1Q -2018 Results Presentation Transcription

BBVA Colombia

Audio-Conference 1Q18

[Natalia Neira] Good morning, good afternoon and good evening for everyone for all investors connected around the world, you're welcome to the first quarter 2018 results, my name is Adriana Sarasty, and I am part of the legal Department of BBVA Colombia, to the event is also connected Carolina Ramirez Lopez, Director of the Financial Management Department who is going to make the presentation, the corresponding document was sent to you by email in English and Spanish and it will be able published in our website in the section of investor relations on the link agenda, we ask you to please set your microphone in silence to eliminate the eco and have better communication. Without further ado, I give the turn to Carolina.

[Carolina Ramirez] Thanks Natalia, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results of the first quarter of 2018 for BBVA Colombia.

I will start with a brief review of the macroeconomic scenario and later I will explain the highlights of our results for the quarter.

Let me start with our macroeconomic outlook on slide 3. Global growth has consolidated during the first months of the year, with greater dynamism in emerging economies and continued momentum in developed economies. This growth is supported by the positive performance in industrial activity, high levels of confidence and a strong performance of world trade that accelerated to the same levels seen in 2016. In the case of emerging economies this was boosted by higher commodity prices.

However, the global economy faces some uncertainties that have been reflected in the increased market volatility over the past few months. The fiscal stimulus approved in the US in February has raised some doubts on fiscal sustainability, at the same time that protectionism rhetoric and monetary policy normalization around the world, add some risks to the global scenario. BBVA Research estimates that the US will grow 2.8% this year, while their world growth forecast is 3.8% for 2018 and 2019.

Under this scenario, we expect the Colombian economy to continue with its recovery process. Last year, GDP grew 1.8%, well below potential and mostly supported on public spending, while the other components of the domestic demand showed a poorer performance. For this year, our economics research team estimates a growth rate at 2%, with better dynamism on the second half of the year explained mostly by private demand. In fact, private investment is likely to show an important recovery led by energy companies that have regained its investment dynamism due to higher oil prices.

In the first quarter of the year, GDP growth was higher that our expectations at 2.2%, while leading indicators, such as consumer confidence, are consolidating a positive trend. With this, we foresee a more optimistic scenario for the economy than the one we initially expected, with a positive bias to our economic growth forecast for the year. For 2019, we see the economy accelerating to 3% growth rates.

Meanwhile, inflation has reduced significantly and it is now inside the Central Bank target range between 2 and 4%. The downward trend has been driven by the weak economic activity and currency appreciation. BBVA Research sees room for inflation to fall below 3% over the next few months and closing the year at 3.1%, while they expect it to decline again in 2019 and ending the year at 2.8%. Therefore, our economists believe that one more rate cut is likely in 2018, but potentially into the second half of the year.

Under this macroeconomic scenario, now I would like to share the main highlights of our results in the first quarter of 2018, moving into slide #4.

BBVA Colombia showed very strong results in the first quarter of the year. Our net interest income increased 15% yoy, our gross margin grew 6% yoy and our net profit raised 39% yoy. The outstanding performance in our net interest income is explained by our balance sheet composition that continues to benefit from the rate cuts implemented by the Central Bank during the period, while net profit was boosted by a decline in expenditures.

In terms of our balance sheet, total assets ended at 56.8 trillion pesos, with an annual growth of 5.0%; the gross loan portfolio registered a year-over-year growth of 10.6%, ending the period at 43.8 trillion pesos, while customer deposits grew 5% yoy to 44.8 trillion pesos.

Meanwhile, risk indicators show an improved trend, with NPL ratios increasing only 13bps vs. the fourth quarter of 2017, reducing the gap compared to the industry. The cost of risk declined 23pbs compared to the same period of last year.

We also keep our solid capital position with a solvency ratio of 12.2%, well above the minimum required by regulation. Finally, our efficiency ratio continues to outperform, with a decline of 208bps.

In slide 5 I would like to highlight our results in terms of digital trends, given that this is one of BBVA's main strategic priorities. We ended the quarter with 43% of our clients making digital transactions. This was boosted by a 59% increase in our mobile customers. Also, digital sales represented 15% of our total sales, following very ambitious targets for this year. Indeed, earlier this month we open the door to 3 million customers to use e-commerce in Colombia, by habilitating the security code for debit cards. We keep offering innovative products and services to our clients, as we want to maintain our leading position in digital banking trends in Colombia.

I will now present the main figures of the quarter; showing first, the results for the period, then the balance sheet and business activity, and finally our solvency ratio. We now move into the results of the first quarter 2018, starting in slide 8.

BBVA Colombia registered a net profit of 160 billion pesos, a decline of 0.8% vs. the fourth quarter of 2017, but an increase of 39% compared to the same quarter of 2017.

As for return on equity, BBVA Colombia saw an increase from 11% in the fourth quarter of 2017 to 16% in the first quarter of 2018, well above the industry average. The trend for return on assets was also positive, moving from 0.8% in the fourth quarter of last year to 1.1% in the first quarter of 2018.

On slide 9 you can see that our net interest income saw a slight decrease of 1.3% compared with the fourth quarter of 2017 but an increase of 15% from the same quarter of last year. This is explained by our balance sheet composition that benefited from the interest rate cuts implemented by the Central Bank. Indeed, 60% of our loan portfolio has been placed at fixed rates and continues to receive the positive impact of higher interest rates in 2016, at the same time that we have managed to keep high commercial spreads. As a result, our Net Interest Margin and Customer Spread continued to increase during the quarter.

Moving into slide 10, given our strategy towards digital channels, net fee income showed a decrease of 50% compared to the previous quarter and a decrease of 38% compared to the same quarter of 2017. This YoY decrease in fees is explained mainly by our strategic actions of cutting digital interbank-transfer-fees and promoting the migration of customers to electronic channels. The first action was undertaken to capture new digital customers from other banks and the second one is aimed at a more efficient use of our banking infrastructure.

In slide 11 you can see how administrative costs registered a decrease of 8.7% compared to the previous quarter and a below-inflation annual increase of 1.6%. Personal expenses decreased by 3.9% compared to the fourth quarter of 2017. With this, we continue to improve our efficiency ratio that declined 208bps yoy to 46.87%.

We now move to the main figures of our Balance Sheet and Business Activity. In the slide 13, you can see that our loan portfolio increased 10% to 43.9 trillion pesos. BBVA has been traditionally more exposed to retail segments, representing nearly 60% of our total loans.

In terms of activity, we highlight our outstanding performance in consumer and commercial loans with year-over-year growth rates of 12.9% and 11.3%, respectively. On the consumer side, we have strategically kept our leading position in payroll loans that represent 57% of our total consumer loans, given that it has shown low levels of risk to our portfolio. Meanwhile, institutional clients have led our commercial loan portfolio, given our strong presence in this market segment.

In the next slide, we have our deposit composition that has remained mostly stable compared to the previous quarter. Customer deposits grew 5% compared to the same period of last year, led by term deposits that grew nearly 11%.

Our funding strategy aims at stable, long-term and fixed-rate sources, given our balance-sheet structure. We therefore look not only to increase our retail deposits' base, but also we are actively looking for long term funding at fixed rates that has implied and increase in our term deposits' base. In the first quarter of the year, we saw a YoY reduction of 3.4% in savings accounts, given that we have strategically reduced some expensive funding since last year.

Moving into slide 15, we saw an increase in our market share of 53bps, driven by strong growth in our consumer and commercial portfolio, with market share increases of 19 and 77bps, respectively. We continue to be one of the main players in the retail segments, with a YoY growth of 16.9% in payroll loans and a market share increase of 108 bps.

On the deposits side, we also saw a market share increase of 28bps, driven by term deposits and checking accounts.

Now, on slide 16, we highlight the improve trend in our NPL ratios as we continue to implement adequate policies to keep the high quality of our portfolio. Last year we saw an increase in our NPL ratios given the adverse economic scenario in Colombia, but the trend has started to improve, with an increase of only 13 bps compared with de fourth quarter of 2017, closing the gap with the industry's average.

In addition, in accordance with the action plan to promote sustained loan growth, by strengthening our admissions requirements and limiting approvals to elevated risk profiles, NPL ratios in consumer loans show as slight increase from 4.4% in the fourth quarter of 2017 to 4.6% in first quarter of 2018 following the trend of the banking sector.

Mortgage NPL ratios improved in the first quarter of 2018 vs. the end of last year, with a better performance compared to the industry.

The next slide shows our detailed Balance Sheet, of which I already mentioned the main highlights over the first quarter of 2018. However, during the time of implementation of IFRS in 2014, the Bank accepted the exception established in IFRS in relation to business combinations. Therefore, it maintained the value of the Goodwill that it brought under the previous accounting, and that corresponded to $192 billion pesos. Thus, on the date of implementation of IFRS, the Bank did not perform the impairment assessment corresponding to that Goodwill and could not established whether there was objective evidence of impairment on the identified cash-generating unit corresponding to the portfolio of credits included in the acquisition.

Therefore, it was decided to eliminate at the end of 2017 the value of that Goodwill Credit in the Financial Statements and its impact for deferred income tax, and we proceeded to restate the 2017 Financial Statements for consistency and comparability purposes.

Finally, in terms of our capital adequacy in slide 20, we have maintained very solid solvency ratios, well above our regulatory requirements. We saw a 60bps decline in the solvency ratio in the first quarter of the year due to two main reasons:

First, we had higher RWA given the increase in our commercial loan portfolio and second, last year we had a maturity in one of our subordinated bonds

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

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