

4Q19 Results

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BBVA Colombia

Audio-Conference 4Q19

[Adriana Riobó Santamaria] Good morning, good afternoon and good evening to our investors connected all around the world, you're welcome to our fourth quarter 2019 Results event. My name is Adriana Riobo and I'm part of the legal department of BBVA Colombia. In this event are also connected Diana Polania - Financial Planning Director, 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 ask you to please mute the microphone of your phones to have a better communication.

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

[Juan Pablo Herrera Gutiérrez] Thank you very much Adriana, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results for the fourth quarter of 2019 for BBVA Colombia. As Adriana mention, we have already sent you all the material via email both in English and Spanish through your email.

I will start with a brief overview of the macroeconomic scenario and later I will explain the highlights of our results for the quarter. First, I will start with our macroeconomic outlook on slide number 5.

2019 was marked by the global growth weakness. According to BBVA Research, global economy had have grown by 3.2% the lowest rate since 2009. The lowest growth owed to the structural Chinese economy slowdown, the cyclical moderation of USA, the protective measures and the geopolitical tensions with negative affectations over Latin-American and European economy.

The reduction of the commercial tension between USA and China and the messy Brexit risk disappearance in the short-run has contributed to a reduction of the economic uncertainty. In this way the growth deceleration process has been stopped and the stabilization of the global economy has begun, despite of the protectionism will keep affecting the global commerce and the geopolitical and structural risks will remain high.

BBVA Research estimates the global growth to stand in 3.2% during 2020. Although the strategic rivalry between USA and China will keep generating tensions and other regions can get affected by new protective measures, we are expecting that global uncertainty keeps itself lower that in 2019 and let the global deceleration process end.

Moreover, during 2019 Colombia's economy presented a considerable acceleration on intern demand in both private consumption and in investment. This period presented a complex extern context with higher uncertainty in financial markets and a weak demand for our importations. In this way, the economy grew 3.3% in 2019 and domestic demand at a rate of 4.5%.

For 2020, BBVA Research expects that growth place itself in 3.2% with the domestic demand leading the expansion. Investment will grow 5.0% accelerating against 2019 and growing for the first time since 2014 above consumption. The prominence in 2020 will be construction of buildings turning from a contraction to an expansion of 5.5%. The other components of investment; machinery and equipment and civil works will keep expanding but in a moderate rate than registered in 2019.

On the other hand, turning to household consumption we expect its growth rhythm moderates from 4.6% in 2019 to 4.3% in 2020. This moderation, if well maintains the consumption with a higher expansion than GDP, reduces the pressure that currently exerted on the macroeconomic balance such as savings and extern deficit.

Continue on slide number 6, inflation accelerated from 3.2% to 3.8% arriving to its upper limit, this movement is explained first by food inflation which is also explained by strong climate effects and the depreciation of the exchange rate on imported food or with a high level of imported components, which was reflected in an acceleration of 63 basis points, and second by the inflation without food or regulates which explained 30 basis points of acceleration in global inflation.

For 2020's first quarter, BBVA Research expects that annual inflation keeps itself near to the upper limit and that for the fourth quarter of this year it ease to 3.4% and to 3.2% in 2021. We are conscious that inflation can persist due to the increase in the minimum wage and its adjustment for productivity, nevertheless it exist the possibility of punctual effects in the goods and services with higher demand thanks to the expansion of household consumption.

By 2020 it is expected that during the first quarter annual inflation will remain close to the ceiling of the target range and then begin to converge to 3.4% at the end of 2020 and 3.2% in 2021. It is aware that inflation can be persistent thanks to the increase in the minimum wage and its adjustment for productivity, however there is a possibility that there will be specific effects on goods and services with greater demand thanks to the expansion of household consumption.

Under this context, the Central Bank will keep its rate constant in 4.25% during 2020; this stability is explained by compensation in factors like the negative gap between GDP and unemployment which point to a rate reduction and factors like depreciation and external balance on behalf of rate increase. With all of this, BBVA Research considers that the central bank won't increase its interest rate until 2021's first quarter arriving near to 4.75%.

Under this macroeconomic environment, I would like to share the main highlights of our results in the fourth quarter of 2019, going into slide number 7.

The bank registered a positive balance for 2019, with an annual growth of net interest income of 17.1% during the fourth quarter of 2019 compared to the same period of 2018, explained by a positive variation in credit portfolio of 390 billion pesos and a decrease in interest expenses of 64 billion pesos. Furthermore, the gross margin showed a 162 billion pesos growth due to the increase of the bank's activity, while the expenses rose to 87 billion pesos, an increase of 5.6% compared to 2018. On this context, the bank closed the year with an efficiency ratio of 44.4% which represented a decrease of 44 basis points. Finally, our net income increased by 29.8% compared to the same period in 2018.

In terms of our balance sheet, the total assets closed with a 66 billion pesos amount, with a growth of 4.6% against 2018, the gross loan portfolio registered an increase of 9% and amount of 49,7 trillion pesos, this increase presented by BBVA Colombia's portfolio took us to a market share of 10.37% in December of 2019, which presented a 14 basis points growth compared to December 2018. Meanwhile customer deposits grew 2.1%, closing with a balance of 47,5 trillion pesos with a market share of 11.0% at the end of December 2019 with a decrease of 81 basis points compared to December 2018.

As for risk indicators, we saw a decrease of 39 basis points in our NPL ratio compared to December of 2018.

Furthermore, the cost of risk was lower in December of 2019 than the ratio registered in 2018 by 45 basis points, and equally lowers than in September of 2019 by 15 basis points.

Finally, we've maintained solvency levels above the minimum required by the regulation, closing the last quarter of 2019 with a solvency ratio of 11.57% with a decrease of 78 basis points compared to the third quarter of 2019. This decline is explained mainly by an increase in the RWAs by market risk in 364 billion pesos.

In conclusion, we closed 2019 with a very good performance, both in activity and in the income statement, all of the above framed by the best dynamics of the economy. We are betting on the

strategic transformation of the Colombian financial sector and it will be our objective to continue doing so during 2020 to improve everyone's future.

On slide number 9, I would like to share our results in terms of the digital transformation in BBVA Colombia.

During 2019, we continued to advance in one of our strategic pillars such as digital banking, where the total of active clients, which at the end of the year was 2,5 million customers, 1,5 million are digital and of them 927 thousand are regular users. In the same track, mobile banking remains as the favorite channel by our customers, registering in 2019 a 31% growth. Additionally, we are still incorporating products for enhance customer's experience, products that can be acquired in an easy, fast, safe and comfortable way. This has impulse the digital sales participation over total sales where as of December 2019, 28.4% of the unit numbers corresponded to digital contracts with a positive variation of 13% compared to December of 2018.

In transactionality, our strategy keeps evolving and allows us to complement our clients supply. By having the bank on their phone our clients' access to a higher level of security at the moment of making their monetary transactions. Since August our clients have the possibility of making interbank transactions for free which has contributed to increase the number of transferences by 33% and the amount of those by 28%.

One of our main achievement in transactional was the enablement of code bar gathering in the mobile banking channel. This new service reached more than 500 thousand transactions between May and December of 2019, leading in just 8 months, a participation of around 8% from all the transactions made by BBVA Colombia. Likewise, and moving forward into our clients digitalization, during the second half of 2019, we had a migratory action to FX Digital for SMEs and enterprises. This campaign is focused in taking to the FX Platform of BBVA Net Cash the operations of buy and sells foreign currencies that our clients used to make in our offices. At the year closure more than 1,600 clients had made these operations digitally, enjoying a better transactional experience.

So, this is how BBVA Colombia keeps consolidating itself as a digital bank that promotes the nearness to their clients supplying them with investment alternatives according to their needs. 2020's main objective is to strengthen more the relationship with our clients, generating innovative solutions of high aggregated value and tailored to their needs, building the best experience for getting every time robust and better results.

I will now present the main figures for the fourth quarter of 2019, showing the results of the period and then the highlights of our balance sheet, business and commercial activity. Moving on to slide 11, I would like to share the results of the fourth quarter of 2019.

The behavior of bank's interest margin shows an interannual increase of 17.1% in the last quarter of the year, equivalent to 455 billion pesos. This growth is explained mainly by a positive variation in the credit portfolio of 390 billion pesos which highlights an increase in consumption portfolio of 180 billion pesos and in mortgage portfolio of 199 billion pesos in the interest income side.

In the other hand, the expenses side has shown a decrease of 3.1%, equivalent to 65 billion pesos mainly given by the term deposits reduction which arrives to 169 billion pesos.

Otherwise, Bank's net fee income was affected by the application of the international normative IFRS9 to the sales strength in commercial, mortgage and consumption portfolio, this is why our net fee income showed a decrease of 90.2%, equivalent to 331 billion pesos.

Regarding operating expenses, we see that during the fourth quarter of 2019, there was a decrease in our efficiency ratio of 44 basis points. This is explained by a moderate increase in expenses during the quarter, with a variation of 5.6%, equivalent to an increase of 87 billion pesos mainly explained by an increase of 7.3% or 42 billion pesos in the personnel expenses due to the salary increase of the year, additionally this growth is attributed to the seasonality in software and hardware maintenance projects in order to improve the digital transformation process that are carried out in the Bank and that has allowed us to improve some internal processes.

Finally, as you can see on the bottom side of the slide 11, BBVA Colombia recorded a net profit of 732 billion pesos in the fourth quarter of 2019; which is an increase of 29.8% compared to the fourth quarter of 2018.

Moving on to slide 12, regarding to BBVA Colombia, with the measures and policies implemented, it was possible to maintain profitable investment growth and properly manage quality indicators in an economic recovery environment. Additionally, the bank was able to optimize processes, circuits and tools that enabled it to achieve efficiencies in terms of time and costs. Aligned with the bank's purposes, transformation processes are leading towards more digital risk management and self-management for customers. In this way, the support programs for the commercial network were strengthened, guiding the admission towards objective profiles for the bank.

Thus, in December 2019, the NPL ratio was 3.57%, with a decrease of 39 basis points compared to December 2018 and the cost of risk was 2.01% with a decrease of 45 basis points compared to the ratio recorded in December 2018. Both presenting a recovery compared to the previous year.

The portfolio that shows the greatest deterioration was the consumer loans, which deterioration is explained by the slow recovery of employment. Moreover, the commercial

portfolio's quality remains at lower levels than the average of the sector given our low participation in problematic transactions. Additionally, the mortgage portfolio's quality showed a deterioration of 69 basis points compared to December 2018.

As we have mentioned on several occasions, BBVA Colombia's write-offs are aligned to Basel III policies that allow the cancellation of assets only when there is no recovery viability. As shown in the chart, in the upper right, BBVA's NPL plus write-off are compared very positively with the sector, showing the highest quality of our portfolio.

In terms of our capital adequacy on slide 13, BBVA Colombia closed 2019 with very good levels of solvency and liquidity, which respond to the requirements of the regulatory authority and corporate standards.

In order to bring the Colombian financial system regulation closer to international capital standards, regulators have published new legislation that includes two main pillars. The first, Decree 1421 of 2019 related to the inclusion of Operational Risk within the minimum capital requirements, and Decree 1477 of 2018, which seeks to adapt the calculation of the Credit Risk factor to the international standard; Basel III, as well as include the concepts of capital buffers to calculate the solvency ratio. These come into force on 2021 and we believe that these changes will have a positive impact on our organization.

BBVA Colombia showed a decrease of 78 basis points in the solvency ratio in the fourth quarter of 2019 compared to the third quarter of 2019 due to an increase in RWAs of 364 billion pesos in line with the growth of the consumer portfolio, mainly in payroll loans and free consumption by an increase in the value at risk in portfolio positions by the treasury.

This result is offset by a decrease in deferred tax deductions that increase the total regulatory capital by 104 billion pesos due to the revaluation of the Colombian peso that decreases the value of the subordinated debt in dollars.

On slide 14, regarding the return on capital, BBVA Colombia showed an increase from 13.35% in December 2018 to 16.26% in December 2019, above the sector average. The trend for the return on assets went from 0.94% in December 2018 to 1.16% in December of 2019.

Furthermore, at the Shareholders' Meeting held by the Bank, the distribution of profits registered in 2019 corresponding to 738 billion pesos was approved, of which it was determined to allocate 50% to the payment of dividends, that is, 369 one billion pesos, corresponding to 25.66 pesos per share, for both ordinary and preferred shares. This payment will be made in two installments at a rate of 12.83 pesos on June 11th and 12.83 pesos on October 8th respectively.

On slide 15, you can find the main figures of our consolidated income statement.

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

On slide 17, you can see that our loan portfolio increased by 9.0% to 49,6 trillion pesos. BBVA Colombia's main business activity is retail banking targeted at individuals through its extensive branch network, complemented with some corporate and investment banking activities. The retail segment represented close to 62% of the total gross portfolio in the fourth quarter of the year. This segment showed an increase of 12.6% compared to 2018 and closed with a balance of 31 trillion pesos.

For the fourth quarter of the year, the consumer portfolio showed an annual increase of 15.9%, equivalent to 2,6 trillion pesos, the mortgage portfolio showed an increase of 7.7%, which represented a variation of 843 billion pesos, and at the end of December 2019 represents 25.2% of the gross portfolio, while the commercial portfolio showed an annual increase of 3.2% with a variation of 574 billion pesos.

On slide 18, we show our funding sources composition.

Customer resources remained adjusted to the Bank's liquidity needs and did not show annual variation, reaching a total balance of 49,5 billion pesos. Furthermore, retail resources close with a market share of 9.91%, which presented an interannual increase of 32 basis points.

The dynamics presented by the resources has been marked by savings resources, which had an annual growth of 7.6% and showed a market share of 10.37%, a decrease of 29 basis points compared to December 2018. Term deposits also grew 1.1% annually with a decrease of 36 basis points in market share. Furthermore, checking accounts decreased 9.8% when compared to the end of 2018 and showed a variation of 205 basis points in market share. The previously mentioned is associated with the reorganization of the funding costs to properly manage the financial margin, always taking into account the legal liquidity requirements.

Moving on to slide 19, we show the main highlights of our business activity.

During the fourth quarter of the year, the Bank's gross loan portfolio increased its market share by 14 basis points. In this way, the retail portfolio showed an interannual growth of 12.7%, registering a market share of 14.58%. In this segment, the Bank focused its efforts on digital transformation and the best customer experience in both hiring and transactionality.

On the other hand, the commercial loans grew 3.2% and registered a market share of 6.96% with an increase of 2 basis points compared to December 2018. In this segment, we continue working on the strategic priorities raised, especially in providing the best possible customer

experience. To fulfill this pillar, we have worked on the digital transformation, which has been promoted through the transactional strategy.

The year 2019 was a year of good growth for individuals; consumption had an annual variation of 15.9% in balances, and reached a market share of 13.03%. Mortgage registered a 7.5% growth in balances and reached a market share of 16.32%. Finally, credit cards showed a 5.6% growth in balances and reached a market share of 6.71%.

Regarding deposits, we saw a decrease in the market share of 81 basis points, mainly explained by a reduction of 205 basis points in the current accounts. Similarly, savings accounts and term deposits showed a decrease in market share by 29 basis points and 36 basis points respectively, given our strategy to reduce our funding costs.

On slide 21, you can find our detailed balance sheet, of which I already mentioned in the main highlights.

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

[Adriana Riobó Santamaria] Since there are no more questions, then we conclude our event. We appreciate your participation and we hope you have an excellent day.

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