1Q19 Results

Presentation Transcription

BBVA Colombia

Audio-Conference 1Q19

[Natalia Neira] Good morning, good afternoon and good evening to our investors connected around the world, you are welcome to our first quarter 2019 Results event. My name is Natalia Neira and I am part of the legal department of BBVA Colombia. In this event is 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 Natalia, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results for the first quarter of 2019 for BBVA Colombia. As Natalia mention, we already send 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 3.4% in both 2019 and 2020, compared to the Global GDP, which rose by 3.8% in 2018. This smooth deceleration in the world economy is conditional on the US and China reaching a trade agreement in the second quarter, which is essential to reduce uncertainty and prevent further deterioration in international trade. In addition, the exit of the United Kingdom from the European Union (Brexit) must not generate major disruptions in the relationship between the two powers.

In the US, growth will continue to lose momentum gradually, moving toward potential interest rates. In particular, US GDP estimated to grow by 2.5% in 2019 and by 2.0% in 2020, down from 2.9% in 2018. Although the growth forecasts for the country remain unchanged, we are facing a downward trend and the risk of recession continues to be significant, given the possibility of a greater slowdown in investment, financial vulnerability and the more negative tone in the global environment, among other factors.

In Colombia, domestic demand will grow above GDP during 2019 and 2020. Public consumption and investment in machinery and equipment and civil works will be the main drivers of domestic demand. Public consumption will continue to be driven by the increase in employment (and the total wage bill) in regional and decentralized entities and by the maintenance of central government spending thanks to the relaxation of the fiscal rule approved in March. However, public spending will enter a slow deceleration process that will cause its growth to fall below the GDP rate from the end of 2019. In other words, the surge in public spending will be concentrated in the first half of 2019, but the increase will be sufficient to ensure that its growth exceeds GDP for the whole of 2019, despite the slowdown at the end.

Furthermore, private consumption should remain very close to its figures of 2018 and does not seem to have the capacity for additional acceleration, as there are certain advanced data that don't show any signs of increase in household spending capacity.

In total, for the first quarter of the year, the Colombian economy grew less than expected amid a decline in the construction sector, standing at 2.8%. In addition, the Dane revised the GDP growth from 2018 to 2.6% from 2.7%, explained by the improvement of basic statistics of the industrial sector and the update of the series of collection of indirect taxes by the Dian, an element that leads them to have some differences.

BBVA Research keeps its GDP growth forecast for Colombia at 3.0% in 2019 and 3.3% 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 is behaving well and stands around 3.0%, which is the main target rate set by the Banco de la República. In addition, the expectations for the end of the year are also built around this target, because, among other things, it is expected that exchange rate volatility will remain within a narrow range, which will keep the tradable goods prices and their decreasing inflation under control throughout the year.

The Central Bank's second point of analysis is growth, which, as we saw above, will continue to accelerate very gradually, more due to investment than consumption. This GDP composition reduces the inflationary pressures involved in accelerating domestic demand. Nevertheless, the Central Bank will analyze the performance of public consumption and the balance sheet since the recent decisions of the fiscal rule, the announcement of high levels of privatization in 2019 and the greater payment of profits from Ecopetrol to the government due to the extraordinary increase in the distributed percentage, made public spending more flexible and will cause it to slow down less quickly.

Thus, the stage seems to be set for the Central Bank to maintain its interest rate, without increases, for longer. The next upward movement is not likely to occur before the fourth quarter of 2019. Moreover, it is likely to be 25 basis points, ending the year at 4.50%. In addition, the long-term interest rate is now closer to 4.75%, not 5% as BBVA Research estimated before, thanks to the lower upward pressure exerted by the lower long-term rates in developed countries.

In conclusion, the growth of the Colombian economy will accelerate gradually, led by investment other than property in 2019 and by the latter from 2020 onwards, in an environment of controlled inflation rates and greater flexibility in the monetary policy to postpone its increases and to slight reduction its long-term rate. The most important challenges will be the reduction of public accounts from 2020 and the reduction closure of the current account deficit to make it more sustainable and affordable.

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

BBVA Colombia showed positive results in the first quarter of the year. Our net income increased 27% yoy, compared to the same period of 2018; as a result, our gross margin grew 16% given greater activity in the bank.

However, our net interest income decreased 11.6% yoy due to the reduction in the loan portfolio. In this way, net interest income showed a decrease of 76 billion pesos.

In terms of our balance sheet, total assets closed at 63.7 trillion pesos, with a growth of 12.1% compared to the last year; the gross loan portfolio registered a yoy growth of 4.7%, ending the period at 45.9 trillion pesos, while customer deposits grew 0.1% yoy, closing with a balance of 44.8 trillion pesos.

As for risk indicators, we saw an increase of 12 bps in our NPL ratio compared to March 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 the last quarter, our NPL ratio falls to levels close to the sector´s average.

Otherwise, our cost of risk declined 30 bps in the first quarter of the year, compared to the fourth quarter of 2018 and increased 5 bps compared to March of 2018.

We have also maintained a good solvency levels well above the minimum required by regulation, ending the first quarter of the year at 11.97%, decreasing 27 bps compared to the first quarter of 2018. These results mostly explained by the increase in the RWAs due to market risk.

Finally, our efficiency ratio continues to improve, decreasing 500 bps compared to the previous year.

On slide number 9, I would like to share our results in terms of digital trends. BBVA Colombia managed to close the year with a very positive balance due to the consolidation of our digital strategy. Whose fundamental purpose is to promote a change in the transactional habits of Colombians, which is why 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, according to the latest report on monetary and non-monetary operations published by the Financial Superintendence, BBVA Colombia registered 98 million transactions made since its application of mobile banking between June and December 2018, so that mobile banking became the channel of greater growth, where BBVA is the leader in the country with an increase of 50%, becoming the most frequent in the use of this channel in the Colombian financial sector.

This digital transformation has led us to be increasingly agile in solutions for our clients and recognized as the best mobile banking entity in Colombia by the publication Capital Finance International (CFI), a medium specialized in economics, business and finance. The publication has highlighted that to boost mobile banking operations, BBVA has developed digital products and services, always focusing on the customer and aimed at improving productivity within the organization.

This has boosted the participation of our digital customers, ending the first quarter of 2019 with an increase of 27% compared to the same period of the previous year and 32% more in our mobile customers. Additionally, digital sales accounted for 74% of total sales, a 59% increase compared to the first quarter of 2018, explained by higher revenues in new products such as debit cards, advances in credit cards and uses in "Payroll Advance". 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 executing this year.

I will now present the main figures for the first 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.

We now move into the results of the first quarter of 2019, starting in slide number 11.

In the first quarter of 2019, our net interest income showed a decrease of 11.6% compared to the same period of 2018. This decrease mainly explained by a negative variation in the loan portfolio of 8% yoy, which corresponds to the decrease in the consumer loan of 11% yoy, in the commercial loan of 8% yoy and in the mortgage loan of 13% yoy.

In the same way, expenses showed a net decreased of 3.3%, which is explained by a decrease in term deposits expenses of 13.1% yoy, an increase in saving accounts expenses of 56.2% yoy and an increase of 56.2% in banks and financial obligations.

Looking forward, we will continue executing our strategy to optimize the composition of our funding sources and we will seek to take advantage of lower inflation this year and a neutral impact of possible increases in interest rates in the coming months.

In the first quarter of 2019, as we see in slide 12, our net fee income showed an increase of 478% compared to the first quarter of 2018, mainly explained by an increase in fees for biometric withdrawals for COP 131 billion, an increase income from external debt and transfer to the same owner. Similarly, there was an increase of 17% y/y in fiduciary businesses, an increase of 21% in network service of branches and an increase of 16% in establishments affiliated with credit cards.

As for the law proposal in progress in Congress, that eliminates some costs of financial services in the products of savings accounts and credit cards, which were approved in the first debate and second debate, argue that the aim is to improve financial inclusion by deepening use of the financial infrastructure. The fees that would be eliminated are: management fees for savings accounts, debit cards and credit cards, cost for consulting the bank's cashier, cost for cashier withdrawals from the entity, cost for internet transfers to different cardholders of the entity, cost for payments to third parties by internet, cost by national consignment in office different from the one of filing.

We believe that the impact will be significant for the Bank, sector and economy. We estimate that for the sector, it would mean more than 3 trillion pesos less in fee income; this meaning an impact between 13-15% on the profits of banks, but some entities would have losses. This in turn would imply 0.4 percentage points less of GDP growth and 1 trillion pesos less in tax collection for the government, according to our forecast.

Moving on to slide 13, we see an outstanding evolution in our efficiency ratio, with a decrease of 500 bps yoy.

During the first quarter of 2019, there was an increase in operational costs of 4.2% yoy. This is mainly explained by an acquisition compared to the last year of new computer equipment, as well as the implementation of software and computer applications, especially corporate software in order to attending our digital transformation process. Additionally, there was a decrease due to operational risk of 2.3% yoy and an increase in electronic data processing, as custodian and storing of information.

Furthermore, during the first quarter of 2019, there was a negative variation in the depreciation by IFRS 16 implementation of 7 billion. BBVA Colombia performed the analysis and implementation of IFRS 16, choosing to apply the modified retrospective method consisting of recognizing lease liabilities for an amount equivalent to the present value of the future lease payments. Once it has been identified that it is a lease under IFRS 16, the tenant must recognize in its assets the right to use the asset and in its liabilities, the obligation for the future lease payments. The impact at the end of March 2019, in the assets for right of use was 179 billion pesos and liabilities for lease around 181 billion pesos.

Finally, as we show on slide 14, BBVA Colombia recorded a net profit of 204 billion pesos in the first quarter of 2019. This is explained by an increase of 27% compared to the first quarter of 2018, mainly as a consequence of a higher gross margin driven by strong recurring income growth with contained expenses and a decrease in the provision expense as a result of recovery efforts.

As for return on equity, BBVA Colombia saw an increase from 12.89% in March 2018 to 13.45% in March 2019, well above the industry's average. The positive trend for the return on assets maintains, going from 0.92% in March 2018 to 0.94% in the same period of 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 4.7% yoy to 45,5 trillion pesos. BBVA Colombia maintains its focus on the retail segment, which represented close to 60% of the total gross portfolio in the first quarter of the year.

Additionally, the portfolio growth was driven mainly by our good performance in mortgages and consumer loans with a yoy growth of 9.3% and 6.9% respectively. Meanwhile, the commercial portfolio showed an increase of 0.2% yoy.

On slide 18, we show our funding sources composition.

In the first three 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 44,8 trillion pesos. In addition, the participation of savings and checking accounts grew, with a yoy growth of 12.2% and 6.1% respectively. This allowed us to reduce to a lesser extent than in previous years to our funding through time deposits in the quarter. In this way, term deposits showed a decrease of 11.6% yoy.

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

During the first quarter of the year, we decreased our market share by 17 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. In addition, the fact that BBVA has to comply with international regulation in terms of liquidity and capital requirements, poses a competitive disadvantage especially when pricing commercial loans. This situation exacerbates when interest rates reach minimum levels and the industry enters into fiercer competition. As a result, our market shares in commercial loans decreased by 22 bps in the first quarter of the year.

On the retail side, we saw a slower dynamic due to the macroeconomic slowdown, so consumer loans showed a decrease in market share of 41 bps. However, credit cards showed better growth, resulting in market share gains of 10 bps. Additionally, it is worth mentioning that by first time after a long time, we acquired market share gain of 1 bps in March of 2019 compared to February of 2019, as a result of promoting this segment.

Regarding to deposits, we saw a market share decrease of 72 bps, driven mainly by a reduction of 211 bps in term deposits, given our strategy to reduce our funding costs and a reduction in the market share of 14 bps in checking accounts. However, saving accounts showed an increase in market share of 48 bps.

Now, on slide 20, you can see that our NPL ratio closed at 3.71% in March 2019, showing a deterioration of 12 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 25 bps. The portfolio that contributed the most for this result was consumer loans, which deterioration is mainly explained by the slow recovery of employment.

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, NPL ratios of the commercial portfolio remain at lower levels than the sector's average given our low participation in distressed transactions. In fact, there was a reduction in the long provisions, mainly because of the write-offs made, highlighting Electricaribe's loan and the generated sales strategies of portfolio. A total of 25 billion pesos of the portfolio provision of this company was recorded, with this amount; the 100% of that portfolio was provisioned, which had two credit operations. On March 20 of 2019, the entire portfolio was written-off with value of 249 billion pesos.

Additionally, mortgage's quality continues to perform much better than the sector.

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 closed the first quarter of 2019 with good solvency ratios, well above regulatory requirements. However, we saw a 38 bps decrease in the solvency ratio in the first quarter compared to the fourth quarter of 2018 due to an increase of RWAs, for longer duration in the portfolio on March of 2019, which increases risk sensitivity. We expect a significant improvement in our solvency indicators under the Basel III regulation, driven by lower weights in the RWA's

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

[Natalia Neira] 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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