1Q20

Results Presentation Transcription

BBVA Colombia

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Audio-Conference 1Q20

[Adriana Riobo Santamaria] Good morning, good afternoon and good evening to our investors connected all around the world, you're welcome to our first quarter 2020 Results event. My name is Adriana Riobó and I'm part of the legal department of BBVA Colombia. In this event are also connected Diana Polania; Financial Planning Director, Alejandro Reyes; Principal Economist and Juan Pablo Herrera; ALM Director, who will give the presentation.

The corresponding documents were sent to you through email, both in English and Spanish, and will be available in our website in the section "Investor Relations" on the link "Agenda".

We ask you to please mute the microphone of your phones to have a better communication.

Without further ado, I give the turn to Juan Pablo.

[Juan Pablo Herrera] Thank you very much Adriana, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results for the first quarter of 2020 for BBVA Colombia.

I will start with a brief overview of the macroeconomic scenario and later I will be explaining the highlights of our first quarter results. First, I will start with our macroeconomic outlook on slide number 5.

During 2020's first months, the world has been facing the COVID-19 pandemic where mostly of world's economies established quarantines that implied a partial closure of the economies, a dramatic decrease in the global commerce and a significant diminution on the countries' income, in both households and businesses. World's governments reacted with important economic measures aimed to maintain the householder's purchasing power, the employment, help the business liquidity and guarantee the payments system and the countries' credit channel. The mechanisms for making this happen are characterized by fiscal supports through a public budget increasement, liquidity measures in local and foreign currency by the central banks and regulations for guaranteeing the healthy financial system functioning.

The pandemic impact interrupted the clear recuperation process that Colombian economy had been having. During 2020's first quarter, Colombia's economy grew 1.1% year over year, which had been growing in quick succession during the first 2020 bimester, even the National Statistics Administration Department (DANE) published a 4.1% figure with January's economic expansion in 3.5%, February's with the great shoot in 4.8%, meanwhile march's figure contracted to -4.9%.

Colombia's contagious rate has been growing and even we expect that the measures taken by the National Government succeed in reducing the expansion rhythm, it is not easy to anticipate COVID-19's negative impact. Colombia has been proactive in the adoption of sanitarium, regulatory and fiscal measures for facing the crisis. Nevertheless, the success of those measures will crucially depend on the contagious rate that the country will be experiencing in the next weeks and the answer capability of the health system, not only in the largest cities but in the whole national territory. Contagious evolution and the answer capability of the health system will define the length and intensity of the social distancing measures that we are living and by the way the economic impact of the crisis. Now, we are through the mitigation phase which generates a lot of challenges for householders, business and authorities. In this context the central bank decided to reduce the interest rate by 100 basis points, so now it is placed in 3.25% which complemented a measurements compound that has been taking for guaranteeing the Colombian pesos and dollars liquidity in the economy. Concurrently the government had increased the public budget and assigned higher spend level to monetary transactions for poor families, health system payments and credit guarantees. Between other concepts. Finally, the financial superintendence established that the banks were able to give credit reliefs to its borrowers and dissacumulate anti cyclical provisions if needed. In the other hand, April's inflation placed in 3,51% showing some downward stickiness in respect of 2019's closure which stood by 3,25%. This stickiness is being determined by the high food prices which inflation rate placed in 6.0% annual, the highest registered since 2016, and was a clear reflection of the stock piling demand that rushed in during March last weeks. Therefore, the charges on the public services such as electricity and natural gas keep increasing because their costs are tied to the exchange rate.

Continuing with slide 6. Between February and March, the employment fell by 1.6 million people; this represents the 7% of the employed, going from 22.5 million to 20.9 million. In the comparable history of labor market statistics, there is no similar decline in any month as seen during 2020's march.

The pandemic and the measures to contain it have different effects on employment at the sector level and by occupation type. BBVA Research area made the classification of the economic sectors as they considered that could have a high, intermediate or low impact by COVID-19, analyzing three possibilities as: social distancing, confinement and mobility restriction. In the group of sectors with higher impact we found tourism, transportation, restaurants, entertainment and some retail businesses that represent 7.4 million jobs and COP 6.3 trillion of salary mass.

Along these lines, in March, commerce and entertainment-related activities were the most affected in terms of employment, using the mobile quarter measurement January-March, which allows us to see the sectoral effect. Employment in the latter sector fell more than 5%, which was to be expected, since its activity depends on social interaction.

The reduction in total employed for the mobile quarter of January-March compared to December-February was 523 thousand, 2.3%. From all the 14 sectors reported by the DANE, 10 presented a reduction in the number of employed. The exceptions were the public services sectors with a 4.9% growth, information and communications with a 3.1% growth, and mining and quarrying with a 1.8% growth. Due to these sectors small size in terms of employment, their contribution to growth was marginal.

The commercial sectors and the activities related to entertainment were the ones that contributed the most to employment decrease. Other sectors that contributed significantly to the reduction of employment are, in their order, agriculture, construction and industry. The performance of Government's employment stands out, which grew 2.1%, being the only type of employment that grew.

Finally, the prolongation of confinement throughout April led to a growing deterioration in the company's capability to sustain their cost structure in the absence of income, which sets the April's employment in an even lower level than the already observed. Staring in May, the gradual reopening of some sectors may help to improve the employment conditions; however, a considerable recovery in employment is not anticipated.

Given the repercussions of the current situation, Colombia's financial sector has not been oblivious to the impact caused by the current sanitarian crisis caused by COVID-19, in this sense, the National Government has adopted different measures aimed to protect the financial sector stability and the proper functioning of the markets, promoting access to liquidity, a proper risks management inherent in the current situation, and especially the protection of financial consumers in a situation as complex as the current one. In this order of ideas, to attend the present situation as a result of the pandemic, BBVA Colombia's priority has been and will continue to be the protection of our employees and clients, accompanying them and providing them with an excellent service, which has allowed us to provide service adequately and without restrictions, for this, measures have been adapted to operate in the office network, with hygiene and cleaning protocols; Besides of strengthening customer service by guiding it into the use of digital platforms, as the main and effective transaction mechanism, with these measures the Bank has managed to provide uninterrupted service in these atypical confinement circumstances. Additionally, we have taken the following measures to protect our customers and employees; Grace periods have been granted with reliefs for pre-crisis loans, which we have granted to more than 210,000 clients, individuals and companies, in loans totaling more than COP 14 trillion and representing around 25% of our credit portfolio. Clients have been supported with new loans disbursed since March 17th that total more than COP 4 trillion and reached more than 40,000 people and more than 18,000 companies. Of these loans, more than 150,000 million have been for MSMEs that have had the support of the National Guarantee Fund. With the above, digital channels that allow social distancing to have been strengthened, by increasing the call center and social network workers. Assistance has been provided to 30,000 pensioners, high-risk older adults, to whom we facilitate taking care of their life and health by charging their allowances without leaving home, with free delivery of debit cards to manage their accounts. With all this, we maintain our commitment to stability in employment and in the retribution of our employees that are about 7,000, which are the same that we had when the crisis began. Lastly, our employee's solidarity contributed with one day of their salary to donate markets for the neediest, resources that BBVA also doubled to favor more Colombians, for an approximate amount of COP 1,300 million.

Despite the possible impacts due to the country's isolation measures, the Bank maintains a stable financial position, which allows it to effectively face the COVID-19 contingency challenges. BBVA Colombia strengthened the permanent monitoring to safeguard and alert on its main financial, capital and liquidity indicators in the adverse macroeconomic scenario that we are living. Regarding liquidity terms, the Bank has the ability to attend all its obligations in the short term, the foregoing considering scenarios in which the variables that determine liquidity have an unusually unfavorable behavior.

On the 9th slide, I would like to share the results in terms of the digital transformation that is taking place in BBVA Colombia.

Taking into account the situation generated by the mandatory quarantine, around mid-March, BBVA Colombia joined the #StayInHome campaign with "BBVA moves so that you do not move"; In this initiative we reinforce in our clients the transactionality and benefits that our digital channels have, reminding them that they do not have the need to leave home to carry out their banking transactions, but rather that they can do it from their cell phones without any cost and at any time. As a result, the use of BBVA Mobil presented a 67% increase in monetary transactions compared to the first quarter of 2019. BBVA Net presented a 48% growth compared to the same period of the previous year; this is also leveraged in that Call Center transactions were migrated to the digital channels mentioned before.

Thanks to digital channels, the entity's clients in Colombia can make from public services payments to products from both BBVA and other banks payments, transfers to BBVA accounts and other entities, mobile recharges and download extracts and certificates, at no cost.

On the other hand, the entity has enabled the option of sending money to and from abroad through its mobile banking 'app', which constitutes a facility for customers who require money transfers without having to move to a bank office. Also, BBVA customers in Colombia can manage their debit and credit cards from the mobile application, through the off and on option when they need to do so for security or loss reasons.

Finally, the entity recommends its clients to use contactless payment technology, available through debit and credit cards, when making any payment in order to reduce cash handling.

Under this challenging environment, I would like to share the main highlights of our 2020's first quarter results moving to slide number 11 and then I will present the balance sheet and business activity.

The Bank recorded an annual growth in net interest income of 29.4% during the first quarter of 2020 compared to the same period of the previous year, explained by a positive year-on-year change in income in the loan portfolio of COP 206 billion and for a decrease in interest expenses of COP 35 billion. On the other hand, the gross margin presented a growth of COP 2 billion owed to the increase of the bank activity, while expenses amounted to COP 30 billion, growing 7.5% compared to 2019. Within this context, the Bank closed the year with an efficiency ratio of 44.91%, which represented a decrease of 304 basis points. Finally, our net income decreased by 16.6% compared to the same period in 2019.

In terms of our balance, total assets closed with a balance of COP 74 trillion, with a growth of 16.9% compared to the previous year, the gross loan portfolio registered a year-on-year growth of 12.7% with a balance of COP 52 trillion, this growth showed by the BBVA Colombia portfolio, led us to have a market share of 10.32% at the end of February 2020, which presented growth of 10 basis points compared to March 2019. While deposits of clients grew 18.2%, closing with a balance of COP 50 billion, with a market share of 11.45% at the end of February 2020, presenting a decrease of 2 basis points compared to February 2019.

Regarding the risk indicators, we observed for the month of February 2020 a 51 basis points reduction in our NPL ratio compared to 2019's February. Furthermore, the cost of risk decreased by 19 basis points in February 2020, compared to February 2019.

Finally, we have maintained solvency levels above the minimum required by regulation, closing the first quarter of the year with a solvency rate of 10.51%, with a decrease of 106 basis points compared to the fourth quarter of 2019. This decrease is mainly explained by the increase in RWAs for market risk by COP 4,9 trillion.

In conclusion, we closed the first quarter with a good performance, both in activity and in the income statement, despite the complex situation that we experienced due to COVID-19.

Moving on to slide 12, I would like to share the results of the first quarter of 2020.

The behavior of the Bank's interest margin shows an interannual increase of 29.4% during the first quarter of 2020, equivalent to an increase of COP 170 billion. This growth is mainly by a positive variation in the credit portfolio of COP 206 billion, which highlights an increase in consumption portfolio, credit card, housing, factoring and housing leasing worth COP 210 billion and a decrease in the remaining portfolios worth COP 4 billion.

On the other hand, the expenses side has shown an increase of 35 billion pesos mainly given by the term deposits reduction which arrives to 26 billion pesos.

Furthermore, the Bank's net fee income shows a 74.1% decrease, equivalent to COP 154 billion mainly due to an increase in spending by amortization of sales force fees generated today by the Bank, this model seeks to simulate the incremental cost and achieve an effective rate for the specialized loan portfolio in the mortgage, commercial and consumer portfolio. Additionally, banking services such as correspondent bank fees, CENIT interbank fee, among others, decreased by COP 346 million.

Regarding operating expenses, we can see that during the first quarter of 2020, there was a decrease in our efficiency ratio of 304 basis points. This is explained by a moderate increase in expenses during the quarter, with a variation of 7.5%, equivalent to an increase of COP 30 billion compared to the previous year, mainly explained by an increase of 1.9% or COP 3 billion in personnel expenses. On the other hand, general expenses increased 4.8% and expenses for contributions and taxes registered an increase of 0.5%.

Finally, this increase in operating expenses is also due to an increase in computer programs and applications for a total of 772 billion pesos corresponding to a net increase in corporate software of 1.3 billion pesos compared to the previous year. The main increase is due to a project that seeks to implement an adequate risk model to support the hiring of both legal and natural clients.

Finally, as you can see on the bottom side of the slide 12, BBVA Colombia recorded a net profit of 170 billion pesos in the first quarter of 2020. This profit is 16.6% lower than that registered in the first quarter of 2019.

In the 13 th slide, with the risk measures and policies implemented, it was possible to maintain profitable investment growth and adequately manage quality indicators in a complex environment. Thus, in February 2020, the NPL ratio was 3.52%, with a decrease of 51 basis points compared to February 2019 and the cost of risk was 1.97%, showing a decrease of 19 basis points compared to the data registered in February 2019. Both presenting a recovery compared to the previous year.

The portfolio that shows the greatest deterioration was the mortgage portfolio, which showed a deterioration of 49 basis points compared to February 2019, followed by the consumer portfolio, whose deterioration is explained by the slow recovery in employment. On the other hand, the quality of the commercial portfolio remains at lower levels than the sector average due to our low participation in problematic transactions.

As we have mentioned on several occasions, BBVA Colombia's write-offs are aligned to Basel III policies that allow the cancellation of assets only when there is no recovery viability. As shown in the chart, in the upper right, BBVA's NPL plus write-off are compared very positively with the sector, showing the highest quality of our portfolio.

On slide 14, you can find the main figures of our consolidated income statement.

Now, I would like to present our highlights in terms of our Balance Sheet and Business Activity.

On slide 16, you can see that our loan portfolio increased by 12.7% year-on-year to COP 51 trillion. The main commercial activity of BBVA Colombia is retail banking aimed at individuals through its extensive branches network, complemented by some activities of corporate and investment banking. The retail segment represented 60.5% of the total gross portfolio at the end of March 2020. This segment showed an increase of 13.4% compared to 2019 and closed with a balance of COP 31 trillion.

For the first quarter of the year, the loan portfolio with the highest concentration was the consumer loan portfolio, which presented an 18.4% annual increase, equivalent to COP 3 trillion, followed by the commercial loan portfolio, which presented an increase of 11.6% per year with a variation of COP 2 trillion, this category is composed by corporate loans and territorial entities, which present a variation of 9% with respect to the results of December 2019. Similarly, the increase in the mortgage portfolio represented 6.1% a variation of COP 675 billion pesos, and at the end of the first quarter of 2020 represents 22.9% of the gross portfolio.

Finally, at the end of the first quarter of 2020, due to the health emergency presented due to COVID-19, many companies decided to finance their activity with banks to meet their short-term obligations, which led to a general increase in the portfolio of companies, in contrast to the portfolio of individuals that had been decreasing due to the slowdown in the economy in the last month. Thus, it was possible to maintain growth in the total portfolio in accordance with the bank's objectives and historical figures but offset between commercial and private products.

On slide 17, we show the composition of our funding sources.

At the end of the first quarter of 2020, client funds remained adjusted to the Bank's liquidity needs and the deposits behaved in line with the growth dynamics of the portfolio. Total customer funds increased COP 8 trillion pesos, which represented a variation of 18.2%, closing the quarter at COP 53 trillion.

The dynamic presented by the resources was punctuated by the savings accounts, which had an annual growth of 20.2%, this considering that deposits at the end of March grew due to the conjuncture of COVID-19, where clients were cautious in withdrawing their savings during this quarter.

Term deposits represented 41.7% of total resources and presented a variation of 18.0%, reaching a balance of COP 22 trillion. Furthermore, checking accounts showed an annual variation of 13%, equivalent to an increase of COP 869 billion. These deposits represented 14.3% of total customer funds.

Turning to slide 18, we see the business activity highlights.

During the first quarter of the year, the Bank's gross portfolio remained in fourth position with a market share of 10.32% as for February 2020, which presented a variation of 10 basis points compared to the previous year.

In this way, the individual’s portfolio retained the third position in the market, with a market share of 14.29% as for February 2020. This presented a decrease of 8 basis points when compared to the same month of 2019. Thus, the consumer portfolio reached a market share of 13.04% with a positive variation of 16 basis points compared to February 2019. Mortgage reached a market share of 16.15%. Lastly, credit cards reached a market share of 6.84%.

On the other hand, the market share of the commercial loans stood at 6.91% and decreased 9 basis points compared to the previous year, retaining the fifth position in the market.

Regarding deposits, in February of 2020, BBVA ranked fourth in the market with a market share of 11.45%, which showed a negative variation of 2 basis points compared to the previous year. Likewise, savings accounts showed a decrease in market share by 37 basis points and positioned in fourth place with a market share of 10.87%. On the other hand, checking accounts ranked third in the market with a market share of 10.80% with a negative variation of 246 basis points. Finally, term deposits showed an increase of 123 basis points with a market share of 13.23%, thus retaining the third position in the market.

In terms of our capital adequacy on slide 19, BBVA Colombia's capital structure is quite robust, where Tier I capital represents on average 58% of technical equity. This has been achieved without the need to increase the bank's capital by issuing shares, but with the policy of increasing the legal reserve with the undistributed profits of each year. The bank's payout remains at 50%.

The above, reflects basic and total solvency ratios that are above the limits of the regulator and that allow us to continue growing in activity in accordance with the provisions of the budget.

BBVA Colombia showed a decrease of 106 basis points in the solvency ratio in the first quarter of 2020 compared to the fourth quarter of 2019 due to an increase in RWAs of COP 4.9 trillion due to growth in the commercial portfolio in COP 1,4 trillion and due to a growth in credit exposure of derivatives, contingencies and accounts receivable generated by derivative operations. Additionally, peso devaluation is presented in quarterly terms that increase the value of subordinated debt in dollars.

On slide 21, you can find our detailed balance sheet, of which I already mentioned in the main highlights.

With this, I have finished my presentation and open the line for any questions you may want to ask.

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