

2Q20

# Results Presentation Transcription

BBVA Colombia



## Audio-Conference 2Q20

**[Adriana Riobo Santamaria]** Good morning, good afternoon and good evening to our investors connected all around the world, you're welcome to our second quarter 2020 Results event. My name is Adriana Riobó 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 Adriana, 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 2020 for BBVA Colombia.

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

The total number of new Covid-19 infections continues to rise around the world, primarily due to negative trends in the United States and Latin America, as well as South Asia. Despite this, the world has begun a gradual opening of production that will determine the speed of economic recovery in the second half of the year. In this context, the world will contract 3.1% in 2020 and return to its growth path in 2021, with an expansion of 5.1%.

In Latin America, the health system challenges continue despite efforts in testing and increases in intensive care units. The longer duration of the shock and the uncertainty about its evolution will have a higher cost in activity in Latin America, with a contraction of the GDP of 9.8% in 2020. Its recovery in 2021, with a growth of 4.3%, will be below by the dynamic global and will depend on the effectiveness of public policies and the development of the pandemic.

In Colombia, the productive recovery has advanced with the gradual opening of some businesses. However, Colombia witnessed the worst economic contraction in history in the second quarter of the year. The most affected sectors in this period were entertainment, hotels and restaurants, construction and transport. The essential sectors maintained a better dynamic, among them, agriculture, commerce and basic industry and government. Leading



indicators of household spending show significant improvements in private consumption from its lowest values on April. The better dynamics of the second half of the year will not compensate for the fall due to the quarantine, so the Colombian economy will contract 7.5% in 2020. The lower dynamics of private and external consumption in 2020 will determine low levels of use of productive capacity, which will limit the need for investment until 2021.

Move to the slide number 6. For 2021, according to BBVA Research, the economy is expected to grow 5.5%, driven in part by the low point of comparison for activity in 2020. The strong depreciation of the exchange rate at the beginning of the pandemic was moderated by the lower perception of global risk and the policy response of central banks. The exchange rate will oscillate around 3,700 pesos per dollar for the remainder of the year. In 2021 it will average 3,570 pesos per dollar thanks to the gradual recovery in oil prices. Meanwhile, inflation has been significantly reduced by subsidies for public services, lower fuel prices, and VAT exemptions for some products. Afterwards, it will remain low due to weak demand and the moderation of exchange rate pressures, closing 2020 at 1.9% and 2021 at 2.8%. All in all, the Banco de la República has reduced its policy rate by 175 basis points since the beginning of the pandemic, reaching a historic low of 2.5% and will bring it to 2.0% in the coming months. Furthermore, the Central Bank has been active in the provision of liquidity, increasing the allowed institutions, the types of guarantee and the maturity, the longest being the one that reaches one year. They have also implemented a bond purchase program that has led to the purchase of 1.1% of GDP. Its purpose leans towards stabilizing the market.

In short, the public policy effort to mitigate the impact of the pandemic on vulnerable households is a valuable asset for economic recovery. The success of the recovery will depend on employment resilience, policy actions and the ability to adapt of the private sector. To safeguard advances in social welfare and consolidate them in the future, it is necessary to promote policies and initiatives that substantially improve productivity and investment.

The 2020 and 2021 scenario is still very uncertain. In the epidemiological aspect, the contagion curve continues to increase and the peak date and its moderation are unknown, especially since it coincides with the reopening of several sectors. This has also led to a saturation of the health system in some regions that has caused localized lockdowns that we expect to continue, especially in the third quarter given the profile of the expected contagion curve.

Now, turn to the slide 7, the huge macro-financial shock caused by the pandemic continues to ravage the global economy where supervisors face challenges that require decisive action to ensure that banking systems support the real economy, while preserving financial stability. To bring immediate relief to affected borrowers and maintain adequate liquidity in the financial



system, many national authorities have adopted supportive measures, such as postponement of debt repayment, stimulus packages, and credit guarantees. In that order of ideas, to address the situation presented as a result of the pandemic. BBVA Colombia's priority has been and will continue to be the protection of our employees and clients, accompanying them and providing them with an excellent service, which has allowed us to provide service adequately and without restrictions, for this, measures have been adapted to operate in the office network, with hygiene and cleaning protocols; Besides of strengthening customer service by guiding it into the use of digital platforms, as the main and effective transaction mechanism, given that our customers can carry out 100% of the financial operations they require at no cost through our digital channels; the mobile banking application on the cell phone and through our website. Among the services available are unlimited transfers between bank accounts and other entities, payments of products from BBVA and other banks, public services and prepaid cellphones services, downloading of bank statements and certifications, as well as balance inquiries and movements of their products. Likewise, it is also possible to contract products such as savings accounts, payroll, consumer loans, and credit cards, among others.

Additionally, we have taken the following steps to protect our customers and employees. As of August 1, 2020, according to Circular 022 of the Superfinanciera de Colombia and in the Debtor Companion Plan, a mechanism stipulated in order to extend the aid and benefits of the debtors of the system affected by the economic crisis due to the pandemic and affected their finances, so BBVA will attend and evaluate the requests of customers who continue to be economically affected in order to offer them a definitive and structural alternative appropriate to their situation. In this way, customers can request these alternatives through the bank's website, filling out a form or through any office in the entity's network throughout the country. Once the request is received, the bank will personally contact each of the clients in order to find the solution with the conditions that best suit their particular situation. Likewise, in the case of clients for whom the requested grace periods have expired, it has established direct communication, through letters and phone calls, to inform them about the conditions of their payments, such as due dates for the next installments and completion of their obligations. Moreover, the bank has transferred resources corresponding to the Formal Employment Support Program for more than 75,000 million pesos to more than 6,500 entrepreneurs who have requested this benefit. With all this we maintain our commitment to employment stability and the compensation of our employees; we have more than 7,200, which are the same as we had at the beginning of the crisis.

Finally, BBVA continues to be committed to the country and to the needs of thousands of families who, given the circumstances of quarantine and social isolation, have not been able to



go out to work and get their daily livelihood, which is why the Bank started a second stage of expanding coverage of the food aid program in order to provide solutions to this emergency.

Given the above, BBVA delivered 25,000 markets in 150 municipalities in 30 departments of the country to those most affected by the pandemic within the framework of the "Helping does us good" campaign. Additionally, BBVA has delivered 10,000 biosafety kits consisting of N95 face masks, safety glasses, face shields, gloves and an anti-fluids medical gown to more than 50 hospitals in 40 municipalities. In addition, BBVA donated 3 intensive care units for the departments of Amazonas, Guaviare, Vichada and Guainía.

Now, turning to the slide number 8, I would like to share the details of the impact of the reliefs program in our loan portfolio. We have taken several actions to help our customers over the last months in different fronts, first we granted grace periods for up to six month periods to the mortgage, consumer and corporate loans. Moreover, we continue to offer financial support to our clients through relief measures and we have observed a good payment performance in our portfolios. In this sense, the balance of the extended portfolio has decreased compared to what was observed in the first months of the relief program. In this first stage of granting grace periods, more than 280,000 BBVA clients requested these reliefs, freezing obligations for 17,4 trillion pesos. In average, the total relief program has represented a 30% of the total loan book.

On the 9th slide, I would like to share the results in terms of the digital transformation that is taking place in BBVA Colombia.

Quarantine and hygiene and self-care habits as a result of the pandemic have led to an accelerated change in people's digital habits. Colombia and BBVA clients have not been an exception, as shown in the reduction of the cash usage and the greater use of digital channels and products. The recommendation to stay at home and the need to find alternative ways for making purchases and transactions brought with it a 20% decrease in operations that were carried out through BBVA's ATM network during the first half of the year. Additionally, BBVA Colombia customers increased the use of digital channels by more than 80% during the first six months of the year, making transactions through the bank's website grew over 90% while the use of the cell phone application increased by more than 80%. In contrast, there was a decrease of about 50% in the operations carried out in the bank's branch network. Regarding to the most demanded transactions by users in these channels are transfers to BBVA accounts and other banks, as well as the payment of agreements, which registered a growth of 40% and 30%, respectively. . Regarding the mobile app, BBVA clients prefer it to make transfers, payments and acquire the mandatory SOAT insurance, while, through the website, in addition to these operations, users contract term deposits. Likewise, as I mentioned before, through these channels it is possible to acquire products such as savings accounts, payroll, consumer loans, credit cards, term deposits and investment funds, among others.



Currently, BBVA customers have the possibility of carrying out, free of charge, 100% of financial transactions through digital channels as unlimited transfers up to a limit of 100 million to BBVA accounts and 90 million to other banks, as well as, product payments from both the entity and other institutions, public services and prepaid phone services, among downloads of statements, bank certifications, balance inquiries and movements of their products.

Under this challenging environment, I would like to share the main highlights of our 2020's second quarter results moving to slide number 11 and then I will present the balance sheet and business activity.

The Bank recorded an annual growth in net interest income of 18.4% during the second quarter of 2020 compared to the same period of the previous year, explained by a positive interannual variation in income in the loan portfolio of COP 337 billion and for a decrease in interest expenses of COP 100 billion. Furthermore, the gross margin showed a growth of COP 126 billion owed to the increase of the bank activity, while expenses amounted to COP 61 billion, growing 7.7% compared to 2019. Within this context, the Bank closed the year with an efficiency ratio of 43.45%, which represented a decrease of 34 basis points compared to the second quarter of 2019. Finally, our net income decreased by 6.0% compared to the same period in 2019.

In terms of our balance, total assets closed with a balance of COP 76 trillion, with a growth of 19.4% compared to the previous year, the gross loan portfolio registered a year-on-year growth of 11.3% with a balance of COP 52 trillion, this growth showed by the BBVA Colombia portfolio, led us to have a market share of 10.30% at the end of May 2020, which presented growth of 23 basis points compared to May 2019. While deposits of clients grew 18.2%, closing with a balance of COP 59 billion, with a market share of 11.98% at the end of May 2020, showing an increase of 85 basis points compared to May 2019.

Regarding the risk indicators, we observed for the month of May 2020 a 2 basis points reduction in our NPL ratio compared to 2019's May. Furthermore, the cost of risk decreased by 4 basis points in May 2020, compared to May 2019.

Finally, in June 2020 BBVA Colombia anticipated the entry into force of Decree 1477 of 2018, being one of the first entities to adopt convergence, which allows us to have a greater capacity for business growth and confidently face the contingency presented by the COVID-19. The foregoing reflects basic and total solvency ratios that are above the regulatory limits and that allow us to continue growing in activity according to what is foreseen in the budget, closing in the second quarter of the year with a solvency ratio of 13.37 % with an increase of 286 basis



points compared to the first quarter of 2020 and an increase of 212 basis points compared to the second quarter of 2019.

In conclusion, we closed the second quarter with a good performance, both in activity and in the income statement, despite the complex situation that we experienced due to COVID-19.

Moving on to slide 12, I would like to share the results of the second quarter of 2020.

The behavior of the Bank's interest margin shows an interannual increase of 18.4% during the second quarter of 2020, equivalent to an increase of COP 236 billion. This growth is mainly by a positive variation in the credit portfolio of COP 337 billion compared to the same period of 2019, which highlights an increase in consumption portfolio, housing and housing leasing of COP 347 billion and a decrease in the remaining portfolios of COP 10 billion.

Furthermore, the interest expense has shown an increase of 100 billion pesos mainly given by the term deposits increase which arrives to 67 billion pesos.

Regarding the Bank's net fee income, it shows a decrease of 64.6%, equivalent to 171 billion pesos, mainly due to a decrease in bank guarantees of 1,2 billion pesos, establishments affiliated with credit cards for 8 billion pesos and the branch network service for 2.3 billion pesos and an increase in card handling fees for 697 billion pesos and a decrease in other commissions for 141 billion pesos such as: social security payment fees, transfers, in house, ATM, biometric window withdrawals, among others. In fee expenses, an increase of 735 billion pesos is shown, mainly caused by the decrease in banking transactions carried out with third parties, for this reason other expenses decrease by 18 billion pesos, of this value 58%, corresponding to the sales force.

Regarding operating expenses, we can see that during the second quarter of 2020, there was a decrease in our efficiency ratio of 34 basis points. This is explained by a moderate increase in expenses during the quarter, with a variation of 7.7%, equivalent to an increase of COP 61 billion compared to the previous year, mainly explained by an increase of 1.3% or COP 4 billion in personnel expenses. On the other hand, general expenses increased 9% and expenses for contributions and taxes registered an increase of 4.7%.

This increase in operating expenses is also due to an increase in computer programs and applications for a total of 11 billion pesos corresponding to the purchase of laptops for work in the home office of the group's workers and the purchase of corporate software for 5,3 billion pesos; the main increase is due to a project that seeks to implement an adequate risk model to support the hiring of both legal and natural clients.

Finally, as you can see on the bottom side of the slide 12, BBVA Colombia recorded a net profit of 320 billion pesos in the second quarter of 2020. This profit is 6% lower than that registered in the second quarter of 2019.



Moving to slide number 13, during the first half of the year, risk management has focused on responding to requests for relief from clients; ending, in June, with the launch of the EMERGE plan with which customer segmentation is carried out and, according to their characteristics, an advance management is carried out and thus solutions are offered to customers to meet their current obligations. During the months of April and May, national management and support is deployed by the different collection channels to receive requests for relief from BBVA clients. As a result of the above, about 17,5 trillion pesos have been approved in relief at the end of June 2020.

Given the above, in May 2020, the NPL ratio was 3.82%, with a decrease of 2 basis points compared to May 2019 and the cost of risk was 2.23%, showing a decrease of 4 basis points compared to the data registered in May 2019, both presenting a recovery compared to the previous year.

The portfolio with the greatest deterioration in the NPL ratio was the consumer portfolio, which showed a deterioration of 81 basis points compared to May 2019, the deterioration is explained by the slow recovery of employment, followed by the mortgage portfolio, which shows a deterioration of 115 basis points compared to May 2019.

Furthermore, the quality of the commercial portfolio remains at levels much lower than the sector average given our low participation in problematic transactions.

As we have mentioned on several occasions, BBVA Colombia'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, in the upper right, BBVA's NPL plus write-off are compared very positively with the sector, showing the highest quality of our portfolio.

On slides 14 and 15, you can find in more detail the main figures of our consolidated income statement for the second quarter of 2020 and the first half of 2020.

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 11.3% yoy to COP 51 trillion. The main commercial activity of BBVA Colombia is retail banking which represents 59.6% of the total gross portfolio at the end of June 2020. This segment showed an increase of 10.4% compared to 2019 and closed with a balance of COP 31 billion.

The dynamics of the portfolio for the first semester of the year have been significantly affected by the current macroeconomic environment, in contrast to the scenario with which we ended





on December 31, 2019, for this first semester the retail portfolio has not been able to maintain growth levels, due to the high number of jobs that have been lost in the Colombian economy, which strongly discourages the taking of consumer loans. That is why we see a growth close to 400 billion pesos, which, in relative terms, represents a growth of 2%. In the same way, the mortgage portfolio, which brought growth in the sector above 8% in previous years, has strongly slowed its growth, in part due to the impossibility of generating removals during the quarantine period, as well as the impossibility of completing ongoing construction works, among other various factors.

Beside it, to a large extent, portfolios have not fallen thanks to the application of reliefs for loans requested by clients and according to circulars 007 and 014 issued by Superfinanciera de Colombia. These reliefs are allowing clients not to generate payments on their loans and with this the natural amortization of the portfolios has decreased considerably, which is why, despite having low levels of billing, the portfolio continues to grow even a little. Some of the portfolios with the highest requests for relief are the mortgage portfolios at 40% and free investment portfolios at 26%, which is why these two lines are affected.

In contrast, the commercial portfolio has had a considerably upward behavior, due to the economic slowdown, many companies; mostly from the corporate and institutional segments have resorted to using their debt quotas to be able to solve the immediate liquidity needs due to the reduction in some usual sources of income. That is why this portfolio shows growth of 12.7%, much higher than those registered in previous periods.

On slide 18, we show the composition of our funding sources.

At the end of the second quarter of 2020, client funds remained adjusted to the Bank's liquidity needs and the deposits behaved in line with the growth dynamics of the portfolio. Total customer funds increased COP 11 trillion pesos, which represented a variation of 22.6%, closing the quarter at COP 60 trillion.

The dynamic presented by the resources was punctuated by the savings accounts, which had an annual growth of 32.5%, this considering that deposits at the end of June grew due to the situation of COVID-19, where clients were cautious in withdrawing their savings during this quarter.

Term deposits represented 39.1% of total resources and showed a variation of 17.6%, reaching a balance of COP 22 trillion. Furthermore, checking accounts showed an annual variation of 16.4%, equivalent to an increase of COP 1,1 billion. These deposits represented 13.9% of total customer funds.



Turning to slide 19, we see the business activity highlights.

For May 2020, the loan portfolio presented a market share of 10.30%, which presented a variation of 23 basis points compared to the previous year. In this way, the individual's portfolio retained the third position in the market, with a market share of 14.32%. This showed a variation of 16 basis points when compared to the same month of 2019. Thus, the consumer portfolio reached a market share of 13.11% with a positive variation of 50 basis points compared to May 2019. Mortgage portfolio reached a market share of 16.01%. Finally, credit cards reached a market share of 6.86%.

On the other hand, the market share of the commercial loans stood at 7.16% and increased 34 basis points compared to the previous year, retaining the fifth position in the market.

Regarding deposits, in May of 2020, BBVA ranked fourth in the market with a market share of 11.98%, which showed a positive variation of 85 basis points compared to the previous year. Likewise, savings accounts showed an increase a market share by 75 basis points and positioned in the third place with a market share of 11.57%. However, the market share of checking accounts showed a negative variation of 151 basis points and was ranked in the third position in the market with a market share of 11.02%. Finally, term deposits showed an increase of 202 basis points with a market share of 13.57%, thus retaining the third position in the market.

In terms of our capital adequacy on slide 20, BBVA Colombia's capital structure is quite robust, where Tier I capital represents on average 58% of technical equity. This has been achieved without the need to increase the bank's capital by issuing shares, but with the policy of increasing the legal reserve with the undistributed profits of each year. The bank's payout remains at 50%.

In June 2020, BBVA Colombia anticipated the entry into force of Decree 1477 of 2018 on convergence to Basel III, being one of the first entities to adopt convergence, which allows us to have a greater capacity for business growth and confidently face the contingency presented by COVID-19. Given the above, BBVA Colombia presented a growth of 286 basis points in the solvency ratio in the second quarter of 2020 compared to the first quarter of 2020 due to a significant reduction due to regulatory change in RWAs, mainly for the mortgage portfolio, additionally, operational risk is incorporated as part of the RWAs. In addition, VaR is reduced due to a decrease in portfolio positions.

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



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

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