4Q -2017

Results

Presentation

Transcription

BBVA Colombia

Audio-Conference 4Q17

[Adriana Sarasty] Good morning, good afternoon and good evening to our investors connected around the world, you're welcome to the fourth 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 Diana Polania, Director of the Financial Planning Department, Alejandro Reyes, Principal Economist and Carolina Ramirez, Director of the Financial Management Department who is going to make the presentation, the corresponding document was sent to you by email in English and Spanish and it will be able in our website in the section of investor relations on the link agenda, we ask you to please mute the microphone on your phone to have better communication. Without further ado, I give the turn to Carolina.

[Carolina Ramirez] Thank you Adriana, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results of the last quarter of 2017 for BBVA Colombia.

I will start with a brief review of the macroeconomic scenario and later I will explain the highlights of our results for the quarter.

Let me start with our global macroeconomic outlook. In 2017 the world economy grew 3.7%, showing a better pace in the second half of the year and anticipating a better performance going forward. Indeed, the economic policy implemented over the last years has undermined a recovery in developed economies while the increase in commodities prices has supported a recovery also for emerging markets. We see that the global economy continues to grow at a very good pace and our economic research team expects global growth to increase to 3.8% for both, 2018 and 2019.

In Colombia, GDP growth continued to slowdown as a result of the deep oil prices shock that affected the economy and public finances since 2014, and also as a result of the 2016 tax reform that had an impact on consumer and investment confidence. Accordingly, economic expansion was limited, especially during the first half of the year. Since mid-2017, the economy showed greater dynamism due to a stimulating monetary policy, large drops in inflation, an increase of commodities prices, a better performance in the construction sector and public expenditures, and a rebound of exports amid an environment of global recovery. Unemployment has seen some deterioration given the slowdown in the economy and our research team believes this could continue during 2018 and 2019.

In terms of inflation, BBVA research believes that it will continue with a downward trend ending this year at 3.1% and the next year at 2.8% thanks to a more stable currency and a slow demand growth. This will allow the Central Bank to keep its stimulating monetary policy this and the next year. Our research team believes that after more than 300 bps over 2016 and 2017, the Central Bank will implement two more cuts in the first half of this year, taking its interest rate to 4%.

All in all, Colombia's GDP grew 1.8% in 2017 and BBVA research expect the economy to accelerate to growth rates of 2.0% in 2018 and 3.0% in 2019, given that the adjustment to the oil shock seems to be getting to its end and thanks to the stimulating monetary policy. This will allow for the fiscal imbalance to improve over the next two years and the trade imbalance to stay around current levels of 3.3% of GDP.

Under this macroeconomic outlook, I would now like to share the main highlights of our results in the fourth quarter of 2017 in the next line.

First of all, and despite the slow economic growth seen in Colombia last year, we increased our market share by 40 bps, driven by consumer and commercial growth. Moreover, we continued to be one of the largest players in the retail segment given a 16.9% year-on-year growth in payroll loans, with an increase in our market share of 111 bps. We also had a good performance in commercial loans with a year-over-year growth of 7% and a market share increase of 40bps. I will give more details on this later in the presentation.

Second, I would like to highlight our results in terms of digital trends, given that this is one of BBVA's main strategic priorities. We ended the year with nearly 40% of our clients making online and mobile transaction and more than 10% of our total sales done through digital channels. This represents an increase of 51% in our mobile clients and more than double of digital sales compared to 2016. We continue to have highly ambitious targets in this front and expect to keep showing very successful results.

I will now present the main figures of our fourth quarter, showing first the Balance Sheet and Business Activity, then the results for the period and finally our solvency ratio.

In slide 7 we see the main highlights of our Balance Sheet. We ended last year with $58 trillion pesos in assets, of which $7 trillion was investments and $44 trillion was our loan portfolio. This meant a market share of 10.4%, an increase of 40 bps compared to the previous year as a mention before. This was explained by market share gains of 6 bps and 60 bps in consumer and commercial loans, respectively. On the Deposits side, we ended the year with $44 trillion pesos, also representing a market share increase of 28 bps driven by term deposits and checking accounts.

Moving into the next slide, you can see the mix of our loan portfolio. BBVA has been traditionally more exposed to retail segments, representing nearly 60% of our total loans. We have strategically kept our leading position in payroll loans that represent 57% of our total consumer loans, given that it has shown low levels of risk to our portfolio.

In terms of growth, as I mentioned before, we highlight our outstanding performance in consumer and commercial loans with year-over-year increase rates of 9.2% and 13%, respectively. On the consumer side, I already highlighted the outstanding growth in payroll loans at 16.9% year-over-year, while other consumer loans grew at a slower rate below 5%. This was a result of our actions taken last year in order to improve the quality of our portfolio that had been affected by the adverse economic scenario. We decided to strengthen our admissions requirements and limit consumer loans' growth. I will provide more details on this later.

Our commercial loan portfolio grew 13% last year, given the increased activity especially on the last quarter. This growth was led by institutional clients, where BBVA is very strong. We saw good opportunities to grow in this market and many of our efforts over the year materialized in the fourth quarter, capturing relevant business. We also grew on the SMEs segment, one of our key strategic markets.

In the next slide, we have our deposit composition that has remained mostly stable compared to the previous year. Last year, our deposit base grew 9.3%, driven by term deposits and checking accounts.

Our funding strategy aims at stable, long-term and fixed-rate sources, given our balance-sheet structure. We therefore look not only to increase our retail deposits base, but also we are actively looking for long term funding at fixed rates that has increase in our term deposits base. Last year we also saw a year-over-year reduction of 5.3% in savings accounts, given that we strategically decided to reduce some expensive funding that we identified under this concept.

Moving into slide 10, in terms of risk management we continue to implement adequate policies to keep the high quality of our portfolio. Last year we saw an increase in our NPL ratios given the adverse economic scenario in Colombia. On the commercial side, Electricaribe had a very relevant impact, taking our NPL ratios above 3% by mid-2017. Throughout the year we provisioned this exposure and ended at 80% of hedge. Indeed, without Electricaribe, the ending NPL ratio would have stand almost 50 bps below the actual ratio. It is also important to highlight that our cost of risk has stayed below the sector, and when taking Electricaribe out of the calculations, the increase in our cost of risk compared to 2016 is much lower.

Additionally, we faced deterioration in our consumer loan portfolio in the first three quarters of the year, but we design an action plan to encourage only healthy growth. By strengthening our admissions requirements and limiting approvals to elevated risk profiles, we were able to reduce NPL ratios in consumer loans from 4.8% in 3Q17 of the last year to 4.4% in the last quarter.

The next slide shows our detailed Balance Sheet, of which I already mentioned the main highlights over 2017. However, I would like to mention an adjustment made in 2016 Balance-Sheet figures, as we implemented a Goodwill Credit Elimination.

Until the 31st of December 2016, BBVA registered a Goodwill credit that emerged from the acquisition of Granahorrar back in 2006. During the time of implementation of IFRS in 2014, the Bank accepted the exception established in IFRS in relation to business combinations. Therefore, it maintained the value of the Goodwill that it brought under the previous accounting, and that corresponded to $192 billion pesos. Thus, on the date of implementation of IFRS, the Bank did not perform the impairment assessment comparing to that Goodwill and could not established whether there was objective evidence of impairment on the identified cash-generating until corresponding to the portfolio of credits included in the acquisition.

As part of the annual assessment of the impairment test of Goodwill for the fiscal year of 2017, the Bank performed an additional analysis on the origin of the transaction of that Goodwill, and concluded that most of the loans acquired were cancelled, punished due to uncollectibility or sold as part of the normal line of business. Consequently, there is no support to maintain the value of the Goodwill Credit in the financial statements. Therefore, it was decided to eliminate the value of that Goodwill Credit in the Financial Statements at the end of 2017 and we proceeded to restate the 2016 Financial Statements for consistency and comparability purposes.

We now move into the results of the fourth quarter of last year, starting in slide 14.

First of all, our net interest income saw an increase of 2.2% from the previous quarter thanks to our balance sheet composition that benefited from the interest rate cuts implemented by the Central Bank. Indeed, 55% of our loan portfolio has been placed at fixed rates and continue to receive the positive impact of higher interest rates in 2016, at the same time that we have managed to keep high commercial spreads. Meanwhile, our funding resources have been placed at adjustable rates that have received the impact of rate cuts by BanRep much faster that our loan portfolio, reducing our funding costs. Compared to the same period of 2016, our net interest income grew 25.6%.

Fees income also showed an increase in the fourth quarter of the year vs. the previous quarter thanks to the year-end seasonality and to purchase growth on credit cards. Meanwhile, other income saw a decline of 40% year-over-year, explained mostly by lower value of our investments and an extraordinary income registered at the end of 2016 due the valuation at market prices of our exposure to Credibanco. However, other income increased in the fourth quarter of 2017 compared to the previous quarter, due to the merger of the Colombia Stock Exchange and Deceval, at which BBVA has some participation. With all this, our Gross Margin increased 3.4% year-over-year in the fourth quarter of 2017 and 7.7% compared to the previous quarter of that year.

In the same period we also saw an increase in Loan Loss provisions due to macroeconomic trends, regulatory changes, and our exposure to Electricaribe. On the later, we decided to finalize the provision up to 80% of this exposure at the fourth quarter of last year, as I mentioned before. Other expenditures grew somewhat above inflation.

All in all, BBVA Colombia registered a net profit of $162 billion pesos, a decline of 16% vs. the fourth quarter of 2016, but an increase of 114%, when compared to the previous quarter of 2017.

Finally, the Efficiency Ratio was 47% at the fourth quarter of last year, 94 bps below the previous quarter.

In the next slide we find the accumulated results. In annual terms, net interest income increased 15.3% year-over-year in 2017. This is explained by more income from our loan portfolio that increased 6.3% year-over-year, and lower interest expenditure that decreased 1.9% year-over-year. This was a result from our balance sheet structure, given that on the loan side we have benefited from fixed rates that haven’t been affected by the interest rate cuts implemented by the Central Bank and even with new loans, our rates have managed to stay at high levels, while on the deposit side, we have benefited from variable rates that have allowed us to finance our activity at lower costs.

Our gross margin grew 12% year-over-year in 2017, led by an outstanding increase in our fees that raised more than 50%, which more than offsets the decrease of 48% in other income. As explained previously, other income saw a decrease in the fourth quarter of 2017 given extraordinary events registered in 2016. The remarkable growth in fees income during 2017 was mostly explained by purchase growth in credit cards all through the year.

In 2017, our expenditures increased 30.4% year-over-year mostly explained by higher loan provisions derived from our exposure to Electricaribe. As a result, BBVA Colombia registered a net profit of $491 billion pesos in 2017, a decline of 14.2% respect to 2016. It is very important to highlight that without the effect of higher provisions and other extraordinary effects, Net profits would have increased 6% last year. In addition, this result was achieved with a remarkable improvement in our Efficiency Ratio that decreased 222 bps in 2017.

Finally, in terms of our capital adequacy in the next slide, we have maintained very solid solvency ratios, well above our regulatory requirements. We saw a 50 bps decline in the solvency ratio in the fourth quarter of the year due to two main reasons. First, we had higher RWA given the increase in our commercial loan portfolio and second, we saw an increase in the market risk due to a higher exposure to long-term fixed income bonds.

With this I end my presentation and open the line for any questions you may want to ask.

Ok, since there are no questions, then I would conclude our event. Thank you for participate and we hope you have an excellent day.

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