

2Q22

**Results Presentation
Transcription**

BBVA Colombia

1. Audio Conference 2Q22

[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 2022 earnings conference call. My name is Laura Alejandra Peraza, and I am part of the legal department of BBVA Colombia. With us today are Alejandro Reyes, principal economist, and David de Iscar, ALM Director, who will present the second-quarter results. The corresponding documents will be available on our website in the section "Investor Relations" on the link "Agenda".

Please note that this conference call is being recorded. 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 will now turn over the call to David de Iscar, ALM director.

[David de Iscar] Thank you, Laura. Good morning everyone, welcome to our second quarter 2022 earnings call. I will give a brief overview of the macroeconomic scenario, and later I will explain the highlights of our results for the quarter. Thank you all for joining us today.

First, I will start with our macroeconomic outlook on **slide number 3**.

Global inflation again surprised on the upside due to higher food and energy prices, supply constraints in some sectors, and a rebalancing of demand for services. This prompts more central bank tightening, taking into account the necessity to control inflation in the medium and long term.

According to BBVA Research, the global economy will slow down, with the US and the euro zone seeing negative growth for more than a quarter of the year. This will contribute to reducing inflation, which will still be significantly higher than the banks' short-term power plant targets. After rising by 6.2% in 2021, the world's GDP is predicted to grow by 6.8% in 2022 and 2.0% in 2023. However, the environment is very uncertain due to the co-occurrence of multiple shocks.

On the other hand, economic activity in Colombia has been robust all year long, with first-quarter year-over-year growth of 8.5% and subsequent leading indicators reflecting fairly strong domestic demand. This is primarily explained by the solid expansion in exports, investment, and private consumption.

As we can see on [slide number 4](#), the improvement in the labor market, and the robust foreign demand for regional goods contribute to the activity's growth. In addition to these elements, considering the nationwide strike and logistical challenges encountered in the same period last year, we anticipate a large base effect for the second quarter.

Consumer inflation stood at 9.7% in June. These figures are influenced by both core inflation, which increased to 6.8% annually, and high food costs, which have an annual fluctuation of 23.6%. Additionally, the restaurant and hotel business experienced significant challenges as a result of the expensive food that they use as an input for their services. A strong contribution from housing, water, electricity, and gas services has contributed significantly to the inflation of regulated goods and services, which has also been gradually accelerating and has already reached its current level of 10.3% per year.

Furthermore, the exchange rate has had very volatile behavior in 2022, mainly driven by global factors. The increase in oil prices during the first quarter, which was a reaction to the crisis between Russia and Ukraine, helped the exchange rate. The COP rose to prominence among developing market currencies at that time. The second quarter saw the emerging market currencies fall, the COP depreciate, and the gap between them and their regional peers start to close as a result of the shift in rhetoric and the FED's new stance, which included major rate hikes and a more restrained monetary tone. Additionally, the local election cycle has added volatility and uncertainty to the exchange rate.

The outcomes for the second-quarter were positive. On [slide number 5](#), as of May 2022, BBVA Colombia maintained its fourth-place market position, with a share of the loan portfolio of 10.5%, while Bancolombia, its main competitor, remained to hold the top spot with a share of 25.9%. Simultaneously, we were third in the consumer portfolio with a market share of 12.3%, showing a change of 42 basis points from the same time in 2021.

With a share of 13.3%, the individual's portfolio kept third place in the market. The commercial portfolio's market share was 8.00% at the end of the quarter, up 106 basis points from the same time the prior year, taking it up to fourth place in the market.

In relation to deposits, BBVA Colombia stood in third position in the market in May 2022 with a share of 11.7%, which presented a variation of 90 bps compared to the same period in 2021. Current accounts' market share stood in fourth position with a share of 11.4%. Savings registered a share growth of 158 bps and positioned itself in third place with a

share of 11.3%. Last but not least, the market's third-place position was achieved by BBVA Colombia in the term deposits, which increased by 61 basis points to 13%.

This performance was supported by the improvement of the net interest income; strong loan growth; fee income; and lower operating expenses. Highlighting the bank's management, we maintained our solvency ratios above the minimum required and our portfolio composition, as you can see **on slide 6**, where there are a few highlights of our key business ratios for the second quarter of 2022.

On slide 7, we can see the transformation of BBVA Colombia, where sustainability is a strategic priority, highlighting the relevance of accompanying our customers on their way to achieving their dreams by offering the best available solutions on the market.

In this context, BBVA Colombia aims to offer energy efficient solutions, sustainable mobility, recuperation of water bodies, and sustainable infrastructure, taking into account that the funding for sustainable initiatives increased by more than 100% in 2022. Therefore, the international finance corporation granted a 200 million dollar credit to BBVA Colombia, where the goal is to promote a greener financial sector, supporting the nation's goal of becoming carbon neutral by 2050.

This is the first loan backed by the UK Green Building Market Accelerator Scheme, sponsored by the UK Department for Business, Energy and Industrial Strategy, with the aim of expanding markets for green construction by encouraging financial intermediaries to develop new financing products for green construction in Colombia.

Following the transformation path of BBVA Colombia, there was very strong commercial activity with customers from the bank's different segments, which led to an excellent end of the semester, especially in digital channels, where record figures were achieved. **On slide number 8**, we can see a little bit of our digital transformation, which showed a greater position in billing and registration dynamics, especially for virtual credit products and advanced sales.

In virtual credit, 124 registrations were achieved for the second quarter for a value of \$5,400 million, a great advance compared to the first quarter that closed with 22 registrations for \$700 million. In the same way, we recorded 79 registrations for the product Advance sale for \$2,300 million, an incentive given its recent launch. In our

campaign to link new clients, we have achieved the linking of 1,647 new clients, an important milestone in the growth of banking. For this, it was supported by two focuses: ecosystem planning and management of the new client base.

We will keep the pace on the path to consolidating as a digital bank, reinforcing our relations with our clients and generating high-value innovative solutions to improve their experience and strengthen the bank's results.

Moving forward into our business activity for the second quarter and going into detail **on slide 9**, we can summarize our portfolio performance; the gross loan portfolio reached 64 trillion pesos, drawing attention to the behavior of the particular portfolio, which represented 58.9% of the gross portfolio at the end of June 2022.

The consumer portfolio, made up of payroll loans, vehicles, free investment revolving quota, credit cards, and overdraft loans, increased 20% annually, while the mortgage portfolio grew by 8.5%, representing 21% of the gross portfolio. For its part, the commercial portfolio presented an annual increase of 32%.

In terms of our strategic funding sources management, deposits totaled 67 trillion pesos, representing 77% of the funding composition and growing by 24%, where term deposits represented 26% of the total resources and also presented a variation of 24%, reaching a balance of 23 trillion pesos.

BBVA Colombia's Internal Risk Policy and current Colombian regulations and is implemented through the development of models and tools that allow coordination of monitoring and control activities. In order to identify and mitigate the different risks to which the loan portfolio is exposed, **on slide 10**, on the upper left side, we observed a slight decrease of 24 basis points in our annual non-performing loans ratio, which stood at 2.37%, 62 basis points less than the sector. On the other hand, the write-offs, shown in the upper right corner, are 3.7% below the sector, showing a 66 basis point reduction when compared to the same period in 2021. It is worthy to remark that BBVA Colombia's write-offs are aligned with Basel III policies that allow asset cancellation only when there is no viability of recovery and that these results are due to the strict BBVA Colombia write-off policies. In addition to that, the cost of risk decreased by 108 basis points in the same period.

Continuous monitoring is carried out, verifying compliance with the thresholds established in the risk appetite framework with monitoring of core metrics for compliance with the Bank's objectives expressed in terms of solvency, liquidity and financing, and profitability and recurrence of results.

Moving into **slide 11**, for the end of the second quarter, we obtained a recovery efficiency of the doubtful portfolio of 56% compared to 42% in the same period compared to the previous year, and with the challenge of a doubtful portfolio of 300 billion pesos. The result in the mortgage product stands out, with which an efficiency of 89% was achieved in the quarter.

The recovery of write-offs for the second quarter of the year amounted to 22 billion pesos, continuing with the rate of recovery for this group.

We continue to prioritize the containment of doubtful portfolio inflows and the recovery of overdue portfolios, all supported by our Emerge Plan, with which we have increased contact with customers and thus closed the payment promises of our debtors.

The sources of the recoveries are focused on the effective payment of the clients, the sweep of the recovery engine, and, to a lesser extent, the restructurings.

Continuing with our equity and solvency metrics, **on slide 12**, we can see that BBVA Colombia closed the second quarter of 2022 with a robust capital structure. Tier I capital represented 74% of regulatory capital due to the policy of increasing the legal reserve with the undistributed profits of each year.

The group's stockholders' Equity presented a positive variation of 11% and closed at 6 trillion pesos. This increase is mainly explained by the increase in reserves of 449 billion pesos due to the decrease of 159 billion pesos in exercise earnings.

Technical Equity closed the second quarter of 2022 with a balance of 7 trillion pesos and presented a variation of 16%. The equity required according to Colombian regulations was 4 trillion pesos, which implies a surplus of equity of 2 trillion pesos.

Based on the above considerations, during the second quarter of the fiscal year, the regulatory solvency ratio closed at 12.76%, exceeding the minimum regulatory indicator and presenting a 1.25% annual decrease in the solvency ratio. This variation is mainly explained by an increase of 14.7% in risk-weighted assets and an increase of 19.1% in market value at risk.

On slide 13, we can observe the profitability metrics that have been improving over the last year. The interest margin registered a year-on-year increase of 27.8%. Income from the loan portfolio recorded an increase of 865 billion pesos and expenses recorded a decrease of 412 billion pesos. For this reason, net income from interest showed an increase of 452 billion pesos.

Net fee income closed with a positive variation of 76 billion pesos. On the other hand, the income generated by the investment portfolio showed an increase of 91.2%. Dividends recorded an increase of 312 billion pesos and closed with a balance of 18 billion pesos.

On the other hand, the other income line, which includes operating income from financial services provided and recoveries of operating risk and others, recorded a decrease of 9.8%.

Administrative expenses recorded an increase of 99 billion pesos compared to the previous year. Staff costs increased 12.5% when compared with the year 2021, while general expenses increased 1.2%. Expenses for contributions and taxes registered an increase, and the net endowment of assets increased 6.9%.

Finally, the BBVA Colombia Group recorded a net profit for the end of June 2022 75.2% higher than the profit recorded in the same period of the previous year.

We expect to keep growing and contributing to our shareholders, employees, and society in general.

Our planned remarks for the second quarter of 2022 are now complete. Please use the chat feature or the "raise your hand" button in the bottom right corner of the screen to ask any questions you might have.

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

2. Contact Investor Relations

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