

1Q22

**Results Presentation
Transcription**

BBVA Colombia

Audio Conference 1Q22

[Laura Alejandra Peraza] Good morning, good afternoon, and good evening to our investors connected all around the world. You are welcome to our first quarter 2022 results event. 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 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 David de Iscar, ALM director.

[David de Iscar] Thank you, Laura. Good morning and welcome to our first 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 4**.

The geopolitical conflict between Russia and Ukraine and the sanctions applied represent a major supply shock, with negative effects on both growth and inflation through the channels of commodities, financial volatility, confidence, and supply chains. Currently, uncertainty is exceptionally high, the world economy will slow down more than expected after expanding 6.1% in 2021, and global GDP is expected to grow 4% this year and 3.6% in 2023. The downward revision is significant in Europe but moderate in the rest of the world.

Inflationary pressures continue to increase, mainly due to the prices of raw materials and supply bottlenecks. Central banks are expected to keep their attention on inflation and advance in the withdrawal of monetary stimuli. The Fed will be more aggressive. It is expected to raise interest rates at least 2% this year and 3% next. The ECB, after reducing excess liquidity, will begin to raise rates towards the end of the year. Thus, in the Eurozone, the task of cushioning the impact of the conflict would fall on other policies.

We continue to expect GDP to have grown slightly in the first quarter of this year, at around 0.2% QoQ, but it is likely to contract in the second quarter and stall for the rest of

the year. However, due to the strong momentum in the middle of last year, annual GDP growth is expected to average around 2% in 2022 as a whole and around 1.8% in 2023.

The exchange rate is expected to reach its maximum levels of the year in the second quarter, to then correct a little, as the bottlenecks are relaxed, the markets adjust to the new monetary reality in developed countries, and the announcements are understood by central banks on future measures and local volatility is reduced at the end of the electoral cycle. Thus, the average exchange rate for 2022 will be 3,877 pesos and will end the year at 3,800 pesos, the same level at which it will end in 2023, but with a lower average value, which will be 3,780 pesos.

The current account deficit is expected to correct quickly this year. We hope it will be located at 4.2% of GDP, thanks to a lower imbalance in the trade balance, despite the greater sending of dividends abroad, due to the increase in business profits in 2021 and 2022, and to the lower dynamics of the entry of remittances and higher interest payments abroad due to the increase in financing costs in the world. In 2023, falling oil prices and a further increase in utility shipments abroad will lead to the current account deficit increasing to 4.6% of GDP.

Continuing with slide number 5.

The second half of 2021 was outstanding, not only in domestic demand but also in the behavior of exports. In the first case, private consumption was driven by a strong increase in household spending on durable and semi-durable goods. In the second case, external sales accelerated thanks to the better performance of the services sector (associated with tourism, travel, and freight) and the greater international trade in goods. At the beginning of 2022, the dynamics of consumption and exports were maintained, with a few signs of a slowdown, which were reduced by the temporary boost represented by the free VAT day in March.

The new market trends imply a positive element for the Colombian economy: the increase in the prices of raw materials. The higher mining-oil revenues will help the recovery of production in this sector, which is one of the furthest behind compared to its pre-pandemic level of activities related to mining and other non-tradable services. In addition, it will continue to be a support for sales in the building sector, which tend to have a close positive correlation with the behavior of the oil price.

GDP in 2022 will grow by 4.5%. This means a slowdown compared to 2021, but it was expected in the absence of the statistical base effects that it did have last year due to the drop in economic activity during the strongest moments of confinement in 2020. It will also be the healthy slowdown that monetary policy looks for through higher interest rates. This contractionary effect of interest rates will continue until 2023, when the economy will grow by 2.5%, a performance that will help increase household savings rates and avoid greater risks of over-leveraging in the private sector. This will enable monetary policy to become less restrictive beginning in the second half of 2023. With this, in the following years, the growth rate will gradually increase until it is near the growth potential, which is calculated between 3.3% and 3.6%.

Total inflation will stand at 6.8% at the end of this year but will have maximums above 8% in some months of the year. Thus, the average inflation rate in 2022 will be 8%. Then, in 2023, inflation will be reduced to 4.5% at the end of the year and to an average of 4.6%.

The Colombian economy is recovering well from the shocks that the pandemic had on activity. In fact, at the end of 2021, the level of GDP stood at 107% compared to the quarter before the arrival of the pandemic. Furthermore, as shown before, consumption led the recovery, while investment and exports showed good dynamics. With these achievements, which are undoubtedly very important, the questions of how to improve the standard of living of Colombians, expand the productive capacity of the country and generate long-term sustainable growth must once again occupy the preponderant place in national talks. In other words, the policy measures and the operating environment of the private sector that are decided in the future are decisive to guaranteeing success in the future and maintaining a path of improvement in economic and social indicators.

The first-quarter results were positive. 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 7**, where there are a few highlights of our key business ratios for the first quarter of 2022.

On slide 8, we can see in detail the evolution of our main financial ratios. We remain well positioned as we benefit from higher rates. The net interest margin reached a 5.8% growth because of the inflation and the increase in the interest rate, while the gross

margin increased 19.7% annually. This led the bank's net profit to 312 billion, which represented an increase of 76.5% when compared to the previous year.

Now, **on slide 9**, I would like to share with you our consolidated income statement for the first quarter.

Moving forward into our balance sheet performance for the first quarter and going into detail **on slide 11**, we can summarize our portfolio performance; the gross loan portfolio reached 60 trillion pesos, increasing 14.3% annually, drawing attention to the behavior of the particular portfolio, which increased 11% annually, and especially to the commercial portfolio, which grew by 3.8 trillion pesos.

On the other hand, **on slide 12**, we can see the strategic management of our funding sources, where deposits totaled 59 trillion pesos, representing 73% of the funding composition and growing 17.2%

Regarding the risk indicator, **on slide 13**, on the upper left side, we observe a slight decrease of 17 basis points in our annual non-performing loans ratio, which stood at 2.6%, 57 basis points less than the sector. On the other hand, the write-offs, shown in the upper right corner, are 3.3% below the sector, showing a 71 basis points 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 76 basis points in the same period.

Continuing with our equity and solvency metrics, **on slide 14**, we can see that BBVA Colombia closed the first 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.

Based on the above considerations, during the first 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.

Being mindful of the profitability metrics that have been improving over the last year, **on slide 15**, the General Assembly of Shareholders of BBVA Colombia, held on March 16, approved the distribution of profits corresponding to the fiscal year 2021 and the payment of dividends amounting to \$31 per share, both for ordinary shares and for

shares with the preferential dividend. We reaffirm our commitment to our dividend policy with two payments per year and a payout of 50%.

As the world changes at great speed, it is important to keep focused on giving 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 definitely its culture. This cultural transformation has been a constantly evolving process, moving into [slide number 17](#) I would like to share with you the latest statistics from our digital transformation.

As we focus our efforts on enhancing our customers' experience, we are working on improving our digital channels. This is why our digital sales represented 87% of our total sales, decreasing 2% when compared to the first quarter of 2020 and increasing 90 basis points when compared to the first quarter of 2021, not far from our pre-pandemic levels. Additionally, pointing right into the beginning of a digital era, almost 66% of our customers are using our digital channels.

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.

In this transformation context, BBVA Colombia keeps moving forward to a greener and fairer future. On [slide number 19](#), we can see our path to a greener future. We have designated nearly 2.6 trillion pesos for green initiatives for 2022, reinforcing our commitment to increase the funding for sustainable initiatives by more than 100%.

After accomplishing all the targets defined in its Global Eco-efficiency Plan 2016-2020 and achieving the carbon-neutral certificate granted by the firm Clean CO2, BBVA Colombia will be joining the Net Zero 2050 commitment to reduce to zero the bank's exposure to activities related to coal by no longer financing companies in those activities. Supporting the recognition received by BBVA as the most sustainable bank according to the Dow Jones Sustainability Index.

As we bet on the transformation of the Colombian financial sector and the transition to a better and greener future, we aim to accompany our customers on their way to achieving their dreams by offering the best available solutions on the market. We expect to keep growing and contributing to our shareholders, employees, and society in general.

This concludes our prepared remarks for the first quarter of 2022. If you have any questions you would like to ask, you can use the chat or the "raise your hand" button that can be found in the bottom right section of the screen.

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

Contact Investor Relations

Director

David de Iscar Medina

bbvacolombiair@bbva.com