

4Q21

**Results Presentation
Transcription**

BBVA Colombia

1. AudioConference 4Q21

[Laura Alejandra Peraza] Good morning, good afternoon and good evening to our investors connected all around the world, you are welcome to our fourth quarter 2021 Results event. My name is Laura Alejandra Peraza and I'm part of the legal department of BBVA Colombia. With us today are Alejandro Reyes principal economist and Juan Pablo Herrera ALM Director, who will present the fourth quarter results. The corresponding documents were sent to you through email, both in English and Spanish, and will be available on 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 will now turn over the call to Juan Pablo.

[Juan Pablo Herrera] Thank you Laura, Good Morning everyone and thank you for joining us here for our fourth quarter of fiscal 2021 earnings call.

I will give 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**.

2021 was a banner year for economic recovery, especially due to the implementation of the vaccination system. Business and household confidence increased, in an environment of lower health risk due to the protection of the vaccine, and an intense increase in domestic demand, accompanied by a rebound in global trade, the support of national governments and the expansionary monetary policies. In Colombia, the few confinements that took place during the year were focused (by cities, hours and activities), less prolonged and with a smaller sectoral scope than those in 2020 which also lead to a generalized reopening of social interaction services to the point of those having full capacity allowed by the end of 2021.

During 2021, household consumption remained mainly driven by spending on goods rather than on services. Other than that, services such as entertainment and tourism still lag behind the other consumer groups. The highest growth of the group of goods was not an exclusive case of Colombia, but also of most countries in the world.

In general, this higher world demand generated some of the bottlenecks that were observed, since production and transport logistics did not grow at the same rate as global

spending on goods. As a result, international price and cost pressures emerged, with effects on monetary policy decisions and on the global supply chain of raw materials and final products. Indeed, in the United States, the Fed began tapering at the end of 2021 and, it is expected, will increase its interest rate in 2022.

In Colombia, the monetary policy began an expansionary process, taking the interest rate from 1.75%, the lowest historical rate that had been achieved in 2020, to 3% as a response to the inflation pressures. The transmission of these policy decisions to market interest rates has taken place gradually, being more immediate and complete in interbank rates, without affecting the recovery dynamics that has been taking place in household and companies' credit and that is explained due to the recovery of economic activity and the soundness of the financial system.

Continuing with slide number 6.

In 2021, inflation ended at 5.62% annually, driven by higher food prices, the devaluation of the exchange rate, and low inventories in some economic sectors. Specifically, the exchange rate had an increase of 2.6%, due to the strengthening of the dollar, the internal volatility generated by the fiscal and external deficits, the loss of the investment grade and the logistical problems derived from the protests of April and May. The latter, added to the lags in international shipments and the growing domestic demand which, on the one hand, determined a reduction in inventories in industry and commerce, which will imply pressures on prices, and on the other hand incentives to increase productive activity.

In general, the GDP for 2021 grew 10.6% driven by final consumption and investment in machinery and equipment and in housing. In this context, the financial markets had another year of high volatility, something that has been common to most emerging countries. The price of local assets reacted, above all, to expectations about international monetary policy, in the midst of upward pressure from global inflation, and to the consolidation of decisions or to the signals that monetary authorities have given on the gradual withdrawal of the monetary stimulus. The exchange rate, as mentioned before, remained at high levels due to the strengthening of the dollar in a scenario of higher risk premiums in emerging countries.

For 2022, BBVA Research expects GDP growth of 4.0% close to the average growth of the Colombian economy in the last 40 years. The GDP dynamics will have two well differentiated periods. In the first two quarters of the year, the expansion margin will be lower than the observed at the end of 2021. In turn, the year on year growth rate will be

higher, but it will be driven by the low statistical base from the same period a year and the level of activity that the economy reached in December 2021 than due to the increase in spending decisions and production.

Then, in the second half, the dynamics will accelerate compared to previous periods. However, the existence of high levels of activity at the end of 2021 will not allow this better margin performance to be transformed into high year-on-year rates. On the contrary, the annual growth rate will slow down throughout 2022, because it is not expected to repeat the strong increase in domestic demand that occurred when advancing the previous year.

Inflation will keep the upward pressure during the first half of 2022. In part, due to the high international costs for raw materials and the high rates for the international transport of goods, which will simultaneously be transmitted to production costs and consumer prices. Furthermore, price adjustments in services, the depreciation of the exchange rate due to monetary decisions in the developed countries and the economic political context of the upcoming electoral period are factors that can lead to a higher inflation rate.

As the world changes at great speed it is important to keep focused on giving out customers the best experience and opportunities, BBVA began a deep transformation process a couple of years ago, a process that started from the inside, changing the way of doing things, its structure and definitively its culture. This cultural transformation has been a constantly evolving process, moving into **slide number 8** I would like to share with you the latest statistics from our digital transformation.

During 2021 more than 40% of our sales were made through digital channels, BBVA Colombia closed the year with almost 2 million digital clients from which almost 1.3 million only use their phones to make digital transactions.

Down to innovation on the digital transformation, we are up to launch new apps in 2022 which will be based and supported on the technology and functionalities of the apps that are currently running and operating in markets such as Spain and Mexico and which have been recognized for three years as the best in the world and for five years the number one in Europe.

Additionally, BBVA Colombia will reinvest 50% of the profits recorded in 2021 in initiatives of innovation, digitality, sustainability and technology.

We will keep the pace on the path to consolidate us as a Digital Bank, reinforcing our relations with our clients, and generating high valued innovative solutions in order to improve their experience and strengthen the Bank's results.

In this transformation context, BBVA Colombia keeps moving forward to a greener and fairer future, on [slide number 10](#), we can see our path to a greener future. During 2021 1.3 trillion pesos were designated to green initiatives and as we accomplished all the targets defined in its Global Eco efficiency Plan 2016-2020, BBVA Colombia has achieved the carbon neutral certificate granted by the firm Clean CO2 after effectively reducing and offset the carbon footprint.

For this starting year, we want to remark the importance of accompanying our customers in this transition and this is why we will increase funding for sustainable initiatives by more than 100%. In this sense, BBVA will have new sustainable products that include loans for the acquisition of assets and a digital offering for financing hybrid and electric vehicles. For our corporate customers, we will offer more financing opportunities for sustainable projects and lines for the importation of sustainable assets and the mitigation of impacts due to natural disasters and adaptation to climate change.

This is also aligned with the recent recognition received by BBVA in the world as the most sustainable bank according to the Dow Jones Sustainability Index.

Nevertheless it is important to emphasize that BBVA is pledged to align its loan portfolio with the global warming targets of the Paris agreement and supports the need to achieve net zero carbon dioxide emissions by 2050.

Starting with the fourth quarter results, [on slide 12](#), we continue to see very strong asset quality metrics, this quarter the bank reported a net profit of 890 billion, the highest of the past 5 years, thanks to the strength of operating income which reached a 90% growth driven by an increase in net interest income of 3.4%, of 5.5% in net fee income and a decrease of 12.9% in operating expenses. It is worthy to announce that our efficiency ratios improved to 45.2%. Now, I would like to share with you our balance sheet where the total assets increased 16% compared to the last year, and closed with a 79.9 trillion pesos balance, the gross loan portfolio registered an interannual growth of 13% with a 54 trillion pesos. Similarly, customer deposits grew 13.5% year on year, closing with a 61 trillion pesos balance.

Regarding the risk indicator, for 2021 November we observed a 15 basis points reduction in our NPL ratio compared to 2020 November. In addition to it, the cost of risk decreased 99 basis points in the same period.

Finally, it is remarkable that due to the good Bank's management we have maintained our solvency levels above the minimum required by regulation, closing the second quarter of the year with a total solvency ratio of 13.75% with an increase of 32 basis points compared to the third quarter of 2021 and a decrease of 99 basis points compared to the fourth quarter of 2020.

In summary, we closed the fourth 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.

Touching on a few highlights, **on slide 13**, I will present the results for the fourth quarter of 2021 in greater detail.

The behavior of the bank's interest margin shows an interannual increase of 5.5% in the fourth quarter of the year, equivalent to 109 billion pesos. This growth is explained mainly by the expense side, where there was a reduction of 27.2%, equivalent to 515 billion pesos which is mainly explained by a decrease in term deposits by 1 trillion pesos. Similarly, interest income had a negative variation in the loan portfolio of 406 billion pesos mainly due to an increase in the loan portfolio of 6 trillion pesos.

The outstanding evolution of the efficiency ratio which is 27 basis points higher than the ratio in the fourth quarter of 2020 can be explained by a decrease of 34.8% in provisions, and a moderate growth of 6.1% in operational costs compared to the same period in 2020, thus translating into lower operational expenses of 12.9% or 415 billion pesos.

Continuing with BBVA Colombia's proactive management. **On slide number 14**

Comprehensive risk management is carried out in accordance with 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.

We work proactively, together with the Recovery area, in order to be able to focus management on clients that can reduce the impacts on local and consolidated delinquency, which ultimately provides benefits in terms of restructuring the Bank's provisions.

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 righthand corner graphic, BBVA's NPL ratio write offs compare very positively to the sector, showing a 40 basis points reduction and a higher quality of our portfolio.

The NPL ratio stood at 1.91%% in November 2021 which represents a decrease of 15 basis points, compared to the previous year. Similarly, compared to November 2020 the cost of risk stood at 1.91% with a decrease of 99 basis points.

As of November 2021, we can see that the NPL ratio for mortgage and commercial portfolio improved considerably compared to the data registered in the same period of the previous year, with a decrease of 82 basis points and of 60 basis points respectively. On the other hand, the consumer portfolio quality is slightly higher than the sector average.

With a coverage ratio of 217.1% the behavior of the NPL ratio when compared to the sector is remarkable, its effective management is a key factor to maintain the bank's profitability.

Now, turning to **slide number 15**, I would like to share in detail the impact of the relief program on BBVA Colombia's portfolio.

Once the PAD ended, on August 31, 2021, during the last quarter of the year, the containment of doubtful portfolio entries and the recovery of overdue portfolios are prioritized, all supported by our Emerge Plan, with which we have increased contact with customers and thereby closed the payment promises of our debtors.

Risk Anticipation Executives, FUVEX and external collection agencies have increased their efforts to close the year 2021 complying with the objectives set by BBVA.

The actions mentioned before, lead us to obtain important results in the recovery and containment of the local doubtful portfolio during the quarter, October with a recovery efficiency of 50%, November 62% and December with 61%. In December, Free Investment stands out with an efficiency of 58%, Mortgage with more than 90 days, 113% and vehicle with 108%.

The sources of the recoveries are focused on the effective payment of the clients, the r recovery engine and the restructurings.

We can find the consolidated income statement for the fourth quarter of 2021 on **slide 16**

Now I'd like to look at the main figures of our Balance Sheet and commercial activity

On slide 18; I will like to sum up our business activity during the fourth quarter of 2021.

During the fourth quarter of 2021 there was an upward trend on the portfolio which resulted on a 6.7 trillion pesos growth in the net loan portfolio, equivalent to an increase of 14% compared to the fourth quarter of 2020, led by the recovery of the individual's portfolio which represents 60.6% of the net loan portfolio. This segment presented an increase of 10.2% compared to 2020 and closed with a balance of 34 billion.

The consumer portfolio made up of payroll loans, vehicle, free Investment, credit cards and overdraft loans presented an annual increase of 11.4%.

Similarly, the mortgage portfolio shows an annual 1 trillion pesos growth, equal to 8.4% which at the end of the fourth quarter of 2021 represented 23% of the gross loan portfolio. Finally, the commercial portfolio presented a 3 trillion pesos growth, equal to 18% and the leasing portfolio increased 4% with a 19 billion pesos variation.

As important as the business activity is, following, **on slide 19**, we show the funding sources' composition.

During the fourth quarter of 2021, BBVA Colombia maintained a solid liquidity position, customer funds remained adjusted to the Group's liquidity needs and deposits behaved in line with the growth dynamics of the portfolio. The strategy is to maintain the financing sources diversification and the robustness of the financing structure.

Customer funds increased 7 trillion pesos, which represented a variation of 13.5%, closing the quarter at 61 trillion pesos. The time deposit certificates represented 31.2% of the total resources and presented a negative variation of 6.1%, reaching a balance of 18 trillion pesos.

Checking accounts varied positively 31.9%. These deposits represented 53% of the total client's resources. And finally, Investment securities in circulation closed at 2.4 trillion pesos and presented a positive variation of 3.7% compared to 2020.

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.

On **slide 20**, we can see the highlight of our business activity.

BBVA Colombia remained in fourth position in the market, with a share in Assets of 9.60% as of November 2021. In Credit Investment, BBVA remained in fourth position with a market share of 10.18%, which presented a variation of 19 basis points compared to the same period in 2020.

The individual's portfolio remained in third position with a market share of 13.42% the Business Portfolio stood at 7.27% and increased 45 basis points compared to the same period of the previous year, maintaining the fifth position in the market.

In relation to Customer Funds, BBVA stood in fourth position in the market in November 2021 with a market share of 11.29%, which presented a variation of 57 basis points compared to the same period in 2020. Share of checking accounts presented a variation of 4 basis points and ranked third in the market with a share of 11.18%. Savings registered an increase in its share of 111 basis points and positioned itself in third place with a share of 11.01%. Finally, the share of CDTs stood at 12.2% and presented a growth of 9 basis points, ranking third in the market.

Continuing with our levels of solvency and liquidity, **on slide 21**, we can see that BBVA Colombia closed 2021 fourth quarter with a robust capital structure, where Tier I capital represents 74% of regulatory capital which has been achieved due to the policy of increasing the legal reserve with the undistributed profits of each year. Remarking that the bank's payout remains at 50%.

Based on the above considerations. During the fourth quarter of the fiscal year the regulatory solvency ratio closed at 13.76% exceeding the minimum regulatory indicator, presenting a 96 basis points annual decrease in the solvency ratio, this variation is mainly explained by an increase of 14.1% in risk weighted assets in the corporate and household portfolio, and an increase of 29.4% in Market Value at Risk.

Finally, the accounting equity presented a positive variation of 15%, closing at 5 trillion pesos.

On slide 22, we find our detailed balance sheet.

As we bet on the transformation of the Colombian financial sector and the transition to a better and greener future, our aim is to accompany our customers on their way to reach their dreams by offering the best available solutions on the market. We hope to continue growing and generating a greater contribution to our shareholders, employees, and society in general.

This concludes our prepared remarks for the fourth quarter 2021. If you have any questions you'd like to ask you can use the chat or you can use the "raise your hand" button that can be found in the bottom right section of the screen.

[Juan Pablo Herrera] We have a question from Ignacio Pizarro on the chat, okay Ignacio, go ahead

[Ignacio Pizarro] Regarding the impact of the rate hikes on the results of the bank, I was wondering if you could give us some guidance in terms of short and medium term of the impact of this rate hikes and I would also like to ask if you could give us some color also regarding the impacts of the inflation in the results

[Juan Pablo Herrera] Regarding the impact of the rate hikes on the results of the bank, I was Okay, thank you Ignacio, first of all, regarding the interest rates, we can see at the end of 2021 where the central bank increased the interest rates around 25 bps, at the end of the year we could see of course an increase of our costs but at the same time we've seen an increase in our loan portfolio interest rates of course not in the same velocity like the liabilities but at the end of the year we could contained a little bit the high rates, however for this year we will see a more accelerated increase in the interest rates from the central bank, that for now is quite difficult to foresee because the inflation is gaining velocity, we expect that the peak of the inflation will be presented at the end of the first quarter maybe in April, and for that time it is expected for it to be a little bit lower. But as everybody, we can see right now that the global events are making our jobs quite hard with the news a least. For now we are being able to contain the increase of the rates.

For the second question, about the inflation, of course we have a balance attached or linked to the inflation or in loans or in the liability side, but right now the gap between those positions, assets and liabilities, lead to inflation is quite close and the sensitivity regarding inflation and balance sheet, we presume is going to be low.

[Ignacio Pizarro] Great, thank you so much Juan Pablo, sorry, regarding the rate hikes, do you have a sensitivity exercise to understand what could be the impact of 100 bps of rate hikes in your neem or maybe your NII

[Juan Pablo Herrera] Sure Ignacio, we are running constantly these kind of exercises, I am happy to share it with you in a couple days, because of course as I mentioned before that information is changing almost minute by minute, but in the next week I could share with you some more precise information, okay?

[Ignacio Pizarro] Okay, great, thank you so much Juan Pablo

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