BBVA
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3Q24

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 3Q24

[Juan Sebastian Fabregas]: Good morning everyone, and thank you for joining BBVA Colombia's third quarter 2024 earnings call. I'm Juan Fábregas, representing the Investor relations department of BBVA Colombia. Joining us today are Mauricio Hernandez, part of the Economic Research team, Felipe Vega, from the Financial Planning and Performance team, Yuliana Girón from the Capital 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, Juan Sebastian. Good morning, everyone. As Juan Sebastián mentioned, my name is Mario Sánchez, and I am the Head of ALM and Investor Relations at BBVA Colombia. I'm delighted to welcome you to our earnings results call, where we'll review the key developments of this third quarter of 2024. Throughout the session, I'll also invite members of our panel to share their insights on specific topics.

Let's begin with slide 2, where we summarize the key takeaways for the third quarter. These points will be covered in more detail as we progress through the presentation.

This quarter, we reported a net loss of 217 billion COP, primarily due to deterioration in asset quality and higher provisions. Despite these challenges, we achieved a 1.76% growth in loans compared to 3Q23, demonstrating our resilience and ability to grow market share in Colombia.

In terms of operational performance, our efficiency ratio stood at 56.6%, reflecting a slight year-over-year decline of 1.1 basis points. However, BBVA's focus on cost management and operational discipline enabled us to achieve a 15.83% increase in operating income compared to the same period last year.

While our asset quality faced challenges this quarter, it remains significantly better than the industry average. Additionally, we strengthened our capital position, reaching 210 basis points above the minimum regulatory requirement, further reinforcing our financial resilience.

With that overview of the quarter's highlights, I'll now hand the call over to Mauricio Hernández, our economist, who will provide an analysis of the economic outlook. Mauricio, over to you.

[Mauricio Hernández]: Thank you, Mario. Good morning, everyone. My name is Mauricio Hernández, Economist in BBVA Research.

Today, I will walk you through Colombia's economic outlook for 2024 and 2025. Let's begin with **slide 3**.

Colombia's GDP is expected to grow by 2.0% in 2024 and 2.5% in 2025. This recovery will rely heavily on domestic demand. Investment will play a key role, starting with civil works and machinery and followed later by buildings. For instance, infrastructure projects and public works are already driving this initial phase, and we expect the private sector to regain momentum in the second half of 2025, particularly in residential and commercial real estate.

On the consumption side, durable and semi-durable goods, such as appliances and vehicles, will lead the recovery. This reflects improving household confidence as inflation slows and purchasing power strengthens. By 2026, we anticipate services to contribute significantly, especially in areas like tourism and entertainment.

Job creation has been sluggish, and we expect weak labor market conditions to persist until mid-2025. After that, as productive sectors recover—particularly construction and manufacturing—we should see a notable pickup in employment. This will provide an essential boost to household incomes, further supporting private consumption.

On the fiscal front, the government is facing a challenging scenario. Lower-than-expected revenues have forced spending adjustments, including delays in investment projects. At the same time, the external deficit will widen as stronger domestic demand drives imports. This will be largely financed by foreign direct investment.

Let's begin with **slide 4**. Inflation is showing a steady path toward stabilization. After ending 2024 at 5.1%, it will likely decline to 3.6% in 2025 and reach 3.1% in 2026. This downward trend will be supported by easing pressures on regulated goods and a stabilization of international supply chains. However, it's worth noting that services inflation is expected to remain more rigid, largely influenced by wage dynamics and structural factors in the sector.

The Central Bank is projected to lower its rate to 8.5% by late 2024 and further to 6.5% in 2025. This reduction will alleviate financial stress for households and businesses, encouraging higher spending and investment. However, the pace of these rate cuts will be constrained by external factors, such as the narrowing differential with U.S. Federal Reserve rates and potential pressures on the exchange rate.

To summarize:

Colombia's growth in 2024 and 2025 will rely on domestic demand, with a phased recovery in investment and consumption.

Inflation and interest rates are moving in the right direction, easing financial conditions for households and businesses.

Fiscal challenges remain significant.

Finally, employment recovery may lag initially, but improvements in key sectors will drive job creation in the medium term.

That is all. Thank you for your attention. Have a nice day.

[Mario Sanchez]: Thank you, Mauricio. Moving on to slide 5, we can see that our digital and mobile channels continue to demonstrate strong resilience and consistent performance this quarter. With 2.2 million digital customers and 2.1 million mobile users, we have firmly established ourselves as a leader in the digital banking space.

Notably, 84% of our sales now originate from our website and app, showcasing the effectiveness of these channels in facilitating transactions and enhancing the customer experience. This reflects both our customers' trust in our digital platforms and the seamless way these solutions fit into their daily lives.

Looking ahead, our focus remains on driving innovation and further improving our digital and mobile offerings. By continually enhancing our platforms and rolling out new features, we aim to provide even greater convenience and value, ensuring our customers' interactions with us are as smooth and rewarding as possible.

As we transition to the financial highlights on slides 6 and 7, Felipe will walk us through the key performance metrics and their implications for our strategic direction. Felipe, over to you.

[Felipe Vega]: Thank you, Mario, and good morning everyone. Moving to **slide 6**, starting with our activity, the scenario of declining interest rates, has allowed us to keep growth in the loan portfolio, particularly in the mortgage sector, which grew by 4% year-over-year. In this quarter the consumer portfolio was impacted by the write-offs in personal loans, which reduced the growth.

On the other hand, the commercial portfolio is experiencing modest growth at 3% year-over-year. This has led to a total net loans portfolio growth of almost 1.2% year-over-year.

Moving to profits in **slide 7**, first, we observe a recovered net interest income, growing by 10% year-over-year. This is the result of the continuous liability management strategy that has allowed us to take full advantage of the liquidity conditions in the market and the interest rate cuts.

Provisions continue to be a challenging area during the quarter, as we experienced significant deterioration in the personal loans portfolio, resulting in a 98% 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 related 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 quarter, mainly due to the performance of provisions. However, with a very good trend in net interest margin and an expected improvement in provisions we expect better results in the last quarter.

[Mario Sanchez]: Thank you, Felipe. Moving to slide 8, let's delve into the highlights of our funding strategy.

This quarter, our total funding decreased by 1.4% compared to the previous quarter but posted a solid 3.6% increase year-over-year. Our funding mix has remained stable, with minimal changes observed in checking accounts and term deposits, reflecting consistent trends in resource allocation.

While there have been some quarterly fluctuations, the overall composition of our funding aligns closely with where we stood a year ago. We've managed to grow our liabilities while preserving a balanced funding structure. This stability reinforces our financial resilience, enabling us to meet both internal and regulatory requirements effectively while continuing to support sustainable growth.

[Mario Sanchez]: On slide 9, it's worth highlighting that credit spreads have shown a consistent downward trend since September 2023, with this decline becoming more pronounced throughout 2024.

BBVA's funding strategy has played a key role in adapting to and capitalizing on this trend. By leveraging a detailed analysis of the interest rate curve and aligning it with the tightening credit spreads, we have been able to achieve notable reductions in our funding costs. This strategic focus has not only enhanced cost efficiency but has also driven a meaningful increase in Net Interest Income (NII).

Through a proactive approach to market conditions and a focus on optimizing the balance between credit spreads and interest rate movements, BBVA has delivered strong financial performance. These efforts position us to continue taking advantage of favorable market dynamics, further strengthening our path toward sustainable growth and profitability.

With that, let me hand it over to Nicolás Tripodi, who will provide further insights into BBVA's credit portfolio.

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

The Year-to-Date (YtD) Cost of Risk stands at 3.55%, slightly below the figure presented in the last session. The credit products with the highest impact on our provisions are personal loans and credit cards, which account for 13% of the total portfolio. Policy adjustments implemented earlier this year, along with recovery strategies, are already showing good results. Early indicators, such as vintage performance for recent originations, show a 40% improvement compared to the second half of 2023, leading to lower portfolio rollovers.

While our NPL ratio is higher than the sector average, it is essential to note this reflects our write-off strategy, as we charge off less than our peer group to prioritize late-stage recovery efforts. When combining NPL and write-offs, our ratio is significantly below the sector average. Notably, our mortgage and commercial portfolios demonstrate sustainable growth with risk indicators well below competitors. In the commercial segment, we continue to closely monitor and adjust policies for deteriorating sectors such as healthcare, government contractors, housing developers, energy distributors, and telecommunications.

We expect that the improvements observed in delinquency levels within the early-stage in the consumer portfolio will also extend to the later delinquency stages.

Finally, as mentioned in our last session, we improved the risk models that underpin our mass campaign strategies. This has driven improved origination volumes in the second half of the year, supported by a solid base of low-risk profiles, primarily payroll clients within the entity.

Thank you.

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

[Yuliana Girón]: Thanks Mario. In terms of our capital position, we end the third quarter of 2024 with a total capital ratio of 12.92%, this is 142 basis points above the regulatory limit.
Additionally, in our CET1 ratio, we have a difference of +210 basis points above the regulatory minimum.
During the quarter, we had an increase by +34 basis points in the total ratio and +30 basis points in CET1 compared to the previous quarter.
We have focused on profitably growing RWAs and optimizing our shareholders' capital. We have achieved this by extending new loans to clients with higher external ratings and improving collateral coverage, which has resulted in a much more moderate capital consumption.
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 privilege to share the progress BBVA has made in Colombia during the third quarter of 2024. Our dedication to social investment has continued to positively transform the lives of thousands of Colombians through a wide range of initiatives centered on education, volunteerism, humanitarian aid, and sustainability.

Education remains at the heart of our efforts. During this quarter, we awarded 134 scholarships, delivered 798 school kits, and impacted 150,000 students across 132 public schools through the "Connected for Education" program, which provides internet access and digital resources. These actions reaffirm our commitment to empowering future generations with the tools they need to succeed.

Our volunteer initiatives this quarter emphasized community support and resilience. BBVA's efforts reached over 170,000 individuals, with employees actively engaging in projects aimed at uplifting underserved communities and fostering sustainable development.

In the realm of humanitarian aid, we provided 3,000 relief packages, benefiting approximately 12,000 individuals affected by natural disasters. This support was critical in addressing urgent needs and helping communities recover and rebuild.

BBVA's sustainability focus has also remained a priority. Through our ongoing blue and biodiversity bond programs, we have continued to finance impactful environmental projects that preserve natural ecosystems and promote sustainable practices. These initiatives underline our long-term commitment to the planet.

The results of this quarter demonstrate our unwavering commitment to fostering positive social change while aligning with our broader vision of sustainable growth. At BBVA, we believe that financial success and social responsibility must go hand in hand to build a better future for all.

To conclude, we would like to reflect on what has undoubtedly been a demanding and challenging year. Despite difficult results in terms of net profit, we would like to highlight several positive aspects we have achieved throughout the year:

- Robust capital position, with an increase that demonstrates BBVA Holding's commitment to BBVA Colombia.
- Strong liquidity indicators, both locally and internationally (LCR 148.8 / NSFR 112% / CFEN 119.5% / IRL 180.6%).
- Net interest margin growth exceeding budget expectations, driven by a reduction in funding costs (10% YoY).

Thank you for your attention. BBVA remains dedicated to driving meaningful change in Colombia and beyond, and we look forward to furthering these efforts in the months ahead. At this point, we are ready to take your questions.

[Juan Sebastián]: I see one participant has a question. Could you please type it on the chat? So the first question is profitability expectations for 2025.

[Mario Sanchez]: Felipe, could you please advise us in this question, please?

[Felipe Vega]: Sure. So as we saw in the third quarter of 2024, we see a reduction in the loss in the net income. We had an evolution from minus 207,000 billion to minus 217 billion. So we are expecting that in the last quarter, the net provisions start having slow recovery. So during 2025, we are expecting that as our net interest income keeps getting better with our positive evolution of 10% year-on-year. We expect that as the net provisions start the recovery trend, we will start to have a positive net income at the end of the fourth quarter. So we start 2025 with positive income and so on. In this moment, we have different analysis and budget projections for the next year and we expect positive net income for 2025. As I already said, as the net provisions start a positive trend and as we reach our peak during 2024 in these expenses.

[Mario Sanchez]: Thanks, Felipe. We are trying to activate your microphone, but we are having technical difficulties. So if you have another question, in the mean world, you can please, of course, put it in the chat if we are not able to solve the problem.

[Guest]: Yes, first of all, an observation — we are in Colombia, BBVA's parent company is in Spain, and I don't see the point of presenting financial results in English. I believe this goes against all established principles. Anyway, in the BBVA Spain quarterly report, on pages 46 and 47, it says that Colombia generated a profit of 91 million euros over 9 months. Meanwhile, we are being shown a loss of 260.014 billion pesos, which at the exchange rate at that date is equal to 53 million euros. Since we are in Colombia, we should be talking in Colombian pesos. Spain says Colombia generated a profit of 423 billion pesos in 9 months, while in Colombia they are saying a loss of 260 billion pesos. That's a difference of 684 billion pesos. What explanation can you give minority shareholders for this difference?

[Mario Sanchez]: First of all, good morning. I'll gladly switch to Spanish to answer the two points you mentioned. First, BBVA has international investors, and this meeting is mainly focused on bondholders. Therefore, we are legally required — even by Colombian law — to publish our financial statements, this call, and the presentation in both English and Spanish in order to post them on the BVC website. That's why we are presenting in English.
As for your second question, what is reported at the group level is not the result of the bank, but rather the result at the country level. And country-level results include companies that are not under BBVA Colombia, such as the insurance company.
Felipe, I don't know if you'd like to add more details on performance, but I assure you that in terms of transparency, what we are sharing in this call pertains strictly to the bank. This

is because the bondholders are invested in the bank entity, not in the broader country scope, which is what the holding considers.

[Felipe Vega]: Yes, I agree, Mario. Good morning to everyone. Just to follow up on this second point — what appears in Spain is the consolidation of several entities that we have in the country.
As Mario mentioned, one major difference is that they include the results of the BBVA insurance company in Colombia. That company has financial statements with significant profit, which allows us to offset and shift the numbers to reach the figures presented in the Spanish report.
Additionally, in Spain, the group reports under European regulations, where there are differences — for example, regarding how credit impairment provisions are constituted. That also explains a difference between local and international accounting standards.

[Mario Sanchez]: Thank you, Felipe.

[Juan Sebastián]: we have another question in the chat, Potential issuance of tier 2 for refinancing the bangan 478 maturing 2025 international bond

[Mario Sanchez]: Thanks Juan Sebastian, no, at the moment we have the growth of the balance in terms of the demand of the capital we need for 2025 is already covered, so with the internal financing and other facilities we have covered the cash needed to pay the maturity of this issuance. So the bottom line is no, we are not going to reissue a new tier 2 bond to the public markets. At least is what we have in our budgets, this can change if the growth of the credit changes and the balance sheet need more capital to keep up to the growth that we have in our forecast

[Juan Sebastián]: Since there are no more questions, we conclude our event. Thank you for your participation and we hope you have an excellent day have a good afternoon and morning everyone.

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