2Q19 Results

Presentation Transcription

BBVA Colombia

Audio-Conference 2Q19

[Alejandro Escobar] Good morning, good afternoon and good evening to our investors connected all around the world, you're welcome to our second quarter 2019 Results event. My name is Alejandro Escobar and I'm part of the legal department of BBVA Colombia. In this event are also connected Diana Polania- Financial Planning Director, Alejandro Reyes- Principal Economist and Juan Pablo Herrera- ALM Director, who will give the presentation.

The corresponding documents were sent to you through email, both in English and Spanish, and will be available in our website in the section "Investor Relations" on the link "Agenda".

We ask you to please mute the microphone of your phones to have a better communication.

Without further ado, I give the turn to Juan Pablo.

[Juan Pablo Herrera] Thank you very much Alejandro, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results for the second quarter of 2019 for BBVA Colombia. As Alejandro mention, we have already sent you all the material via email both in English and Spanish through your email.

I will start with a brief overview of the macroeconomic scenario and later I will explain the highlights of our results for the quarter. First, I will start with our macroeconomic outlook on slide number 5.

According to BBVA Research, global growth forecast to sit at 3.3% in both 2019 and 2020, compared to the Global GDP, which rose by 3.8% in 2018. The lower global growth and materialization of risks, affect growth in emerging markets, due to economic tensions that influence global trade and potential effects on commodity markets. For this reason, central banks adjustments of the main global economies tend to have expansionary scenario in the short term, which has generate a period of appetite for risk assets.

US growth should gradually lose traction, converging with its potential growth rates. Growth is set to stand at 2.5% in 2019 and 2.0% in 2020, following 2.9% in 2018. In order to sustain economic expansion amid the risk of slower growth and low inflation, the Federal Reserve is in a position to start an expansion cycle in the third quarter of 2019, reducing its rates by up to 75 bps over the next few quarters, and then keeping them stable until 2022.

In Colombia, growth forecasts for 2019 and 2020 will depend on domestic demand. Due to external demand will continue to undermine growth due to the greater buoyancy of imports over exports. Investment will expand in 2019 thanks to the contribution made by civil works and machinery and equipment while in 2020 investment in housing and non-residential buildings will be vital to the recovery. For public consumption a slowdown in its lower growth is expected to the one registered last year conditioned by the labor market. Furthermore, private consumption should remain very close to its figures of 2018 and does not seem to have the capacity for additional acceleration in 2019 and 2020, mainly due to labor market deterioration, which limits the household spending capacity in various groups of durable goods and housing.

In total, for the second quarter of the year, the Colombian economy grew 3.0%. Additionally, the Dane, the Department of Statistics in Colombia revised the GDP growth from the first quarter of the year from 2.8% to 3.1%, explained by adjustments in activities such as public administration and defense, attention to human health and social services and taxes.

BBVA Research keeps its GDP growth forecast for Colombia at 3.0% in 2019 and in 2020.

Continuing on slide number 6, there are several points to analyze from the monetary policy, in terms of its role in defining interest rate decisions. The first is inflation, which have been drove up due to food prices mainly explained by climate effect and bottlenecks in the transport of such goods via some routes in the country and the exchange rate transfer. It is expected that in December of 2019 inflation will remain at 3.6% and 3.2% in December of 2020.

Another topic that will be on the Central Bank's radar is the sustained high current account deficit, in line with rising imports of capital goods. In the first quarter this trend, which we had anticipated a few months ago, began to be confirmed, with the deficit standing at 4.6% of GDP. BBVA Research project that the current account deficit in 2019 could stand at 4.4% and at 3.8% of GDP for 2020.

Under this scenario, no longer face external upside pressure, as monetary policy should be more flexible in developed countries and the growth rate we expect in 2019 and 2020 does not indicate excessive demand-side pressure or a rapid narrowing of the output gap, the stage seems to be set for the Central Bank to maintain its interest rate stable for a long time, holding unchanged in the 2019-2020 period at least, but possibly through to 2022, as we expect for the Fed. Potentially we may see the most extended monetary pause in the target inflation strategy period.

Under this macroeconomic environment, I would like to point out the main highlights of our results in the second quarter of 2019, moving to slide number 7.

The second quarter of the year was marked by lower business dynamics as a result of the Easter holidays and greater political tensions around the objections of the Colombian Special Jurisdiction for Peace, which hindered the operating environment and affected the confidence of Investors in the country. The lower business dynamics further increased the competitive environment that has been experienced since last year against both local and international banks that pressures and limits the profit margins. However, despite a highly challenging environment, BBVA Colombia has a positive performance during the quarter in line with our expectations at the beginning of the year. Our gross margin grew 5.4% compared to the same period of 2018 given greater activity in the bank and also our net fee income showed an increase of 50.2% during the second quarter of the year. However, our operational cost showed an increase of 4.2% during the quarter. Also our net interest income showed a 3.2% decrease compared to 2018. Finally, our net income decreased 8.5% compared to the same period of 2018.

In terms of our balance sheet, total assets closed at 63,9 trillion pesos, with a growth of 10.3% compared to the last year; the gross loan portfolio registered a yoy growth of 4.3%, ending the period at 46,7 trillion pesos, while customer deposits grew 2.3% yoy, closing with a balance of 45,8 trillion pesos.

As for risk indicators, we saw an increase of 14 bps in our NPL ratio compared to May of 2018. The portfolio that contributed the most was consumer loans, which deterioration continues to respond to the slow recovery of employment. However, compared to December 2018, our NPL ratio falls by 12 bps at the same level as the sector's average.

Otherwise, our cost of risk declined 7 bps in May 2019, compared to the same period of last year and also decrease 20 bps compared to December of 2018.

We have also maintained a good solvency levels well above the minimum required by regulation, ending the second quarter of the year at 11.90%, decreasing 15 bps compared to the first quarter of 2019. These results mostly explained by the increase in the RWAs due to market risk.

Finally, our efficiency ratio continues to improve, decreasing 48 bps compared to the previous year.

On slide number 9, I would like to share our results in terms of digital trends.

During the first part of the year, BBVA Colombia showed a positive balance due to the consolidation of our digital transformation strategy, whose main purpose is to promote a change in the transactional habits of Colombians integrally and digitally from three focuses: Firstly, reception of the client with more resources in digital form. Secondly, the dispersion of the client's resources through our digital channels and finally, the transactional ecosystem where we seek to channel the dispersed resources to other BBVA accounts. Through these three focuses, we want to promote a change in the transactional habits of people, so we continue to offer 100% digital and innovative products and services to our clients in order to maintain our leadership position at digital banking trends in Colombia. In fact, in the segment of individuals, a tool for foreign currency was implemented where 40% of the transactions with foreign currencies are being made through the digital channel. They are mainly remittances received and the average amount of the transaction is around 250 thousand pesos.

We currently have more than 1,3 million digital clients in the second quarter of 2019, registering a 27% increase compared to the previous year. This figure represents 60% of total customers. We also have 27% more on our mobile customers compared to the same period of the previous year. Additionally, digital sales accounted for 23% of total sales, an 11% increase compared to the second quarter of 2018.

Also, I would like to highlight that now BBVA Colombia offers free and unlimited transfers made from current and savings account or payroll accounts to all banks in the country through digital channels. With this decision, we seek to break down cost barriers in banking, democratizing real financial transactions and reaching more and more Colombians. This is a benefit that, added to the possibility of making free transfers, makes us pioneers in the sector by offering this type of benefit integrally.

All this reaffirms the positioning we want to have in the Colombian financial sector and the success of our digital strategy that we will continue to execute in the second part of the year, complemented by the incorporation of new products, including the QR code with the aim of improving the experience and interaction with the customer and constitute a solution that allows you to pay for purchases quickly and safely.

I will now present the main figures for the second quarter of 2019, showing first the results of the period, then the highlights of our balance sheet and business activity and finally our solvency ratio.

Moving on to slide 11, I would like to share the results of the second quarter of 2019.

The behavior of the bank's interest margin shows an interannual decrease of 3.2% in the first half of the year, equivalent to 43 billion pesos. This decrease is explained by a negative variation in the loan portfolio of 3.9% or 91 billion pesos with a reduction in the commercial portfolio for 44 billion pesos, the mortgages portfolio for 40 billion pesos and the consumer portfolio for 27 billion pesos.

On the expense side, there was a reduction of 4.6%, equivalent to 47 billion pesos which is explained by a decrease in term deposits for 106 billion pesos due to the maturity in the term deposits for 2 billion pesos corresponding to 18 months in Fixed Rates, CPI and IBR that generate a decrease in interest expenses.

Additionally, on the second quarter of the year, we see a favorable performance of our net interest income with a 4.9%. This growth is mainly explained by the higher yields in the loan portfolio due to the funding cost has remained stable as a result of the Central Bank’s decision to maintain its interest rates in 4.25% during the last 16 months. Actually, 60% of our loan portfolio has been placed at fixed rates, which allows us to maintain a stable interest income in the quarter.

On slide 12, our net fee income showed an increase of 50.2%, equivalent to 88 billion pesos compared to the second quarter of 2018. The annual increase of fee income is 51.1% or 139 billion pesos, mainly explained by an increase in fees for biometric withdrawals and fees for paying social security contributions for 128,5 billion pesos, in business affiliated with credit cards for 6,3 billion pesos, in network service for 6,5 billion pesos and in bank guarantees for 2,7 billion pesos. Also there was a decrease of debit card manage fee for 6,4 billion pesos.

On the side of fee expenses, there was an increase of 52.8%, equivalent to 50,8 billion pesos explained for an increase in fees to REDEBAN network and bank transactions made with third parties.

Moving on to slide 13, we see an outstanding evolution in our efficiency ratio with a decrease of 48 bps yoy. This is explained by a moderate growth in expenses during the quarter, with a variation of 4.3% yoy and with a variation of 4.2% yoy in the first six months of the year mainly explained by a acquisition of new computer equipment for 2,8 billion pesos compared to the last year, as well as the implementation of software and computer applications, especially corporate software for 5,3 billion pesos compared to the last year, in order to improve the digital transformation process that are carried out in the bank and that has allowed us to improve some internal process.

Finally, as we show on slide 14, BBVA Colombia recorded a net profit of 341 billion pesos in the second quarter of 2019; which is a decrease of 8.5% compared to the second quarter of 2018. It is important to highlight that in the second quarter of last year, there was an adjustment in the income statement in provisions under IFRS9 regulation. Since December 2018, this adjustment was included in the balance sheet. Discounting this effect, BBVA Colombia showed an increase of 18% in the net income.

As for return on equity, BBVA Colombia saw an increase from 13.53% in May 2018 to 13.59% in May 2019, above the industry's average. The stable trend for the return on assets maintains, showing 0.95% in May 2019.

On the slide 15, you can find the main figures of our consolidated income statement.

Now, I would like to present our highlights in terms of our Balance Sheet and Business Activity.

On slide 17, you can see that our loan portfolio increased by 4.7% to 46,3 trillion pesos. BBVA Colombia's main business activity is retail banking targeted at individuals through its extensive branch network, complemented with some corporate and investment banking activities. The retail segment represented close to 60% of the total gross portfolio in the second quarter of the year.

The portfolio growth was mainly driven by the outstanding performance in the consumer loan as the second quarter of 2019 was characterized by registering the highest invoices of the last 12 months in payroll loan and free consumption products which contributed 29% and 28% respectively, results that were supported by a communication strategy and preferential offer.

Also, mortgage loan portfolio showed a positive performance with an interannual growth of 9.2% with a variation of 949 billion pesos and in June of 2019 represented 24.2% of the gross portfolio. Meanwhile, the commercial portfolio showed a slight increase of 0.3% with a variation of 63 billion pesos.

On slide 18, we show our funding sources composition.

In the first six months of the year, customer deposits remained adjusted to the bank's liquidity needs and our funding strategy, which aims to stable, long-term and fixed-rate sources in line with our balance sheet structure.

In this way, customer deposits grew at an annual rate of 0.1%, closing the quarter at 45,8 trillion pesos. This was led by a growth in savings and current accounts, with a yoy growth of 16.1% and 5.7% respectively. This allowed us to reduce our funding with time deposits, and ultimately a reduction in our financing costs. In this way, term deposits showed a decrease of 14.1%.

On slide 19, we show the main highlights of our business activity.

During the second quarter of the year, we decreased our market share by 32 bps. This is a result of our strong focus on optimizing returns on capital that lead us to create value mostly through high commercial spreads and less via volumes.

Additionally, during the first half of the year, the market share was quite defensive. We have been trying to keep the margins very high but the market has been quite competitive, basically due to new activity is not growing and what we are doing is competing with all the banks for the same operations, which generates a lot of pressure on the margin, which mean losing in the market share during the first part of the year.

Given this situation, our market shares in commercial loans decreased by 53 bps in May of 2019. On the retail side, we saw a slower dynamic due to the macroeconomic slowdown. In accordance with the latest data available, the country is growing at 3% and our estimate for the end of the year is also 3%. In addition to this, we come from a very strong phase of deleveraging after the adjustment of oil prices, which occurred in 2014-2015, and in some way, the economy still suffers from that effect. The unemployment data are also not good and the potential of the economy is lower than what it was a few years ago. The consequence of this is that credit growth is much more subtle. Thus, consumer loans, credit cards, and mortgages showed a decrease in market share of 67 bps, 2 bps, and 25 bps respectively.

Regarding deposits, we saw a market share decrease of 72 bps, driven mainly by a reduction of 249 bps in term deposits, given our strategy to reduce our funding costs. However, savings and current accounts showed an increase in market share of 85 bps and 10 bps respectively.

Now, on slide 20, you can see that our NPL ratio closed at 3.84% in May 2019, showing a deterioration of 14 bps compared to the ratio reported in the previous year. However, we started to notice that the NPL Ratio dropped near to average sector levels, with a decrease of 12 bps compared to December 2018. The portfolio that contributed the most for this result was consumer loans, which deterioration is mainly explained by the slow recovery of employment, this category consists of vehicle loans, leasing, rotating quota and credit cards that represent a 1% variation compared to the results of December 2018.

It is important to indicate that BBVA's write-offs are aligned to Basel III policies that allow the cancellation of assets only when there is no recovery viability. As shown in the chart, BBVA's NPLs plus write-offs compare very positively vs. the sector, showing the higher quality of our portfolio.

Furthermore, the commercial portfolio's quality remains at lower levels than the average of the sector given our low participation in problematic transactions. Additionally, the mortgage's quality continues to perform much better than the sector.

Finally, we expect a recovery in the asset quality in the medium term, below to what was observed in 2017, taking into account the writeoff of Electricaribe's exposure and the tightening of the underwriting standards on the installment loans, supported by the bank's history of taking appropriate corrective measures to improve credit quality.

On slide 21, you can find our detailed balance sheet, of which I already mentioned in the main highlights.

Finally, in terms of our capital adequacy on slide 23, BBVA Colombia has capital sufficient in light of its asset quality, conservative risk management, profitability, and ordinary support. The bank has stable capital ratios, which are sustained by profitability and moderate dividend policy which maintain 50% pay-out ratio. BBVA Colombia closed the second quarter of 2019 with good solvency ratios, well above the regulatory requirements. However, we saw a decrease of 15 bps in the solvency ratio in the second quarter of 2019 compared to the first quarter of 2018 due to an increase of RWAs mainly explained by an increase in the positions and duration of the trading book and by an increase in credit RWAs in line with the portfolio growth. This result is offset by an increase in technical equity due to the devaluation of the Colombian peso that increases the value of the subordinated debt in dollars.

We expect that the forthcoming adoption of Basel III guidelines in Colombia will benefit the bank's capital, mainly due to changes related to RWAs' density, as the bank expects it to decrease between 200 and 300 basis points; increased capital buffers and more comparable capital definitions.

With this, I have finished my presentation and open the line for any questions you may want to ask.

[Alejandro Escobar] Since there are no questions, then we conclude our event. We appreciate your participation and we hope you have an excellent day.

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