

**2Q -2018**  
**Results**  
**Presentation**  
**Transcription**

**BBVA Colombia**

## Audio-Conference 2Q18

**[Natalia Neira]** Good morning, good afternoon and good evening to our investors connected around the world, you're welcome to our second quarter 2018 Results event. My name is Natalia Neira and I'm part of the legal department of BBVA Colombia. In this 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 will give the presentation.

The corresponding documents were sent to you through email, both in English and Spanish, and will be available in our website in the section "Investor Relations" on the link "Agenda". We ask you to please mute the microphone of your phones to have a better communication. Without further ado, I give the turn to Carolina.

**[Carolina Ramirez]** Thank you Natalia, Good Morning and welcome to all of our investors and shareholders connected to this call, in which I will present the results of the second quarter of 2018 for BBVA Colombia.

I will start with a brief overview of the macroeconomic scenario and later I will explain the highlights of our results for the quarter. First of all, I will start with our macroeconomic outlook on slide number 3.

Global growth remains robust, driven by a good economic performance in the US derived from fiscal stimulus and stability of the Chinese economy. However, some risks have emerged from protectionist policies and increased rhetoric around a trade war, which haven't had a direct impact on the activity so far. In fact, although the pace of expansion remains solid, it hasn't been synchronized among different geographies, with an accelerating growth in the US that contrasts with signs of moderation in China, some emerging economies and the Eurozone.

BBVA Research expects global growth to remain at 3.8% in the next two years, supported by the strong performance in the US. However, the lower degree of synchronization observed recently, is reflected in a downward revision in the growth expected this and the next year for both, the Eurozone and South America, mainly Argentina and Brazil. Meanwhile, they maintained the forecasts for the coming years in the US and China,

after showing a good economic performance in the first part of the year, especially with solid fundamentals in the domestic demand.

Under this scenario, during the second quarter of 2018, the Colombian economy grew 2.8% YoY showing clear signs of recovery. For this reason, BBVA Research revised upwards the growth forecasts from 2.0% to 2.6% in 2018 and from 3.0% to 3.3% in 2019. Indeed, private consumption is growing more than anticipated, which is expected to continue and will be one of the main drivers of growth. Also, oil prices' forecasts were revised to the upside adding a positive sign for economic growth in Colombia, this year and the next one.

Meanwhile, inflation has dropped significantly. Inflation currently stands at around the Central bank's target at 3%, thanks to lower food prices and the stability of the exchange rate that has allowed tradable goods' prices to stay well contained. The prices of non-tradable goods have also slowed down, led by lower prices in leases and some services. However, some regulated prices have increased more than expected, that together with higher GDP growth expected now, made our economic research team slightly raise their inflation forecasts for next year. Inflation is expected to close at 3.1% in 2018, and at 3.0% in 2019, up from 2.8% estimated previously.

Continuing on slide number 4, we see that the labor market, another key factor in determining consumption, was quite resilient during the slowdown of the economy. Given the better growth prospects for the economy, BBVA Research considers that further deterioration in the labor market will be minimal. In July, the unemployment rate was 9.7%, showing no deterioration from the same month in 2017, and it is expected to start dropping next year. With all this, our economic research team anticipates that private consumption will accelerate from growth rates of 1.8% in 2017, to 2.8% this year and 3.6% next year.

The upward adjustments that BBVA Research has made to the GDP and inflation forecasts, suggests that the monetary policy rate will remain stable for the remainder of the year at 4.25%. Looking forward, greater growth in the medium term and higher interest rates in international markets make our economic research team believe that the Central Bank could increase its intervention rate by 50 basis points between the end of 2019 and the beginning of 2020, but it will maintain a slightly expansionary statement until 2021.

Under this macroeconomic environment, I would like to share the main highlights of our results in the second quarter of 2018, going into slide number 5.

BBVA Colombia showed very solid results in the first half of the year. Our net interest income increased 14% YoY, our gross margin grew 6% YoY and our net income increased 47% YoY. These results are mainly driven by the interest rate cuts implemented by the Central Bank over the last two years, lowering our funding costs, thanks to a high proportion of adjustable rates in our funding sources.

In terms of our balance sheet, total assets closed at \$58 trillion pesos, with an annual growth of 7%; the gross loan portfolio registered a YoY growth of 9.2%, ending the period at 44.8 trillion pesos, while customer deposits grew 8.7% YoY closing with a balance of 45.7 trillion pesos.

As for the risk indicators, these have been affected by the macroeconomic context, with an increase of 29 basis points in our NPL ratio compared to the second quarter of 2017. However, we returned to a better position than the sector, given our lower exposure to distressed transactions. The cost of risk decreased by 6 bps compared to the same period of last year and it is also below the cost of risk of the sector.

We have also maintained our strong capital position with a solvency ratio of 12.05%, well above than the minimum required by regulation. Finally, our efficiency ratio continues to improve, decreasing by 76 basis points compared to the second quarter of 2017.

On slide 6, I would like to share with you our results in terms of digital trends, since this is one of our strategic priorities.

BBVA has been immersed in a process of digital transformation in the Colombian financial sector, with a special focus in our customers' needs. This has resulted in innovative digital solutions that we have made available to our current clients and to potential clients that have been well received by the market. Proof of our successful strategy is the significant increase in the use of our digital channels. We finished the second quarter with 48% more digital customers than the same period of last year and 74% more mobile customers. In addition, digital sales represented 17% of our total sales, more than double of what we registered in the second quarter of last year. Due to this strategy, BBVA Colombia has been

awarded as the best bank in the country by the magazine Euromoney, not only because of our solid financial results but also due to the significant progress made in our digital transformation.

I will now present the main figures for the quarter; showing first, the results for the period, then the balance sheet and business activity, and finally our solvency ratio.

We now move into the results of the second quarter of 2018, starting in slide 9.

BBVA's interest margin recorded a YoY increase of 14% in the first half of the year, thanks to a reduction in funding costs by 164 billion pesos. This is explained by the composition of our funding sources, weighed to adjustable rates, that continue to benefit from lower interest rates after the expansionary monetary policy implemented by the Central Bank since 2016.

In the second quarter of the year specifically, our Net Interest income grew by 12% YoY, despite the Central Bank didn't implement any rate cuts, given that we have managed to maintain high commercial spreads on our loan portfolio. Indeed, 60% of our loan portfolio has been placed at fixed rates, allowing us to keep a stable interest income in the quarter. Moreover, our NIM has increased 19 bps with respect to the same quarter of the previous year. With this, our net interest margin continued to increase during the quarter.

On slide number 10, we see that net fee income increased 46% YoY in the first half of the year. This is mainly explained by a reduction in the sales force fees and by lower cash purchases due to strategic actions to increase our cash supply.

Moving into slide 11, we see the significant improvement in our efficiency ratio, with a decrease of 76 bps YoY. This is explained by a very moderate growth in expenses during the quarter, with a variation of only 3.1% YoY. This has been driven also by our digital transformation that has allowed us to improve several internal processes.

Finally, BBVA Colombia registered a net profit of 372 billion pesos in the first half of the year; an increase of 46.8% compared the first half of 2017,

as a result of an increase in the net interest income, higher fees' income and expenses under control. As for return on equity, BBVA Colombia saw an increase from 11.6% in the second quarter of 2017 to 14.2% in the second quarter of 2018, well above the industry's average. The trend for return on assets was also positive, moving from 0.85% in the second quarter of last year to 1% in the same period of 2018.

In slide 13, you can find the main figures of our consolidated income statement.

Now, I would like to present our highlights in terms of our Balance Sheet and Business Activity.

On slide 15, you can see that our loan portfolio increased 9.2% to 44.8 trillion pesos. BBVA has been traditionally more exposed to retail segments, which represented nearly 60% of our total loans in the first half of the year. However, we have been strategically focusing in expanding our position in the commercial segment.

The growth of our loan portfolio was mainly driven by an outstanding performance in commercial and consumer loans, with YoY growth rates of 10.4% for both.

The consumer portfolio was led by an annual growth in consumer loans and payroll loans, of 28% and 59%, respectively. We continue to maintain our leading position in payroll loans that represent 59% of our total consumer portfolio, improving the quality of our assets by showing low levels of risk. On the other hand, the mortgage portfolio showed a YoY growth of 5.5%.

Commercial loans grew 10.4% YoY led by the institutional segment, given BBVA's leading position with these clients that has allowed us to make commercial actions and increase our cross-selling with them. Also, in the SME's sector, we have been working over the last two years to improve our position, resulting in growth rates of 6% YoY in this loan portfolio, above industry's growth rate.

On slide 16, we show our funding sources composition. In the first half of the year customer deposits remained adjusted to the bank's liquidity needs. Indeed, customer deposits grew at an annual rate of 8.7%, closing the quarter at \$45.7 trillion. This was led by term deposits that represented 48% of our total deposits and showed a YoY increase of 22.3%. In

contrast, we saw an annual reduction of 4.4% in savings accounts, given that we have strategically reduced some expensive funding. Meanwhile checking accounts showed an interannual growth of 8%.

Our funding strategy aims at stable, long-term and fixed-rate sources in line with 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. Indeed, as part of this strategy, we signed in April a seven-year loan with IFC for USD 150 million.

Moving into slide 17, we increased our market share by 43 bps in the second quarter of the year compared to the same quarter of last year. This was driven by our commercial strategy that, as I mentioned before, allowed for significant growths in the institutional and SME 's segments.

Indeed, our market shares in commercial loans increased by 54 bps in the second quarter of the year, compared to the same period of 2017. In the retail segments, we saw a slower dynamic due to the macroeconomic slowdown, but we expect this activity to recover in the second half of the year, given the better prospects for economic growth.

On the deposits side, we also saw a market share increase of 55 bps, driven mainly by term deposits, with a market share growth of 209 bps.

Now, on slide 18, the adequate risk management carried out in BBVA Colombia allows us to maintain good indicators of portfolio quality and a prudent risk profile.

Last year we saw an increase in our NPL ratios given the adverse economic scenario in Colombia and the impact from Electricaribe. In the second quarter of 2018 the NPL ratio showed a deterioration of 29 bps compared to the second quarter of 2017, given that the macroeconomic conditions continue to affect the quality of our consumer portfolio. Meanwhile, there is an important improvement in the mortgage NPL ratio compared with the first quarter of the year.

In addition, BBVA's participation has been low in distressed transactions that have affected other banks, keeping our Commercial NPL ratios at lower levels than the industry's average. All this has allowed for our broad NPL ratio to return to better levels than those for the sector.

On slide 19, we find our detailed balance sheet, of which I already

mentioned the main highlights during the first half of this year.

Finally, in terms of our capital adequacy on slide 21, we have maintained very solid solvency ratios, well above our regulatory requirements. We saw a 19 bps decline in the solvency ratio in the second quarter compared to the first quarter of the year due to higher RWAs given the increase in our commercial loan portfolio and in line with our strategy. However, our solvency ratio stands at very comfortable levels. Indeed we see a positive impact from regulatory changes that will take Colombian regulation towards Basel III.

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

**[Natalia Neira]** Since there are no questions, then we conclude our event. We appreciate your participation and we hope you have an excellent day.

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