

3Q -2017 Results Presentation Transcription

BBVA Colombia

Audio-Conference 3Q17

[Adriana] Good morning, good afternoon and good evening for everyone for all investors connected around the world, you're welcome to the third 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 German Rodriguez Perdomo, Director of the Financial Management Department who is going to make the presentation, the corresponding document was sent to you in email in English and Spanish and it will be able published in our website in the section of investor 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 German.

[Germán] Hello to all, First I would like to present to Mr. Alejandro Reyes who is a senior economist of the BBVA Research department and he will tell us today about how we are seeing the economic performance of Colombia and what we expect in the short term in terms of economic performance for the country.

[Alejandro] Good morning and good evening to all, the first thing is we see us an external environment is positive, we have seen stable growth around 1% quarter to quarter grade which is a positive number mainly in the past few months we have seen more countries and more regions converging for this positive trend of growth so we have a positive external environment for emerging economies and for the Colombian economy.

On the Colombian side we expect for 2017 a growth of 1.5%, which will slowly trend upwards in 2018 and 2019; in 2018 we expect (estimate) 2.0% growth and that's trend up for the recovery of the Colombian economy, which has started already in the statement for the third quarter of this year. We have seen data for the fourth quarter GDP already at 2% grow accelerating for 1.2 – 1.3 % average in the first semester. Numbers have started to come up positive in Colombia, the changing trend is mainly driven by better exports and some capital goods investment especially machinery and equipment in Colombia. On the financial side or monetary variables we see that the inflation is

stabilizing in Colombia after that difficult period in 2016, we see the inflation closing at the just in the edge of the ceiling of the inflation target for the Colombian economy around of 4% and we see a better performance in 2018, especially in the first quarter we see a very steep deceleration in inflation going towards 3% and then stabilizing around that level for the rest of the year..

We expect the inflation close at the level of 3.1% in 2018 which is the target range of the Central bank. We've have seen also some positive information from the Central Bank, they lowered rates in the months of October, we are now at a level of 5%, We expect that it goes even lower at 2018 up to 4% which will be driven by this lower inflation and lower inflation expectations and also by the correction in the current account data, we actually current expect a 4% current account gap for this year. But numbers have been coming especially in the second part of this year, kind of biased to a lower deficit. Those are good news in the Macro front that will allow the Central bank to have a more dovish position in interest rates. The only thing that is yet to turn around is the labor market, we expect that it deteriorates further in the next few quarters, we expect that the unemployment rate goes from 10.6% up to 11.2%, so this deterioration even though is not a hard situation or difficult scenario is lagging the deceleration of the economy of the past couple of years. So we are still waiting to see those numbers, which are going to come in the next three quarters. The rest of the indicators numbers are looking positively, and having a change of face from the past few quarters basically in the macro side. I will give the word to German, so he can continue with the presentation

[Germán] Ok thank you Alejandro for this important input regarding the macro expected the behavior of Colombia, I'm going to talk about the highlights what has been the performance of BBVA Colombia this quarter, I would like to highlight that we have been experiencing, as I have already explained in the last quarter presentation, that the activity in the country and of BBVA Colombia have been decreasing , we have not been seeing all this double digit rates that we have been accustomed to in the last years in Colombia and it has been an industry trend so we are not worried about that, but we are adapting ourselves in order to improve our efficiency and our productivity in this lower growth environment.

To have a reference the loan Portfolio of the whole banking industry in Colombia has been growing at 6% YoY mainly driven by loans to individuals, this business line has been growing at 11% rate from the year before and this growth is different compared to the loans to corporates that have been growing at the rate of just 3% from the year before. We've seen that similar trend in terms of deposits, deposits it has been growing at 6% on the year before and this growth has been mainly driven by corporates and SME's, from the scenario that we've seen in the loan side, we are experiencing more growth in this area especially because a lack of new investment projects so all the cash that corporate are generating are going to deposits of the Bank and not into more investments.

On the individual's side, it's just been growing at the rate of just about 1%, which reflects I think the growth in unemployment and less capacity of savings of households in Colombia. In terms of results, we have had positive evolution on the gross margin in this quarter and this is a trend that we've been seeing in the last two quarters mainly driven by the interest margin and this interest margin growth has been aided by the positive effect that the lower rates have on deposit costs and given that we have mainly a fixed rate loan portfolio, this increase our customer spread. We expect this trend to diminish because of the reprising of the loan portfolio rate which is slow but we will get there because of the lower rate that here right now in the new activity, so we expect this Customer spread to stabilize in the short term and maybe diminish in the next years given the expected performance of the loan portfolio.

We have been continuing our strategy of digital banking, right now we have almost 10% of the sales that BBVA has done in 2017 have been through digital channels, this is in line with what we are expecting in terms of performance but our ambition is bigger, we expect to double this penetration rate in the next months. In terms of Customer acquisition we are growing in a double-digit rate in terms of digital and mobile customers, increasing to almost 20% of our customer's base, they are now digital operating through our digital app.

In terms of distribution network, we have been keeping our physical network in the same levels that we use to have in the last quarter and in

the last year, we are right now in more than the half of the country and with more than one thousand branches and three hundred ATM's maintaining our physical distribution network as we use to have before. In terms of employees, we have been improving our efficiency given this slower growth of the economy we have been reducing in some positions in the bank to improve productivity and efficiency in all areas, in the branches and central areas. The other line of the distribution that has been growing very fast is the banking agents as you may know in Colombia we have the opportunity to bring third parties to give financial services and not just transactional services to customers may be in places that we are not presence with physical branches. We have been growing our presence through these third parties that are now near to seven thousand banking agencies in the whole country and it has allowed us to increase our presence in the whole country without any investments on braches or typical investments which as you may know is very expensive and it is not very in line with the digital activity that we are implementing now.

In regard to the banking system activity that we have brought into the presentation, I can tell you that in terms of market share we are still being the bank number four in Colombia, being focused on individual loans mostly consumer loans where we have gained 2 basis points on market share and in terms of deposits I would like to highlight that we have been implementing in the last year a strategy of increasing our market share on the individual side so we have been growing at very good pace, we have gained 4 pbs from the last year in terms of the deposits from the individuals and this has allowed us to improve our funding cost, and reduce funding concentration. In terms of corporate and SME's we have lost 9 basis points in market share mainly by deterioration of the credit quality of Customers. Given this environment, we would not like to increase our exposure to that kind of risk in our balance right now so we are slowing our activity in this segment and waiting for the macro outlook to improve to a higher growth in this segment.

In terms of the mix of our business is being almost the same from the last quarter and also as we have talked about in the last presentations, I just would like to highlight that the consumer growth that is a little about 10% mainly driven by payroll loans, this payroll loans are growing 16%

rate from last year, all the other loans, other consumer loans are growing at a very slow rate may be below 5% and this has been in line also with our strategy of having a very creditworthy loan portfolio and creditworthy customers. In terms of commercial side of loans, we have strengthened our admission policies so that the credit quality of the Customers that we are lending is improving but the activity is also reducing into a single digit growth.

In the next slide, we have of deposit composition I just would like to highlight as I have already said; we have been increasing our share in the individual's side. In terms of structure we have been growing, in line with the last years, in our market share in CD's and this is mainly driven by the need that we have to close balance sheet gaps in fixed rate, as you may know, we have a lot of mortgages and mortgages in Colombia are mainly attached to fix rate, not variable rate so we have been taking advantage of the lower rates environment to bring funding in fixed rate, we have been opening our windows to fund from to 10 years with a very competitive rate between 80 or 95 basis points over Colombian treasury which is very good for a market that is sometimes quite illiquid but we have to be very active in this statement and we are closing the gap that allows us to improve the stability of our interest margin in the future.

In terms of risk management, we have seen this year deterioration in the ratio of NPL which have been driven by the issues of Electricaribe and a deterioration of the consumer loan portfolio non-payrolls portfolio but the other consumer portfolio. This has placed us a little bit about the industry average, but taking into account that the impact of Electricaribe is extraordinary, I have to present there in the slide number 12 how this NPL ratio would be without the impact of Electricaribe, and the GAP will reduce significantly and I have been taking into account that we have been maintaining our rate off policy and maybe some bank have increased the rate in order to maintain the NPL ratio in another level, I think BBVA have been expressing some situation especially in the consumer business because the commercial site taking out the impact of Electricaribe is a little bit below the industry average.

We expect this trend to diminish, we have taken all the measures in order to improve our credit quality and I think we are admitting right now

much better client that we used to, especially in consumer business will converge with the industry average may be in two quarters given higher activity by the Bank, the Bank has been experiencing also lower activity than some other banks so we expected to converge in the near future

In the mortgage side, we are very confident that we are doing what has to be done. Therefore we are not worried about that risk which is very important for us in terms of disposition that we have in our Bank to this product. In terms of risk premium as you may see there are few differences between the adjusted risk premium that BBVA has and the industry average, this adjustment comes maybe from three issues which are Electricaribe which is the biggest one with an impact of almost 40 million dollar, the second impact is the extra allowances that we have to do because of the financial Superintendence obliged to do a because of the regulatory change for consumer loans that 047 circular had and the day basis change in the calculation of the non-performance loans that I explained in the first quarter which has an impact of almost 7 million dollars, generally in the first quarter of 2016.

All this impact which are extraordinary and not frequent, if we take this out we can see that our risk premium is well below the industry average and our peers banks and it also reflects that we have maintained our right of policy. Maybe if we have decided to increase our write-offs, the NPL ratio would be closer to the industry average but we prefer to do in this way no to present lower NPL but to maintain our policies stable. As you may see we have a deterioration of portfolio but we are raising the pick of this deterioration and given that most of the deterioration have passed for us and we have just our admission policies.

In the slide number 14 just I would like to highlight the whole bank growth is quite lower than we use to see, just below 5% with very important growth of provisions and maybe some cash and investments. In terms of results, going to slide 16 I would like to highlight that it was a very good quarter in terms of net interests and gross margin growth, we are growing at almost 30% YoY rate in net interest income and gross margin but as I have already said the impact of increasing provisions is very high in our balance sheet and we have seen a decrease in our net profit from the last quarter almost by half, maybe because of the impact of Electricaribe, we have had to increase our allowances for this loan in

almost 35 million dollar, raising almost 16% of the exposition that we have. In the short term, we expect to raise 85% so in the last quarter we will increase our allowances by another 15 million dollars.

In terms of efficiency, it has been improving from last year but we have seen a little increase from the last quarter mainly because of the cost that we have taken from severance payments that we have to assume to improve our efficiency in some areas in the branches and the central areas also. In terms the income statement, we have a very strong gross margin growth but a very high increase in allowances for credit losses; we have had a very high impact on our net income. We expect this is the almost the quarter with high impact because of the allowance of Electricaribe and we expect this impact to diminish in the next quarter's positive site of the evolution the next profit.

In accumulated term sometimes more like next we have quarter evolution a strong growth in the net interest income and gross margin better improve issues but a lower net profit 30% below from the last year, explained by the issues have a rate explain, If we go to the slide number 21 we can see that never collect that we have a performance intense of net income we have our capital level at the same level that we have in the last quarter between 12.6% and 12.8% in the total solvency ratio and strong equity tier I ratio between 6.7% and 7.3%, of course, it has been aided by the lower growth of RWA's given the lower activity in the bank and given is wear very countable with the capital levels of Colombia we are not expecting any capital operation in Colombia any issuances or capital increase so and in the next quarter is more of the same we can expect given what Alejandro beginning growing Colombia would be a little bit higher than we have been experiencing but not at the levels that we used to have years ago.

The presentation that we prepared for your, I open now the windows for the questions, regarding the performance of the bank

[Adriana] Ok, that completes our event, thank you for participated and we hope we have an excellent day

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