

3Q20

**Results Presentation
Transcription**

BBVA Colombia

Audio-Conference 3Q20

[Natalia Neira] Good morning, good afternoon and good evening to our investors connected all around the world, you're welcome to our third quarter 2020 Results event. My name is Natalia Neira 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 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 third 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.

Global GDP will contract highly in 2020 due to the effects of the pandemic. Global growth will be positive again in 2021, but the recovery will be incomplete and mixed. More precisely, BBVA Research expects global GDP to fall 2.9% in 2020 and then expand 5.4% in 2021. The recovery of economic activities is expected to gradually grow in 2021. The announcement and dissemination of effective vaccines and treatments will likely enable a gradual relaxation of social distancing rules throughout the year, first in major world economies.

In Colombia, during the third quarter, the opening of most economic sectors was completed, except those more related to social interaction, crowds and entertainment; cinemas, theaters, concerts, among others. Commerce, including accommodation and restaurants, under protocols that implied a reduced capacity of attention, opened its doors completely in the third quarter. In addition, the activity of the transport of people was restarted, which also has some capacity restrictions, especially in the case of land transportation. With the opening of these businesses, the economy showed better results and, in this way, continued its reactivation trend. However, the economic reactivation was not linear, it had some pauses due to the partial, localized and temporary measures that some cities implemented, especially in July and August, to keep controlling the pandemic. Then, in September, the recovery was much more

significant and continuous. Given the above, the GDP for the third quarter fell at an annual rate of 9% compared to the same period in 2019.

Sectoral openness was directly related to the behavior of private consumption. It was this component of aggregate demand that showed the greatest contribution to the recovery of GDP, not only because of its high size compared to total GDP, close to 70% of GDP, but also because of its gradual rebound. Private consumption fell 8.9% annually, almost the same as GDP, but showed a significant growth of 9.4% quarter-on-quarter.

The recovery in investment was even more outstanding in its dynamics, despite being less influential in the total value of GDP. Although fixed investment fell 19.5% annually, its rebound compared to the second quarter was an impressive 21.3%, driven by a 48.4% QoQ growth in the machinery and equipment component. This last behavior was driven by the sharp decline in inventories in the second quarter, which led entrepreneurs to accelerate production, faster than demand, to rebuild their inventories and respond to the additional recovery in the demand. For this purpose, entrepreneurs quickly increased the use of installed capacity and the expansion of productive capacity was encouraged through the purchase of machinery and equipment. However, this rebound in investment may have been temporary and may be slowing down as inventories decline more slowly.

The other component of the investment, construction, had a less favorable performance, as a high percentage of the works remains paralyzed, the initiation of new works has been slow and the high inventories in offices, premises and warehouses condition the success of the new non-residential projects. In the case of housing, we are at the first moment of recovery: this is when sales begin to accelerate, which will imply a greater dynamism in construction works. Therefore, it is possible that the positive numbers still take time to reach the sector, as new projects, with successful sales, find the breakeven point and begin construction. Also when confidence in the economy increases a little more and the restart of the works that are paralyzed is determined. Although, the rainy season in the country will be a factor that will prevent the construction recovery stage from maintaining a good rhythm, especially in those civil constructions that are already under concession or under execution and in the housing projects that are going to be reaching the point of equilibrium or that they had already achieved it.

For the year 2020, BBVA Research expects a GDP fall of 7.5% per year, as the recovery in the third quarter will not be enough to recover the levels of 2019. In 2021, the recovery will continue with growth of 5.5%. And it will not be until 2022 when GDP recovers the level in force before the pandemic with a growth of 3.5%.

Moving to the slide number 6. The exchange rate in terms of the impact of inflation has not been strong, in fact there have been other effects that have caused inflation to behave downward, those other effects have been a weak demand, when there is a weak demand, entrepreneurs have less capacity to increase the prices of their products and Colombia, throughout the confinement, has had a demand that has been controlled, which has lagged compared to spending in other years and therefore entrepreneurs have had less capacity to increase prices but likewise we have also had subsidies and taxes towards certain products, for example in cell phones, the data had a VAT reduction, restaurants had a reduction in consumption tax, flights had a reduction of the VAT that all this has materialized in lower growth in prices.

So despite the exchange decrease that occurred since March and that has remained at a high level, despite this devaluation effect, inflation has fallen due to lower demand and also due to the decrease in prices for subsidized rates by the state in such a way that today inflation is at 1.75% and will drop by 1.7% at the end of the year, then in 2021 It will rebound, it will grow due to a base effect because next year not all the public subsidies that we saw this year will be repeated but also due to the impact that the second round of completion of regulatory measures such as the end of aid to VAT on flights will have, to restaurant consumption taxes and, therefore, the following year we will have inflation growth towards 2.8% according to BBVA Research estimates.

This inflation growth has some additional upward risks that will be this year both in the La Niña phenomena that we are already seeing their effects, as a greater intensity of rains in Colombia could also have upward effects because perhaps entrepreneurs cannot respond to the recovery in demand or because there is a devaluation of the exchange rate greater than expected, but even so, BBVA Research expects that next year inflation will return to the midpoint of the Banco de la República. For its part, Banco de la República, in a controlled inflation scheme, will keep its interest rate stable at 1.75%. BBVA Research also expects the interest rate to remain stable for a total of 33 months, that is, until the middle of 2022, it would be the greatest stability if its projection is fulfilled since the objective inflation in Colombia is present. This scenario of low interest rates will help the economy to recover.

Now, turning to the slide number 7, BBVA Colombia adopted a series of measures from the beginning to support its main stakeholders. The main business continuity measures taken are: to serve customers, and since financial services are legally considered an essential service, the branch network was kept operational, with dynamic network management based on the evolution of pandemic and activity. In addition, the use of digital channels and remote

managers was encouraged. The data indicate that the COVID-19 crisis is being an accelerator of digitization and BBVA Colombia has not been immune to this phenomenon, digital sales during the third quarter, measured in units, reached 90%, growing 48% compared to third quarter of 2019.

On the other hand, with employees, the recommendations of the health authorities have been followed, anticipating in March of this year the promotion of remote work, it is thus that 94.1% of our employees are working remotely in home office granting them laptops and daily monitoring has been implemented through surveys to report the health status of all employees and 5.9% at work in person, in the offices the health of employees and customers is being taken into account with protocols of biosecurity as markings for social distancing and sanitation of physical places and people.

Furthermore, BBVA Colombia has activated aid initiatives focused on the most affected clients, be they companies, SMEs, the self-employed or individuals, and which include, among others, aid and benefits to the debtors of the system affected by the economic crisis that caused the pandemic and affected their finances, so that during this period BBVA Colombia and according to circular 022 of the Superfinanciera de Colombia and in the PAD more than 13 thousand clients have requested relief by freezing obligations for 557 billion pesos.

Finally, BBVA remains 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, that is why the Bank in order to provide solutions to this emergency, made all its transactional channels available to users so they can make donations from markets and support the government's "Ayudar nos hace bien" campaign. People will be able to make their contributions from the bank's ATM network nationwide, and for those who do not want to leave home, the bank's PSE button has been enabled on its website, as well as transfers from the cell phone through the BBVA application Mobile. The markets, made up of basic products from the family basket, have benefited more than 5,200 people from eight Colombian municipalities, thus providing more than 32,000 markets. In addition, BBVA also participated in the support for food, with the solidarity initiative of the BBVA Digital Fund and with the support and trust of more than 20,000 clients, we were able to donate more than 155 billion pesos as a result of the commission for administration of said background, between the months of May and August. These monies were delivered to the Departmental Network of Chocóan Women. BBVA donated 3 intensive care units for the departments of Amazonas, Guaviare, Vichada and the one for the department of Guainía was strengthened.

Now, turning to the slide number 8, I would like to share the details of the impact of the reliefs program PAD on our loan portfolio. First of all, it is worth mentioning that we have observed a good payment performance in our portfolios. In this sense, in the second stage of granting grace periods, 13,538 BBVA clients requested these reliefs, freezing obligations for 557 billion pesos. On average, the total relief program has represented 1.07% of the total loan book compared to 3.14% granted by the sector.

On slide number 10, I would like to share the results in terms of the digital transformation that is taking place in BBVA Colombia.

The health crisis caused by COVID-19 is being an accelerator of digitization. Between January and September, the bank has added 1.9 million digital customers, while mobile banking is consolidated as the channel most used by BBVA Colombia customers above the website with more than 28 million transactions carried out between February and September of this year. In this way, we can see in September 2020, mobile customers grew 35% compared to the same period of the previous year and represent more than 1.7 million. Regarding the transactions carried out by customers through this channel, it is worth highlighting the transfers to accounts of both BBVA and other entities, payments of public services, invoices and cell phone recharges, taxes and other agreements, as well as downloads of their extracts.

In this way, this is how BBVA Colombia keeps consolidating itself as a digital bank that promotes the nearness to their customers supplying them with investment alternatives according to their needs. The main objective for 2021 is to strengthen more the relationship with our clients, generating innovative solutions of high aggregated value and tailored to their needs, building the best experience for getting every time robust and better results.

Under this challenging environment, I would like to share the main highlights of our third quarter results of 2020, moving on to slide number 12 and then presenting the balance sheet and business activity.

The behavior of the Bank's interest margin shows an interannual increase of 13.9% during the third quarter of 2020 compared to the same period of the previous year, equivalent to an increase of 284 billion pesos. This growth is mainly by a positive variation in the credit portfolio of 329 billion pesos and a decrease in the interest expense of 45 billion pesos. Furthermore, the gross margin grew by 172 billion pesos given the greater activity in the bank, while expenses amounted to 72 billion pesos, growing 6.0% compared to 2019. Within this context, the Bank closed the year with an efficiency ratio of 43.51%, which represented an increase of 8 basis points compared to the third quarter of 2019. Finally, our net income decreased by 34.4% compared to the same period of 2019.

In terms of our balance sheet, total assets closed with a balance of 71 trillion pesos, with a growth of 10.1% compared to the previous year, the gross loan portfolio registered a growth of

6% with a balance of 51 trillion of pesos. This growth showed by the BBVA Colombia's portfolio led us to have a market share of 10.29% at the end of August 2020, which presented a variation of 22 basis points compared to August 2019. While customer deposits grew 11.3%, closing with a balance of 53 trillion pesos, with a market share of 10.97% at the end of August 2020, presenting a decrease of 19 basis points compared to August 2019.

Regarding the risk indicators, we observed for the month of August 2020 a reduction of 20 basis points in our NPL ratio compared to August 2019. On the other hand, the cost of risk increased by 1 basis point in August 2020, compared to August 2019.

Finally, we have maintained very good solvency levels above the minimum required by regulation, closing the third quarter of the year with a total solvency ratio of 15.15% with an increase of 178 basis points compared to the second quarter of 2020 and a 366 basis points increase compared to the third quarter of 2019.

In conclusion, we closed the third quarter with a good performance, both in activity and in the income statement, despite the adverse situation we are experiencing due to COVID-19.

Moving on to slide 13, I would like to share the results of the third quarter of 2020.

The behavior of the Bank's interest margin shows an interannual increase of 13.9% during the third quarter of 2020, equivalent to an increase of 329 billion pesos. This growth is mainly explained on the income side due to a positive variation in the consumer portfolio of 237 billion pesos, equivalent to 13.8%, as well as an increase in the commercial portfolio by 18 billion pesos, equivalent to the 2.1%, credit card for 74 billion pesos, housing leasing for 21 billion pesos and factoring for 5 billion pesos. For its part, the mortgage portfolio, operating leasing, and financial leasing show a total decrease of 27 billion pesos.

Furthermore, the interest expenses has shown an increase of 45 billion pesos, mainly given by the term deposits increase which arrives to 76 billion pesos, equivalent to 7.7%, due to a corresponding increase of 4 billion pesos to banks and financial obligations; and finally a reduction in savings accounts corresponding to 35 billion pesos.

Regarding the Bank's net fee income, it shows a decrease of 50.6%, equivalent to 154 billion pesos, mainly due to a decrease in fees of establishments affiliated with credit cards for 13 billion pesos, a decrease in other commissions for 146 thousand million pesos such as: social security payment fees, transfers, in-house, ATM, biometric window withdrawals, among others, and due to a decrease in bank guarantees of 528 million pesos. In general, the decrease from one year to the next is due to tender guarantees operations and other operations. Also, there is a positive variation of 6 billion pesos in card handling fees and a positive variation of 3 billion pesos in the branch network service. On fee expenses, a decrease of 3 billion pesos is evidenced, mainly caused by the decrease in banking services for one billion pesos.

Regarding operating expenses, we can see that during the third quarter of 2020, there was an increase in our efficiency ratio of 8 basis points. This is explained by an increase in expenses during the quarter, with a variation of 6%, equivalent to an increase of 72 billion pesos compared to the previous year; mainly explain by an increase of 7.8% or 23 billion pesos in general expenses. On the other hand, personnel expenses increased 2.7% and expenses for contributions and taxes registered an increase of 2.3%. This increase in operating expenses is also due to an increase in computer programs and applications for a total of 4 billion pesos.

Finally, as you can see in the bottom side of slide 13, BBVA Colombia recorded a net profit for the end of September 2020 for a value of 176 billion pesos. This profit is 34.4% lower than the registered in the third quarter of 2019.

Moving to slide number 14, Circular 007 and 014 finished, where relief was offered to customers, circular 022 was started, where customers were approached within the PAD Program, the foregoing supported by our EMERGE plan through the collection channels external and branch network. This new stage of management seeks to contact our clients in advance and thus reach structural solutions, if required, all framed within the PAD, which is promoted by the Superfinanciera de Colombia. The above actions lead us to obtain important results in the recovery and containment of the local doubtful portfolio, in July with a recovery efficiency of 182%, in August with 187% and in September with a result of more than 200%.

Given the above, in August 2020 the NPL ratio was 3.49%, with a decrease of 20 basis points compared to August 2019 and the cost of risk was 2.80%, showing an increase of 1 basis point compared to the data registered in August 2019.

The portfolio that shows the greatest deterioration in the NPL ratio was the consumer portfolio, which shows a deterioration of 110 basis points compared to August 2019, the deterioration is explained by the slow recovery of employment, followed by the mortgage portfolio, which shows a deterioration of 105 basis points compared to August 2019.

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

Finally, BBVA Colombia's write-offs are aligned with Basel III policies that allow asset cancellation only when there is no viability of recovery. As shown in the chart, in the upper right, BBVA's NPL ratio plus write-offs are compared very positively with the sector, showing the highest quality of our portfolio.

On slides 15 and 16, you can find in more detail the main figures of our consolidated income statement for the third quarter of 2020 and the first nine months of 2020.

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

On slide 18, during the third quarter of 2020, the dynamics of the portfolio have been significantly affected by the current macroeconomic environment, in contrast to the scenario with which we ended on the fourth quarter of 2019, for this quarter the retail portfolio has not been able to maintain the usual growth levels, due to the high number of jobs that have been lost in the Colombian economy, despite the fact that it began to show incipient signs of recovery after the removal of the containment measures last July. The increase in unemployment and the uncertainty surrounding consumption strongly discourage borrowing. That is why there is a growth of 3 billion pesos, which represents a variation of 6% compared to the third quarter of 2019, reaching a balance of 51 billion pesos.

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, which it implied that many operations were dammed and their formalization postponed, there have also been delays in the completion of the works in progress, among other various factors. Given this panorama, the annual growth of the portfolio has been 364 billion pesos, equivalent to 3.2%.

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 a growth of 4.6% equivalent to 854 billion pesos.

However, portfolios have not fallen, to a very good extent due to the application of reliefs for the loans requested by clients and according to the circulars issued by the Superfinanciera de Colombia. These reliefs allowed clients not to generate payments on their loans and thus the natural amortization of the portfolios has decreased considerably, which is why, despite having low billing levels, the portfolio continues to grow, although to a lesser extent. Some of the portfolios with the largest requests for relief are the mortgage and hedge portfolios.

On slide 19, we show our composition of funding sources.

At the end of the third quarter of 2020, customer funds remained adjusted to the Bank's liquidity needs and deposits behaved in line with the growth dynamics of the portfolio. Total

customer funds increased 5 trillion pesos, which represented a variation of 11.3%, closing the quarter at 52 trillion pesos.

Savings accounts represented 46.4% with an interannual variation of 14.7% equivalent to an increase of 3 trillion pesos compared to the third quarter of 2019. On the other hand, term deposits represented 39.1% of total resources and showed a variation of 5.2%, reaching a balance of 20 billion pesos. Finally, current deposits showed a variation of 18.6% reaching a balance of 7 billion pesos. These deposits represented 14.5% of the total customer funds.

Turning to slide 20, we see the business activity highlights.

For August 2020, the loan portfolio presented a market share of 10.29%, which presented a variation of 22 basis points compared to the previous year. In this way, the individual's portfolio kept the third position in the market, with a market share of 14.43%. This showed a variation of 39 basis points when compared to the same month of 2019. Thus, the consumer portfolio reached a market share of 13.34% with a positive variation of 90 basis points compared to August 2019. Mortgage portfolio reached a market share of 15.93%. Finally, credit cards reached a market share of 6.39%.

On the other hand, the market share of the commercial loans stood at 6.99% and increased 14 basis points compared to the previous year, maintaining the fifth position in the market.

Regarding deposits, in August 2020, BBVA ranked fourth in the market with a market share of 10.97%, which showed a negative variation of 19 basis points compared to the previous year. Likewise, a current account showed a negative variation of 109 basis points and was positioned in the third position with a market share of 10.71%. Also, savings accounts registered a decrease in its share of 91 basis points and positioned itself in fourth place with a market share of 10.05%. Finally, the term deposits showed an increase of 111 basis points with a market share of 12.85%, thus maintaining the third position in the market.

In terms of our capital adequacy on slide 21, BBVA Colombia's capital structure is quite robust, where Tier I capital represents on average 65% of capital basic. This has been achieved without the need to increase the bank's capital through the issuance of shares, but with the policy of increasing the legal reserve with the undistributed profits of each year. The bank's payout remains at 50%.

Given that in June 2020, BBVA Colombia anticipated the entry into force of Decree 1477 of 2018 of convergence to Basel III, this 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 178 basis points in the solvency ratio in the third quarter of 2020 compared to the second quarter of 2020 due to a significant reduction in RWAs mainly for the application of rating adjustments of the counterparties. In addition, the Value at Risk is reduced by 5.5% due to a decrease in portfolio positions.

On slide 22, 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.

Contact Investor Relations

Director

Juan Pablo Herrera Gutiérrez

bbvacolombia-ir@bbva.com