3Q - 2018

Results

Presentation

Transcription

BBVA Colombia

Audio-Conference 3Q18

[Natalia Neira] Good morning, good afternoon and good evening to our investors connected around the world, you're welcome to our third 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 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 for the third 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.

The global economy continues to show a good performance, but with some moderation in the second half of the year. Indeed, global growth has continued to be supported by the fiscal stimulus in the US and some stability in the Chinese and European economy. BBVA research sees some risks for emerging economies that are highly exposed to external vulnerabilities, deriving in a reduction in their global growth forecast to 3.7% in 2018 and 3.6% in 2019, from 3.8% previously estimated for both years.

In Colombia, several trends that BBVA Research anticipated were confirmed throughout 2018. First, the recovery of consumption materialized. High growth in public spending was maintained and household spending increased, mainly in services and non-durable goods. Second, exports started to grow again, something that did not happen for a full year since 2015. Not only due to the better price of commodities, but also due to an increase in non-commodity exports. Third, investment maintained a heterogeneous dynamic: positive in equipment and negative in the construction sector. Finally, there was an increase in imports due to higher consumption levels of non-durable goods. With this, during the third quarter of 2018, the Colombian economy showed a YoY growth of 2.7%, showing clear signs of recovery.

Meanwhile, we see that the labor market has not been deeply affected during the slowdown of the economy. We expect the unemployment rate to start to fall in 2019 thanks to the recovery in activity.

With all this, Colombian economy is expected to consolidate its growth during 2019, where private consumption will be one of the main pillars of the economic recovery and with investment growing 5% from almost zero this year. BBVA Research expects the economy to grow 2.6% in 2018 and 3.3% for 2019. They expect all sectors to have a positive growth, led by construction.

Continuing on slide number 4, inflation will end this year around the Central bank's target at 3%, lower than the 4.1% that we saw at the end of 2017. Between December of last year and September, most of the inflation components have slowed down: food inflation, non-tradable and tradable goods. Given the recent devaluation of the Colombian peso, our economic research team increased their inflation estimation for the current year to 3.4% from 3.3%, and forecast an inflation of 3.2% in 2019.

With a controlled inflation scenario, around the midpoint of the target range and the acceleration of the economy that will consolidate next year, BBVA research expects the Central Bank to maintain its rates stable at 4.25% for the remaining of the year and through the first half of 2019. After that, they anticipate a 50 bps increase in the second half of 2019.

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

BBVA Colombia showed outstanding results in the third quarter of the year. Our net interest income increased 9.1% YoY, our gross margin grew 5.7% YoY and our net income increased 61.4% YoY.

In terms of our balance sheet, total assets closed at $58 trillion pesos, with a growth of 8.4% compared to last year; the gross loan portfolio registered a growth of 6.4% YoY, ending the period at 44.9 trillion pesos, while customer deposits grew 9.4% YoY closing with a balance of 45.5 trillion pesos.

As for risk indicators, these have been affected by the macroeconomic environment, with an increase of 28 bps in our NPL ratio compared to

August of 2017, but still staying below the sector's average, given our lower exposure to distressed transactions.

We have also maintained our strong capital position with a solvency ratio of 12.23% in the third quarter of 2018, well above the minimum required by regulation. Finally, our efficiency ratio continues to improve, decreasing by 319 bps compared to the third quarter of 2017.

On slide number 6, I would like to share our results in terms of digital trends, given that BBVA has been immersed in a process of digital transformation in the Colombian financial sector. Indeed, digital transformation is one of our strategic priorities where we continue to offer innovative products and services to our clients, maintaining our leading position in digital banking in Colombia.

In fact, according to a report from the Superintendence of Finance, BBVA Colombia recorded 74 million transactions made by its mobile banking application during the first half of the year, more than any other bank in the country. The goal of the bank is to double the use of mobile banking among its customers over the next two years and with that, our clients will not only perform more transactions, but will also be able to acquire products and manage 100% of their finances from their mobile phones.

Proof of our successful strategy is the significant increase in the use of our digital channels. We finished the third quarter with 45% more digital customers compared to the same period of last year and 66% more mobile customers. In addition, digital sales represented 22% of our total sales, more than double of what was registered in the third quarter of last year.

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

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

We continue to show positive results in our interest margin, increasing 9% annually in the first nine months of the year. This is explained by the composition of our funding sources that continue to benefit from the expansionary monetary policy implemented by BanRep since 2016, at the same time that we have managed to maintain high commercial spreads. In the third quarter of the year, commercial spreads tended to reduce, as lower monetary policy rates have been more efficiently transmitted to loans, which has been partially offset by lower funding costs. With this we continue to grow our interest margin in the quarter, increasing by 1%.

On slide number 10, we see that fee income increased 46% YoY in the first nine months of the year. This is mainly explained by a reduction in the costs of our external sales force and lower fees paid due to lower cash purchases. Indeed, the high fee growth is outstanding especially taking into account that interbank fees were eliminated this year.

Moving into slide 11, we see a significant improvement in our efficiency ratio, with a decrease of 319 bps YoY. This is explained by a reduction in expenses during the quarter, falling 3% YoY. Compared to the previous quarter, administrative costs saw an increase, driven by advertising campaigns directed at improving our digital trends and seasonality in software and hardware maintenance, also attending our digital transformation process.

Finally, BBVA Colombia registered a net profit of 531 billion pesos in the first nine months of the year; an increase of 61% compared the third quarter of 2017, mainly as a result of higher interest margins, well contained expenses and a decrease in the provision expense as a result of recovery efforts.

As for return on equity, BBVA Colombia saw an increase from 13.38% in August of 2017 to 13.72% in August of 2018, well above the industry's average. The trend for return on assets has been maintained, increasing from 0.92% in August 2017 to 0.96% in the same period of 2018.

In slide number 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 6.4% YoY to 44.9 trillion pesos. BBVA Colombia maintains its focus on the retail segment, which represented close to 60% of the total gross portfolio in the first nine months of the year.

The portfolio growth was driven mainly by an outstanding performance in consumer loans with a YoY growth of 8.8%. Meanwhile, mortgages registered an annual growth of 5%.The commercial portfolio showed some deceleration growing 5% YoY, compared to 10% YoY registered in the second quarter of the year, due to the uncertainties that the pending tax reform have opened. However, we continue to gain market share in this segment, given our significant growth in previous quarters.

On slide 16, we show our funding sources composition.

In the first nine months of the year customer deposits remained adjusted to the bank's liquidity needs and our financing strategy which aims to stable, long-term and fixed-rate sources in line with our balance sheet structure.

Indeed, customer deposits grew at an annual rate of 9.4%, closing the quarter at $45.5 trillion. Given the high levels of liquidity in the economy, we saw a significant increase in saving and checking accounts, growing 9.1% and 18.1% YoY respectively. This allowed us to reduce our funding through term deposits in the quarter and led to a reduction in our funding costs. Still, term deposits grew 7.1% YoY, given our funding strategy.

In slide 17, we show the main highlights of the business activity. We increased our market share by 38 bps in August compared to the same period of last year. This has been driven by a significant growth in the commercial portfolio, especially the institutional and SME segments.

Indeed, our market-share in commercial loans increased by 50 bps in the third quarter of the year, compared to the same period of 2017. In the retail segment, we saw a slower dynamic due to the macroeconomic slowdown that continues to affect credit cards and mortgages growth. However, consumer loans showed a better performance than the previous quarter, gaining 17 bps of market share. We continue to maintain our leader position in payroll loans that represent close to 60% of our total consumption portfolio, improving the quality of our assets by showing a prudent risk profile.

Regarding deposits, we also saw a market share increase of 43 bps, driven mainly by term deposits, with a market share gain of 64 bps, followed by savings and checking accounts with a market share gains of 33 bps and 27 bps respectively.
Now, on slide 18, you can see that the NPL ratio closed at 3.93% in August 2018, showing a deterioration of 20 bps compared to the ratio reported in the previous quarter. The portfolio that contributed the most to

this result was consumer loans, which deterioration is explained by the macroeconomic conditions that affect the quality of this portfolio. We expect that in the coming months this situation will reverse amid a recovery of the economy and an improvement in the labor market. In addition, given that payroll loans represent nearly 60% of the consumer portfolio, we have seen some seasonality in its NPLs that tend to improve by mid and end of year.

It is worth mentioning that BBVA's write-offs are aligned to Basel III policies that allow an asset write-off only when there is no recovery viability. This represents write-offs of 1/3 to 1/4 less than our local peers. As shown in the chart, BBVA's NPLs+write-offs compare very positively vs. the sector, showing the higher quality of our portfolio.

In addition, BBVA's participation has been low in distressed transactions, keeping the quality of the commercial portfolio at levels lower than the average of the sector. Meanwhile, mortgages' quality continues to perform much better than the sector.

On slide 19, you can find our detailed balance sheet, of which I already mentioned the main highlights.

Finally, in terms of our capital adequacy on slide 21, we have maintained very solid solvency ratios, well above regulatory requirements. We saw an 18 bps increase in the solvency ratio in the third quarter compared to the second quarter of the year due to lower RWAs given the moderation in commercial loans. We expect a significant improvement in our solvency indicators under Basel III regulation, driven by lower weights in the RWAs.

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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