2Q24

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 2Q24

[Diana Katherine Ruiz]: Good morning everyone, and thank you for joining BBVA Colombia's second quarter 2024 earnings call. I'm Diana Katherine Ruiz, representing the legal department of BBVA Colombia. Joining us today are Juana Tellez Head of Economic Research, Carlos Garcia Head of Financial Performance, Profitability, Capital & Peers, 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 second 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 2nd quarter's 2024 key takeaways. We will deeply cover these points during the session.

This quarter's net result was a loss of 207 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 4.12% growth loans versus the 2Q23.

On the other hand, we would like to remark that our operational efficiency increased by 4.43% year on year and we achieved an efficiency ratio of 60.4%. BBVA's efficiency combined with the ease we experienced in funding costs during the quarter allowed us to obtain an operating income +8.97% 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 managed to improve our capital position reaching 180 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 Juana Téllez, our chief economist, who will explain our view regarding the economic outlook.

[Juana Téllez]: Good day, everyone. Let’s begin with our economic outlook on **slide 3**. Global growth is projected at 3.1% in 2024 and 3.3% in 2025. We anticipate a soft landing in the U.S., with reduced domestic demand and a weaker labor market, while Europe is expected to benefit from lower interest rates, which should support growth despite existing challenges. The Federal Reserve is expected to begin lowering its rates in September, adopting a gradual approach that is likely to have significant impacts on global financial conditions.

Recent global volatility, exacerbated by the reversal of the yen carry trade and increasing concerns over a U.S. recession, has generated an environment of uncertainty that significantly impacted international markets. This volatility was reflected in a rise in risk premiums in emerging economies like Colombia and Brazil, where increases of 22 and 20 basis points were observed, respectively. Despite these impacts, the past few weeks have shown a trend towards stabilization, allowing for some recovery in volatility and risk indicators.

Shifting focus to Colombia on **slide 4**, GDP is expected to grow by 1.8% in 2024 and 2.8% in 2025. The growth in the second quarter of 2024 was 2.1% year-over-year. This performance was driven by a gradual acceleration in domestic demand, supported by lower interest rates. Private consumption is expected to continue recovering as household purchasing power improves, while public consumption also contributes positively. The investment behavior in the second quarter aligned with our expectations, with non-residential construction leading the way, a recovery in machinery and equipment underway, and housing still lagging behind. Looking ahead, these investment dynamics are expected to continue on this trajectory.

Inflation resumed its downward trajectory in July as food prices stabilized, following a period of upward pressure due to climatic conditions and market dynamics. By year-end, inflation is projected at 5.4%, and by December 2025, it should reach 3.8%. The inflation rate in July was 6.9% annually, reinforcing the downward trend observed in previous months. Core inflation is also on a declining path. However, some uncertainties persist, such as the potential impact of "La Niña" and expected increases in diesel prices. These factors could influence the inflation trajectory, although the overall trend remains downward.

BanRep has already reduced the interest rate by 250 basis points, bringing it down to 10.75%. Despite these cuts, monetary policy remains restrictive, with a still-high real rate, reflecting the Bank's caution in the face of inflationary risks and global uncertainty. Looking ahead, we expect BanRep to accelerate the pace of rate reductions to 75 basis points per meeting, leading to a year-end rate of 8.5%. This acceleration is expected to be supported by rate cuts in the U.S. and declining inflation in Colombia. For 2025, the cycle is projected to continue, with the policy rate reaching 6.0%. However, the bias remains toward smaller rate cuts, as the economic environment still presents risks that could necessitate a cautious approach by the Central Bank.

On the fiscal front, the government has announced the seven pillars of the Reactivation Plan, which include key areas such as sustainable reindustrialization, tourism in harmony with life, and expanding digital connectivity. The government presented a partially unfunded budget for 2025, highlighting the need to submit a financing bill that must be approved before the end of the year. While the government expects to secure the necessary financing, the fiscal deficit projected for 2025 is expected to be higher than the levels seen before the pandemic.

In terms of the labor market, the national unemployment rate has remained relatively stable, although it is still higher than pre-pandemic levels. The pace of job creation has slowed, particularly in the professional services and commerce sectors, which could limit economic momentum in the coming months.

As for external accounts, the recent rebound in imports reflects stronger domestic demand and indicates a likely increase in the external deficit moving forward. The exchange rate in Colombia could face additional depreciation pressures, influenced by the reduction in the interest rate differential between BanRep and the FED, as well as political uncertainty surrounding the upcoming U.S. elections. The exchange rate is forecasted to depreciate slightly in the second half of the year, closing just below the 4,200 mark.

That concludes my presentation. Thank you for your attention. I'll now hand it over to the next speaker.

[Mario Sanchez]: Thank you Juana, as we move forward with **slide 5**, we can see that our digital and mobile channels continue to show impressive resilience and stable performance this quarter. With 2.2 million digital customers and 2.1 million mobile customers, we have solidified a strong presence in the digital landscape.

We take pride in the high engagement levels from our clients, with 78% actively interacting with our digital platforms. This reflects not only their confidence in our technological capabilities but also the seamless integration of our digital solutions into their everyday routines. Furthermore, with 83% of our sales originating from our website and app, it's evident that our digital channels are highly effective in facilitating transactions and enriching the customer experience.

Looking ahead, we remain committed to driving innovation and enhancing our digital and mobile offerings. By continuously refining our platforms and introducing new features, we aim to deliver even greater value to our customers, making their interactions with us more rewarding and efficient.

As we transition to the key financial indicators discussed on **slides 6 and 7**, we are set to gain deeper insights into our performance and strategic direction. Carlos, could you please share your analysis on these crucial aspects?

[Carlos Garcia]: Thank you, Mario, and good day everyone. Moving to **slide 6**, 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 6% year-over-year. Additionally, the consumer portfolio, mainly driven by payroll loans, grew by 4% year-over-year. In this quarter the consumer portfolio was slightly impacted by the write-offs in personal loans, which reduces the growth.

On the other hand, the commercial portfolio is experiencing modest growth at 4% year-over-year. This has led to a total gross portfolio growth of almost 4%.

Moving to profits in **slide 7**, first, we observe a recovered net interest income, growing by 9% year-over-year. This is the result of the continuous 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 second quarter, as we experienced significant deterioration in the personal loans portfolio, resulting in a 71% growth year-over-year, leading the Bank to a negative net income in this period.

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

Finally, what I previously mentioned, has led the Bank to a negative result during the second quarter, mainly due to the poor performance of provisions. However, with a very good trend in net interest margin, we expect profits in the second part of the year.

[Mario Sanchez]: Thank you, Carlos. Moving to **slide 8**, let's highlight the key points of our funding strategy.

This quarter, our total funding has grown by 3.4% compared to the previous quarter and has seen a substantial increase of 13.2% year over year. Our funding mix remains relatively stable, with checking accounts and term deposits showing little change.

Despite these fluctuations, the overall composition of our funding has remained quite consistent with that of a year ago. We've seen an increase in our liabilities while maintaining a similar structure and mix of resources. This stable funding mix ensures a solid financial position and allows us to comply with both internal and regulatory requirements while supporting our ongoing growth.

[Mario Sanchez]: To emphasize Carlos's observations regarding Net Interest Income (NII), as illustrated in the graph on **slide 9**, it is important to note that credit spreads have been on a downward trend since September 2023, with a more pronounced decrease throughout 2024.

BBVA's funding strategy has been instrumental in leveraging this trend. Our approach, which is informed by our analysis of the interest rate curve's shape and trajectory, combined with the narrowing credit spreads, has significantly reduced our funding costs. This strategic alignment has not only optimized our cost structure but also contributed to a substantial increase in NII.

By capitalizing on the favorable shifts in credit spreads and maintaining a keen focus on interest rate dynamics, BBVA has effectively enhanced its financial performance. This positions us well to continue benefiting from the evolving market conditions and reinforces our commitment to driving sustainable growth and profitability.

Now let's welcome Nicolás Tripodi to share his insights on BBVA's credit portfolio

[Nicolas Tripodi]: Good morning everyone, I hope you are all well. My name is Nicolás, and I am the Director of Retail Credit Risk.

The Year-to-Date (YtD) Cost of Risk stands at 3.57%, slightly better than the figure seen in the last session. The credit products with the highest impact on our provisions are personal loans and credit cards, which represent 13% of the total portfolio. We have implemented restrictive policies that have improved the profile of our new originations, which will allow us to reduce portfolio rollovers. These improvements will give us the opportunity to leverage growth in customer niches with good performance.

The NPL and NPL + WRITE-OFF ratios remain below those of the sector, with absolute and relative growth better than observed in the competition, highlighting once again the strong performance of the commercial portfolio. While this is true, we maintain continuous monitoring and policy adjustments in sectors showing deterioration, such as health, government contractors, housing builders, energy distributors, and telecommunications. Regarding the consumer segment, although the NPL ratio is higher than the sector's, when including WRITE-OFFs, we are below it (10% vs. 17%). The adjustments in admission policies, along with the portfolio recovery strategies, will help us change the trend observed so far.

We expect improvements in risk indicators towards the second half of the year, in a context where certain macroeconomic variables also show expectations of improvement.

Finally, regarding risk models, we are working on implementing improvements in the models that support our pre-approved processes. Meanwhile, on the recovery front, we keep promoting "do it yourself" solutions, so that clients who are still facing a financially stressed situation have an agile self-management mechanism, thus preserving their financial health.

Thank you.

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

[Carlos Garcia]:
Thanks Mario. In terms of our capital position, we end the second quarter of 2024 with a total capital ratio of 12.58%, this is 108 basis points above the regulatory limit. Additionally, in our CET1 ratio, we have a difference of +180 basis points above the regulatory minimum.

During the quarter, we had an increase by +51 basis points in the total ratio and +99 basis points in CET1 compared to the previous quarter. This increase is mainly due to a new issue of shares worth 220 million euros during the second quarter.

In terms of quarterly evolution, RWAs have increased due to higher credit exposure to financial derivatives and an increase in the commercial portfolio loans.

We will continue capital monitoring to allow the Bank's growth while maintaining favorable indicators, always ensuring that we remain above the minimum requirements.

[Mario Sanchez]: It's a pleasure to share with you the impactful work that BBVA has accomplished in Colombia during the second quarter of 2024. Our commitment to social investment has significantly benefited thousands of Colombians through diverse initiatives focused on education, volunteerism, humanitarian aid, and sustainability.

Education remains a core pillar of our efforts. In this period, BBVA provided 134 scholarships to students from microentrepreneurs' families and Afro-descendant women. We also supported 50 military students and distributed 4,869 school kits, helping to enhance educational opportunities and resources across the country.

Our volunteerism initiatives were marked by significant environmental contributions. In Bogotá, 175 dedicated volunteers participated in planting 400 trees and building biodigesters, working alongside WWF Colombia to support ecological restoration.

In terms of support for SMEs, our educational programs have directly benefited those from microentrepreneurs' families, fostering growth and opportunity. This is part of our broader commitment to supporting local businesses and communities.

Our humanitarian aid efforts included delivering crucial support to approximately 10,000 people affected by natural disasters in Chocó and La Mojana, Sucre. These initiatives were critical in providing relief and support to communities facing severe challenges.

BBVA's sustainability commitment is exemplified by our issuance of a $15 million biodiversity bond, part of a larger $70 million initiative aimed at funding projects that combat biodiversity loss. Additionally, our financing of sustainable projects reflects our dedication to environmental stewardship.

Our strong performance across these areas highlights our dedication to creating positive social impact while aligning with our broader goal of sustainable development. We believe in integrating financial success with social responsibility and environmental care.

Thank you for your attention today. Despite the challenges, BBVA remains committed to making a significant difference in Colombia. We look forward to continuing our efforts.

From this moment on, we are ready to answer your questions.

[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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