

**1Q21**

**Results Presentation  
Transcription**

**BBVA Colombia**

## Audio-Conference 1Q21

**[Laura Alejandra Peraza]** Good morning, good afternoon and good evening to our investors connected all around the world, you are welcome to our first quarter 2021 Results event. My name is Laura Alejandra Peraza and I'm part of the legal department of BBVA Colombia. In this event are also connected 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 remind you that if you want to ask a question, you can use the chat or you can use the "raise your hand" button that can be found in the bottom right section of your screen.

Without further ado, I give the turn to Juan Pablo.

**[Juan Pablo Herrera]** Thank you very much Laura, 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 2021 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.

### Slide 5 – Economic Environment

First, I will start with our macroeconomic outlook on slide number 5.

After contracting by 3.3% in 2020 due to the effects of the pandemic, world GDP will grow by 5.9% in 2021 and 4.8% in 2022 according to BBVA Research estimates, in relation to the increase in vaccination against Covid- 19, the removal of restrictions on mobility and considerable political stimulus. The better outlook for the global economy is largely due to additional fiscal support in the US, which will allow the country to lead the recovery. Emerging economies will benefit from strong global growth and higher commodity prices, but will generally lag behind due to less favorable access to vaccines and less room for maneuver to implement countercyclical measures.

Although policy measures strengthen growth prospects and vaccination supports the vision of convergence to "normalcy" in 2022, there are still many risks haunting the global economy. On the epidemiological front, slower deployment of vaccines and the emergence of new strains of the coronavirus could pave the way for new waves of infections and more negative scenarios. On the economic front, risks include an increase in inflation, financial tensions generated by an

early exit from the Fed, corporate bankruptcies with negative effects on the financial sector, concerns about the sustainability of public debt, among others. Even so, a more favorable alternative scenario, characterized by an even faster global recovery, cannot be ruled out.

In the case of Colombia, the economy showed strong performance in the first quarter of 2021, with several sectors ranking above pre-covid production levels. Growth for the month of March was 11.8%, higher than expectations and consolidated a growth of 1.1% for the first quarter of 2021. With this, GDP is very close to reaching its pre-covid level, driven especially by investment in machinery, consumption of goods and public consumption. Construction investment, exports, and at the construction and mining sector level continue to lag.

## **Slide 6 – Economic Environment**

Moving to the slide number 6, Annual inflation during the month of April surprised due to the upward tendency, standing at 1.95% on account of food; meat and some perishable foods and public services. This behavior was closely associated with a greater transmission of the exchange rate on the cost structure of the companies providing the service as well as some food supplies. In May we will continue to see upward effects from food due to supply problems generated by barricades and protest marches, mainly in the first days of the month. Going forward, BBVA Research expects the impact generated by food to be temporary and to reverse in the following months, releasing pressure on inflation. However, for the second semester, the gradual recovery of activity and the normalization of education and housing measures will push inflation towards 3.2% at the end of the year.

Then, in 2022, upward pressure is expected, albeit temporary, thus BBVA Research expects inflation to close at 3.1%. The balance of risks in this scenario has tilted upwards, with a softer exchange rate appreciation than initially expected, a greater recovery in activity, the increase in commodity prices, the increase in freight costs and some bottlenecks in specific production lines. Despite this, we expect inflation to remain within the inflation target range.

So far in 2021, the Central Bank of Colombia has kept the intervention interest rate stable at 1.75%. The Bank's Board has highlighted in its analysis the relatively stable behavior of inflation in early 2021 and the recent uncertainty that reigns in world markets, in particular about the monetary policy calendar in the United States. BBVA Research expects rates to remain stable through 2021, with the first hike in April 2022. This will lead to a gradual hike cycle that will bring rates to 2.75% by the end of 2022.

## **Slide 8 – Digital Sales**

On slide number 8, I would like to share the results in terms of the digital transformation that is taking place in BBVA Colombia.

We continue to evolve in our digital capabilities and that is why in order to reinforce security during the digital and physical purchase process, BBVA Colombia has implemented the dynamic CVV verification code for all credit and debit cards in the mobile application. Every time the user goes to make an online purchase, a random three-digit numeric code will be generated with an expiration of five minutes. In this way, security is increased when making purchases in electronic stores because no one will be able to use the data of the same to make the payment. This prevents possible fraudulent use of the card. It is worth clarifying that recurring payments will not have any problem with this new scheme.

BBVA Colombia has taken advantage of the boom in payment methods after the pandemic and has launched the new Aqua card, aimed at all bank customers and especially those who want to make purchases online and do not feel comfortable. The new card does not have the card number or expiration date printed on it and its CVV verification code is dynamic and changes every five minutes, so that the customer feels more secure when making their payments. In this way, the Bank seeks to strengthen one of the aspects most valued by clients; safety. Investing in this type of technology is a sign of the bank's commitment to continue innovating in value-added solutions for its customers.

Additionally, we have launched a new functionality in the Financial Health; Personal Finance Management on the mobile application. This new function allows you to manage income and expenses on a monthly, biweekly or even weekly basis, so that our clients can achieve personal financial stability and thus achieve their savings goals.

Furthermore, given the current situation, the tourism sector has been one of the hardest hit by the number of subsectors it links as well as by its capacity to generate employment, it is for this reason, and reaffirming our commitment to the economic reactivation of the country, during the first quarter of the year, BBVA Colombia has designed the 'BBVA Travel' program as a connection platform for airlines, hotels and cars to make their tourist offer available to our clients. Customers can use their BBVA cards or pay with their accumulated points the total or partial value of their purchases.

We currently have more than 1.9 million digital clients in the first quarter of 2021. In this way, we can see that as of March 2021, mobile clients grew 2% compared to the same period of the

previous year and represent more than 1.8 million. Additionally, BBVA Colombia clients increased the use of digital channels by 2% during the first quarter of the year.

Finally, it is worth noting that BBVA Colombia was recognized as “the most innovative bank in payments methods in Colombia”. A recognition granted by the specialized magazine Global Finance in the category “The Innovators 2021”. Transfers to cell phone contacts through the BBVA Mobile application and contactless payments through NFC technology are some of the innovations that the Bank developed in the framework of the COVID-19 pandemic. This is one more example of the Bank's commitment to our clients and companies so that they can continue their business and carry out their transactions without exposing themselves to contact, taking care of their health and that of others.

We will continue to strengthen the relationship with our clients, generating innovative solutions with high value added and tailored to their needs, improving their experience in order to continue strengthening the Bank's results.

## **Slide 10 - Sustainability**

By 2021, BBVA Colombia will support and seek opportunities that allow people and companies to migrate towards a more sustainable future in terms of the environment and social well-being, a task that we began last year and that we will deepen during the current year.

Given the above, BBVA Colombia has disbursed more than 713 billion pesos in green loans to companies linked to compliance with environmental indicators. In specific terms, during 2020, 34,937 million pesos were allocated to financing hybrid and electric vehicles; for sustainable housing the amount was 1,036 million pesos. In addition, credit guarantees were advanced to companies with projects whose purpose was environmental and social sustainability, in this line, companies such as Metro de Bogotá and Colombia Móvil S.A. they were benefited with guarantees for more than 350,000 million pesos between them. Additionally, there is a 'Leaseback' with the BIOS Group for 39,568 million pesos; and social confirming in alliance with the multinational retail Jerónimo Martins for 26,000 million pesos. In addition, a line of working capital was established for the company Nestlé Colombia for 115,000 million pesos. The year 2020 closed with long-term financing; KPI Link Loan to the food company Colombina for an amount of 45,000 million pesos.

Regarding sustainable mobility, BBVA granted the financing company RCI Colombia a financing line of 7,000 million pesos aimed at the placement of credits for the financing of electric vehicles and launched the Fondo Páramo initiative, seeking facilitate direct way the

conservation of the country's moors. With this initiative, the entity allocates 25% of the collection for administration fees of this fund to the preservation of ecosystems.

BBVA also granted Colombina a second sustainable five-year loan worth 20,000 million pesos. Finally, BBVA has also closed the first long-term financing through a sustainable credit in ESG Linked format granted in Colombia, for Cementos Argos for 160,000 million pesos, where the interest rate will be linked to the performance of the company in aspects environmental, social and good governance. This operation becomes the first of its kind in Colombia, as well as the only one, to date, linked to sustainability performance among the companies of Grupo Empresarial Argos. The objective of this type of financing is to promote a commitment to sustainability management and compliance with socially and environmentally responsible practices that ensure the construction of a greener future.

We expect to close the first half of the year with sustainable operations for more than 1 billion pesos, represented in the issuance of guarantees and green credits for companies and the placement of loans for the construction and acquisition of sustainable homes, as well as for cars and electric motorcycles. Our purpose is to help our clients towards the transition to a greener and fairer future, through financial solutions that reduce the impact of climate change by promoting a more responsible use of resources and alternative technologies with lower effects on the environment.

## **Slide 12 – Main highlights Results 1Q21**

I would now like to share the main highlights of our first quarter results of 2021, moving to slide number 12 and then I will present the balance sheet and business activity.

The behavior of the Banks' net interest income shows an interannual increase of 9.6% during the first quarter of 2021 compared to the same period of the previous year, explained by a decrease in interest expenses of 192 billion pesos, also there is a negative variation in income in the loan portfolio for 120 billion pesos. Furthermore, the gross margin grew by 15 billion pesos given the greater activity in the bank, while expenses amounted to one billion, growing only 0.3% compared to 2020. Within this context, the Bank closed the quarter with an efficiency ratio of 44.35%, which represented a decrease of 56 basis points compared to the first quarter of 2020. Finally, our net income increased by 3.9% compared to the same period of 2020.

In terms of our balance sheet, total assets closed with a balance of 68 trillion pesos, with a decrease of 8.2% compared to the previous year, the gross loan portfolio registered an interannual decrease of 0.3% with a balance of 52 trillion pesos. Similarly, customer deposits decreased by 4.4% year on year, closing with a balance of 51 trillion pesos.

Regarding the risk indicators, we observe for the month of January 2021 a reduction of 82 basis points in our NPL ratio compared to January of 2020. Moreover, the cost of risk increased by 4 basis point compared to January of 2020.

Finally, we have maintained very good solvency levels above the minimum required by regulation, closing the first quarter of 2021 with a total solvency ratio of 13.90% with a decrease of 82 basis points compared to the fourth quarter of 2020 and an increase of 339 basis points compared to the first quarter of 2020.

In summary, during the first quarter of 2021 it represented a difficult path for the country's economy and the banking sector, credit activity grew at a slower pace than in previous quarters. However it maintained adequate funding with public resources. Despite this situation, we closed the first quarter of 2021 with a good performance, both in activity and in the income statement.

### **Slide 13 – Credit Reliefs**

Now, turning to the slide number 13, I would like to share in more detail the impact that the relief program has had on our loan portfolio.

During the first quarter of the year, the Bank continues to monitor and apply the Debtor Support Program; PAD according to circular 039 of Superfinanciera de Colombia through Inbound and Outbound channels provided by the Bank, with the aim of contacting our clients in advance and thereby specifying structural solutions. The foregoing has allowed the Bank's doubtful portfolio to be kept in containment.

The above actions lead us to obtain positive results in the recovery and containment of the local NPL ratio during the quarter, in January with a recovery efficiency close to 63%, in February of 54% and in March of 100%.

We have implemented a two-phase response to give debtors a break and allow them to resume their payments once the effects of the shock are resolved. In the first phase, and in response to circular 007 and 014 of the Superfinanciera de Colombia, the Bank has frozen the repayment of loans for individuals and companies for up to six months with a grace period for capital and interest for mortgage, consumer, payroll and enterprises loans. Likewise, the Bank has offered a special working capital facility for companies, as part of a package of measures aimed at their clients, to help mitigate the contingency caused by the coronavirus in the country. Additionally, BBVA Colombia offered other financing alternatives for the business segment through 'Colombia Responde' lines, from Bancoldex, and 'Special Credit Line with a subsidized rate to support producers affected by the emergency', from Finagro, which provide liquidity support to customers who were among the sectors most affected by this emergency. In this phase,

obligations for 15,6 billion pesos were frozen as of July 31, 2020. On average, it represented 30.2% of the loan book.

Furthermore, the second phase of relief was given in response to Circular Externa 022 - PAD, with new measures in accordance with the economic situation in order to apply targeted and structural measures for debtors affected by the COVID-19 situation. In this way, BBVA Colombia attended and evaluated the requests of the clients who most economically affected, given them grace periods, quota reduction and term extension. In this sense, in the second phase, obligations for 3,6 billion pesos were frozen as of April 07, 2021. On average, the relief program granted has represented 7.04% of the loan portfolio compared to the 7.54% granted by the sector.

### **Slide 14 - Status after deferral expiration date**

On slide number 14, we can see the status of the expired default, at the end of March 2021, 15,9 trillion pesos have expired, of which 72% correspond to the individual's portfolio.

Of the 15,9 trillion pesos with completed reliefs, 78% is current or amortized, corresponding to customers who have been paying or have amortized in advance. 8% of customers have requested a second extension through redefined PAD, and we only have 2% of capital relieved with more than 60 days of default.

### **Slide 15 - Redefined – PAD**

Turning to slide number 15, regarding the redefinition of the PAD, at the end of March 2021, 4,4 trillion pesos have been redefined, of which 3,7 trillion pesos correspond to the retail portfolio and 0,7 trillion pesos correspond to the wholesale portfolio.

In the retail portfolio, 84% of the redefined capital comes from a deferral. At the end of March 2021, 70% of the capital has expired, that is, 2,6 trillion pesos, of which 72% is current or has repaid the debt, and 29% is in default.

In the wholesale portfolio, 0,7 trillion have been redefined, of which 83% come from a deferral, 0,2 trillion pesos have expired, corresponding to 21% of the redefined capital and of which 97% is up to date or has repaid the debt and 2.9% is in default.

## **Slide 16 – Consolidated Results 1Q21**

Moving on to slide 16, I would like to share in detail the results for the first quarter of 2021.

The behavior of the Bank's interest margin shows an interannual increase of 9.6% during the first quarter of 2021, equivalent to an increase of 71 billion pesos. This growth is mainly explained by a decrease in interest expenses of 192 billion pesos equivalent to 36.5%, perceived in a decrease in savings accounts corresponding to 110 billion pesos, followed by a decrease in term deposits for 73 billion pesos, which is equivalent to a reduction of 22.2% and a decrease in banks and other financial obligations for 8 billion pesos corresponding to 29.1%. Furthermore, there is a decrease in interest income of 121 billion pesos corresponding to the decrease in the charged interest in the total portfolio of which the most relevant are the commercial portfolio with a decrease of 80 billion pesos, a decrease in the consumer portfolio of 19 billion pesos and a decrease in financial leasing for 10 billion pesos.

Regarding the Bank's net fee income, it shows a decrease of 20.6%, equivalent to 11 billion pesos, mainly due to a reduction in fee expenses of 24 billion pesos, equivalent to 19.3% corresponding to depreciation fee expenses by sales force generated by the Bank, this model seeks to simulate the incremental cost and achieve an effective rate of the loan portfolio specialized in the mortgage, commercial and consumer portfolio. Similarly, there is a decrease in fee income of 35 billion pesos or 19.7%. Moreover, there is an increase in the commercial handling fees item for 6 billion pesos, an increase in bank guarantees of 1.7 billion pesos and an increase in card affiliated establishments by 1.2 billion pesos.

In terms of operating expenses, we can see that during the first quarter of 2021, there was a decrease in our efficiency ratio of 56 basis points. This is explained by an increase in operating expenses during the quarter, with a interannual variation of 0.3%, equivalent to an increase of one billion pesos compared to the previous year, mainly explained by an increase of 14.4% or 14 billion pesos in general expenses. Besides that, personnel expenses increased by 4.1% and a reduction of 3.5% and 17.7% in expenses for contributions and taxes and operational risk respectively.

In addition, net provision shows an increase of 8 billion pesos, equivalent to a total expense of 271 billion pesos at the end of March 2021. This is mainly explained due to the repayment of the loan portfolio provision of 401 billion pesos, concentrated the provision of financial leasing, consumer and commercial leasing.

It is worth highlighting the behavior of the non-performing loans, since at the beginning of the crisis these balances were expected to grow due to the economic slowdown and the relief programs, but at the end of the first quarter of the year, there is a considerable decrease compared to the last year. This because of the bank's risk management of customers for avoiding major deterioration of the portfolio.

Finally, as we see in the bottom side of slide 16, BBVA Colombia recorded a net profit for the end of March 2021 with a balance of 177 billion pesos. This profit is 3.9% higher that registered in the first quarter of 2020.

### **Slide 17 – NPL Ratio**

Moving to slide number 17, BBVA Colombia continues with its efforts to help debtors who have some type of financial difficulty in line with the Circular Externa 022 and 039 issued by the regulator. With these measures and policies implemented, it was possible to keep a profitable investment growth and properly manage quality indicators in a challenging environment.

Thus, in January of 2021, the NPL ratio was 2.77% showing an improvement compared to the previous year, with a decrease of 82 basis points compared to January 2020 and the cost of risk was 1.93% showing an increase of 4 basis point compared to the data registered in January 2020, deterioration associated with the economic environment.

As of January 2021, we can see that the levels of the NPL ratio for the consumer and mortgage portfolio improved considerably compared to the data registered in the same period of the previous year, with a decrease of 180 basis points and 54 basis points respectively. Similarly, 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 compares very positively with the sector, showing a reduction of 11 basis points, showing the highest quality of our portfolio.

### **Slide 18 – Consolidated Income Statement**

On slide number 18, you can find in more detail the main figures of our consolidated income statement for the first quarter of 2021.

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

## **Slide 20 - Balance Sheet and Business Activity**

On slide 20, during the first quarter of 2021, a decrease in the net loan portfolio was evidenced for 310 billion pesos, equivalent to a reduction of 0.6% compared to the first quarter of 2020, explained by a decrease in the commercial portfolio for 849 billion pesos, equivalent to 4.2%. However, to boost the activity of the commercial portfolio, two initiatives were worked on. In the first, clients with financing needs for layoff payments were managed, achieving a turnover of 107 billion pesos. For the second initiative called "more companies more quota", which will be carried out during the first half of the year, it is managing leading clients in sales by city and winning sectors, where for the month of March there is a growth in average balance investment of 162 billion pesos. Likewise, a campaign was created to encourage the addition of new clients for this segment, where at the end of March more than 100 companies have joined.

In addition, the portfolio with the highest concentration is the consumer portfolio, which has a growth of 191 billion pesos, the line that promoted this growth was payroll loan, contributing 84% of the new billing. Otherwise, free consumption had a slight growth in billing due to the economic recovery and the management carried out on employees and retired clients, complemented by improvements in the conditions of the product in terms of price and terms. It is worth mention the credit card management, since in the first quarter we broke the record in sales for the recent years, surpassing the same quarter of last year by 14%. This execution is the result of the generation of proactive offers, added to other commercial actions that drove hiring from scratch.

Regarding the mortgage portfolio, it shows an annual growth of 526 billion pesos, equivalent to 4.5%. Sustained growth is expected this year due to government coverage, a boost from the construction sector and the economic sector; all this combined with positioning strategies and brand presence in different virtual initiatives in the country.

## **Slide 21 – Funding Sources**

On slide 21, we show our composition of funding sources. During the first quarter of the year, BBVA Colombia maintained a solid liquidity position, in order to face the possible consequences of the economic and health crisis due to COVID19, where both commercial and institutional resources have been increased. The strategy is maintained the diversification of funding sources and to maintain the robustness of the financing structure.

Customer resources showed a decrease of 2,3 trillion pesos, which represented a negative variation of 4.4%, closing the quarter at 51 trillion pesos.

The dynamics presented by resources was marked by current accounts, which grew 10.7% during the first quarter of 2021, followed by an increase in saving accounts which showed a growth of 3.1% where the management of employees and retired contributed significantly to this result. On the other hand, term deposits decreased by 17.6% annually. This is associated with the reorganization of the funding sources to properly manage the financial margin, always taking into account the legal liquidity requirements. This decrease is also explained by the global pandemic situation that generated an economy with falling rates.

## **Slide 22 – Market Shares**

Turning to slide 22, we see the business activity highlights.

The Bank registered a positive balance for the first quarter of 2021 with balance of 50,9 trillion pesos. In the loan portfolio, BBVA Colombia remained in the fourth position with a market share of 10.17% at the end of January 2021, which presented a decrease of 10 basis points compared to January 2020.

During the month of January 2021, the individual's portfolio retained the third position in the market, with a market share of 14.24%. This presented a negative variation of 4 basis points when compared to the same month of 2020. The consumer portfolio reached a market share of 13.06%, presenting an increase of 9 basis points compared to January 2020. Similarly, credit cards showed a market share of 7.28%. In addition, mortgage registered a market share of 15.79%.

For its part, the commercial portfolio registered a market share of 6.83%, decrease by 8 basis points compared to same period of the previous year, maintaining the fifth position in the market. In this segment, the bank continues to work on the strategic priorities raised, especially in providing the best possible experience to customers. To fulfill this pillar, work has been done on digital transformation, which has been promoted through the transactional strategy.

Regarding deposits, BBVA Colombia ranked fourth in the market in January 2021 with a market share of 10.67%, which showed a negative variation of 85 basis points compared to the previous year. Likewise, saving accounts registered a decrease in its share of 93 basis points and positioned itself in fourth place with a market share of 9.90%. Furthermore, a current account showed a positive variation of 4 basis points and was ranked third in the market with a market share of 10.95%. Finally, the term deposits showed a decrease of 83 basis points with a market share of 12.34%, thus maintaining the fourth position in the market.

## **Slide 23 – Capital**

In terms of our capital adequacy on slide 23, BBVA Colombia closed the first quarter of 2021 with very good levels of solvency and liquidity, which respond to the requirements of the regulator and corporate standards.

Given the above, BBVA Colombia showed a decrease of 82 basis points in the solvency ratio in the fourth quarter of 2020 compared to the fourth quarter of 2020 due to a significant reduction in RWAs of 21 basis points due to a decrease in exposure of derivatives and a decrease in the Market Value at Risk of 33 basis points. Additionally, there is a lower value in the Technical Equity generated by the distribution of dividends offset by an increase in profit in Tier 1 and an increase in the subordinated bonds in dollars due to the devaluation of the peso.

## **Slide 24 – Balance Sheet**

On slide 24, you can find our detailed balance sheet, which I already mentioned in the main highlights during the quarter.

In conclusion, we closed the first quarter of the year with a very good performance, both in activity and in the income statement, all of the above framed by the better dynamics of the economy.

We are betting on the strategic transformation of the Colombian financial sector and it will be our goal to continue doing so during 2021 to improve the future of all. We hope to continue growing and generating a greater contribution to our shareholders, employees and to society in general.

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

We remind you that if you want to ask a question, you can use the chat or you can use the "raise your hand" button that can be found in the bottom right section of your screen.

**[Laura Alejandra Peraza]** Since there are no questions, then we conclude our event. We appreciate your participation and we hope you have an excellent day.

## **Contact Investor Relations**

Director

Juan Pablo Herrera Gutiérrez

[bbvacolombia-ir@bbva.com](mailto:bbvacolombia-ir@bbva.com)