

# 1Q -2017 Results Presentation Transcription

**BBVA Colombia**

## Audio-Conference 1Q17

**[Adriana]** Good day to all of you, you are welcome to our first quarter 2017 Results event. My name is Adriana Sarasty and I'm part of the legal Department of the BBVA Colombia. To this event is also connected German Rodriguez Perdomo, Director of the Assets and Liabilities Committee, who is going to make the presentation. The corresponding documents were sent you, both in English and Spanish, through email and reports shall be published in our web page in the section Investor Relations on the link Agenda. Ok, without further ado, I introduce you Germán Rodriguez.

**[Germán]** Good morning to our dear investors in Colombia an America, and good afternoon to our investors and shareholders in Europe and in other parts of the world, welcome to our first quarter results presentation. We will begin with some tips of our Economic Research Department about the macroeconomic background in Colombia and then we will review the performance of BBVA Colombia in the first quarter of 2017. Feel free to ask any questions regarded the presentation, please at the end.

We expect, our BBVA Research Department expect that the US and Europe recovery will imply higher rates in both regions, we expect that FED rate would rise up to 1.50% at the end of the year and the European Central Bank would not rise its rate until December 2018. In Colombia we are expecting some less growth than we have experienced in the last years. We expect GDP growth close to 2.1%, very similar to what we had in 2016. Mainly by the public and private fixed Investment. Currently we just, one week ago, we received the data of the GDP growth at the end of the first quarter that was 1.1%. We expect this figure to rise in the third and fourth quarter, reaching a growth close to 2.1%. In the case of inflation, we have been experiencing a decline of inflation during this year. We are now in 4.6% and we expect this figure to reach 4.3% at the end of 2017. We also expect that this figure will be below 4 % between June and September, and then it would rise to 4.3% at the end of the year. In 2018 we expect this straight to continue and inflation to close at 3.3%.

In terms of labor market performance we have seen a continuous but moderate deterioration. Also we have seen less job creation than expected which is driving lower growth figures for the BBVA and lower growth figures on the all the credits from the banking industry in Colombia.

We also expect that in line with what the Central Bank has been doing in the recent months, the Intervention Rate will be reduced up to 5.5% at the end of July. Today we expect that the Central Bank lowers its rate, 50 bps reaching 6 %, and then we expect another two rate declines in the next two months of 25 bps each one. In 2018, we expect this straight to continue to reach 5% which is close to what is expected on neutral intervention rate for the Central Bank.

It has been a quite complex environment in Colombia 2017, there has been a lower activity in credit and deposit growth with a higher credit deterioration that we expected in the last years which has been reflected on higher loan provisions in the Industry. BBVA Colombia has been growing this issue a little bit slower than its Peers and the Industry average, and it has been driven also by some non-recurring issue that I'll explain later in more depth. Taking those non-recurring issue away, the dynamic of the net income is quite good as we will see in the next two slides. We feel that this environment is helping BBVA to achieve a higher return on, especially due by higher in gross margin and this will have upset the impact of credit deterioration during this year.

In terms of growth, as usual in the last quarters, the growth of the bank has been driven by retail business. As you may see, consumer and mortgages are growing in global figures, driving the market share performance. The commercial portfolio is currently decreasing and this has been driven by an environment of very tight spreads, which in terms of return over-capital is below of our expectations, that's why currently we are not entering in this kind of business (High Tickets and Corporate business), so we are basing our growth mainly on the Retail Business. That can be seen in the Consolidated Balance Sheet of the Bank, we have been experiencing lower growth against the previous quarters, just 4.2% in the Total Assets mainly driven by the Loan Portfolio and the growth on Investments explain by the Liquidity Requirements that BBVA has in order to comply with Basel III requirements.

In terms of the Income Statement we have been experiencing a growth in the Net Interest helped by the Interest Rate scenario with a very close to what we have been having with a decrease in the Gross Margin, there is a little less growth in the Gross Margin than in the Net Interest Income because of a less income due to treasury activities. This is something that all the industry has been experiencing. Another quite important driver in the results is the Loan Provisions that are growing 61% against the previous year (1Q2016) and there have been some especial non-recurrent items that have affected this figure.

The first one is a new regulation that the Local Regulator has told some

banks from February 2017 regarding provisions to long term consumer loans and this has affected our income approximately 9 Billion COP which is approximately 3 Million USD. The other issue is regarding some options given by the Regulator on the calculation of the non-performing loans, specifically on the date calculated. We used to calculate the non-performing loans with a 360 days basis of, but the Regulator request us to change that to 365 days basis. That has been reflected on a single impact of 17 Billion COP which is close to 6 Million USD. The other impact is about the provisions that we have to do to cover the exposition to Electricaribe. As you may know, is a company own by Gas Natural Fenosa, and this company was intervened by the government and the payment of the loans has been pulled on hold until the reopening of the company and the government figures what to do with it, if it is going to sell it or if Gas Natural is going to operate with a supervision commanded by the government.

We still don't know what is going to happen but in terms of the Local Regulation we had been asked to provision 12.5% of this position which is 250 Billion COP. This happened in March so is a non-recurrent item that is referred on this figures in 1Q2017. Taking out these non-recurrent items and the non-recurrent items of the first quarter of 2016 which are mainly the income that we saw by the sale of CIFIN, net profit should be growing 34% from the previous year, which it is what we expected of the income statement performance this year, as I told you, mainly driven by the net interest performance and driven also by the current interest rate scenario.

In terms of Activity, as I told you, mainly driven by Retail Business in Consumer and Mortgages as all the Portfolio has been stable in the last quarter compared to the first and last quarter of 2016. The Deposits have been keeping also the same trend that we experienced in the last quarter of 2016 which is a transfer between Institutions of savings accounts and term deposits. We are trying to take those Institutions out of Deposits in Colombia and transfer them to long term portfolio, trying to match our mortgage portfolio and that has been done with almost zero cost because of the interest rate scenario that we have been having, so I think it has been a very profitable strategy given the requirements that we have on Balance Structure.

In term of Risk Management, as I told you we have seen the deterioration in all portfolios but it's a trend that affects all the Industry. We are keeping our difference with the Industry average, now it's in 33 bps in terms of the NPL ratio, but if we analyze all three current portfolios we see a little deterioration of the consumer portfolio that is know in line with what the Industry average has. This is the cost by the deterioration, especially because in consumer business we have three

different main lines which in the big line are Payroll loans and the rest of the consumer portfolio. The problems that we are experiencing in terms of non-performing loans are focused on this other consumer portfolio which sends to almost 3 Billion COP (1 Million USD), and we have reviewed our policies, and we expect this number to stabilize in the short term to reduce this impact on the non-performing loans ratio for the whole bank.

In terms of Risk Premium, this figure is affected obviously by Electricaribe and the two regulatory issues that have affected our income statement this quarter. If we take out those non-recurrent items we should see an increase of the risk premium much more in line with the figures that we had been seen in the last quarter, stable but moderate increase in the risk premium and will be below the industry average.

In terms of solvency and capital positions we are very comfortable, 382 bps above the minimum required in total solvency, and as we have told you before this are individual calculated ratios. When we consolidated and compared it with our peers, this figure is much in line with what our peers had, so we feel comfortable with this capital levels. This has been recognized by the market, we still have a lower spread than our peers in Colombia, so I think the market is recognizing our performance is good, going in the right and same direction that we had been going in the last years.

That is all that we have prepared. Please feel free to ask us questions that you may have regarding BBVA Colombia Results for this quarter.

Ok if there are no questions, we thank you for your assistance and we expect to see you in the next quarter presentation. Please feel free to ask any further questions via email to the contact we had sent you in the presentation and have a good day.

**[Adriana]** Ok that completes our event, thank you for participated and we wish you a very good day.

## Contact Investor Relations

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