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Identifying and Measuring Non-Performing Assets during a Crisis

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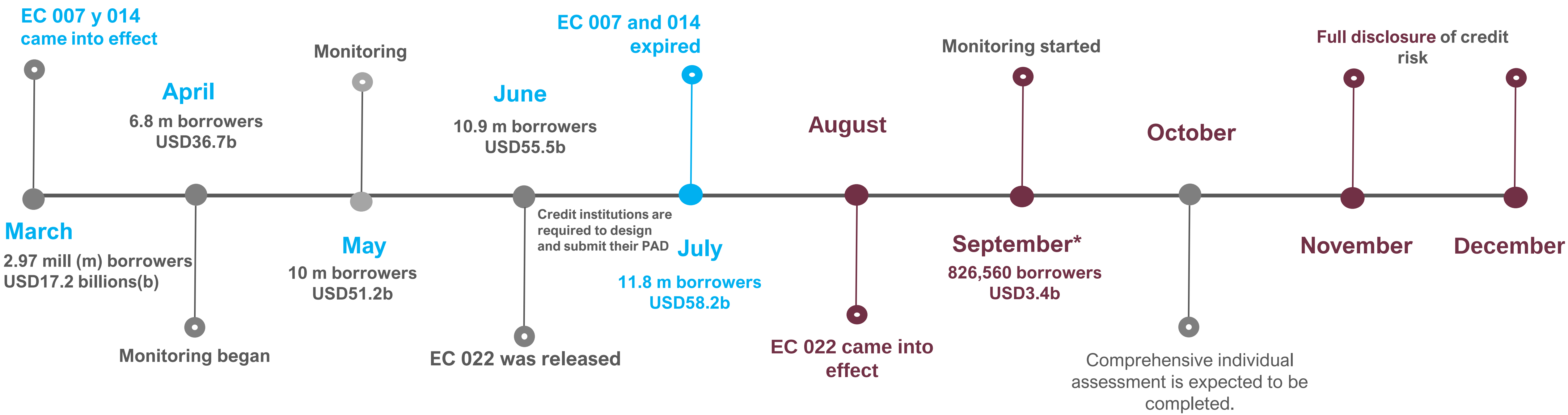
A two-phase response has provided borrowers breathing room and has allowed them to resume loan repayments as severe effects of the shock ease

First-wave: To contain, understand, and address
Providing borrowers *breathing room* for managing their financial difficulties associated with the pandemic-induced economic shock.

Persistent shock

Second-wave: To provide structural solutions
Accounting for borrowers´ financial viability while *resuming loan repayments* as severe effects of the shock ease



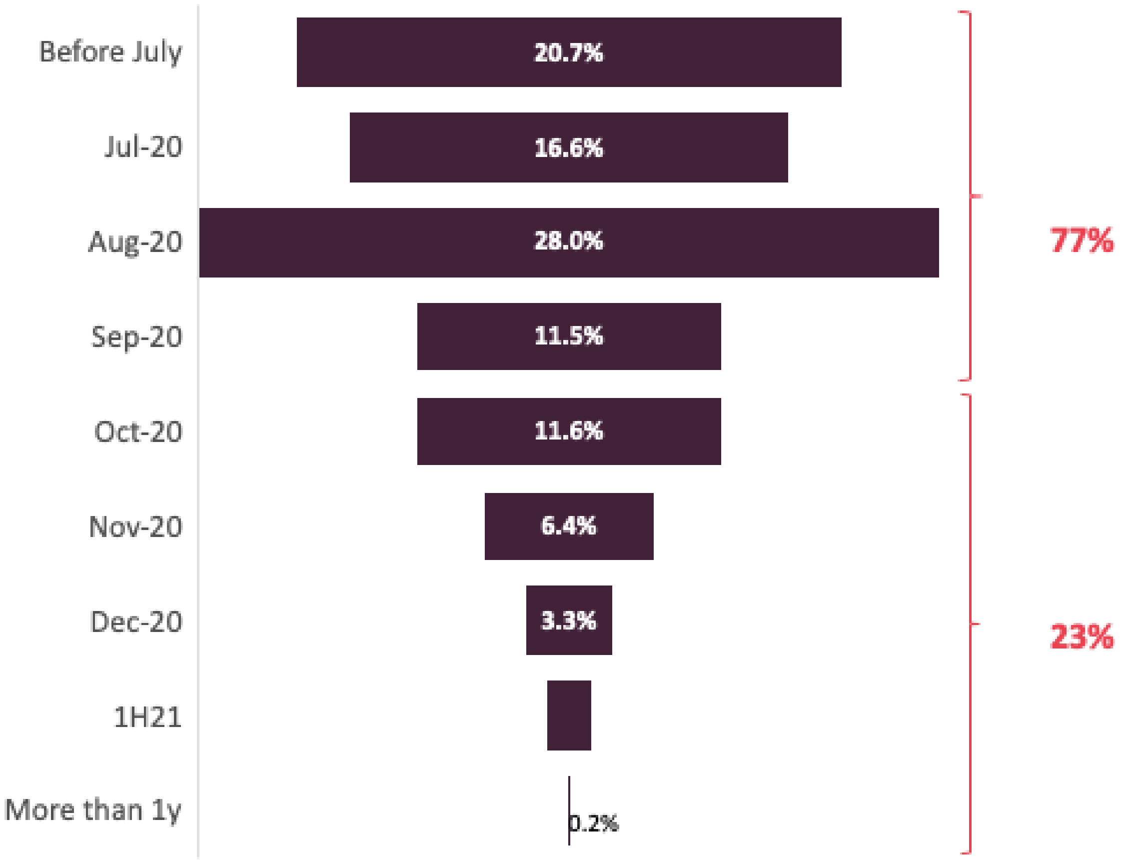
- ✓ Countercyclical provisions could be released to prevent from a credit crunch
- ✓ Exposures ceases to be categorized as past-due. Redefinitions are not considered as modified or forborne loans.

- ✓ Credit institutions are encouraged to seek alternative sources of information beyond a firm's own financial statements

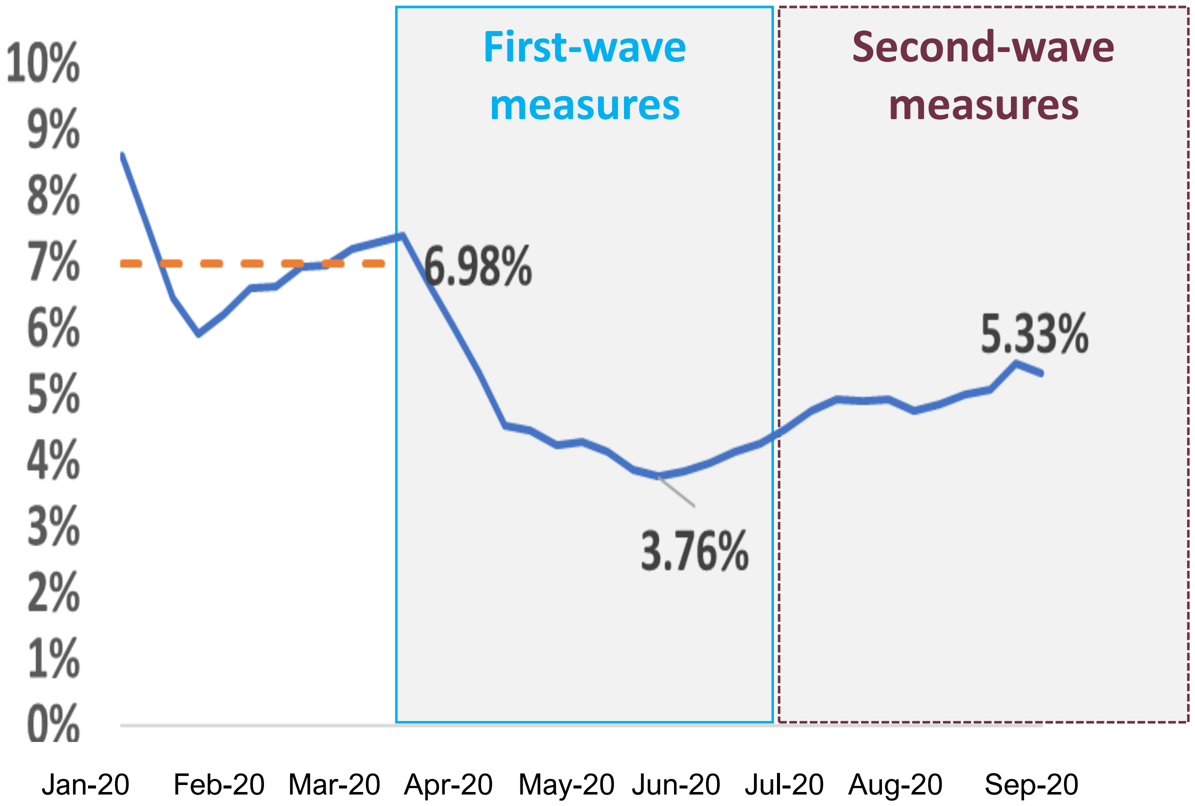
Source: SFC, as of July 2020. Figures converted to USD using a constant exchange rate of COP3,867.81 per USD. USD Billions = 1,000,000,000. * As of September 23rd

As grace periods have expired, loan collection is expected to rebound, which might in turn offset the increased costs of precautionary provisioning (almost 12% of Past-due loans)

Expected maturity of grace periods (First-wave of measures)



Loan collection as % of total gross loan portfolio



Source: SFC. Figures expressed as percentages

First-wave measures (EC 007 and 014) accounted 43% of the total gross portfolio, out of which 61% resumed loan repayments in August…

Loan portfolio segmentation as reported during first- and second-wave measures

Loan portfolio segmentation	COP trillions	USD billions	Applicable rules for credit risk disclosure	Implications for expected credit loss accounting	as % of total gross loans	as % of GDP
Still in grace periods under EC 007 and 014	86.40	22.34	Loans are not classified as past-due and their credit rating **remains the same during the grace period**	Provisioning levels **remain the same during the grace period.** Cash inflow/outflows on the stock of provisions will take place over the coming months as long as repayments resume	16.4%	8.1%
Loans redefined under EC 022 (PAD)	13.20	3.41	Credit risk rating is assessed under the **current prudential regulation**	Provisioning levels were not affected during assessment. Current provisioning rules are still applicable	2.5%	1.2%
Loans redefined outside EC 022 (PAD)	10.10	2.61	**Current prudential regulation** applies **including probation periods** of modified and restructured loans	**Current provisioning rules** are still applicable	1.9%	0.9%
Non-modified loans	422.70	109.29	Credit risk rating is assessed under the **current prudential regulation**	**Current provisioning rules** are still applicable	80.3%	39.4%
Total gross loans portfolio	526.20	136.05			100.0%	49.0%

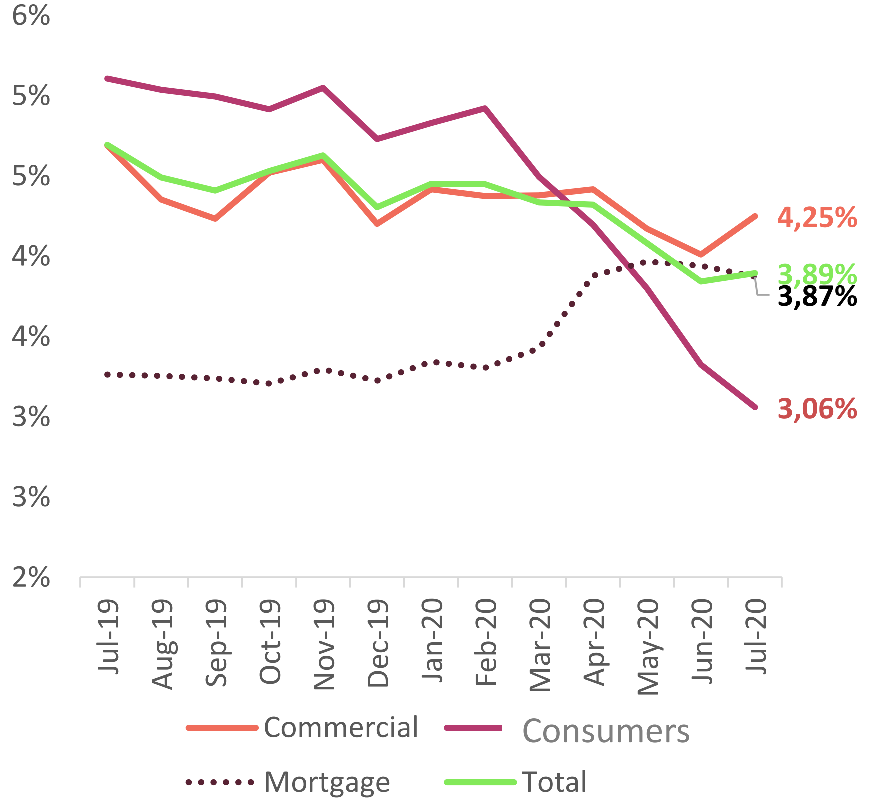
PAD Spanish acronym for "Debtors Accompaniment program"

Despite this positive trend in loan collection, quality indicators might experience a slightly increase in the forthcoming months, mainly due to those debtors whose grace period expired and are facing difficulties to resume their payments.

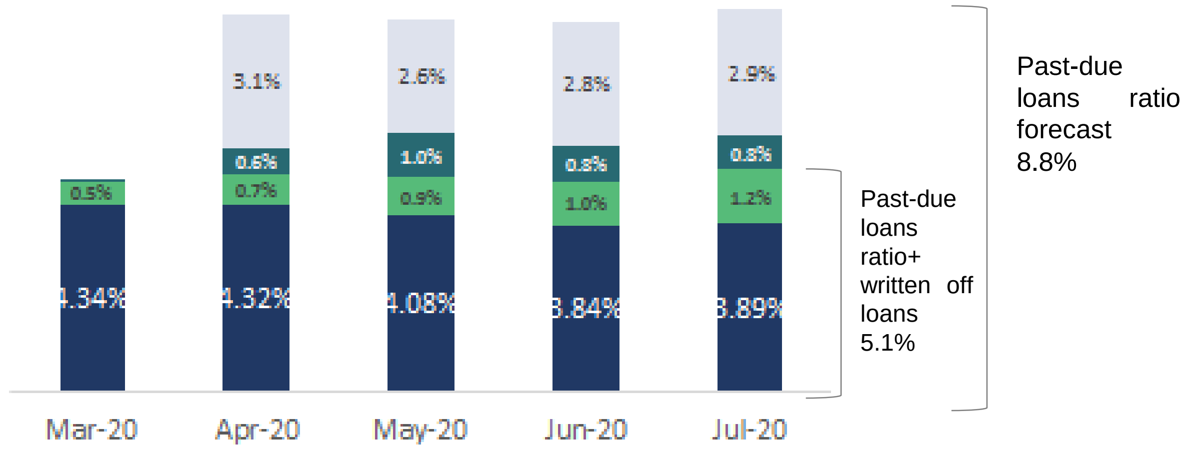
Source: SFC. Balance sheet information as of July 2020 . First-wave measures as of August 2020 and Second-wave measures as of September 23rd . Figures converted to USD using a constant exchange rate of COP3,867.81 per USD. USD Billions = 1,000,000,000

Downward trend in quality indicators is mostly explained by write-offs and, to a lesser extent, from containment measures focused at early arrears

Past-due loans as % of Total gross loan portfolio



Estimated impact on asset quality of write-offs, containment measures on early arrears, and macroeconomic environment



Preliminary data (as of August) suggests Past-due loans spike to 4.4%, which confirms the fact that some exposures will not be fully recovered in the forseeable future.

Past-due loans ratio

Written off loans*

100% provisioned loans

Containment measures on early arrears (past-due loans>30 and less than 60 days)

What would have happened without measures?

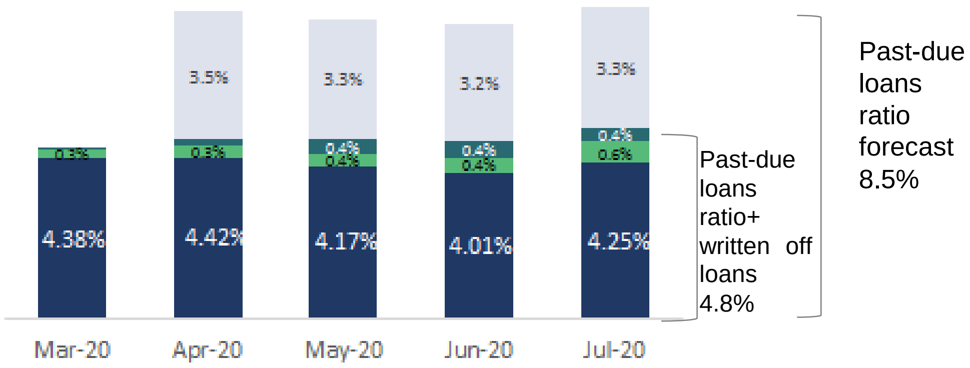
NPL forecast which includes 18 vulnerable sectors

For mortgage loans the ratio reports both past due loans over 30 days and instalments

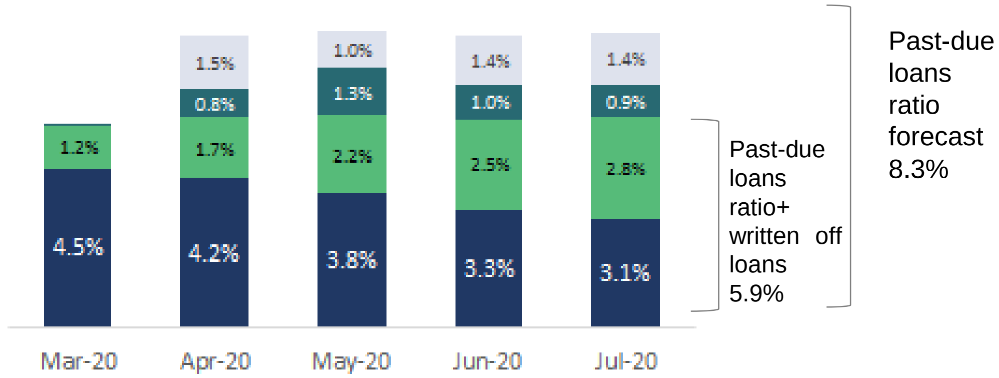
*Write-offs are calculated on a year-to-date basis.

Downward trend in quality indicators is mostly explained by write-offs and, to a lesser extent, from containment measures focused at early arrears

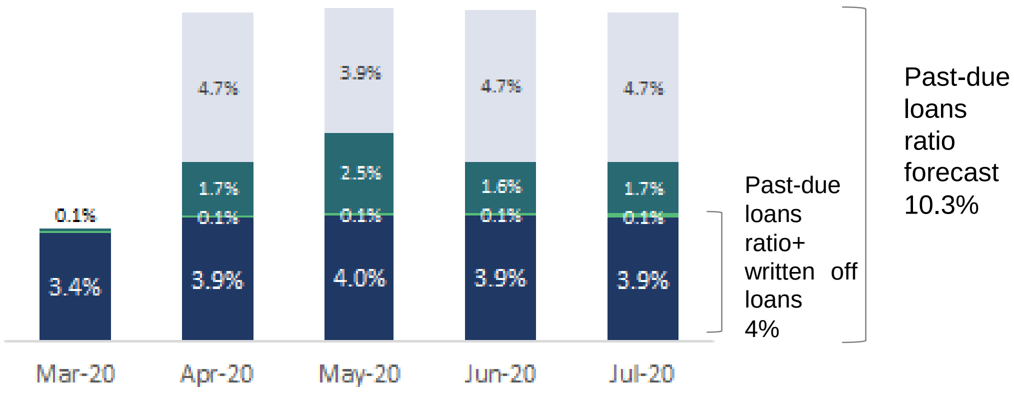
Commercial loans



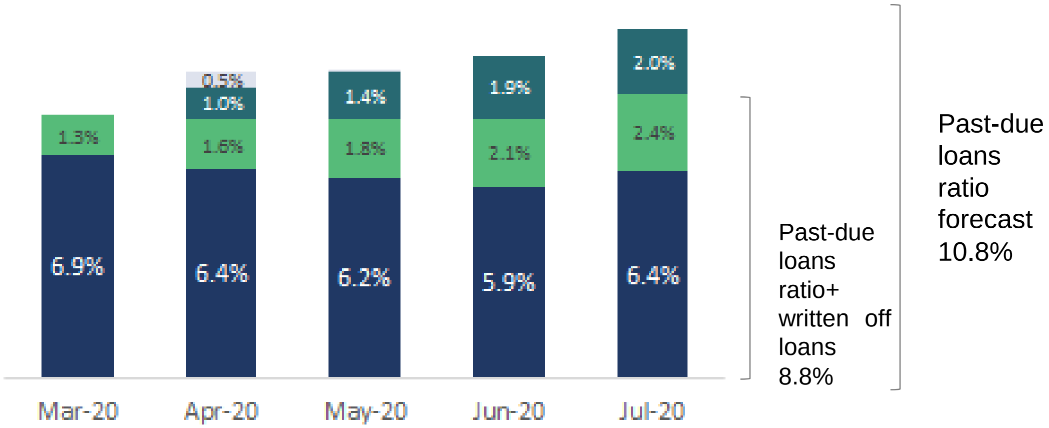
Consumer loans



Mortgage loans



Microcredit loans



- Past-due loans ratio
- Written off loans* — 100% provisioned loans
- Containment measures on early arrears (past-due loans>30 and less than 60 days)
- What would have happened without measures? — NPL forecast which includes 18 vulnerable sectors

For mortgage loans the ratio reports both past due loans over 30 days and instalments

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Both supervisory and prudential measures are expected to continue improving the financial system´s resilience against more severe shocks

Stress test 2020
(Adverse scenario GDP (YoY) -9.7%)

	July		December (f)
Capital adequacy ratio	16.3	-1.7pp	14.6
Loan Portfolio real growth	6.4	-5.1pp	1.3
Loan at risk ratio	8.6	+10.7pp	19.3

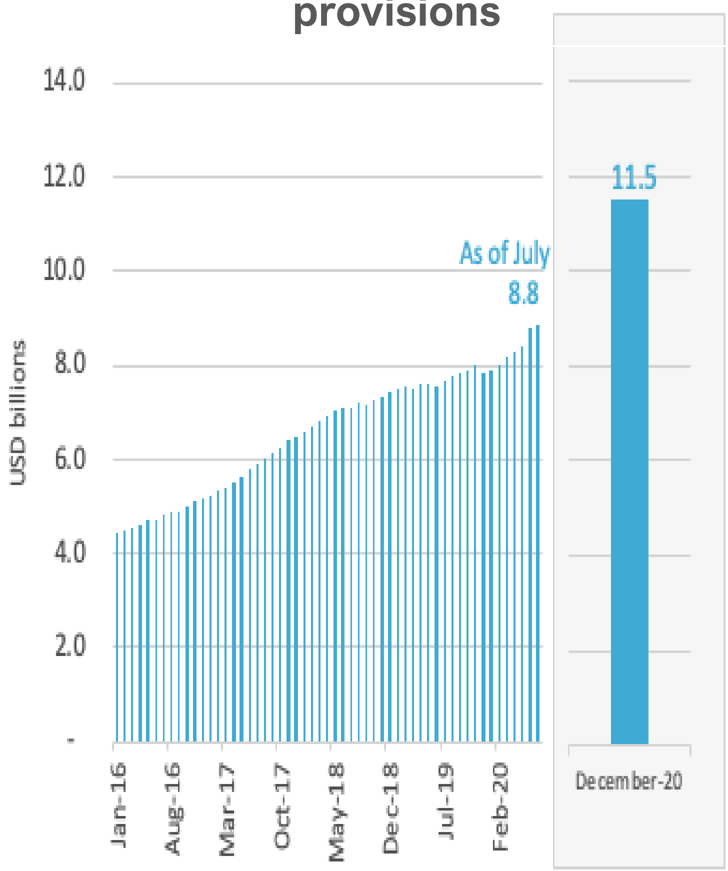
68% **of the industry** might have a huge impact on CAR (above the average)

Additional Prudential measures

+

- Credit institutions are allowed to release their **countercyclical provisions**
- Provisions for previously **accrued but not collected interest** (credit downgraded by 2 notches – matrix A)
- Promoting **precautionary provisioning to account for a further deterioration in macroeconomic outlook,** resembling the IFRS9 forward looking provisioning

Estimated increase in loan loss provisions



Our top-down stress test model suggests that most credit institutions will be affected by the end of 2020. However, the Colombian banking system is resilient and would therefore be able to withstand the stress and continue to meet credit demand from households and businesses.

Source: SFC

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