

Banco Bilbao Viscaya Argentaria Colombia S.A.
Transcription of 1Q2016 Presentation of Results

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Cra 9 # 72-21 7th Floor
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[Yuliana] Good morning is there any investor connected at the moment?

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[Investor#1] Hello Hello good morning

[Yuliana] ok thank you

[Yuliana] Hi,ok we're going to start the presentation

[Yuliana] My name is Yuliana Cardona, member of the legal department of BBVA Colombia

To this event there is also connected Mario Nigrinis, director of the committee of assets and liabilities.

The presentation is available both in English and Spanish and you can find it in our website www.bbva.com.co on investor attention and clicking the link "Financial"

[Investor#1] Is it just the Spanish version at the moment available? there is just the Spanish version available at the moment?

[Yuliana] At the moment... yes it is

[Jennifer]There is no English version yet

[Yuliana] English as well, both, both versions

[Investor#1] ok

[Yuliana] ok is there any questions, additional?

[Investor#1]Ehm no, do you want to go through your presentation first cause I.. I can't really read Spanish , anyway

[Yuliana] ok

[Stacy Xie] you can just go through your performance in Q1 and then I will have some questions

Ok well, as the investor said Mario Nigrinis you can start with your presentation.

[Mario] Good morning everyone so today we are going to talk about the first quarter results for the bank

As you can see in the presentation on slide three we have a discussion about economic background

As you may be aware in the case of emerging markets the first quarter was not an easy quarter

In terms of economic activity, it was a lot of uncertainty in special because of the economic results in china

And also because of the speech of the Fed and the central bank in Europe

With this in mind our research team reviewed the economic forecast for this year

And we are currently expecting a GDP growth of 2% and 3% In the next year

There has also been a shocking inflation there has been a rise, which has surprised not just the Colombian analysts but also the central bank

And therefore the central bank has increased its interest rates in a very important way

By the end of 2015 the central bank rate used to be 5.75% nowadays its 7% and today in the central bank meeting actually the market is expecting a new increase of 25 basis additional points

So is going to be a total increase expected, included the expectation of today of 150 basis points based on what's the year so far

Regardless of these more challenging economic environment actually the bank is doing well.

And we will see in detail that as you can see in slide 4 actually the results have been resilient in spite of the challenging environment

We have kept a differentiated? Profile and also we have continued to strength our capital to have a more solvent bank

So going to detail on what has been the result for the first quarter

First of all as the relevant figures it's important to highlight that all of them are in thousand million Colombian pesos

And also as you are aware since 2014 the bank is reporting under the IFRS standard

So the figures are comparable in the case of the balance sheet the total assets increased 16.5% compared to the first quarter of 2015

Also when you compare the net portfolio has increased in 19% it's actually the investment portfolio, the loan portfolio

And our deposits from clients increased almost 16%

Concerning the results our net interest margin increased 3.1 % we have also a rise in the gross margin of 7.7% but total profit decreased in 17% and we will explain in detail, the reasons of this results

Finally we had an important increase in our eligible capital up to 5.2 billion Colombian pesos which increased our solvency ratio up to 13.3% we continue to improve our cost to income ratio it is currently at 47.3% the one that is available up to February in 2016 and it has decreased in almost 30 basis points.

So when you look at the balance sheet first of all as I mentioned before the activity, when you compare the total loan portfolio of the first quarter of the year with one year ago

It is increasing in almost 20 % it is 19.5% and along with it its an increase in the impairments of almost vis a vis of 22%

So actually the increase in the loan loss reserve its more due to the activity of the bank rather than a change in the risk profile

You will see this in detail in a few slides ahead comparing the case of the liabilities as already mentioned the deposit increased almost 16% compared to 1 year ago

And I think that most relevant here will be the increase in the stockholders' equity of 7.7% which is related to the decisions made by the shareholders meeting by the end of march where I will explain in further detail later

Our legal reserves were increased by an amount equivalent to a 50% of the profits from the previous year

So when you check at the income statement
Actually what is happening is that there is an increase in the net interest income of 3.1% there has been an important increase specially in interest expenses, Liquidity got tight during the first quarter of the year

And actually the cost of funding increased in a sensitive way and actually as you are aware the translation of this higher cost to our loan portfolio takes time that's the main reason why the rate of increase of the net interest margin is so low for the first quarter of the year however I can tell you as a guidance that on April and May

The net interest income margin has improved and actually the bank has been able to translate this higher cost to its lending portfolio

So this is more like a short term outcome and when we have this conference in a few months for the second quarter results you will see an important improvement.

When you look at the gross margin, actually the gross margin is growing at a faster pace, specially because of the important increase in the other operating income which is mainly driven by the results of our Investment Portfolio in the first Quarter of the year has seen an important reduction on the term structure of interest rates and in that sense our Investment portfolio has shown important profits for the first quarter of the year

Now when you look at the expenses, expenses is growing at a faster rate than the gross margin

And this is mainly explained by the effect of the depreciation of the peso that is having on the effects expenses of the bank this is the consequence as I mentioned before of the volatility in the currency this is having these negative implications on the bank results however our guidance is that the worse of the change rate depreciation has already passed and we are expecting actually to have a relatively stable exchange rate for the rest of the year and in that sense these negative effects should be mitigated for the year end results

So the income before tax decreased by almost 10%, also bear in mind as I mentioned before that with the improvement of the net interest margin results for the second quarter the ones that we have observed so far we are positive about the guidance of profits for the second quarter and you will see a better performance of the net profit for the first half of the year

As mentioned on the 18th of march on the general shareholder's meeting of the bank it was decided to keep the payout of 50% of the profits of the former year so the 50% that was not distributed as a payout was distributed as an increase in the legal reserves of the bank, so the legal reserves of the bank increased from 2.7 to 3 billion pesos in Colombia, 3 billion Colombian pesos, I'm sorry

It is an increase of more than 10% and of course these are good news because the legal reserves as you are aware are the main component of the common equity tier 1 portfolio so actually the common equity tier 1 ratio is above the 7% level, it is currently at 7.6%

And we keep our guidance of maintaining a ratio that is going to be above 7% and 8% along the year for the core equity tier 1 ratio.

Now concerning activity we keep our portfolio mixed when you are considering the loans... our lending portfolio of course the biggest share of the lending portfolio is related to our retail business it can be the mortgage or the consumer lending it is almost 55% of our total portfolio and we keep this mixed regarding the different lines of business

The higher (growths) are in the commercial lending and the consumer lending mortgages are growing at a slower pace and this is also related to an strategic and also environmental economy, the current situation of the economic performance however these activity figures are still at two digit growth rate which is very important and just bear in mind that the guidance for year its an increase in the lending activity that is going to be around 11 to 12 percent and when you look at the deposit base, you can see that actually the bank is still with a similar mix compared to the former year

Where savings accounts are up to 50% of our deposit base
But we have made additional effort in order to increase the share of the term deposits and they almost reached a 35% of the total base on the first quarter of this year of course when you look into detail this is explained by the faster growth of the deposit rates, sorry term deposits

This is part of the strategy the bank has in order to comply with the BASILEA 3 requirements

We prefer to have more deposits which are term deposits so when can have a structural funding of the bank and this allows us to comply among other things with the measurements of the interest rate risk in the banking book

This is a big difference, you will see, between BBVA Colombia and some of our peers the structure of our funding

But it is related to compliance with basil 3 which is required by our parenthood company

Now, concerning risk management as you can see the BBVA keeps this differential risk management where our non-performing loan ratios are below the average of the industry so you can see that in the total there is this gap between the BBVA non-performance loans ratio which is 58 basis points below the industry

And when you look at the different lines of business as commercial loans consumer loans, mortgage loans we have this differential along all of these loans lending... sorry lending activities

Just bear in mind the figures presented are up to February the 2016 which were the ones available when we made the presentation during this week

Finally concerning the bank solvency ratio, as mentioned before there has been an important increase in the eligible capital which is already above 5.2 billion Colombian pesos you can see also the increase in the common equity tier 1 capital which increased from 2.7 up to 3 billion pesos this is related to the increase in the legal reserves after the shareholder's meeting by the end of march.

And with this in mind we close the first quarter of the year with a total solvency ratio of 13.4 % above the 9% required by the Superintendencia .. The Colombian Supervisor

And concerning the core equity tier 1 ratio, it is 7.64% which is also quite above the minimal required level of 4.5% by the Colombian regulation

So this is the presentation that we had for you in the last slide you can find some information about the bank our infrastructure, the number of atm's etcetera

And also of course worth of mentioning that this year BBVA Colombia is celebrating its 16th anniversary

So right now if you have any questions or comments go ahead and we will be willing to reply to them

[Investor#1] Oh thank you very much for the presentation; I've got a question regarding the dividends and equity balance.

You mentioned that you are going to payout 50% of last years profits as dividends Right?

[Mario] Yeah that's right, it is you Stacy?

[Investor#1] yeah

[Mario] Hi, is nice to say hello to you

Yes actually as mentioned you know our guidance for the payout ratio is 50 %so... we have kept our policy this year too

[Investor#1] Ok so has that already affected the equity balance?

[Mario] That's right

[Investor#1] there is a decline in the equity balance?

So the dividends payed are around 3 hundred billion pesos right?

[Mario] That's right; more or less the total profits last year were around 600 thousand million pesos

So it was distributed more or less 300 thousand million to the dividend
and 300 thousand million to the equity

[Investor#1] ok.. Because in the first quarter the equity balance actually fell by more than five hundred billion pesos

[Mario] Yes, when you look at the equity

[Investor#1] 300 of that is equity yeah?

[Mario] Yeah, three hundred of that were the dividends that were payout
However when you check the common equity tier 1

[Investor#1] Aha

[Mario] which is in the almost in the last slide
You can see how it increased from 2.7 up to 3 Colombian Billion pesos

So this is the increase in the legal reserves

[Stacy] Ok, I think we can follow up on this cause I need to have a look on the change of equity statements to figure out, out of the five hundred billion decline

In the equity, apart from the three hundred billion mentioned as dividends

What stands out to 60 billion pesos we can follow on that on email

[Mario] it was the dividends that were payed.

[Investor#1] ...ok

And you mentioned the NPL been rising, and what's your guidance for the NPL ratio for the full year

[Mario] Yes... well actually because we are anticipating a slowdown on the economic activity and also a small increase in unemployment, what we are expecting is in the non performance loan ratio for the industry and also for the Bank for BBVA

However our guidance is that, you will see, we are going to keep our differential with the industry

[Investor#1] So how much do you think the Industry NPL will go up this year

[Mario] Well for the industry is, harder to say this is more like the guidance that comes from our research team Stacy, but what we are anticipating it's an increase in 35 basis points

[Investor#1]...Ok cool

[Mario] But again... it's estimation, it's a forecast

[Investor#1] ...ok, and you mentioned that in the next two quarters the net interest margin should improve so by how much do you think the improvements could be?

[Mario] Yes, well actually the improve should be such that for the end of the year our net interest income should be growing by around 10 % compared to around what was at the end of 2015.

[Investor#1] So in the factsheet you are also expecting a 10% loan growth so the net interest margin should be the same of around 2015 levels right?

[Mario] I mean above the 2015 level, that's what I meant

[Investor#1] net interest margin should be above?

[Mario] yeah that's right 10% above the year's end in 2015

[Investor#1] ...ok ... cool, cool I don't have any other questions, but i will send you an email Because I think that I will meet the details of the capital including the amount of risk weighted assets etcetera, I can write you later an email.

[Mario] Of course No problem it's good to say hello to you and enjoy London

[Investor#1] Hmm, yeah thank you very much for the presentation and thank you for your time

[Mario] Thanks to you Stacy.

[Mario] Is there any other questions?

[Investor#2] Um Hello, Hi Mario?

[Mario] Yes Felipe?

[Investor#2] Yes this is Felipe from LarrainVial

[Mario] Yes, how are you?

[Investor#2] I'm good and you?

[Mario] Very good thank you

[Investor#2] Just had a couple of follow up questions regarding the net interest margin Hum first of all, there is a significant increase in your capital funding in the first quarter can you come to learn how much in this is related to the term deposits?

[Mario] Sure, yeah I mean I will show you what happened in the first quarter of the year is that we had an important increase in the term Deposits as you are already mentioning what we are trying to do is to have this more stable funding in order to comply with the Basil 3 requirements and actually this is one of the reasons that we are having this increase in the funding costs

But it's also related Felipe that it's very important what I said at the beginning of the presentation which was the increases in the central bank policy rates during the first quarter of the year increased in total 75 basis points its interest rates and actually the problem that we were experiencing was having a rapid increase in the general cost of funding not just because of the term deposits but also because the wholesale savings accounts that actually we were not able to translate to our customers for the lending activity

And actually what we did was we did a sharp increase on the lending rates during the second quarter of this year and actually what we have observed so far is that the lending activity is still robust it's still going and the clients are taking this higher interest rates that's why I am positive on my guidance on what it's going to happen for the rest of the year in the net interest margin

[Investor#2] Ok so essentially I mean, your part in the net interest margin is significant during the first quarter roughly flat margins throughout the year so we essentially we should expect the margins to pickup during the next quarter is that correct?

[Mario] That's right that's right Felipe

[Investor#2] Ok to follow up you mentioned that the increase on term deposits is related to regulatory requirements related to your parent company, can you give a little more color?

[Mario] Sure actually, as you are aware in Colombia we have different requirements so the local regulation is not as demanding as the International regulation of Basil 3 , BBVA Colombia is a subsidiary of BBVA in Spain and actually because of this we have to comply with different Basil 3 requirements for instance liquidity recovery ratios we also have to pay attention to the interest weighted risk in the banking books, actually the mismatch of assets compared to liabilities in terms of duration we have to be very careful with these mismatches and in the end what this is requiring is actually that you are able to reduce the duration of your assets or you have to increase the duration of your liabilities in our days what we do related to our strategy is that we get into much more stable funding to these term deposits and actually what we do is we try to get our term deposits up to 4 or 5 ears of maturity

[Investor#2] Ok, perfect that's all my questions, thank you very much

[Mario] Ok It's nice to say Hello to you again Felipe.

Are there any further questions

[Yuliana] Thank you for participating in our event 1Q2016, as we had said before the presentation is available at www.bbva.com, thank you very much and have a good day.

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