2Q23

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 2Q23

[Diana Katherine Ruiz] Good day everyone, and welcome to BBVA Colombia's second quarter 2023 earnings call. My name is Diana Katherine Ruiz; I am part of the legal department of BBVA Colombia; with us today the main economist, Alejandro Reyes, and the ALM and Investor Relations leader, Mario Sanchez. I would like to remind you that today's presentation will be available for download on our website in the section "Investor Relations" at the link "Agenda".

Please note, this call is being recorded. 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.

Today's agenda includes the highlights of the quarter, a brief overview of the macroeconomic scenario, a brief description of our financial performance, and our recent achievements.

Without further ado, I will now turn over the call to Mario Sanchez.

[Mario Sanchez] Thank you, Diana. Good morning everyone, I am delighted to welcome you all to our earnings result call today, where we will reflect on our achievements in what has undeniably been a challenging economic environment.

Let us begin on **slide 2,** by highlighting our financial performance. Our net profit surged to a remarkable 163 billion, a testament to our team's unwavering dedication and strategic foresight. Despite the hurdles posed by the tough economy, we achieved an impressive 15% growth in net loans, showing the resilience of our commercial and consumer portfolios.

It is worth mentioning that our operational efficiency remains a cornerstone of our success. With an efficiency ratio of 56%, we have managed to drive a staggering 56% increase in operating income year-on-year. Moreover, our commitment to managing risk has paid off, with a cost of risk at a commendable 2.02% and a coverage ratio soaring to 189.17%.

I will now continue with our economic outlook on **slide 3.**

On a global scale, the synergy between robust demand, driven by dynamic labor markets and the ongoing effects of post-pandemic reopening, coupled with the waning supply shocks, will continue to fuel growth through 2023. While signs of deceleration are evident, developed countries' unemployment rates have reached pre-pandemic levels or are even lower, supporting wage growth and sustaining high levels of household consumption, particularly in the Eurozone and the United States.

China has emerged as a notable player this year, propelled by the removal of pandemic-related restrictions and a surge in domestic demand and supply. China's resilience has helped counterbalance the slowdown in the United States and Europe, while lower energy commodity prices have eased global production bottlenecks.

Despite inflation's gradual decline, underlying inflationary pressures persist due to recent high energy prices and continued labor market strength. Central banks remain steadfast in their commitment to curbing inflation, maintaining interest rate hikes and liquidity withdrawal programs. This approach, combined with tighter credit conditions and potentially less expansionary fiscal policies, could lead to reduced demand and prices. Nevertheless, secondary effects might keep inflation above target, leading central banks to potentially maintain restrictive interest rates longer than market expectations.

Looking at the economic forecast, global growth in 2023 is projected to surpass previous expectations, largely attributed to improved activity data. Yet, China's moderation in post-pandemic recovery, restrictive monetary policies, diminished fiscal stimuli, and financial volatility will contribute to gradual growth deceleration. The global growth rate is anticipated to drop from 3.4% in 2022 to 2.9% in 2023 and remains at 2.9% in 2024. While challenges persist, China's infrastructure projects and pent-up consumer demand are expected to buoy its growth to 5.7% in 2023 and 4.8% in 2024.

Shifting our focus to the Colombian economy, we observe a managed deceleration. While investment has seen a sharper downturn, private consumption and exports continue to drive growth. The support from a robust labor market has sustained household consumption, with real wage increases and solid job creation, particularly in the services sector. However, consumption patterns have shifted towards non-durable goods, like services and food, while spending on durable goods has tapered off.

Colombia's economic performance in 2023 and 2024 will hinge on a continuation of current trends, inflation patterns, ongoing restrictive monetary policies, and the impact of slowing growth in developed countries. Despite this, the country's growth is projected at 1.2% in 2023 and 1.5% in 2024, led by the services sector and supported by government spending on education and healthcare.

But the Colombian economy is navigating a controlled slowdown, with consumption and exports playing pivotal roles. As we address challenges and seek to close socio-economic gaps, it is imperative to seize favorable opportunities, explore emerging sectors, and align policies to foster investment, stability, and equitable development in the global economy.

On slide 4, our dedication to innovation has yielded remarkable outcomes, driving a growth of 3.6% in digital customers and 4.8% in mobile customers. It is not just the numbers, but also the impact these innovations have had on reshaping our customer interactions that truly matter.

We are proud to reveal that a substantial 72% of our valued clients are actively engaging with our digital channels, highlighting the deep trust they place in our tech offerings. A testament to our efforts is the fact that 86% of the sales were seamlessly executed through our website and app, showcasing the ease and convenience we bring to our tech-savvy clientele.

This journey has been more than just about numbers – it is about our commitment to understanding and catering to the evolving needs of our clients. We have harnessed the power of innovation to not only adapt but to thrive in a digital-first landscape. Our ability to provide a seamless experience has solidified our position as the financial partner of choice.

Let us now address some key financial indicators **on slide 5.** In the face of formidable challenges, such as a 35% decline in Net Interest Income (NII) and a substantial 77% reduction in net income year-on-year, our unwavering dedication to fortifying our core operations shines through. This challenging backdrop prompted a proactive 30% elevation in net provisions, accompanied by a notable 34% uptick in operational costs.

Amidst these trials, what is worth underlining is our remarkable ability to maintain a tight rein on operational costs. This accomplishment within such a demanding economic climate stands as a clear testament to our steadfast commitment to a disciplined and prudent approach. This measured strategy has enabled us to navigate the turbulent waters of the economy while staying focused on enhancing our operational resilience.

Remarking our business activity of the group, on **slide 6,** the gross loan portfolio closed at an impressive balance of 74 trillion, reflecting a 15% year-on-year growth. What is even more inspiring is that our net loan portfolio achieved a growth of 14.5%, reaching an encouraging balance of 70 trillion. Despite the year-on-year growth moderating slightly, it is important to highlight the progress made, especially in the commercial loan segment with a remarkable 22% growth, and a noteworthy 10% growth in leasing.

The positive trajectory for this segment can be attributed to the economic recovery that has unfolded during this period. The strategic focus of BBVA Colombia Group continues to center around the "Particular" segment, which accounts for a substantial 56.7% of the gross loan portfolio as of June 2023. It is truly heartening to note that this segment has exhibited an impressive 11% year-on-year increase, culminating in a balance of 42 billion during the second quarter of 2022.

Our mortgage portfolio, representing 20% of the gross loan portfolio by the close of the second quarter of 2023, recorded a growth of 4.2%. This surge is a testament to our adaptive approach in the current market scenario and the successful outcomes of our strategic banking closure. This resulted in a 14.5% increase in the total outstanding portfolio, aided by the diligent risk management by our teams and the remarkable resilience displayed by the economy in surmounting the hurdles in its path.

In summary, these accomplishments speak to the commitment of our teams and the strategic direction we have embraced. As we move forward, we remain dedicated to maintaining this momentum and leveraging these positive trends to continue serving our clients with the utmost diligence and care.

On the other hand, **on slide 7**, our client resources have been managed with precision, aligned with the bank's liquidity requirements. Demonstrating our commitment to fostering a robust financial foundation, total client resources surged by an impressive 5%, culminating in an outstanding 73 trillion.

A remarkable highlight is the substantial 43% year-on-year surge in term deposits, a testament to the unwavering trust our clients place in us. This surge further fortified the dynamic resource trajectory. In parallel, while transactional deposits (including demand and savings) experienced a 14.8% dip, they closed June 2023 with a notable balance of 37 trillion. These transactional deposits continued to be the cornerstone, representing a significant 52.8% of the total client resources.

Turning to our investment securities, despite an 8.9% variation compared to 2022, the circulation of investment securities stood at an impressive 2 trillion by the end of this quarter. This nuanced trajectory reflects our prudent approach to managing these assets in a rapidly changing economic landscape.

Moving forward **on slide 8**, our Group's commitment to prudent risk management is a cornerstone of our successes. This approach empowers BBVA Colombia to sustain its commercial operations while upholding strong indicators of portfolio quality and a judicious risk profile.

As of the close of June 2023, our portfolio quality indicator proudly stood at 2.74%. Furthermore, our Delinquent Portfolio Coverage Ratio reached an impressive 189.17%.

These achievements underscore our dedication to responsible banking practices and our unwavering commitment to providing enduring value to our clients and stakeholders.

Moreover, **on slide 9,** we have summed the state of the deferred loans due to COVID 19. After the Payment Assistance Period, we swiftly resumed recovery activity, embracing a spectrum of alternatives such as restructures, foreclosures, and litigation, all aimed at ensuring the best outcomes for our valued clients.

With these loans necessitating fresh approaches, we now restructure them in stage 3, underlining our proactive approach to adapt to evolving circumstances.

In navigating the challenges stemming from the pandemic-induced credit relief, our resilience shines through. A commendable 42% of granted reliefs have been successfully amortized, and an impressive 42% of our existing loans are maintaining their impeccable track record, a testament to the determination of our clients. While 10% are facing temporary obstacles, and 5% have been written off, our commitment to support and assist remains unwavering.

Continuing with **slide 10,** BBVA Colombia has successfully completed the transition from Convergence to Solvency standards; this is a testament to our commitment to excellence. This strategic move places us in a prime position as a pivotal systemic institution, underscored by a minimum total solvency ratio of 11.5%. This achievement speaks volumes about our fortified capital position, which not only surpasses regulatory requirements but also empowers us to embrace our growth journey with confidence.

Moving forward to **slide 11,** BBVA Colombia actively contributes to both inclusive growth and climate action. This dedication is evident in our efforts to enhance the social well-being of Colombians. We allocate resources to bolster infrastructure, inclusivity, entrepreneurship, and housing. Simultaneously, our commitment to climate action drives us to allocate resources to impactful initiatives that foster sustainable mobility, energy efficiency, renewable energy, and the circular economy.

Additionally, our unwavering commitment to innovation led us to partner with the International Finance Corporation (IFC) to announce the launch of Colombia's first-ever Blue Bond at the 2023 Banking Convention. This noteworthy $50 million USD bond will fund projects like water treatment plants, ocean preservation, moor protection, and mangrove conservation. BBVA Colombia is steadfast in supporting our nation's ambitious environmental goals through the consistent promotion of sustainable financing, reflecting our dedication to sustainable development.

This landmark operation is particularly significant considering Colombia's abundant water resources. Positioned as one of five nations with rich marine diversity, Colombia's strategic geography spans coasts along two oceans. Its aquatic ecosystems, including freshwater and marine-coastal environments, underscore the country's natural wealth. The presence of vast Andean forests covering 9.6 million hectares plays a vital role in regulating water resources, benefiting cities and communities, with over 280,000 hectares of mangroves contributing to carbon capture. This reflects our commitment to a sustainable future that values and protects our invaluable natural resources.

During the second quarter, BBVA Colombia continued its steadfast dedication to enhancing lives through a range of social investment initiatives. These efforts positively affected over 19,000 individuals in education, environmental sustainability, and SME support areas, resulting in a total aid of more than 800 million pesos. **On slide 12**, we can see the highlights of the impact in Colombian society.

Volunteer Involvement: A volunteer campaign engaged 113 participants across 5 educational institutions, delivering benefits to 7,412 students. Additionally, 46 volunteers participated in planting 250 native trees in La Calera.

SME Empowerment: The successful conclusion of the second phase of the Global Leaders program, in collaboration with the University of Los Andes, led to the certification of 362 micro-business leaders. A partnership with the University of La Salle furthered the Circular Economy project, enhancing waste management practices for 43 SMEs.

Educational Assistance: The distribution of over 10,000 school kits nationwide supported students in their academic journey throughout the year. Scholarship programs provided opportunities for 21 young individuals through Transforming Realities, 8 through Manos Visibles, and 5 Afro-descendant young women via ICESI. Additionally, 9 schools underwent renovation, benefiting 287 students

Moor Conservation: Through collaboration with Biocuenca, significant strides were made in conserving, restoring, and promoting sustainable production across these three moors. Interventions in 46.5 productive hectares, 19 conservation hectares, and 15 restoration hectares approached the project's goal by 96%, directly benefiting 74 individuals and indirectly impacting over 700, thereby strengthening regional water security.

Our planned remarks for the second quarter of 2023 are now complete. We expect to continue to improve the bank's performance through our digital and sustainable transformation, and to make the opportunities of this new era available to everyone, seeking to meet the vital objectives of our customers, being a driver of opportunity, and having a positive impact on the lives of people and on the businesses of companies, bearing in mind the six strategic priorities that help to fulfill this vision.

Please use the chat feature or the "raise your hand" button in the bottom right corner of the screen to ask any questions you might have.

[Roberto Pratt] Profitability decline was mostly driven by higher funding costs. What is your NIM sensitivity to interest rates?

[Mario Sanchez] Thank you Roberto for your question, we have a strong source of resources, we not only finance our loans with term deposits, we are also careful not to undermine our financing with short-term deposits, ensuring the stability of our financing structure. We have maintained a passive stance on compliance for quite some time, ensuring a diversified set of funding sources. As a result, our susceptibility to interest rate fluctuations remains low, even in the face of the significant spikes seen in the second quarter of this year. This remains around 21.820 for a 100 bp increase and around -19.904 for a 100 bp decrease.

[Tomas] Do you have any plan of capital injection or measure to increase the solvency

[Mario Sanchez] We don’t see a specific pressure in our capital, we just recently had a TIER I operation this year for USD 200 M in order to improve this situation, we are of course paying close attention to this ratio but I think that for this year and the first quarter of 2024, we don’t see necessities of additional capital, so I think that in the short term, we aren’t going to receive an injection from the matrix house cause we don’t believe it is needed at this moment.

[Roberto Pratt] Capital seems tight, what is your CET1 target?

[Mario Sanchez] Regarding the CET1 target, we would at least expect to be 100 bps over the minimum regulatory threshold, which would be around 7.6% or 8%

[Carlos Rivera] What is the outlook for the NPL ratio and asset quality? It increased -as was the case with peers. When do you expect to reach the peak and at what level?

[Mario Sanchez] In this regard, I think we are like one of the banks of the industry with better credit quality, honestly, we don't have a forecast at the moment

[Alejandro Reyes] Mario, I would just like to add from an industry view from a macroeconomic standpoint. We do expect NPLs to continue deteriorating in the next quarters and reach a peak ending this year and starting 2024 that's for the whole industry, so there's a bit of a road ahead in terms of credit quality deterioration

[Diana Katherine Ruiz] Since there are no questions, we conclude our event. We appreciate your participation and we hope you have an excellent day.

2. Contact Investor Relations

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