

3Q21

**Results Presentation
Transcription**

BBVA Colombia

Audio-Conference 3Q21

[Laura Alejandra Peraza] Good morning, good afternoon and good evening to our investors connected all around the world, you are welcome to our third quarter 2021 Results event. My name is Laura Alejandra Peraza and I'm part of the legal department of BBVA Colombia. With us today are Alejandro Reyes principal economist and Juan Pablo Herrera ALM Director, who will present the third quarter results. The corresponding documents were sent to you through email, both in English and Spanish, and will be available on our website in the section "Investor Relations" on the link "Agenda".

We remind you that if you want to ask a question, you can use the chat or you can use the "raise your hand" button that can be found in the bottom right section of your screen.

Without further ado, I will now turn over the call to Juan Pablo.

[Juan Pablo Herrera] Thank you Laura, Good Morning everyone and thank you for joining us here for our third quarter of fiscal 2021 earnings call.

I will begin with a brief overview of the macroeconomic scenario and later I will be explaining the highlights of our results for the quarter.

First, I will start with our macroeconomic outlook on slide number 5.

The global economy recovery is moderating its course especially in the USA and China after a strong and steady growth linked to the economic reopening. This, reflecting a downgrade for advanced economies due to the supply disruptions and strong inflationary pressures as a result of a mismatch between demand and supply. As vaccination campaigns progressed and restrictions started to be lifted, the global economic growth is projected to keep expanding over the forecast horizon achieving a growth rate of 5.9% in the USA, 8% in China and 5.2% in the Eurozone.

With the success of the vaccination campaigns and eased restrictions, consumer spending patterns and market demand started to stabilize in the third quarter, with higher market volumes than those in the third quarter 2020, Under this scenario it is important to remark the challenges that the economy will be facing at the end of 2021 and in the first half of 2022 specially in inflationary terms, as it follows the monetary policy needs to be soft enough to support the economic recovery and hard enough to

control the inflationary pressures which should reach the pre-pandemic levels by mid-2022

In Colombia's case, the available third quarter data shows the strength of the economic activity, driven by private consumption with a significant rebound in fixed investment. In the first case, consumer confidence returned to its pre-pandemic levels showing optimistic expectations similar to those seen in 2018 when the country's economic recovery began to take shape after the oil prices fall and the inflationary shock of 2016. In addition, good levels of vehicle and home sales were maintained increasing the goods and services spends. In the second case, imports had an important boost due to external purchases of raw materials and capital goods, which are related to an increase of the activity in the national productive sectors, which have increased the rate of production to respond to the growing demand and to rebuild the inventories.

Continuing with slide number 6.

The third-quarter inflation accelerated for the seventh consecutive month standing at 4.51% due to the upward pressure of food prices which were affected in previous months, the reason why inflation without food remains at 2.54% annually, showing a slowdown for the first time in eight months. Additionally, the basket of tradable goods maintains its upward trend, standing at 2.93% in annual terms due to a greater general pass-through of the devaluation of the exchange rate on prices.

BBVA research is expecting for Inflation to remain relatively stable for the rest of the year, closing 2021 around 4.9%. But it accelerates again in the first quarter of 2022 due to the seasonal adjustment of certain rates that depend on the inflation of the previous year and the increase in the minimum wage. Similarly, inflation is expected to begin to ease in mid-2022 with the appreciation of the exchange rate and the dissipation of bottlenecks, closing 2022 with an annual inflation of 3.9%.

Inflationary pressures and the strength of domestic demand, mainly driven by private consumption and which has led to a widening of the external deficit, determined the beginning of the cycle of increases in the monetary policy rate in September. The first increase was 25 basis points, going from 1.75% to 2.00%, the interest rate is expected to end this year at 3%, as a result of two additional increases of 50 bps and to increase again by 150 bps in 2022 closing at 4.50%. Despite these increases, the monetary policy rate will continue to be expansionary for economic activity until the end of 2022.

BBVA's transformation into a digital business is continuing at pace, in slide number 8, I would like to share the latest statistics from the digital transformation

Market and society are changing at a great speed and we need to focus our time and effort on the most important part of our business, our customers. This is why we are working to build seamless digital experiences, where we can create opportunities and improve the clients experience by helping them migrate towards digital in the most secure way. Throughout the year, we have launched the new dynamic security code CVV in the BBVA Mobile application ensuring the safety of the digital transactions, reached a record number of digital transactions having around 6 million of monetary transactions via the app and 1.6 million on the web site in just one month, and get that more of the 90% of the portfolio contracts are acquired digitally, and recently the digital credit card request grew near to 40% supporting our early year award as the best innovative bank in payment methods in Colombia.

As a result of our efforts, in the third quarter of 2021, we have more than 1.5 million digital customers, 9% more compared to the same period of the previous year which represents more than 60 thousands of customers. Additionally, during the third quarter of the year, 87% of BBVA Colombia clients used the digital channels.

We will keep the pace on the path to consolidate us as a Digital Bank, reinforcing our relations with our clients, and generating high valued innovative solutions in order to improve their experience and strengthen the Bank's results.

Moving forward on slide number 10, and taking into account the challenges of a greener and fairer future, BBVA Colombia has achieved the carbon neutral certificate granted by the firm Clean CO2 after effectively reducing and offset the carbon footprint. To keep up with this behavior and to help our clients towards this transition, BBVA in the environmental and social framework took the decision to stop financing the thermal carbon, this decision includes cutting out the exposure to the coal clients in 2040 for countries like Colombia.

This transition will be gradual until the year 2040 for which we will decisively accompany the financing of non-conventional renewable energy projects aligned with the government's aim of having a participation of at least 15% of these technologies on the national energy matrix.

Nevertheless it is important to emphasize that BBVA is pledged to align its loan portfolio with the global warming targets of the Paris agreement and supports the need to achieve net zero carbon dioxide emissions by 2050.

At this moment, I would like to share the highlights of our 2021 third quarter results on slide number 12.

Due to the good Bank's management, the bank closed the 2021 third quarter with an annual growth of 83.8% in the net profit, this variation is mainly due to a higher profit before taxes, and to the favorable changes in the gross margin which increased 130 billion pesos due to a higher net interest income with a positive 513 billion pesos variation on the interest expenses and a decrease in the loan portfolio income of 398 billion pesos. On the other hand, the efficiency ratio of 43.64% which represents a decreased of 12 bps compared to the same period in 2020,

Having said that, and checking our balance sheet, total assets increased 1.5% compared to the last year, and closed with a 72.5 trillion pesos balance, the gross loan portfolio registered an interannual growth of 6.2% with a 54 trillion pesos balance. Similarly, customer deposits grew 2% year-on-year, closing with a 54 trillion pesos balance.

Regarding the risk indicators, we observed for August 2021 a 60 bps reduction in our NPL ratio compared to August 2020. Furthermore, the cost of risk decreased 82 bps in the same period.

Finally, we have maintained remarkable solvency levels above the minimum required by regulation, closing the second quarter of the year with a total solvency ratio of 13.45% with a decrease of 0.1 bps compared to the second quarter of 2021 and an increase of 171 bps compared to the second quarter of 2020.

In summary, we closed the third quarter of 2021 with proper performance, both in activity and in the income statement. We will continue working on three fundamental aspects: growing portfolio share, improving our clients' experience, and continuing to grow in clients.

Having this in mind, I will now present the results for the third quarter 2021 in greater detail on slide 13.

The behavior of the bank's interest margin shows an interannual increase of 5% in the third quarter of the year, equivalent to 115 billion pesos. This growth is explained mainly by the expense side, where there was a reduction of 33.7%, equivalent to 398 billion pesos which is mainly explained by a decrease in term deposits for 2.5 trillion pesos. Similarly, interest income had a negative variation in the loan portfolio of 398 billion pesos mainly due to an increase in the loan portfolio of 3 trillion pesos.

The outstanding evolution of the efficiency ratio which is 13 bps lower than the ratio in the third quarter of 2021 can be explained by a moderate growth in expenses during the quarter. General expenses and other costs grew 12.5% and 4.4% respectively compared to the same period in 2020, thus translating into a higher operational costs of 4.8% or 60 billion pesos.

On the other hand, as the other operating income grew near to 4%, the gross margin increased to 4.4%, the net fee income decreased near to 2% which could be explained by the depreciation on fee expenses by the sales force. The behavior of the net income which increased 83.8% when compared to the same period of 2020 which is a significant improvement since the pandemic.

Continuing with BBVA Colombia's proactive management. On slide number 14

BBVA Colombia's write-offs are aligned with Basel III policies that allow asset cancellation only when there is no viability of recovery. As shown in the upper right-hand corner graphic, BBVA's NPL ratio + write-offs compare very positively to the sector, showing a 68 bps reduction, exhibiting a higher quality of our portfolio.

The NPL ratio stood at 2.89% in August 2021 which represents a decrease by 60 bps, compared to the previous year. Similarly, compared to August 2020 the cost of risk stood at 2% with a decrease of 81 bps.

As of August 2021, we can see that the NPL ratio for the consumer and mortgage portfolio improved considerably compared to the data registered in the same period of the previous year, with a decrease of 16 bps and 180 bps respectively. In addition, the commercial portfolio quality remains at lower levels than the sector average given our low participation in problematic transactions.

With a coverage ratio of 222.7% the behavior of the NPL ratio when compared to the sector is remarkable, its effective management is a key factor to maintain the bank's profitability.

Now, turning to slide number 15, I would like to share in detail the impact of the relief program on BBVA Colombia's portfolio.

During the third quarter of the year and as the granted measures for the COVID 19 emergency period ended, the Bank continued to monitor the Debtor Support Program; PAD through the Inbound and Outbound channels provided by the Bank. Due to the COVID-19 phenomenon persistence and the need to keep generating financial conditions to strengthen the processes of reopening and economic reactivation, the Colombian Financial Superintendence considered it necessary to extend the PAD application and its complementary measures in risk management credit until August 31, 2021, according to external circular 012.

According to the above, it is possible to see the monitoring scheme of the clients who adjusted to some type of relief or redefined, adding obligations of 17.06 trillion pesos as for the end of August, where nearly 84% of the deferred loans are currently paid or canceled showing acceptable behavior. To add a few details, we can see that the amortized credits amounted to 13.8 trillion pesos. where 40.9% corresponds to the portfolio of mortgages, 30.5% to the enterprises and SMEs portfolio, and 28.5% corresponds to consumption, under this scenario since the loans which have a forbearance measure need a new alternative, those will be classified and restructured in stage 3. It is worth highlighting that less than 20% of the deferred loans would need to be restructured, foreclosed, or litigated.

We can find the consolidated income statement for the third quarter of 2021 on slide 16

Now I'd like to look at the main figures of our Balance Sheet and commercial activity

On slide 18; I will like to sum up our business activity during the third quarter of 2021.

During the third quarter of 2021 there was an upward trend on the portfolio which resulted on a 3.2 trillion pesos growth in the net loan portfolio, equivalent to an increase of 6.8% compared to the third quarter of 2020, led by the recovery of the individual's portfolio which stands out with a 7.2% growth in the consumer portfolio and 7.9% in the mortgage portfolio.

As expected, due to the consumer dynamic, the portfolio with the highest concentration was the consumer portfolio, which grew to 1.4 trillion pesos. This growth is sustained principally in payroll loans which grew 14.1% from year to year, followed by free consumption and vehicles.

Similarly, the mortgage portfolio shows an annual 936 billion pesos growth, equal to 9% which at the end of the third quarter of 2021 represented 25% of the gross loan portfolio. Finally, the commercial portfolio presented a 820 billion pesos growth, equal to 4.2% and the leasing portfolio decreased 3.2% with a 15 billion pesos variation.

As important as the business activity is, following, on slide 19, we show the funding sources' composition.

During the third quarter of 2021, BBVA Colombia maintained a solid liquidity position, where both commercial and institutional resources have increased. The strategy is to maintain the financing sources diversification and the robustness of the financing structure.

Customer funds increased to 887 billion pesos, which represented a variation of 1.6%, closing the quarter at 56 trillion pesos. The time deposit certificates represented 31.7%

of the total resources and presented a negative variation of 12.3%, reaching a balance of 18 trillion pesos.

Checking accounts varied positively 10.9%. These deposits represented 64.1% of the total client's resources. And finally, Investment securities in circulation closed at 2.4 trillion pesos and presented a negative variation of 6.7% compared to 2020.

This is associated with the sources of funds reorganization to adequately manage the financial margin, always taking into account the legal liquidity requirements. This decrease is also explained by the global pandemic situation that generated an economy with falling rates.

On slide 20, we can see the highlight of our business activity.

In the loan portfolio, BBVA Colombia remained in fourth place with a market share of 10.21% at the end of August which is 6 bps lower than the August 2020 market share and a positive balance of 53.9 trillion pesos. Outlining this, the individual's portfolio maintained the third place in the market, with a market share of 13.64% which implies an annual variation of 31 bps, this outcome is aligned with the consumer's portfolio which stood in third place with a market share of 12.47% decreasing 24 bps when compared to 2020 August, in the same interval of time, the mortgage portfolio decreased 127 bps reaching a market share of 14.97% while the credit cards increased 8 bps with a market share of 7.16%.

Furthermore, the commercial portfolio decreased 22 bps in comparison to the same period of the previous year maintaining a fifth place in the market.

Additionally, BBVA Colombia ranked fourth in August 2021 regarding the customer deposits where the market share decreased 46 bps compared to August 2020 and stood in 10.39%, in parallel with the outcome of customer deposits, the savings accounts market share decreased 34 bps in the same period of time reaching a result of 9.68%, on the other hand, in the same interval between August 2020 and August 2021, current accounts and term deposits market share grew 7 bps and 42 bps respectively, reaching 10.78% and 15.74%.

Continuing with our finer levels of solvency and liquidity, on slide 22, we can see that BBVA Colombia closed 2021 third quarter with a robust capital structure, where Tier I capital represents 74% of regulatory capital which has been achieved due to the policy of increasing the legal reserve with the undistributed profits of each year. Remarking that the bank's payout remains at 50%.

Based on the above considerations. During the third quarter of the fiscal year the regulatory solvency ratio closed at 13.45% exceeding the minimum regulatory indicator, presenting a 171 bps annual decrease in the solvency ratio, this variation is mainly explained by an increase of 5.6% in risk-weighted assets in the corporate and household portfolio, and an increase of 41.2% in Market Value at Risk (VaR).

Finally, the accounting equity presented a positive variation of 11.1%, closing at 5 trillion pesos. This is primarily explained by an increase in reserves of 235 billion pesos, in fiscal year earnings of 314 billion pesos, and in the surplus 13 billion pesos.

On slide 22, we find our detailed balance sheet.

As we bet on the transformation of the Colombian financial sector and the transition to a better and greener future, our aim is to accompany our customers on their way to reach their dreams by offering the best available solutions on the market. We hope to continue growing and generating a greater contribution to our shareholders, employees, and society in general.

This concludes our prepared remarks for the third quarter 2021. If you have any questions you'd like to ask you can use the chat or you can use the "raise your hand" button that can be found in the bottom right section of the screen.

[Laura Alejandra Peraza] Since there are no questions, then we conclude our event. We appreciate your participation and we hope you have an excellent day.

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