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4Q23

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 4Q23

[Diana Katherine Ruiz]: Good morning everyone, and welcome to BBVA Colombia's fourth quarter 2023 earnings call. My name is Diana Katherine Ruiz; I am part of the legal department of BBVA Colombia; with us today our economist, Mauricio Hernandez, Yuliana Giron and Daniel Leonardo Vargas from the Financial Planning and Performance team, Nicolas Tripodi as part of the Risk Department 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 without a doubt been a challenging economic environment. During The call I will invite the members of our panel to give focus on relevant topics.

Let us begin on **slide 2,** by highlighting our financial performance. Our net profit for the quarter was 244 billion, a testament to our team's unwavering dedication and strategic foresight. Despite the hurdles posed by the tough economy, we achieved a 6.74% 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 58.5%, we have managed to maintain our net profit positive however the difficult funding levels and the base effect from an outstanding 2022 drove a 9.5% decrease in operating income quarter-over-quarter. Moreover, our commitment to managing risk has paid off, with a cost of risk at a commendable 2.09% versus a 3.41% for the industry. We can also see the result of our risk management through a coverage ratio of 160%. Furthermore, in compliance with regulatory requirements we have kept a capital position of 8.13% which is above the minimum required.

We will now continue with our economic outlook on **slide 3.** For this topic I will hand over the call to Mauricio Hernandez, our economist.

[Mauricio Hernandez]: Good day everyone. Let me start with our economic outlook on **slide** 3. All eyes continue fixed on the performance of inflation among the main economies. In recent months the moderation in inflation has slowed and in some cases, in particular in the US, inflation has increased marginally. This performance in inflation has been driven mainly by the stickiness of services which increases the uncertainty on the speed at which inflation will converge to its targets. In addition, recent geopolitical tensions have pressured upward some commodity prices, adding to the uncertainty on inflation. At the same time, activity indicators in most economies have surprised to the upside, showing resilience both in the economy and in the labor market. All in all, these issues point to a delay and moderation in rate reductions by main central banks. In the case of the FED, markets have delayed their expected start of reductions to the later part of the year and are expecting rates to stabilize at higher levels in the long run. We expect growth to moderate in 2024 in the US and China, but should improve in 2025. For the Eurozone, we expect a marginal improvement in 2024 from very low levels but should also accelerate in 2025.

On the local front, the economy weakened significantly in 2023, reaching an annual growth of 0.6%, after two years of exceptional growth. This moderation was explained by weak levels of consumption (both private and public) and by a significant contraction of investment. This was the result of a combination of factors: high inflation, interest rates and uncertainty which affected business and consumer confidence, but also a welcomed moderation after two years of high unsustainable growth that exerted significant pressure on the external balance. We expect activity to improve, particularly in the second half of 2024, to close with an annual growth of 1.5%, **slide 4.** Inflation has also moderated close to 600 bps from its peak a year ago and stands at 7.4% in March. The reduction in inflation has been possible mainly due to food and goods inflation but services and administered prices inflation remains high and sticky. We expect inflation to continue its moderation, albeit at a lower pace, closing 2024 at 5.4%, though there is high uncertainty regarding “el niño”, electricity prices and diesel prices.

In this context, BanRep started to reduce its benchmark rate last December, with two reductions of 25 bps and a 50 bp reduction in the last meeting, a total of 100 bps. We expect interest rates to continue reducing in the remainder of the year supported on the already significant and expected reduction in inflation, the weak performance of the economy and expected deterioration in the labor market, and the high level of real interest rates, but external factors and uncertainty on the inflationary outcome can weather the expected pace of reductions. With this in mind, we expect the benchmark rate to reach a terminal rate for the cycle of 5.5% in mid 2025, closing 2024 around 7.5%. Finally, both external and fiscal balances improved in 2023, on the one hand due to lower internal demand and the subsequent contraction in imports, and on the later on revenue supported by the strong performance of the economy in 2022. For 2024, we expect a deterioration of both balances due to the improvement of internal demand for the second half of the year and lower revenues due to the deceleration of the economy in 2023.

[Mario Sanchez]: Thank you, Mauricio. Now, **On slide 5** let me tell you about our digital market impact:

During this quarter we have seen stable numbers in our digital and mobile channels with an average of 2.2 Million digital customers and 2 million mobile customers.

What is even more impressive is that 84% 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 38% of the sales were seamlessly executed through our website and app, showcasing the ease and convenience we bring to our tech-savvy clientele.

We expect to continue developing our digital and mobile channels to create value for our customers, facilitate their lives and continue improving their experience.

Let us now address some key financial indicators **on slide 6 and 7.** Please Daniel could you talks us through these subjects?

[Daniel Vargas]: Thank you Mario and good day to everyone. As Mauricio showed us, 2023 was a challenging year for the national economy. In this context we were able to continue growing and gaining market share in strategic and highly profitable sectors, aiming to build a very profitable portfolio of credits for the upcoming scenario of lower interest rates. This is how we have grown almost by 1% in our portfolio between quarters, totaling a 6,7% year-on-year growth rate.

We continue to grow further in consumer portfolios, but without losing ground in the leasing and commercial portfolio, which has stagnated more rapidly in the last two quarters than the individual portfolio. Also it is important to note that the mortgage portfolio shows a good performance in the last quarter even growing better than the commercial portfolio.

Moving to the profits, we observe firstly a net interest income affected by the sharp rise in interest rates and the high liquidity pressure in the sector, particularly during the first half of the year. However, thanks to our funding strategy and the lower long-term spreads we are estimating a much better 2024 in this line.

Provisions was a challenging area during the last quarter as we experienced significant deterioration in the personal loans portfolio, resulting in a cost of risk of 2,1%, similar to the previous one.

We also had to implement some efficiency plans to address the challenge posed by inflation in the expense account. Some of these plans involve optimizing costly computer processes, streamlining our cash management logistics, or reducing variable employee compensation due to results that are less favorable than expected. All of this while continuing to invest in the development of new products and maintaining our commitment to grow with a much higher level of CAPEX execution in 2023 compared to 2022, without considering “stop doing things”.

All of the above has allowed us to be one of the few banks in Colombia capable of maintaining a positive growing result despite the complex environment. Thus, our net result was 244 billion, as we continue to build value for our stakeholders.

[Mario Sanchez]: Thank you, Daniel, **On slide 8** I would highlight important key points regarding our funding strategy:

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 2.3%, culminating in an outstanding 77.2 trillions.

A remarkable highlight is the substantial 27.6% 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 small growth of 1.28%, they closed December 2023 with a notable balance of 39.5 trillion. These transactional deposits continued to be the cornerstone, representing a significant 51.2% of the total client resources.

One last reflection, over the last quarter of the year the corporate credit spread has decreased from 3,1% to 1.4%, reducing our funding cost over new term deposits.

Moving forward **on slide 9**, Nicolas Tripodi from our Risk Department will talk about the exceptional work from his team that makes BBVA asset quality a reference in the market

[Nicolas Tripodi]: Good morning everyone, and thank you for allowing me to participate again in this forum. My name is Nicolas Tripodi, and I am the director of retail credit risk. I would like to highlight the following 5 points:

1. In line with my comments from the last meeting, we maintain projections of improvements in risk indicators starting from the third quarter, especially in consumer portfolios. In the portfolios of personal loans and credit cards, we are starting to notice improvements in the behavior of recent originations thanks to the policy revisions implemented in the last few months, which will contribute through the reduction of portfolio roll-overs and their impact on provisions.
2. We continue to improve our admission tools and among the things I would like to highlight is the new mortgage scoring in a context in which we are making efforts to maintain our market share while intensifying our involvement in the VIS and UVR segments.
3. As I also mentioned in the previous session, we continue working to evolve our pricing models so that they achieve the greatest granularity possible and allow us to have differential pricing by risk profile.
4. On the side of the commercial portfolio we continue to see good levels of cost of risk. However, we maintain continuous monitoring and policy adjustments in sectors with deterioration, such as: health, government contractors, housing builders, energy dealers and telcos.

5. Finally, this will be a year of transformation in the recovery areas with new models and tools that will enable us to manage recoveries more effectively while we will enable channels for do-it-yourself products.

[Mario Sanchez]: Thank you Nicolas for your take and explanation on asset quality. Now, we can move on to **slide 10** where Yuliana Giron will explain our capital position.

[Yuliana Giron]: Good morning everyone. We end the fourth quarter of 2023 with a total capital ratio of 12.39%, this is 89 basis points above the regulatory limit. Additionally, in our CET1 ratio, we have a difference of +113 basis points above the regulatory minimum.

During the quarter, we had a positive evolution in our ratios, increasing by +11 basis points the total ratio and +18 basis points in CET1 compared to the previous quarter. This increase is mainly due to an improvement in the risk weighted assets.

In terms of quarterly evolution, RWAs have decreased due to a reduction in market and credit risk. The market risk which had a reduction of 20%.

The effective management and a continual monitoring undertaken at the bank enabled us to conduct our operations while maintaining favorable indicators of equity quality and solvency, always making sure that we stay above the minimum requirements.

[Mario Sanchez]: Thanks Yuliana, finally, moving forward to **slide 11,** At BBVA Colombia, we embrace our commitment to sustainability, aligning our efforts with the greater good of our customers and the environment. One example of this commitment is that during this quarter we issued our first Blue bond in partnership with IFC. This noteworthy $117 million USD bond will fund projects like water treatment plants, ocean preservation, moor protection, and mangrove conservation. We expect to continue innovating with sources of funding aimed towards sustainability, social and environmental impacts during this 2024

Last but not least, We continue in BBVA with our Volunteerism, Supporting SMEs, Education Initiatives, Support for Families in Emergency Situations and Humanitarian aids in Colombia.

Our planned remarks for the fourth 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.

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.

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

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