Creando Oportunidades

1Q24

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 1Q24

[Diana Katherine Ruiz]: Good morning everyone, and thank you for joining BBVA Colombia's first quarter 2024 earnings call. I'm Diana Katherine Ruiz, representing the legal department of BBVA Colombia. Joining us today are Alejandro Reyes, Yuliana Giron, and Daniel Leonardo Vargas from the Financial Planning and Performance team, along with Nicolas Tripodi from the Risk Department, and Mario Sanchez, our leader in ALM and Investor Relations.

As a reminder, today's presentation will be accessible for download on our website under the 'Investor Relations' section at the link labeled 'Agenda'. Please be informed that this call is being recorded.

To participate in the discussion, you can utilize the chat feature or simply raise your hand using the button located at the bottom right section of your screen.

Our agenda for today includes key highlights from the quarter, a brief overview of the macroeconomic landscape, insights into our financial performance, and a discussion on recent achievements.

Without further delay, I'll now hand over the call to Mario Sanchez.

[Mario Sanchez]: Thank you, Diana. Good morning everyone, as Diana mentioned before my name is Mario Sánchez and I am the Head of ALM and Investor Relations in BBVA Colombia. I am delighted to welcome you all to our earnings result call today, where we will reflect on our achievements during this challenging first quarter of 2024. As usual, during the call I will invite the members of our panel to join us and give focus on relevant topics.

We would like to begin on **slide 2** with the 1st quarter's 2024 key takeaways. We will deeply cover these points during the session.

This quarter's net result was a loss of 136 billion mainly due to deterioration in asset quality and provisions as a result of the still high inflation and interest rates. Despite the hurdles posed by the tough economy, we are increasing our market share in Colombia and we achieved 5.14% growth loans versus the 1Q23.

On the other hand, we would like to remark that our operational efficiency increased by 8 basis points year on year and we achieved an efficiency ratio of 64.1%. BBVA's efficiency combined with the ease we experienced in funding costs during the quarter allowed us to obtain an operating income +2.7% higher than last year's figure.

As mentioned before, our asset quality has suffered during this quarter but it is still substantially better than the industry average and we maintain a solid capital position with 81 bps above the minimum regulatory level.

After this brief introduction about the key topics that will be covered during the conference I would like to hand over the call to Alejandro Reyes, our Senior Economist, who will explain to you our view regarding the economic outlook.

[Alejandro Reyes]: Good day everyone. Let me start with our economic outlook on **slide 3**. The global economy continues to show resilience with some mild moderation in activity in the US but above expectation results in China and Europe. Despite this, we expect a moderation in activity in the remainder of the year. On the inflation front, we have seen relative stability in the latest prints, mainly due to higher persistence and high demand on services, particularly rents. In this context, authorities have continued to deliver their speech of higher rates for longer. We consider the Federal Reserve will start its reduction cycle in September, later than initially discounted, and will do a gradual reduction with 50 bps in 2024 and 125 bps in 2025. For Europe, the reduction cycle started in June, but there are some risks driven by a high print in inflation in the latest report. Despite this, we expect them to reduce rates again in September and halt until the start of 2025.

On the local front, on **slide 4**, the economy grew 0.7% y/y in the first quarter, close to the print for 2023. Despite this, the quarterly growth showed a second consecutive print in positive territory, with a 1.1% growth. In terms of its main drivers, activity continues to be held down by internal demand, with private consumption growing just 0.6% and public consumption contracting 0.7%. On the investment side, we continue to observe poor results, with a contraction in the first quarter of 6.5% which compounds with the weak performance in the latest quarters and holds the investment rate close to 17.7% (in 2023 for fixed investment). To offset this result, external demand showed a better performance driven by a significant contraction in imports. We expect activity to improve gradually in the second half of the year, and reach a year growth of 1.5% for 2024, with an upward bias, a mild improvement relative to the 0.6% of 2023.

Inflation has continued its downward path, standing in April at 7.2%, more than 600 bps below its peak in March 2023. The size of the moderation reduced this month due to encountered trends, on the one hand core inflation continued to reduce mainly due to base effects and low monthly inflation on the goods side despite higher than usual monthly rent prints; and on the other side an upward trend in food inflation, for the first time in close to a year, this as a result of low base effects and some impact of climate related shocks. We expect inflation to have a couple of months stable at current levels and then proceed with its downward trend, to close 2024 at 5.4%, still above target but significantly lower relative to the end of 2023. In this context, the Central Bank has continued its rate reduction cycle, accumulating 150 bps of reductions. Despite this, real rates remain close to its highest and monetary policy remains severely restrictive. In light of short term inflationary risks, higher than expected activity numbers and a later and milder rate reduction on the FED side, we expect BanRep to continue in the next couple of meetings with the status quo rate reductions of 50 bps but should be able to increase the pace from September, closing the year at 8.5%.

Finally, on the structural balances. The economy continues to observe relative low for Colombian standards current account deficit to GDP, at around 2.7% for 2023 and 2,0% for the first quarter of 2024, but we expect it to start deteriorating along with the expected improvement in activity in the second half of the year, closing near 3.0% in 2024. This greater deficit will continue to be financed mainly by FDI flows. On the other hand, the fiscal balance has shown some pressure from lower than expected revenue. We expect a deterioration in the fiscal balance in 2024 relative to the one observed in 2023, closing near 5.0%. All in all, the greater expected imbalances and the important reduction in interest rate differentials with the FED will pressure the exchange rate and produce a depreciation that should materialize in the second half of the year, to close slightly below the 4,200 mark.

[Mario Sanchez]: Thanks Alejandro, now going forward with **slide 5**, this quarter our digital and mobile channels have demonstrated resilience, maintaining a stable performance. With 2.2 million digital customers and 2.0 million mobile customers, we've established a strong foothold in the digital landscape.

We are proud of our high level of engagement from our clients, with 79% actively interacting with our digital platforms. This underscores not only their trust in our technological capabilities but also the seamless integration of our digital solutions into their daily lives. Moreover, the fact that 81% of our sales originate from our website and app highlights the effectiveness of our digital channels in facilitating transactions and enhancing customer experience.

Looking ahead, our focus remains on innovation and improvement in our digital and mobile offerings. By continuing to refine our platforms and introduce new features, we aim to further enhance value for our customers, making their lives easier and their interactions with us more meaningful.

Now, as we transition to the discussion of key financial indicators on **slides 6 and 7**, we're poised to gain deeper insights into our performance and strategic direction. Daniel, could you please provide us with your analysis on these critical aspects?

[Daniel Vargas]: Thank you, Mario, and good day to everyone. Starting with our activity, the scenario of declining interest rates has allowed us to begin the year with strong growth in the retail portfolio, particularly in the mortgage sector, which grew by 4% year-over-year. Additionally, the consumer portfolio, mainly driven by payroll loans, grew by 11% year-over-year. On the other hand, the commercial portfolio is experiencing modest growth at 2% year-over-year. However, we have observed that this is a widespread situation in the market that is growing slowly in the first part of the year. This has led to an overall growth of almost 5% in the total gross portfolio.

Moving to the profits, we observe firstly a recovered net interest income, growing by 8%. This is the result of a very prudent liability management strategy that has allowed us to take full advantage of the improved liquidity conditions in the market.

Provisions continue to be a challenging area during the first quarter as we experienced significant deterioration in the personal loans portfolio, resulting in a cost of risk of 3,6%, higher to the previous one.

Expenses are naturally increasing as a result of the salary rises at the beginning of the year, in addition to the substantial investments we are making in CAPEX and costs associated with technological renewal. This demonstrates our continued commitment to growth and to providing digital solutions for our clients.

All of the above has led to a negative result during the first quarter, mainly due to the poor performance of provisions. However, with a very good trend in net interest margin, we project that this will allow us to secure profits in the upcoming months.

[Mario Sanchez]: Thank you Daniel, moving to slide 8, we would like to highlight some key points regarding our funding strategy.

Year on year our market share has increased and we have been able to fund this growth in assets mainly with term deposits and savings accounts. Our funding mix ensures a solid financial position allowing us to comply with internal and regulatory requirements.

Quarter over quarter our funding mix has experienced minor changes, a slight decrease of 3% in savings accounts that has been replaced by time deposits.

If we compare this quarter’s funding composition with the figures of one year ago we can note that we have increased our liabilities while maintaining almost the same structure and mix of resources.

Checking accounts have decreased its share by 1% meanwhile time deposits have increased by 2.4%. Saving accounts maintain its proportion in the funding mix.

[Mario Sanchez]: In order to remark Daniel's words regarding NII, as shown in the graph of **slide 9**, credit spreads have been decreasing since September 2023 and especially throughout 2024.

BBVA's funding strategy based on our view of the shape and trend of the interest rate curve combined with narrower credit spreads have allowed us to substantially decrease the funding costs and, thus, increase the NII.

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

The Year-to-Date (YtD) Cost of Risk stands at 3.61%, characterized by a January impacted by double maturities that were transferred from December 2023. The CoR calculated based on the last 12 months is below 3% and also below the ratio observed in the sector. The credit products with the highest weight in our provisions are Personal Loans and Credit Cards. For these two products, which account for 15% of the total portfolio, we have been evolving our credit policies over the last six months. The new production shows clear signs of improvement, and this better origination mix would contribute positively to improving the risk indicators.

NPL and NPL + WRITE-OFF ratios continue to be below those of the sector, with absolute and relative growth better than observed in the competition, with the Commercial portfolio standing out. However, related to the Commercial portfolio, we maintain continuous monitoring and policy adjustments in sectors with deterioration, such as: health, government contractors, housing builders, energy dealers and telcos. In Consumer, although the NPL ratio is slightly higher than that of the sector, when including WRITE-OFF, we are well below it (10% vs. 16%). The implemented credit policy measures along with the recovery strategy will help us change the trend observed in the graph.

We maintain our projections for improvement in risk indicators towards the second half of the year.

Finally, we continue to improve our management tools. In Admissions, we recently implemented a new model with alternative data in our digital flows that we hope will help us in dealing with new to bank clients. In Recoveries, we have included do-it-yourself solutions in the App for clients with delinquencies.

[Mario Sanchez]: Thank you Nicolas for your take and explanation on asset quality. Now, we can move on to **slide 11** where Yuliana Giron will explain our capital position.

[Yuliana Giron]: Good morning everyone. We end the first quarter of 2024 with a total capital ratio of 12.07%, this is 57 basis points above the regulatory limit. Additionally, in our CET1 ratio, we have a difference of +81 basis points above the regulatory minimum.

During the quarter, we had a decrease by -33 basis points in the total ratio and -33 basis points in CET1 compared to the previous quarter. This decrease is mainly due to a negative result during the first quarter.

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 -2% and credit risk had a reduction of -1%.

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]: Thank you Yuliana. It's an honor to be here today to share with you the impactful work that BBVA has accomplished in Colombia during the first quarter of this year in the realm of social investment. In such a short span, we've managed to make a difference in the lives of thousands of Colombians through various initiatives focusing on education, humanitarian support, and sustainability.

Let's start by talking about education, a fundamental pillar in our social investment initiatives. During this period, we've reached over 11,500 Colombians, bringing education and opportunities to vulnerable communities across the country. From senior management, we've supported and accompanied various activities, such as the delivery of computers, physical and digital libraries, and school kits. In places like Leticia, Armenia, San Andrés, and Inírida, we've made a significant impact, providing tools and resources for the learning and development of children and young people. Additionally, our commitment to reducing the Digital Divide is reflected in the donation of laptops and tablets in the Colombian Pacific, benefiting over 6,000 students in the region.

Corporate volunteering has also been an integral part of our focus on education. With the participation of committed employees, we've delivered and organized resources for educational institutions such as the Renacer Association, which serves children, youth, and adults with disabilities or cognitive limitations.

But our work goes beyond education; we also care about supporting communities in emergency situations. In Chocó, we've provided 500 humanitarian aids to communities affected by various social crises and environmental disasters, thus reaching 2000 people in critical moments.

And we cannot overlook our commitment to sustainability. At BBVA Colombia, we're determined to support our clients in their quest for a more sustainable future. From financing projects with a positive impact on society and the environment to promoting sustainable businesses, we're committed to inclusive growth and climate action. In the first quarter of 2024, we disbursed a total of COP $2.2 trillion in sustainable operations and projects, thus marking our commitment to a greener and more equitable future.

Our strong performance in these areas reflects our credit strategy, which seeks to generate not only financial returns but also to promote sustainable development and social equity in our communities. From operations focused on sustainable mobility to financing initiatives with a strong environmental impact, we're demonstrating that it's possible to unite financial success with social and environmental commitment.

In summary, the first quarter of 2024 has been a period of significant achievements for BBVA Colombia in the field of social investment. We will continue to work tirelessly to make a positive difference in the lives of Colombians and build together a brighter and more sustainable future for all.

Finally, I would like to thank you all for being present today. Despite the challenges of this first quarter of 2024, BBVA group is deeply committed to invest and transform its business in Colombia. We have confidence that the measures we are taking to improve our consumer loans portfolio asset quality and the fast reprice of our funding will pay off. Without further ado, we will be open to questions.

[Diana Katherine Ruiz]: We have a question from the audience: Could you comment on the ongoing capital increase announced in april 2024 size, timing, and expected impact on capital ratios?

[Mario Sanchez]: The operation already happened as we published as a relevant fact for the market. We received around 200 million euros from our principal shareholder, that is BBVA group. We received it on april at the end of the month as a capital anticipation. This operation will be seen in the equity probably at the end of july when we finish our issue of equity to the market. The estimated impact in our solvency ratio is 140 bps over the actual solvency ratio that you can see in this presentation.

[Diana Katherine Ruiz]: There is another question, expected ROI for 2024?

[Daniel Vargas]: We don’t have the data on hand at the moment but we can share it later.

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

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