
Juan Pablo Espinosa, Chief Economist
Yes. So basically in terms of monetary policy, we are expecting for this year a very mild upward move in the reference rate of around 50 basis points and those movements will be more probably be happening in the second half of the year. The reason for that is that the economy is recovering, but it's still below -- growing below potential. And secondly, there is some pressures on the economy, but they are very controlled. So, we expect that inflation will be around the target range of the Central Bank. So, that lead us to think that the Central Bank will be moving towards more neutral stance on monetary policy, which is consistent to -- with what I just mentioned of 50 basis points increase in the second half of the year.

Jose Humberto Acosta Martin, Chief Financial Officer
Thank you, Juan Pablo. How we are going to maintain the NIM? Let's divide it in two different scenarios. In the Colombian scenario, as Juan mentioned, we are expecting a hike of 50 basis points in the second half of this year. Meanwhile, we are replacing some of the most expensive -- the higher level of interest rate of time deposits and bonds. We are replacing parity bonds that is finalizing this year so that will help us to sustain the cost of funding at a level that we have projected. In the US dollar world, it is still positive. You see that the interest rates came up so we were -- so we had the opportunity to expand the NIM, especially in El Salvador and we are seeing something of that in Guatemala. So if you combine both effects of the US dollar and local currency, we were able to sustain that NIM. Again replacing parity bonds that came from bonds, going to the cheaper way to funding, checking accounts and savings accounts.

Ninth question
Carlos Enrique Rodriguez, Analyst at Ultraserfinco
Good morning, gentlemen, and thank you for the conference call. Just a follow-up on Panama. I mean I just want to know your expectations for the country and if you are worried at some point because we have seen some deceleration in some sectors and if you are worried of the provision accruing at the operation of that country. Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
As Juan mentioned in the previous question, we are seeing very positive trends in the Banistmo operation. We are implementing products, we are implementing new ways to do business there, so we are seeing for the next coming years loan growth positive. And on the funding side, we have a strong customer base as well so we don't foresee any specific concern really. All depends on the performance of the county of the GDP, but again we are forecasting a much better performance the next two, three years. To-date, as Juan mentioned, the return on equity of the operation is -- it's double-digit on the lowest and we are expecting to reach a level of 13% in the next two, three years of return on equity.

Carlos Enrique Rodriguez, Analyst at Ultraserfinco
Okay. Thank you. And my second question is regarding the cost of funding. What is the number there? In the bottom we can see in the mid-term as you previously said that you are replacing the bonds and the deposit with the checking and saving accounts and then currently you have 2.1%. Do you have any number or guidance that you could share with us?

Jose Humberto Acosta Martin, Chief Financial Officer
Yes. If your question is average cost of funding, that would be almost at the same level with ups and downs and the down is we are replacing the bonds, the ups is we are moving forward to checking accounts. So, the net balance is we will maintain the same cost of funding that we're having today and you can see that on the final pages of the presentation. And the funding cost closing the year is 3.1%. We are expecting to be of the area of 3% to 3.2% at the end of 2019.

Tenth question
Carlos Gomez Analyst at HSBC
Yes. Sorry, I was mute. Thank you for the -- for taking the question. You mentioned that you may get an additional 100 basis points in Tier 1 capital after the implementation of Basel III. We wonder how this will lead
-- how you see capital going forward? If you start to generate more, will you increase the dividend payout or would you contemplate acquisitions and if so where? Thank you.

Jose Humberto Acosta Martin, Chief Financial Officer
Yes. The level that we are reaching next year, as you mentioned, increasing 100 basis points. In our forecast we believe that this is enough capital for the next coming years. We have not contemplated any particular change in our dividend policy because again you have to consider also loan growth in the next coming years and the implementation also will take four years in terms of the buffers. So, we have to have also a buffer for the buffers for the next coming four years.

Carlos Gomez Analyst at HSBC
Okay. So, you are ruling out any acquisitions for the time being.
You’re ruling out, you are not contemplating acquisitions for the time being.

Jose Humberto Acosta Martin, Chief Financial Officer
I'm sorry, Carlos. In previous conference calls, we have been sending a clear message and right now our focus is to improve international operations because you know that there is a down -- down the road an improvement in NIMs, in return on equities and in Colombia, we have to optimize the momentum of the economy and to take advantage gaining some competition. So, we are not contemplated any particular acquisition.

Operator
We have no further questions at this time. Thank you, ladies and gentlemen. I will now turn back the presentation to Mr. Mora, Chief Executive Officer of Bancolombia, for final remarks.

Juan Carlos Mora Uribe, Chief Executive Officer
Thank you. I just want to summarize. We had very good results in ’18 on a tough environment and we are positive about 2019. We think that the trends lead us to believe that ‘18 [ph] is going to be the year in which we consolidate the strategies that we have been implementing in the last two years. The pace that we have seen in the past and during this year confirm that view. So we expect that this year, as I said, is going to be very positive. Thank you again for your interest in this conference call and we expect to see you on the next conference call for the first quarter ’18 [ph]. Thank you very much. Have a good day.