

**4Q22**

**Results Presentation  
Transcript**

**BBVA Colombia**

## 1. Audio Conference 4Q22

**[Laura Alejandra Peraza]** Good day everyone, and welcome to BBVA Colombia's fourth 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 main economist, Alejandro Reyes. 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](#).

In 2022, the world economy experienced significant and diverse shocks, the majority of which led to inflation reaching unusually high levels. The conflict between Russia and Ukraine at the beginning of the year affected many of the major supply chains for goods including food, fertilizer, petroleum, and some metals, among others, driving up the cost of raw materials and driving up inflation rates around the world. The zero-COVID policy, implemented in China amid still-high global demand despite the slowdown, kept supply constraints in place for industrial and agricultural goods as well as in maritime transportation logistics, delaying the normalization of logistics costs that had been high since 2020 and raising global prices.

Colombia maintained an outstanding performance thanks to the dynamism of domestic demand and the progressive recovery of exports. In the first case, private consumption and investment in machinery and equipment grew above GDP. Consumption was fueled by factors such as an increase in labor income and household disposable income, a high level of external remittances, an increase in coffee exports, credit expansion, and a decrease in family savings. In turn, investment in machinery was explained by the good results of industrial sales in domestic and foreign markets, the recovery of direct foreign investment, and lower raw material prices. Indeed, throughout the year, exports of goods

and services had a significant recovery, not only in goods related to mining and basic products but also in non-traditional items of foreign trade.

On the contrary, construction investment lagged behind other components of GDP, owing to the low execution of civil works and non-residential buildings, which were at lower levels than those reported prior to the pandemic. Despite demonstrating a slow and progressive recovery process. In the case of housing investment, while the units built in 2019 exceeded expectations, the greater concentration of social interest housing in 2022, which has a low sale value, reduced the sector's added value to GDP.

Domestic demand dynamics determined a more than proportional increase in imports, especially since consumption of durable goods and investment in machinery are heavily reliant on imported goods. As a result, despite a significant increase in total exports and remittances, the country posted an external deficit of around 6% of GDP for the second consecutive year. The current account imbalance was gradually reduced in the final stretch of 2022, thanks to a slowdown in domestic spending, but it remained at high and demanding levels to obtain equivalent external financing.

The economic slowdown occurred primarily in the goods market rather than in the services market. Economic activities related to production showed a more marked moderation than those related to the provision of services. As a result, when GDP is analyzed by demand, household spending on semi-durable and durable goods has been less positive, while spending on services and non-durable goods has remained more resilient.

There are at least two possible explanations for this behavior. First, rising inflation and interest rates reduced the purchasing power of households (and businesses), particularly in goods that can be financed with credit, such as durable goods (cars) or machinery equipment. Second, the asset expansion cycle began earlier because, once the more stringent restrictions of the pandemic lockdowns were lifted, those who kept their income and accumulated savings devoted them primarily to asset acquisition. At the time, social interaction restrictions prevented high spending on services such as restaurants, hotels, and travel. The latter were only recently reactivated. As a result, its expansion cycle is shorter and it takes longer to reverse.

In general, economic activity and domestic demand, in particular, have shown greater dynamism than expected in recent months, with growth in 2022 close to 7.5%. Similarly, high inflation contributed to the central bank raising interest rates to 12.0% in December

of 2022. In this context, and taking into account financial volatility and uncertainty about economic policy, BBVA Research estimates that interest rates will be further adjusted upward to around 13.25%, inflation will fall to 9%, and growth will slow significantly to around 0.7% in 2023.

Now, I would like to emphasize a few key messages, which are included on **slide number 4**. During this quarter, BBVA Colombia reported a net income of 1 trillion pesos, which represented a 15% year over year growth and led to a 1.18% return on assets and a 17.98% return on equity, with annual decrease of four basis points and an annual increase of 138 basis points respectively. On the other hand, our efficiency ratio increased 267 basis points compared to the same period in 2021.

Continuing with strong results due to the customer activity and the bank's strategy, the highlights for this quarter include:

- Our customers' consolidation allowed us to get strong core revenues in a complex scenario. With an increase of 21.4% in the gross margin and of 22.9 in operating expenses, the group managed to increase its annual net profit by 15%.
- The best and most committed team, since our business is a business of people, and we are people working for people. During 2022, BBVA Colombia leveraged the growth of the working team, enforcing the technological areas, and hiring around 109 women, which represented 35% more women than last year in the same period. This increased the personnel expenses by 25% and the general expensed by 7,2%. This and the higher gross margin led to a higher efficiency ratio, which increased 267 basis point when compared to 2022's December.
- Additionally, strategic risk management improved the cost of risk by 76 basis points. And the strategic management of assets and liquidity led to a robust capital structure that simultaneously led the Tier 1 capital to represent 65% of the technical equity,

**On slide 5**, supporting the bank's digitization strategy, in which customers are at the center of the business. As a consequence of the improvement in digital capabilities, customer acquisition through mobile and digital channels has increased in recent years. In 2022, nearly 2 million customers were using our mobile channels, while 2.27 million were using our digital channels, which represents an increase of more than 50% since the end of 2020. We would also like to mention that almost 86% of total sales are made through digital channels.

Respecting sustainability, continuing [on slide 6](#), BBVA is working on making various products available to retail customers, both investment and financing, that try to promote positive behaviors in terms of sustainability. Thus, the offer of sustainable solutions pursues, among others, energy efficiency and the decarbonization of the economy with products such as financing lines for the acquisition of hybrid and electric vehicles, green mortgages for homes with high energy ratings, and loans for the improvement of the energy efficiency of houses.

In line with this objective, until December 2022, BBVA Colombia had closed financing deals with the International Finance Corporation for three and five years, totaling USD 300 million. These are intended to, among other things, encourage the funding and development of energy-efficient buildings and lower CO2 emissions.

During 2022, our sustainable business grew by nearly 300%, totaling 1,4 trillion pesos. This result is due to a growth of 241% in sustainable mobility, 82% in energetic efficiency, and 985% in the circular economy. In addition, renewable energy projects and B-corporation projects started with great acceptance, closing the year at 254 billion pesos and 114 billion pesos, respectively.

On the other hand, we are committed to each family that needs a roof to live under, to the businessperson 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 financed over 7 billion pesos in 2022.

Regarding our focus, education, BBVA Colombia provided support through the program Creating Opportunities, in which over 2 thousand electronic devices were distributed to over 115 schools, 209 thousand students, and 7 thousand teachers. In addition, more than 10 scholarships were granted through the Transforming Realities initiative, and finally yet importantly, more than 200 teachers received training in programming and computational thinking.

With the purpose of reducing inequalities and reinforcing inclusive growth, over 15,000 Colombians were trained in financial education, of whom 60% were women. Moreover, 532 SME owners received training with the University of Los Andes.

On the other hand, and highlighting our compromise with the main sustainable initiatives, we assisted in the protection of 84 natural hectares and supported circular economy

initiatives, especially for recycling associate SMEs. We planted near 800 trees, and we helped over 80,000 people affected by the rainy season.

**On slide 8**, the interest margin registered a year-on-year increase of 9.7%. Income from the loan portfolio increased by 48%, and interest expenses registered an increase of 139%.

Net fee income closed with a positive variation of 67.6%. On the other hand, the income generated by the investment portfolio presented an increase of 96.1%, while dividends registered an increase of 1.6%.

Operational costs recorded an increase of 21.3% with respect to the previous year. The expenses for taxes registered an increase of 39.3%. The net provisions presented an increase of 25.9%.

Finally, the BBVA Colombia Group registered a net profit of 1 trillion pesos for the year's end, which was 15.3% higher than the profit recorded in the same period of the previous year.

Continuing, **on slide number 9**, portfolio activity showed a positive evolution throughout the year, accelerating its growth rate quarter after quarter with respect to the end of 2021 and reaching a year-on-year growth of 20% at the end of 2022. The commercial portfolio showed the most dynamic behavior, with an increase of 35% thanks to the enterprise segment, although the retail portfolio also showed a favorable evolution of 17%.

Customer deposits under management increased by 17% during 2022, as a result of the growth of 58% in time deposits, derived from the successive rate hikes carried out by the central bank.

**On slide number 10**, 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 improvement of 41 basis points in our annual non-performing loans ratio, which stood at 2.31%, 52 basis points less than the sector. Similarly, at the end of November, the write-offs shown in the upper right corner were 2.81% lower than the sector, representing a 88 basis point decrease 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.

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.

As 2022 was a year of significant economic and political challenges, with an uncertain environment that ended with the highest inflation of the decade, which had significant ramifications on debtor payment behavior and led to an increase in default entries in the last five months of the year. In [slide 11](#), we can illustrate our recovery area efforts; different plans were established, focusing efforts and seeking to anticipate, contain, and mitigate a larger impact on write-offs for the year. With a strong emphasis on the containment of the local uncertain portfolio and the challenge of having an annual average monthly risk of 300 million pesos. Recoveries average 75 million pesos per month, with the main sources of recovery being effective client payment, the sweep of the recovery engine, and, to a lesser extent, restructuring.

The uncertain portfolio increased 2.9% by the end of the fourth quarter compared to the same period in 2021, while the uncertain portfolio ratio ended at 2.40%, 57 basis points lower than the end of 2021. Meanwhile, the quarter's recovery efficiency rate is 32.2%. The recovery of write-offs for 2022's fourth 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.

Continuing with our equity and solvency metrics, [on slide 12](#), we can see that BBVA Colombia closed the fourth quarter of 2022 with a robust capital structure. Tier I capital represented 65% 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 9.4% and closed at 6.7 trillion pesos. This increase is mainly explained by the increase in reserves of 449 billion pesos and the increase of 136 billion pesos in net income.

Technical Equity closed the fourth quarter of 2022 with a balance of 8 trillion pesos and presented an annual variation of 19%.

Based on the above considerations, during the fourth quarter of the fiscal year, the solvency ratio closed at 13.29%, exceeding the minimum regulatory indicator and presenting an annual increase of 46 basis points.

Our planned remarks for the fourth quarter of 2022 are now complete. We expect to keep improving the bank's performance through our digital and sustainable 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 having a positive impact on the lives of people and on the businesses of companies, bearing in mind the six strategic priorities that help to fulfill this vision.

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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