

# 2Q -2017 Results Presentation Transcription

**BBVA Colombia**

## Audio-Conference 2Q17

**[Adriana]** Good morning, good afternoon and good evening for everyone for all investors connected around the world, welcome to the second quarter 2017 results, my name is Adriana Sarasty, and I am part of the legal Department of BBVA Colombia, to the event is also connected Germán Rodríguez Perdomo, Director of the Financial Management Department who is going to make the presentation, the corresponding document was send to you in email in English and Spanish and it will be published in our website in the section of investment relations on the link agenda, we ask you to please set your microphone in silence to eliminate the eco and have better communication. Without further ado I give the turn to Germán.

**[Germán]** Welcome to our investors and shareholders to this second quarter presentation of our results in BBVA Colombia I will explain the highlights of our results for this quarter and I will explain some of the expectations that we have on activity and results for the Bank for the end of this year and the perspectives for 2018.

First, I would like to explain a little bit that as you may know Colombia has been experiencing a tough macroeconomic environment, Colombia GDP growth has been lower down to 1.3% at the end of the second quarter, and BBVA research expect to end 2017 with a GDP growth of 1.5% which is lower in compare with the levels that we observed in the last few years.

For 2018 we expect a little big increase in the dynamic of the economic and in the growth of the GDP of 2% supported mainly by consumption and investment, especially investment in the public sector. For inflation at the end of 2017 we expect to be at level of 4.2% a little bit higher than the level expected by Central Bank which is between 2% and 4% but we understand this as a transitory effect and we expect that it drops sharply in the first months of 2018 well below 4% , and we expect that 2018 end with a rate of 3.2% which will be helping economic activity in terms of interest rate in the hole economy and we expect that the Central Bank has a lower level in intervention rates.

In terms of unemployment we have seen now some deterioration in the labor market mainly in the urban areas of Colombia, the agriculture sector is demanding more labor right now and we have been observing this trend in the main cities of Colombia. We expect on the

unemployment to rise slightly in 2017 and also in 2018 in comparison to the end of 2016. Of course this will affect and is currently affecting, non performing loan ratios in the whole banking system especially with SME'S and consumer loans.

In terms of intervention rates by the Central Bank we expect that this wag up current trend of lowering rates will stop this month at 5.25% and will remain to December- January 2018. Now in the first months of 2018 we expect that given the lower inflation that the economy will have, the Central Bank will cut rate further by 25 basis points as an impulse to the economy. Given this environment of course loan activity has been lower than we expected but is a trend that is affecting the whole banking sector. Nevertheless we have seen in BBVA at the end of the second quarter a strong gross margin growth especially given by the interest margin this trend is mainly explained by our balance structure, we have a high sensitivity of our balance.

As I have been saying, there has been a strong growth in the interest margin explained mainly by the balance structure, BBVA has long term fixed rate Mortgage Portfolio which is funded mainly by variable rate long term deposits which is a characteristic of Colombian market. The inability to find long term assets with fixed rate assets with fixed rate deposits. So when the rates of the economy go down we expect an enlargement of the intermediation margin and it has been affecting positively and that is been affecting positively our interest margin in 2017.

The Other highlight that I would like to comment is that BBVA in line with the strategy that the whole group has been implementing for some time, has been named as the most innovative Bank in Colombia, I think we have the best mobile application in Colombia, we have been very active trying to migrate our digital clients to digital channels and we have been very successful in this issue. Nevertheless, digital penetration in Colombia is too low but I would like to think that BBVA is ahead of its competition in this digital trend in Colombia.

In terms of activity as I have already said the year on year growth for assets has been positive but slightly lower than the level that we accustomed to have a few years ago, we are growing our assets about 6% maintaining our market share and maintaining our rating in the Banking sector, this assets growth is mainly explained by loan Portfolio where is growing 7% mainly explained by consumer business. Consumer business has been growing at double digit rate of 11% and we are experiencing some minor market share gains as well as in deposits which they are growing maybe at the same rate at the assets but I would like to comment that this growth in deposits has been with a

better balance that it used to have, this growth has been focused not on institutions and enterprises but more focus on individuals, we have been in this segment 19 points from the last year and growing at the rate of 4% in terms of resources so this has been exceeding quite a lot of our main peers are doing and I think we are improving in terms of stability and in terms of cost.

In terms of balance sheet as I have already said is growing at 6% year on year rate mainly explained by the loan Portfolio mainly the consumer loan Portfolio and this consumer loan Portfolio has been focus on payroll linked loans which have very low exposure to credit risk. We have been taking measures in terms of profiles of credit admission and for other lines of consumer loans especially vehicles and credit cards.

In terms of deposits as I have already said, this growth of 6% and it has been more focused on individuals than institutional funding sources. In terms of the income statement we have a very strong growth in gross margin explained by the interest income in which have been offset a higher expenses on provisions for loan losses and this provisions have been impacted by two main effects.

The first one is some costumers in the commercial credit site that have been deteriorating with a high impact on provisions and non performance loan ratios as some of you already know I am referring to Electricaribe which is owned by Gas Natural Fenosa an Spanish Company and they are currently intervened by the Government. This is and utilities company that operates in the North of the country and has been intervened by the Government so they have to pay their obligations but we are expecting the results of the organization plan that is currently implemented by the government and we are positive about the recovery of this loans and this exposure that we have with this company and that has had a substantial impacted in our results and in our non performing loan ratios.

The second one is more related to regulations, we have been asked to increase our loan provisions for two reasons, and the first one is a regulation that has asked the bank to increase the provision rate for consumer loans that are given with a term of more than seven years. BBVA Colombia has a high exposure to this kind of loans because of the payroll linked loans they are given on average term of nine years so we had to make an important provisions in this issue, this had impacted the income statement in about 16 billion pesos and the other issue is related a change on the counting of days of nonperforming loans, we used to do that in a 360 day basis and the Superintendence has asked us to do in a 365 day so that has impacted us in another in 20 billion

pesos.

Besides that we had had experienced some deterioration of the consumer credit, specially the lines that are not link to payrolls and we have taken the measures to improve the profiting in this issue so that the impact that we are having right now in terms of provisions and risk premium will be contained for the rest of the year. For the other expenses we have tried to increase our efficiency, the general expenses have growing just 2.4 % in compare to the last year which is well below inflation for this year. Given that we are experiencing a decline in the net profits for the quarter in compared to the last year in almost 16% but a positive trend in compared with what the first quarter, we are positive about the trend that we are seeing in the results, specially the trend that we had had in the provisions side that will not continue to affect our income statement and the positive trend that we have in gross margin will continue in the rest of the year.

As I have already said, we are keeping our stable Portfolio mix in terms of loans, growing in the personal loan business more than the commercial side given the macroeconomic environment and in the deposits side, we are growing in checking and savings accounts of individuals, and in deposits we have seen a very sharp decrease compared to the last quarter, mainly due to a less funding needs specially from the institutional side. In terms of risk, we have seen a high deterioration of the commercial and consumer portfolio, we are not worried about the mortgage business in Colombia but the commercial side is impacted by this Electricaribe issue and the consumer side is impacted by non payroll linked loans but we are taking measures in order to bring the origination of new loans to a better behavior so we are positive about the behavior of this ratios in the rest of the year.

In terms of risk premium, we still have a risk premium that is below with our peers but as you may see in the graphic is growing at a very high pace and this is affecting all our peers. If we took all this special impacts, Electricaribe and the other two regulatory issues that have been affecting provisions for this year, this ratio of 2.4 will decrease almost 30 basis points so it would be well below in compare with the ratios that our peers have right now.

In terms of capital, we have been maintaining almost the same levels that we had had in the last quarters, gaining some basis points in the core ratio which has been mainly driven by the growth of loan activity and the capitalization of the net income that we have had for the last year that is reflected on the equity tier one ratio. BBVA Colombia is continuing to be positively viewed by the markets in terms of the price of

its bonds when compared with other issuers in Colombia and it has been a trend that we have kept since we issued those bonds in 2015.

To round it up, I will like to say that we had had a very rough ride in this first half of the year, especially in the provisions side but we expect the rest of the year to grow a little bit better because of the higher activity we expect in second half of the year to be better in terms of activity, we expect that this special impact on provisions in special the regulatory ones will not repeat themselves in terms of the issue with Electricaribe we will have to see how the intervention plan by the government goes and hopefully we do not have to see any more impact on our income statement for this issue so this is all we are bringing you today and I now open the window to your questions. Thank you very much.

**[Adriana]** There are not questions relevant to this event, thank you for participating and we wish you a very good day.

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