4Q-2016 Results Presentation Transcription

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Audio-Conference 4Q16

[Yuliana] Good morning America, good afternoon Europe and Good Evening Asia welcome to our event fourth quarter 2016 results, my name is Yuliana Cardona I am from the legal department of BBVA Colombia, please set your phones in silence mode to eliminate the Eco and to have a better communication. This conference is being recorded and the audio will be posted on the bank´s web site, on the link Agenda.

The presentation is available both in English and Spanish and you can find it on our website www.bbva.com.co, in the link Investor Relations and click in Agenda. To this event is also connected Mario Nigrinis head ALM Treasurer and Investor Relations and he is going to do the presentation of the fourth quarter 2016 results. Mario you can go ahead with the presentation whenever you please

[Mario] Thank you very much Yuliana. Ok so for the fourth quarter the previous year the macroeconomic background, that you can see on Slide 2, actually you can see that we are being optimistic about what is going to happen with Colombia GDP growth 2017 is actually going to be a higher growth rate compared to 2016. Our research team is expecting a growth rate of 2.4%, where also Inflation will decrease; it is expected to be around 4.1% this is above the Central Bank target. However is very, very close to the upper part of the band.

Also giving this better economic environment, the Central Bank will be able to cut its interest rate by 150 bps and the research team is expecting to be at 6% by the end of the year. Moreover in their last meeting, in February, they´ve already cut 25 bps to the interest rate and the current level is 7.25%. This is in line with the outlook from the Research Team.

Now considering the performance of the bank, what we are seeing is that during the Fourth Quarter, actually we have a sound performance in this highly competitive environment which is the industry in Colombia, we continue with our policy of cost controls. So that's the way that we can of course have an increase in our profit and also keeping our credit quality in this environment of an Economic slowdown and of course with an impact in the job market.

On Slide number 6, you can see the current, the main Highlights of the bank´s balance sheet, so we continue with positive figures. We keep our current shares, regarding the total assets, the loan portfolio and of course as you are aware, this is a retail bank so where we have a better ranking on retail products like for instance consumption loans, mortgages compared to commercial loans.

On slide number 7 you can see the dynamics of the balance sheet, we are comparing the last 2 quarters of 2016 and the last quarter of 2015, so you can see that first of all, during the last year there was a growth in our loan portfolio, we finally reach 39.6 billion pesos, which is a growth of about 2.7 billion pesos compared to the last quarter of 2015, and in the case of deposits we continue to have a higher growth, this is related to the fulfillment of Basel III requirements related to liquidity risk. 2016 was the year when the bank adapted and implemented the LCR requirements and of course we made a big change in our mix of funds. Finally, I will say you can see the increase in the stock holder's equity and we will go in detail the indications for the solvency ratio of the bank later.

Now considering the Income Statement in the next slide, the first thing you see is that compared to the third quarter on the fourth quarter we had an important recovery on the Net Interest Income and also in the Gross Margin. This is mainly explained by the decline of the Inflation rates. If you remember inflation in Colombia picked in July 2016 when it reached almost 9% and actually it ended the year 2016 on a fewer just around 5.5%, actually it was 5.47%. Since there is an important part of our funding which is on Term Deposits that are linked to Inflation this decline of Inflation was very good for the bank results.

Obviously, the increase in the Net Interest Income and in the Gross Margin that reflected in the Net Profit where we had an increase compared to the third quarter of the year and the guidance for this year given the macroeconomic forecast of lower inflation rates and lower interest rates, actually the Net Interest Income of the bank will continue increasing, and what you will see is a recovery in the Net Profit of 2017 and an increase compared to the one we showed for 2016.

Now concerning in activity on Slide 10, you can see that regarding our loan portfolio we have step the mix in the sense that as I said before is a retail bank where most of the loans are related to consumer loans or to mortgages, and you can see how during the year in the lower part of the slide, actually consumer loans and mortgages where the once that had the highest growing rates. It is true that in the case of Mortgages the bank reduced its market share in 22 bps but I insist, when you look on the Growth Rates, it was actually a high growth rate of 12.2 %. What happen with commercial loans was the opposite, we actually had a reduction on commercial loans; this was part of our strategy in order to maintain, to keep high profitability ratios in this very high competitive environment. So actually the bank decided that it was not going to be so aggressive on commercial loans growth and we actually rather let got new origination of loans that, because of the market conditions have been granted a very low rates which are not necessarily the most profitable for the bank.

Concerning our funding mix which is on Slide 11, as I mentioned to you before, during the 2016 it was our implementation of the Liquidity Coverage Ratio, the LCR Requirement by Basel. So it demanded from us a change in our funding structure, so you can see that compared to the last quarter of 2015 what happened is that Saving Accounts reduced its share of the total funding from 54% to 41% and we substituted those sources of funding for Term Deposits, which actually increase their share in the funding mix from 31% to 45%. And of course when you compare in the lower part of the slide the growth rates of each of these products you can see that actually the Savings Accounts were reduced, we had a negative growth rate of almost 15% and of course a diminishing share of the market where of the Term Deposits had a huge increase almost 65% and we also gain more than 300 bps of the market share. I insist the reason for this change in the funding structure was in order to fulfill the Basel III requirements, concerning liquidity in particular the Liquidity Coverage Ratio (LCR). This is of course because of our parent company BBVA S.A which is in Madrid, Spain under the supervision of the European Central Bank, that's why the subsidiaries and in this case BBVA Colombia have to be Basel III compliant.

Now regarding the risk indicators what we are seeing is that actually in the case of non-performing loans there are increasing, it's something that is happening in the industry, its related to what is going on with the economy, which has slower growth rate, it has had also an impact on the job market. However, the good news is BBVA keeps the performance which is better that the one of the Industry, first you can see that for the total NPLs we actually have a lower indicator 2.0% compared to 2.47% which is the one in the industry, and also is very important to highlight that this happens in the different products from our loan portfolio, either the case of commercial loans, consumer loans or mortgages. So it is true risk indicators are increasing for the industry but at the same time it is true that BBVA keeps its outstanding performance when you compared to the industry.

The guidance for this year is given that the economy is starting to recover and you know the risk indicators happened to be link with the performance of the economy, it may be the key that actually they will keep the periodicity this year, that actually is going to be at levels that we don´t see, and second BBVA will continue with this premium, with this better performance compared to the one on the Industry.

Another Risk Indicator we like a lot to show is the case of the Risk Premium, where you can see that is also the case that BBVA is having a better performance compared to its main peers.

Now finally, when you consider the case of our Solvency ratios and our capital position we keep our message which is we have appropriate capital levels, actually when you think on a consolidated basis and this is very important, our total solvency ratio is 12.6% which is above the 9% we required by the Superintendencia Financiera which is the local supervisor, and when we consider the case of the Common Equity Tier I Ratio, our ratio is 6.7% above the 4.5% which is the minimum required.

I will also like to highlight, I know this is the presentation for the Fourth Quarter Results, however is important for you and the information is available on our Web Site, on late February to be more specific it was on the 28th, we had our General Shareholder´s meeting. In that meeting it was decided that out of the Net Profit of 2016, 50% was going to be used to increase the Legal Reserve of the bank. With this amount our Common Equity Tier I Ratio actually increased to 7.55%. This figure of course will be available for you when you look at the February reports from the Superintendecia Financiera. However I insist if you have further questions the information is available on our Web Site and this was one of the main decisions that were taken during the Shareholder´s meeting. So we actually continue having a very sound capital position.

And finally, on Slide 16 when we compare to our main peers, again based on consolidated levels, you can see that actually BBVA solvency ratio is good compared to the ones of our peers. This information I want to highlight is more difficult to get, however is still public you can get in when you go to the IR web sites of our main peers and you download the annual report, that's where they reported their consolidated solvency ratios. The one that you will find in the Superintendencia is on an individual basis which is very obvious for all that it is not the relevant one.

Finally, on slide 17 you can see that BBVA has the best credit rating in the industry in Colombia. Here we are showing you two things; First of all, the G-Spread of our subordinated bonds, which as you can see are the lowest in the industry, on here you have the comparison with the Sovereign Bond, so it is the lowest and we also are presenting to you the latest credit ratings from Moody´s and Fitch, where you can see that actually in the case of BBVA, is the only Bond in the Industry with an Investment Rate.

So that's all for today, I don´t know if you have any further questions. Also please remember that the presentation is available on our Web Site and as usual we are also available for questions if you send us an email.

[Yuliana] Ok thank you Mario and thank you also for participating in our event Fourth Quarter 2016 Results, as Mario said and I said before the presentation is available in English and Spanish, and you can find it on our website, thank you very much and have a good rest of the day.