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3Q23

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 3Q23

[Diana Katherine Ruiz] Good day everyone, and welcome to BBVA Colombia's third 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, Felipe Vega 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 undeniably been a challenging economic environment. This quarter we want to bring you a panel of experts to review the topics that drove the earnings of this quarter. Along 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 surged to a remarkable 267 billion, a testament to our team's unwavering dedication and strategic foresight. Despite the hurdles posed by the tough economy, we achieved an 11% 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%, we have managed to maintain our net profit in positive however the difficult funding levels and the base effect from an outstanding 2022 drive a 5.4% decrease 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 176.29%.

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

[Alejandro Reyes] Good day everyone. Let me start with our economic outlook on slide 3. On the global side, activity has continued to show a downward trend with mixed performance by the top economies. The US has shown great resilience and is expected to achieve a 2.4% y/y growth in 2023, this on the back of a still strong labor market and pent-up household savings. The Eurozone has seen a weaker performance and is expected to grow 0.4% in 2023, due to the slack caused by higher energy prices and the weakening of private consumption. On the other hand, China has seen significant volatility this year, with a strong start of the year on the back of the lifting of covid related restrictions, but has since shown a significant moderation and growth is expected to stand at 5.2% in 2023. This moderation in activity is expected to continue into 2024, particularly in the US and China, with 1.5% and 4.8% y/y growth, respectively, while the Eurozone should see some marginal improvement in activity. World growth is expected to stand at 3.0% in 2023 and 2024.

In this context, inflation remains the main concern of economic authorities. During the year, inflation has moderated, mainly driven by lower commodity prices and the effects on demand of tighter monetary conditions. Despite this performance, core inflation has seen greater persistence and is moderating at a slower pace. We expect inflation to continue to its downward trend, but should remain above target in 2024 in most economies. In this scenario, monetary authorities have maintained a hawkish stance, but have paused their hiking cycle in the latest policy meetings. We consider rates will remain stable at current levels for a while, at least until June in the US and September in the Eurozone. Once inflation approaches its target and activity moderates, as we expect, the monetary authorities will start a gradual rate reduction cycle.

Shifting to the Colombian economy, we have observed a significant moderation in activity, with the latest print on growth, for the third quarter of 2023, standing at a -0.3% y/y, this was the result of a strong contraction in internal demand (-6.8% y/y), and within a contraction of investment (-11.0% y/y). Despite this important moderation, activity is still at high levels, particularly for private consumption and aggregate GDP, while Investment and Imports stand at low levels. We expect growth to stand at 1.2% in 2023, a low number from a historical perspective, but following two strong growth years. Leading indicators on slide 4 point at a weak activity and we don't expect growth to rebound significantly until the second half of 2024.

GDP will grow 1.5% in 2024, still a low number, and will imply a U shaped recovery for the Colombian economy. This result will be driven by a recovery in private consumption, mainly durable and semi durable goods in the second half of the year; by public expenditure, and by a rebound in some components of the investment, such as machinery and civil works. On the downside, we expect housing construction to remain weak in 2024.

Inflation has reduced gradually in Colombia, lagging the performance of other economies in the region. This may be due to some delayed shocks experienced by Colombia but also due to a stronger demand cycle than in other countries. We have observed a significant moderation in food inflation in 2023 while core inflation has reduced on the back of goods inflation, while administered prices, due to fuel price increases, has remained the main source of inflationary pressures. For the year end, we expect inflation to close at 9.7%. For 2024, inflation should continue to moderate, helped by both food inflation and core inflation.

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

Our dedication to innovation has yielded remarkable outcomes, driving a growth of 14.50% in digital customers and 10.05% in mobile customers YoY. 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 83% 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.

BBVA believes that solutions like Transfiya that aim to promote financial inclusion and enhance user engagement with digital transactions will improve the customer experience of our clients on the web and in the near future in all our digital channels and attract new clients.

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

[Daniel Vargas] Thank you Mario and good day to everyone. As Alejandro showed us at the beginning of the call, 2023 has been a challenging year for the national economy. In this context we have been 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 by 1,8% in our portfolio between quarters, totaling an 11% year-on-year growth rate.

We continue to grow further in consumer portfolios, but without losing ground in the commercial portfolio, which has stagnated more rapidly in the last quarter than the individual portfolio, but year-on-year the growth is remarkable.

Moving to the profits on slide 7, 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 (which Mario will elaborate on later), we were able to have a better quarter than the previous one, by approximately 40 billion.

Provisions have also been a challenging area during this quarter as we continue to experience significant deterioration in the personal loans portfolio, resulting in an increase of approximately 10 basis points in the cost of risk placing it at 2,1%.

We have 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 grew by 64% in the quarter, reaching 267 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 an impressive 7%, culminating in an outstanding 75.5 trillion.

A remarkable highlight is the substantial 44% 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 3.05% dip, they closed September 2023 with a notable balance of 38 trillion. These transactional deposits continued to be the cornerstone, representing a significant 50.4% of the total client resources.

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 day everyone, thank you for the opportunity to participate in this forum. Regarding our asset quality, I would like to share with you several message:

Firstly, we have expectations of redirecting risk metrics towards the third quarter 2024. Throughout this year, our growth strategy has been focused on payroll customers. These customers have demonstrated better behavior. We deployed new capabilities in digital channels, and we still have room for more improvements in admission policies. In this context, we have decided to adjust the debt to income ratio due to high inflation rates affecting purchase power of our customers. On a different note, we have made significant advances in our risk models. We deployed new models throughout the last year and two more are coming in 2024. Last but not least, we deployed a new risk based price model.

[Mario Sanchez] Thank you, Nicolas. Moreover, **on slide 10,** 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 52% of granted reliefs have been successfully amortized, and an impressive 48% of our existing loans are maintaining their impeccable track record, a testament to the determination of our clients. While 9.8% are facing temporary obstacles, and 5.6% have been written off, our commitment to support and assist remains unwavering.

Continuing with **slide 11,** I would like to invite Felipe Vega to talk about Capital one of the most important features of a bank in a challenging year like 2023:

[Felipe Vega] The capital position of BBVA is solid. We end the third quarter of 2023 with a total capital ratio of 12.28%, when compared to the regulatory limit we are 78 basis points above it. Also, in our CET1 ratio we have a difference of +95 basis points above the regulatory minimum.

During the quarter we had a positive evolution in our ratios, increasing +12 bps in the total ratio and +23 bps in CET1 when comparing versus the last quarter, this increase mainly due to the positive results in the last line of the income statement.

The risk weight assets during the quarter had a slight decrease of -0.9% mainly driven by market risk, which had a reduction of -18.2%. Credit risk and operational risk weighted assets increased by 1.6% and 1.1%. Credit risk weight assets represent 81% of total risk weighted assets, market risk 10% and operational risk 9%.

In BBVA we keep constant monitoring of capital ratios and risk weighted assets, always making sure that we stay above the minimum requirements.

[Mario Sanchez] Thanks Felipe, Moving forward to **slide 12,** 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 $50 million USD bond will fund projects like water treatment plants, ocean preservation, moor protection, and mangrove conservation. This is only the beginning as we plan to additionally issue $100 million during the last quarter of 2023.

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 third 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.

Contact Investor Relations

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