

**2Q21**

**Results Presentation  
Transcription**

**BBVA Colombia**

## Audio-Conference 2Q21

**[Laura Alejandra Peraza]** Good morning, good afternoon and good evening to our investors connected all around the world, you are welcome to our second 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 second 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.

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

The global economy is recovering faster than expected in most of the economies, especially in G3 countries, vaccination, fiscal and monetary stimuli, and economic reopening are the key determining factors in this process. This recovery rhythm has further disrupted some production chains, increasing commodities prices and creating inflationary pressures, reaching inflation rates at 5.4% in the United States in June 2021.

It is expected that the economic policies will remain focused on supporting economic growth with an expansive fiscal policy and a monetary policy that will gradually remove stimuli to control the inflationary pressures. Additionally, according to BBVA Research, the world's GDP will reach grow to 6.3% in 2021 and 4.7% in 2022. In this sense, factors such as the withdrawal of monetary stimuli by the United States Federal Reserve, greater persistence of inflation, or even the new coronavirus variant keep the uncertainty levels at exceptionally high levels and pose a risk to the expected economic recovery scenario.

In Colombia's case, the economic recovery after the pandemic has been consolidated in the first half of the year, particularly; we observed an enhanced performance of the consumer and

investment, also a better external demand which pulled up the economy. The third pandemic wave had limited effects on private consumption, despite the context of protests related to the Tax Reform in May. BBVA Research estimates that this year's growth will reach 7.5% and will moderate, reaching 4.0% in 2022. With these estimates, GDP and private consumption will return to their pre-pandemic levels in the third quarter of 2021 while fixed investment will equal the pre-pandemic levels in mid-2022, with a more accelerated behavior of machinery and equipment. Exports and imports will do so in the first half of 2022.

Continuing with slide number 6.

The second-quarter inflation surprised to the upside, in part, due to the shortage of some products caused by blockades and protests, factors that should mostly be transitory, but also, due to the rise in raw material prices, freight costs, statistical-based effects, and some bottlenecks in certain sectors. BBVA Research expects inflation to remain relatively stable for the rest of the year, closing 2021 at 4.5%.

Due to global factors, a greater pass-through of the exchange rate, depreciation, and some bottlenecks in specific sectors, the risk balance is biased up. By 2022 we expect inflation to close at 3.5%, lower than in 2021 due to, among other factors, the withdrawal of the VAT component in the tax reform. This situation could lead the central bank to anticipate the increases in interest rates; BBVA Research expects the policy interest rate to increase in the third quarter of 2021, starting the bull cycle, with two increases of 25 bps in 2021 and four increases of 25 bps in 2022.

In slide number 8, I would like to share the digital transformation results that BBVA is living.

We continue evolving in our digital capabilities that is why to strengthen our clients' security, BBVA Colombia launched the new dynamic security code CVV in the BBVA Mobile application. This new feature reduces the risk of digital fraud and theft granting more secure transactions. This feature is already available for the 4 million active Debit cards and the 880 thousand credit cards of the entity. Each code lasts for five minutes and will only be known to the user through their application, becoming the safest medium for e-commerce.

In the second quarter of 2021, we had more than 1.5 million digital customers. In this way, we can see that as of June 2021, mobile customers grew 6% compared to the same period of the previous year and represent more than 1.4 million. Additionally, BBVA Colombia clients increased their use of digital channels by 87% during the second quarter of the year.

In this way, BBVA follows the path to consolidating itself as a Digital Bank that promotes closeness to its customers by offering them innovative solutions with high added value following their needs, improving their experience to continue strengthening the Bank's results.

In slide number 8, 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 responsible use of resources, and alternative technologies with fewer negative effects on the environment. BBVA Colombia has disbursed sustainable operations for more than COP 1 trillion so far this year. In specific terms, more than COP 860 billion in green loans were allocated to companies linked to compliance with environmental indicators, issuance of sustainable guarantees, social confirming lines, and other financing solutions of this type. Additionally, the bank has allocated more than COP 25 billion for home purchase loans and real-estate projects with sustainable certification, and more than COP 50 billion in loans for the purchase of hybrid or electric vehicles.

Moreover, BBVA Colombia and the Aviator Group signed a financing agreement through a long-term loan in KPI-linked format for COP 70 billion, the interest rate of which is determined by meeting the company's sustainability objectives. Compliance with this goal will be verified by an external consultant, which offers greater transparency for both parties. This operation became the first of its kind in Colombia's national tourism sector to promote economic reactivation and the adoption of sustainable practices in the tourism sector.

BBVA Colombia is committed to working in all possible spaces so that, in alliance with the public sector, suppliers, the social sector, and the private sector, sustainable development can accelerate its way to a greener future. Equally, the Bank managed to be carbon neutral thanks to the reduction of CO<sub>2</sub> and the compensation of more than 3,200 tons of CO<sub>2</sub> in 2020.

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

The bank registered a 6.9% annual growth in the net interest income during the second quarter of 2021 compared to the same period of the previous year. This was mainly explained by a decrease in interest expenses for a value of COP 407 billion. On the other hand, there is a negative inter-annual variation in the loan portfolio income of COP 301 billion. The gross margin grew by COP 50 billion given a higher bank activity, while expenses amounted to COP 16 billion, growing only 1.8% compared to 2020. Within this context, the Bank closed the quarter with an efficiency ratio of 43.16%, which represented a decrease of 29 bps compared to the second quarter of 2020. Finally, our net income increased 30.2% compared to the same period of 2020.

In terms of our balance sheet, total assets closed with a COP 71 trillion balance, with a decrease of 7.2% compared to the previous year, the gross loan portfolio registered an interannual growth of 1.5% with a COP 53 trillion balance. Similarly, customer deposits decreased 6.1% year-on-year, closing with a COP 53 trillion balance.

Regarding the risk indicators, we observed for May 2021 a 115 bps reduction in our NPL ratio compared to May 2020. Furthermore, the cost of risk decreased 13 bps in the same period.

Finally, we have maintained remarkable solvency levels above the minimum required by regulation, closing the second quarter of the year with a total solvency ratio of 13.45% with a decrease of 46 bps compared to the first quarter of 2021 and an increase of 8 bps compared to the second quarter of 2020.

In summary, we closed the second quarter of 2021 with proper performance, both in activity and in the income statement. We will continue working on three fundamental aspects: growing portfolio share, improving our clients' experience, and continuing to grow in clients.

Now, turning to slide number 13, I would like to share in detail the impact of the relief program on BBVA Colombia's portfolio.

During the second quarter of the year, the Bank continued to monitor and apply the Debtor Support Program; PAD through the Inbound and Outbound channels provided by the Bank. Due to the COVID-19 phenomenon persistence and the need to keep generating financial conditions to strengthen the processes of reopening and economic reactivation, the Colombian Financial Superintendence considered it necessary to extend the PAD application and its complementary measures in risk management credit until August 31, 2021, according to external circular 012.

According to the above, it is possible to see the monitoring scheme of the clients who adjusted to some type of relief or redefined, adding obligations of COP 17.4 trillion, of which 78.8% of the redefinition corresponds to customers who had a previous relief, where, of the total of these, 92.7% have already finished their grace period. On the other hand, 20.5% of the obligations are amortized and only 0.75% are written off.

We can see, in slide 14 that at the end of July 27th, 2021, the credits with the finalized grace amounted to COP 12.7 trillion, of which 75.5% correspond to the portfolio of individuals, 16.3% correspond to enterprises and 8.2% correspond to SMEs. Although the results of the recovery management in this quarter were affected by the national strike, which caused the closure of roads and seaports, generating non-compliance with payment, 78.2% of the credits with grace finalized are currently amortized and only 0.3% is in default.

I will now present the results for the second quarter of 2021 in greater detail, starting on slide 15.

The behavior of the Bank's interest margin shows a year-on-year increase of 6.9% during the second quarter of 2021, equal to an increase of COP 105 billion. This is mainly explained by a decrease in interest expenses of COP 407 billion, equal to 37.8%, reflected in a decrease in savings accounts corresponding to COP 226 billion, followed by a decrease in term deposits for COP 160 billion, which is equivalent to a 23.8% reduction and a decrease in banks and other financial obligations for COP 21 billion, corresponding to 34%. Cost decrease behavior is associated with the deposits rates. From June 2020 to June 2021, there was a reduction in the intervention rate of the central bank of 100 bps, going from 2.75% to 1.75%.

On the other hand, there is a decrease in interest income of COP 302 billion explained by a decrease in the charged interest in the total portfolio of which the most relevant is the commercial portfolio with a decrease of COP 185 billion, in the consumer portfolio of COP 80 billion, in credit card for COP 15 billion and a decrease in the housing portfolio of COP 8 billion. Unlike the above, the growth in the housing leasing portfolio of COP 15 billion, equivalent to 11.3%, stands out.

Regarding the Bank's net fee income, it shows a 1.3% reduction, equivalent to COP 1 billion, mainly due to a reduction in fee expenses of COP 41 billion, equivalent to 16% due to the decrease in other expenses for commissions for COP 42 billion and banking services for COP 731 million, which corresponds to the reduction of fee expenses by sales force generated by the Bank today. This model seeks to simulate the incremental cost and achieve an effective rate of the loan portfolio specialized in the mortgage, commercial, and consumer portfolios. Furthermore, there is a growth in fee income of COP 41 billion, equal to 16%, mainly explained by an increase in the business management fees for COP 11 billion, an increase in establishments affiliated to cards for COP 11 million, and an increase in the branch network service for COP 6 billion.

Concerning the operational costs, we can see that during the second quarter of 2021 there was a decrease in our efficiency ratio of 29 bps. This is mainly explained by an increase in operating expenses during the quarter, with a 1.8% variation, equivalent to an increase of COP 16 billion compared to the previous year, due to an increase in general expenses of COP 27 billion or 12.8%. Similarly, personnel expenses increased by COP 12 billion or 3.8%. The increase is mainly due to bonuses of COP 12 billion related to employee benefits. It also increased in the category of wages and salaries to a value of COP 6 billion that corresponds to the salary adjustments of 2021 and the flow hiring of personnel and contributions to health that

amounted to a value of COP 2 million. However, there is a 5.7% reduction and 37.6% in expenses for contributions and taxes and operational risk respectively.

Additionally, the increase in operating expenses is also explained by an increase in computer programs and applications, whose one-off increase corresponds to COP 2.5 billion. There is also an increase in office equipment and computer equipment to the value of COP 637 million.

On the other hand, provisions showed a COP 82 billion reduction, equivalent to a total expenditure of COP 539 billion at the end of June 2021. The Bank has assigned to the operations that benefited from support measures by the health emergency as of June 2021, a total of COP 1.3 trillion in individual loan portfolio provisions and COP 55 billion of interests general provision, in compliance with the external circular 022 issued by the Colombian Financial Superintendence and in Chapter II of External circular 100.

Finally, as we see in the lower part of slide 15, BBVA Colombia registered a net profit for the end of June 2021 for a value of COP 417 billion. This profit is 30.2% higher than the registered in the second quarter of 2020.

Turning to slide number 16, BBVA Colombia continues with its proactive management of the Recovery area to focus on clients that can reduce the impacts on local and consolidated arrears, which finally brings benefits in terms of the consolidation in the Bank's provisions.

Consequently, in May 2021 the NPL ratio stood at 2.67%, which represents a decrease by 115 bps, compared to the previous year. Similarly, compared to May of 2020, the cost of risk stood at 2.10% with a decrease by 13 bps.

As of May 2021, we can see that 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 168 bps and 167 bps respectively. In addition, the commercial portfolio quality remains at lower levels 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 upper right-hand corner graphic, BBVA's NPL ratio + write-offs compare very positively with the sector, showing a 76 bps reduction, exhibiting a higher quality of our portfolio.

We can find the consolidated income statement for the second quarter of 2021 on slide 17

Now we move on to the main figures of our Balance Sheet and commercial activity

On slide 19; during the second quarter of 2021 there was a growth in the loan portfolio of 791 billion pesos, equivalent to an increase of 1.5% compared to the second quarter of 2020. The recovery of the individual's portfolio stands out with a 5.4% growth in the consumer portfolio and 6.2% in the mortgage portfolio.

On the one hand, the portfolio with the highest concentration is the consumer portfolio, which shows a COP 1 trillion growth, the line that promoted this growth was payroll loan, followed by free consumption and vehicles. It is worthy to mention the credit card management since, during the second quarter of the year, sales exceeded the previous quarter by 12% and reached historical records with 80,500 new cards. This execution is the result of pre-approved offers generation, the digital sales contribution, and campaigns carried out in work together with MasterCard.

In the same way, the mortgage portfolio shows an annual COP 730 billion growth, equal to 6.2%. In housing, there was an increase in turnover of 34% compared to the levels before the pandemic, thanks to the risk policies flexibility that allowed us to reach more profiles, this especially leveraged by a competitive commercial offer, the benefits of the government and the digital fair held in June which had a radio and digital channels presence.

Finally, the commercial portfolio presented a COP 976 billion reduction, equal to 4.7% and the leasing portfolio presented a growth of 2.3% with a COP 11 billion variation.

On slide 20, we show the funding sources' composition. During the second quarter of 2021, BBVA Colombia maintained a solid liquidity position, where both commercial and institutional resources have increased. The strategy is to maintain the financing sources diversification and the robustness of the financing structure.

Customer funds showed a decrease of COP 3.4 trillion, which represented a negative variation of 6.1%, closing the quarter at COP 53 trillion. The dynamics presented by the deposits were marked by current account, which grew by 12.3% during the second quarter of 2021. On the other hand, savings accounts showed a 2.8% reduction compared to the same quarter of the previous year. However, there is an 8% growth compared to the first quarter of 2021, explained by management in pension accounts, payroll accounts, and savings programs. Finally, time deposits decreased by 16.5% annually. This is associated with the sources of funds reorganization to adequately 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.

Moving on to slide 21, we see the highlights of the business activity.

The Bank registered a positive balance during the second quarter of 2021 with a COP 52.6 trillion balance. In the loan portfolio, BBVA Colombia remained in fourth place with a market share of 10.21% at the end of May 2021, which presented a 3 bps decrease compared to May 2020.

In May 2021, the portfolio of individuals retained third place in the market, with a market share of 14.34%. This presented a positive 2 bps variation when compared to the same month of 2020. The consumer portfolio reached a market share of 13.30%, presenting an increase of 19 bps compared to May 2020. Similarly, credit cards showed an increase of 93 bps, reaching a market share of 7.79%. Furthermore, mortgages registered a market share of 15.59%.

For its part, the commercial portfolio registered a market share of 6.85%, decreasing 31 bps compared to the same period of the previous year, maintaining a fifth place in the market.

Concerning customer deposits, BBVA Colombia ranked fourth in the market in May 2021 with a share of 10.91%, which presented a negative variation of 107 bps compared to the previous year. In the same way, the share of savings accounts registered a decrease in its share of 152 bps and it was positioned in fourth place with a share of 10.05%. On the other hand, current accounts showed a negative variation of 13 bps and it was located in third place in the market with a share of 10.89%. Finally, the Term Deposit Certificates share stood at 13.01% and showed a decrease of 56 bps, thus maintaining the fourth position in the market.

In terms of our capital strength in slide 22, BBVA Colombia closed the second quarter of 2021 with very good levels of solvency and liquidity, which respond to the requirements of the regulator and corporate standards.

BBVA Colombia's capital structure is quite robust, where Tier I capital represents on average 73% of regulatory capital. This has been achieved due to the policy of increasing the legal reserve with the undistributed profits of each year. The bank's payout remains at 50%.

Given the above, during the second quarter of the year, the regulatory solvency ratio closed at 13.45% way above the minimum regulatory indicator, presenting a decrease of 46 bps in the solvency ratio compared to the first quarter of 2021 due to a significant increase in risk-

weighted assets in the corporate and household portfolio of 63 bps, offset by a decrease in credit exposure to derivatives and a decrease in Market Value at Risk (VaR) of 84 bps.

Finally, there is an increase in the Operational Value at Risk (VeRRO) as the indicator of gradual internal loss has changed, which went from 0.7 to 1 according to the regulations. This gradual change is generated yearly each June since BBVA Colombia anticipated the standard application.

On slide 23, we find our detailed balance sheet, which was before mentioned in the main highlights during the quarter.

In conclusion, we closed the second quarter of 2021 with a remarkable performance, both in activity and in the income statement, all the above framed by the better dynamics of the economy.

We are betting on the strategic transformation of the Colombian financial sector, and we will aim to continue doing so during the second half of the year to improve the future of all. We hope to continue growing and generating a greater contribution to our shareholders, employees, and society in general.

With this, I have finished my presentation and open the line for any questions you might 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)