

**3Q22**

# **Results Presentation Transcript**

**BBVA Colombia**

## 1. Audio Conference 3Q22

**[Laura Alejandra Peraza]** Good day everyone, and welcome to BBVA Colombia's third quarter 2022 earnings call. My name is Laura Alejandra Peraza, I am part of the legal department of BBVA Colombia; with us today the ALM and Investor Relations leader, David de Iscar; and the chief economist, Juana Tellez. I'd like to remind you that today's presentation will be available for download on our website in the section "Investor Relations" on the link "Agenda".

Please note, this 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.

**[David de Iscar]** Thank you, Laura. Good morning everyone, and thank you for joining us today.

I will start with a brief overview of the macroeconomic scenario, followed by a few highlights of our financial performance and our recent achievements.

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

After a largely favorable first half, global growth slowed. Commodity prices and supply constraints are decreasing, while gas prices in Europe have increased due to Russian supply reductions. Despite some signs of easing, inflation is still high and surprising to the upside, causing central banks to tighten monetary conditions faster than they had anticipated. This has increased financial volatility and fueled concerns about a coming recession. Given the likelihood of greater inflation, a longer-term tighter monetary policy, and weaker-than-expected GDP, the picture is now more gloomy.

The Federal Reserve's predicted tightening opens the door for slower growth and, most likely, a mild recession by mid-2023. With the likelihood of an increase in interest rates to 2.75% and high gas prices, the environment will be favorable for a (modest) decline in Eurozone GDP in the ensuing quarters and a mild recession by mid-2023. Rates are anticipated to be increased by the European Central Bank to 2.75%, which, along with rising gas costs, will pave the way for a (modest) decline in GDP for the Eurozone in the ensuing quarters. But a significant gas shortage should be avoided thanks to inventories, cost-cutting initiatives, and supplies from alternate sources.

Global growth is expected to considerably slow down, from 6.2% in 2021 to 3.2% in 2022 and 2.4% in 2023.

Inflation will progressively diminish as demand falls, monetary conditions tighten and the effects of recent shocks recede, but it will remain excessive and far over target at least until 2024.

In 2021 and 2022, Colombia's economy saw a robust and quick recovery, expanding by 10.7% and 7.6%, respectively. Private consumption was the driving force behind this behavior, which was aided by significant improvements in the formal labor market and the nation's wage bill, strong dynamics in foreign remittances, more domestic credit, and the irrigation of resources from the export of some goods with high international prices. Due to the rise in domestic demand and the gradual improvement of non-primary exports, investment in machinery and equipment also demonstrated a remarkable performance during the same period. Only the investment in construction, which is still lagging and growing slowly, is the exception to these positive results.

In an effort to slow down the dynamics of domestic demand and inflation and steer growth toward better outcomes for the financial standing of people and businesses, the central bank is ending the increase cycle on the intervention rate at 11%. The rate will stay the same until September 2023, when slower economic growth, lower inflation, and lower price expectations will give way to a chance to drop the cost of borrowing. Nonetheless, the rate of inflation will fall gradually, from 12.5% predicted for the end of this year to 7.3% in December 2023.

Overall, BBVA Research anticipates a slowdown in economic growth in the second half of 2022. This moderation will intensify in 2023, a year of low global growth and more upward monetary policy's influence on consumer spending decisions. Thus, it is projected that GDP will grow by 0.7% in 2023, a rate that will, in any case, allow domestic demand to stay at historically high levels. The economy will then rise by 2.0% in 2024, indicating some signs of recovery. This growth path will result in better financial outcomes for families and businesses, increase the stock of savings in the economy, and be essential to reducing the external deficit—despite its low levels of expansion.

Now, I would like to emphasize a few key messages, which are included on [slide number 4](#). This quarter BBVA Colombia reported a net income of 987 billion pesos which represents a growth of 60% year over year and led to a 1.3% return on assets and a 20.9% on return on equity, with annual increases 14 basis points and 505 basis points respectively. While our efficiency ratio increased 48 basis points compared to the same period in 2021.

The highlights for this quarter were marked by good customer activity and the strategy that has been addressed by the teams which has generated strong results despite the tightening of interest rates and local political uncertainties.

As a result, our Tier 1 capital represents 69% of technical capital and increased 40 basis points compared to the second quarter of 2022 and 10 basis points compared to 2022's first quarter, standing 316 basis points above its current minimums.

This performance is thanks to the BBVA's transformation, where the main aim is to make the opportunities of this new era available to everyone, seeking to meet the vital objectives of our customers, being a driver of opportunities and have a positive impact on the lives of people and on the business of companies, bearing into mind the six strategic priorities that help to fulfill this vision.

As part of this transformation, bearing in mind that the customer comes first and in favor of improving their experience, [on slide 5](#), we can see the development of our digital culture. For the third quarter of 2022 near to 1.89 million customers were using our mobile channels, while 1.93 million were using our digital channels. Regarding the latter, we can point out that our SME segment has been working on improving our digital sales in products such as virtual credit, credit card, and sales advance.

In this context of transformation, BBVA Colombia is looking forward to a sustainable future, in both social and environmental matters.

Respecting sustainability, continuing [on slide 6](#), BBVA updated its Sustainability General Policy by adding the General Policy on Corporate Social Responsibility and updating the Group's sustainability goals. The three new objectives are: increase the growth of the Group's business through sustainability, achieve neutrality in greenhouse gas emissions and to promote integrity in the relationship with stakeholders. In addition, natural capital is incorporated as a focus of action to be prepared for the challenges ahead.

BBVA wants to accompany the energy sector in its transition and it is committed to clean energies. The Group is making progress in its commitment to be a carbon neutral Entity in 2050, not only through its own activity, already achieved since 2020, but also through the activity of the customers that it finances. Therefore, it has announced that it will reduce the emissions of its oil and gas portfolio by 30% before 2040. BBVA will align its balance sheet in the oil and gas sector according to the scenario of net zero emissions in

2050 following the absolute emissions metric. This commitment is in addition to the Group's 2021 targets in four other carbon-intensive sectors and the decision to stop financing coal companies, in line with the zero net emissions banking alliance.

In line with this objective, until September 2022 BBVA Colombia had closed financing deals with the International Finance Corporation for three and five years, totaling USD 240 million. These are intended to, among other things, encourage the funding and development of energy-efficient buildings and lower CO2 emissions.

This is how during this quarter we managed to generate 36 billion pesos in revenue from sustainability-related issues, with 31 billion pesos going to help climate change and 5 billion pesos going to assist financial inclusion

On the other hand, we are committed to each family that needs a roof to live in, to the businessman who requires support to boost his business and to society in general with the aim of improving the living conditions of all Colombians. Moving forward to **slide number 7**, BBVA Colombia has financed 42 billion pesos in mortgage loans, due to this initiative 700 families acquired their own home for the first time, while assisting on the construction of 1,520 low-income housing units; benefiting the same number of families in departments like Bolivar, Tolima, Huila, Antioquia and Risaralda.

As mentioned before and getting down to business and , **on slide 8**, BBVA group in Colombia achieved a 78% higher net fee income and stood at 264 billion, while recurring income from banking continues to show an excellent performance with a growth of 17%, this is mainly supported by the higher interest rates environment. Simultaneously, the increase in operational costs of 6% can be mainly explained by the inflationary environment.

Moving forward, **On slide number 9**, the funding management of BBVA Colombia, whose key element is to maintain an average volume of high quality liquid assets can see our lending activity. During this quarter, a greater growth in lending activity was shown, compared to the growth in funds, non-compromising the liquidity situation of the bank.

Deposits totaled 68 trillion pesos, representing 76.3% of the funding composition and growing by 21%. It is worthy to mention that term deposits represented 38% of the total client's resources and presented a variation of 41%, reaching a balance of 25 trillion pesos, while savings represented 46.3%, increased by 14% and stood at 30 trillion

pesos, additionally, checking accounts represented 13%, increased 19% and stood at 8 trillion pesos.

Moreover, **On slide number 10**, The loan portfolio increased 23% in the first nine months of 2022 and stood at 62 trillion pesos, with a special performance of the individuals portfolio which represents 74% of the gross loans and is composed by the commercial and the consumer portfolio, and increased near to 57% on a year to year basis, while mortgage and leasing increased 7% and 10.5% respectively. For its side, the non-performing loans decreased 5.9% and stood at 1.5 trillion pesos.

**On slide number 11**, In order to identify and mitigate the different risks to which the loan portfolio is exposed, BBVA Colombia's Internal Risk Policy and current Colombian regulations are implemented through the development of models and tools that allow coordination of monitoring and control activities. As a result of this, we can see an annual decrease of 71 basis points in our annual non-performing loans ratio, which stood at 2.22%, 64 basis points less than the sector. On the other hand, the write-offs shown in the upper right corner, are 3.27% below the sector, showing a 102 basis point reduction when compared to the same period in 2021. 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 100 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 12**, by the end of the third quarter, we obtained an average recovery efficiency of the uncertain portfolio of 47%, representing an annual increase of 8%. The result in the Mortgage product stands out, with which an average efficiency of 103% is achieved in the quarter.

The recovery of write-offs for 2022's third quarter of the year amounted to 28.6 billion pesos, an increase of 30% compared to the second quarter, improving the rate of recovery for the group.

Maintaining our focus on the containment of entries into the doubtful portfolio and the recovery of past-due accounts, all supported by our Collection Factories, highlighting the management carried out by channels such as external collection agencies, financial services marketers, and risk anticipation executives, through which we have increased customer contact and thus closed the payment promises of our debtors.

Continuing with our equity and solvency metrics, **on slide 13**, we can see that BBVA Colombia closed the third quarter of 2022 with a robust capital structure. Tier I capital represented 69% 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 14.5% and closed at 6.5 trillion pesos. This increase is mainly explained by the increase in reserves of 449 billion pesos and the increase of 370 billion pesos in net income..

Technical Equity closed the third quarter of 2022 with a balance of 8 trillion pesos and presented an annual variation of 28%.

Based on the above considerations, during the third quarter of the fiscal year, the solvency ratio closed at 13.87%, exceeding the minimum regulatory indicator and presenting an annual increase of 42 basis points. This variation is mainly explained by an increase of 6.5% in risk-weighted assets and a decrease of 8.8% in market value at risk.

Our planned remarks for the third 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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