Creando Oportunidades

2Q25
Earnings Call Transcript

BBVA Colombia

1. Earnings Call 2Q25

Intro [Santiago Ramos]: Good morning everyone, and welcome to BBVA Colombia's second quarter 2025 earnings call. My name is Santiago Ramos from ALM & Investor Relations. Joining us today are Mauricio Hernandez from Economic Research, Carlos Gabriel Garcia, Head of Financial Planning & Performance, Carlos Torres, Head of Wholesale Credit Risk, and Daniel Patron, Head of ALM & Investor Relations.

As a reminder, today's presentation will be available for download on our website under the Investor Relations section. Please be informed that this call is being recorded.

To participate, you can use the chat feature or simply raise your hand using the button located at the bottom right section of your screen.

Our agenda for today includes key highlights from the quarter, a brief overview of the macroeconomic landscape, insights into our financial performance, and a recall on recent achievements.

Without further ado, I'll now hand over the call to Daniel Patron.

Slide 2 [Daniel Patron]: Thank you Santiago, and good morning to all. My name is Daniel Patron and I'm the Head of ALM & Investor Relations at BBVA Colombia. It's my pleasure to welcome you to our second quarter earnings call, where we'll recall the main figures from this quarter. Throughout the session, I'll invite members of the panel to share their insights on specific topics.

Let's start with slide 2, where we review the key highlights from the second quarter. We'll see these topics in more detail as we go through the presentation.

As of June 2025, we posted a net profit of 144 billion COP which represents a year-over-year increase of 169.92% and the continuation of the recovery in profitability that began in the first quarter as asset quality keeps improving. When compared with June 2024, our loan portfolio had a 2.66% growth.

Fueled by a 20.20% increase in net interest income, the efficiency ratio stood at 55.5%, meaning a continuous improvement of 493 basis points in the last 12 months. Thanks to the focus on profitability and the quick repricing of our interest-bearing liabilities, we achieved an 8.82% increase in gross profit compared to the same quarter last year.

Our capital position remained strong by the second quarter, as our Common Equity Tier 1 (CET1) ratio stood 171 basis points above the minimum regulatory level. Capital formation has been favored by the recovery of asset quality to previous levels, with cost of risk sitting at 2.44%, 113 basis points below the number seen back in June 2024.

With that brief introduction of the quarter, I'll now hand over the call to Mauricio Hernandez, Economist from BBVA Research, who will provide an economic outlook. Mauricio, over to you.

Slide 3 y 4 [Mauricio Hernandez]: Thank you Daniel. Good morning everyone. I am Mauricio Hernandez from BBVA Research. In the next few minutes I will share a brief view of the world economy and then I will focus on Colombia.

The world economy is slowing a bit, but it is still resilient. We see world GDP close to 3.0% in 2025 and about 3.1% in 2026. The United States moves near its potential, around 1.7% in 2025 and 1.8% in 2026. The euro area improves from a low base. China keeps growth close to 5% in 2025.

Inflation is lower than in 2022 and 2023, but it has not fully reached the targets. In the U.S., it stays near 3% on average in 2025 and 2026. Major central banks are moving from "very tight" to "less tight". The Fed has started to cut. It could move towards 4% by late 2025, and closer to 3% in 2026. The ECB keeps its deposit rate near 2%. Financial conditions are easier than last year, but still prudent.

Trade tensions are lower than at the start of the year. Some tariff cuts help reduce supply shocks. Markets read this as lower long term rates and a somewhat weaker U.S. dollar versus a broad basket. Volatility remains contained. This is a milder backdrop for emerging markets, including Colombia.

Let me turn to Colombia.

The recovery is led by domestic demand. Private consumption is the main engine, and public spending supports it. Investment in machinery and equipment adds to growth. Construction is still weak, with a clearer recovery more likely in 2026. With this pattern, imports rise with demand while exports move slower, so the external sector subtracts from growth in 2025. We estimate GDP growth of about 2.5% in 2025 and 2.7% in 2026.

The labor market helps activity. We see net job creation, low unemployment, and positive real wages. Remittances continue to support household income, with a growing share from countries other than the U.S. This lifts consumption and cushions the external gap.

Inflation has fallen from its peaks, but now the path is slow. The exchange rate is a bit stronger, and base effects help goods prices. But services inflation is sticky, due to labor costs and indexation. We see headline inflation near 5.0% at end-2025, easing to around 4.3% in 2026. Core inflation also declines, but gradually. Given slow disinflation, firm domestic demand, and fiscal challenges, the central bank will likely stay on hold for the rest of the year. Under our base case, the policy rate closes 2025 near 9.25% and 2026 near 8.5%. The message is simple: normalization continues, but at a careful and data-dependent pace.

The fiscal stance is tight. Effective revenues look lower than official assumptions, and primary spending stays high versus recent history. With that mix, the deficit tends to exceed the government reference. The fiscal rule remains suspended until 2027, and debt service costs stay high. This is one key reason for caution in monetary policy and for the risk premium in local markets. As demand grows, the current account deficit widens from last year, financed mainly by foreign direct investment.

In the near term, we expect an appreciated peso, with higher volatility later on and limited depreciation in the medium term. The peso will be sensitive to global shocks, and also to local fiscal news.

To sum up: the world slows but stays resilient; in Colombia, domestic demand drives growth; inflation falls slowly; the central bank is patient; the fiscal front is crucial; and the peso should stay firm in the near term, with moderate swings. Thank you very much. I give the floor back to Daniel.

Slide 5 [Daniel Patron]: Moving forward to slide 5, we see that our digital strategy keeps gaining relevance into our customer relationship model, aiming to deliver a seamless financial experience.

As of June 2025, our digital and mobile customer bases maintain stable levels of 2.2 million and 2.1 million, respectively. This trend is a reflection of a permanent change in the preferences of our customers towards digital banking solutions, to which we are more than capable of fulfilling using top rated digital platforms.

Engagement of our digital platforms remains strong, as 74% of our customers were active on digital channels during the quarter. The share of digital sales over total sales keeps the momentum it has reached over previous years, representing 83% of sales of the period and confirming the already proven effectiveness of the bank’s efforts into improving the digital banking environment.

As we move through this new era of digital customers, we will continue to invest heavily into our digital environment, aiming to deliver the best possible experience for our customers and fueled by innovation. As part of the BBVA Group, we are committed to reinforce our leadership in digital banking solutions.

Continuing with financials, I'll now hand over the call to Carlos Gabriel, so he can walk us through the progress of our financial position throughout the quarter.

Slide 6 y 7 [Carlos Gabriel]: Thank you Daniel, and good morning everyone.

Let's move on to business activity. In the second quarter of 2025, we saw a clear acceleration in our business momentum. The total loan portfolio grew 2.6% year-over-year, driven by a strong performance in the commercial segment, which expanded 8% compared to last year. This is fully aligned with our strategic focus. In contrast, the consumer portfolio contracted by 3% year-over-year, as we continue to prioritize portfolio quality over volume growth. Meanwhile, the mortgage segment remained stable versus the same period in 2024.

Overall, these results validate the success of our strategic shift: we are effectively rebalancing the portfolio towards the commercial segment and laying the foundation for more profitable, sustainable growth. This repositioning is already reflected in the financial recovery shown on slide 7.

The key highlight this quarter is that we increased our profitability, delivering on the guidance we provided at the end of last year. The bank posted a net profit of 144 billion COP for the first semester, a remarkable turnaround compared to the loss recorded in the same period of 2024. This recovery was mainly driven by a significant normalization of net provisions, which decreased 24% year-over-year, confirming that we have moved past the peak of deterioration and strengthened our risk management cycles.

In addition, our net interest margin continued its upward trend, growing 20% year-over-year, supported by the expansion of the commercial portfolio and effective margin management.

Additionally, in expenses, we maintain a strict discipline as shown in the chart: operating expenses are flat year-over-year, well below revenue growth, demonstrating positive operating leverage.

Finally, this quarter marks a clear turning point. We are once again running a profitable business, positioning us strongly to achieve our 2025 targets.

Slide 8 [Daniel Patron]: Thank you Carlos. Moving ahead to slide 8, let's dive into the highlights of our funding strategy.

Compared to Q1, as of June our total funding grew by 2.1% reaching 80.4 trillion COP and representing 80% of the bank's liabilities. The growth during Q2 was mainly fueled by an increase in savings accounts of 6.7%, whereas term deposits and checking accounts saw slight reductions. The dynamics of Q2 generated slight changes in the funding mix, taking it onto a structure that is closer to what was seen in previous years where saving accounts represent around 40% of the funding, while term deposits stand at 50%. Overall, the funding trend aligns with the growth of the loan portfolio.

Having stable funding sources reinforces our financial position, propelling our sustainable growth goals and allowing the compliance of both regulatory and internal liquidity requirements.

Slide 9 [Daniel Patron]: On slide 9 we can see the trends of credit spreads since Q4 2022. As observed, during Q2 2025 spreads remained in 3-year lows, reaching 68 basis points over TES by June.

Lower credit spreads and the structure of our funding keeps driving the positive dynamics of our interest margin. While gross interest revenues went down by 5.5% year-over-year in an environment of lower interest rates, interest expense was reduced by 16.4% in the same period, getting an outstanding 20.2% increase in net interest income which keeps pushing up the profitability recovery that we have seen since the beginning of 2025. By taking advantage of the current market conditions, we have adapted our balance sheet to fully reap the benefits of this low credit spreads environment.

And now, allow me to pass on the call to Carlos Torres, who will provide details into our credit portfolio and risk management strategies during the quarter.

Slide 10 [Carlos Torres]: Moving ahead to slide 10; as of June 2025, the Cost of Risk stands at 2.44%, confirming the downward trend observed throughout the year. Both mortgage and consumer NPL ratios continue to improve, closing at 2.14% and 7.48%, respectively. The flow of new delinquencies over 30 days keeps declining, bringing the portfolio back to 2022-level risk metrics, which confirms the ongoing normalization and strengthening of credit quality. New lending remains dynamic and healthy, with early vintages performing in line with expectations.

Regarding the NPL ratio in the commercial portfolio, it stands at 0.92%, remaining at minimum levels and well below the sector average of 2.98%.

I would like to highlight that BBVA Colombia's growth has been primarily driven by the wholesale portfolios, where the Bank achieved a solid 8.2% increase, significantly outperforming the 3.4% growth recorded in the same period of 2024. This performance was mainly supported by the Enterprises segment. The clients contributing most to portfolio expansion were Sunshine Bouquet, a flower exporter company and Empresa de Acueducto y Alcantarillado de Bogotá.

At the sector level, growth was largely underpinned by the agricultural sector, which showed particularly strong performance during the period.

Over to you Daniel.

Intro Capital [Daniel Patron]: Thank you Carlos for your insights regarding asset quality trends. Now lets move to slide 11 where Carlos Gabriel is going to provide details regarding our capital position.

Slide 11 [Carlos Gabriel]: During the second quarter of 2025, the total capital ratio stood at 12.47%, with a decrease of 16 basis points compared to March 2025.

This variation is mainly explained by two factors. First, in CET1 capital, we observed a positive impact from the improvement in net income (+102 Bn COP), which helped offset other negative effects, leading the CET1 ratio to close the quarter at 8.71%, 171 bps above the minimum requirement.

In Tier 2 capital, the main impact came from the appreciation of the Colombian peso (COP) against the USD, which reduced the book value of foreign currency instruments.

On the other side, risk-weighted assets increased by COP 2.1 trillion, driven mainly by higher credit RWAs, particularly from derivative exposures (+1.5 billions) and corporate loan portfolios.

Despite these quarterly movements, we continue to maintain a solid capital position, with a CET1 ratio comfortably above the regulatory minimum and consistent with our commitment to generate capital to support our growth strategy.

Slide 12 [Daniel Patron]: Thank you Carlos. It's my pleasure to share with you a brief summary of the different efforts made by BBVA during the quarter to maintain our impact footprint in Colombia. Here, I will drive you through the investments that we performed to reinforce our commitment with tackling social issues, and which allowed us to reach 25.500 people.

As a door to opportunities, education remains as the main pillar of our social investment strategy. This quarter, we continued to support local students with scholarships for undergraduate programs through initiatives such as "Transformando Realidades", which granted 120 scholarships to children linked to Bancamia from BBVA Microfinance Foundation, and Pa'lante Colombia, which supported 18 students with high risk of dropout to continue its education.

Corporate volunteerism and humanitarian aid were also key in our vision. In Q2, there were 11 days of volunteer work in which 275 employees from BBVA invested more than 770 hours into activities such as blood donation and the building of a school farm in Usme. Also during the quarter, more than 2.290 humanitarian aid packages were delivered to families from Cundinamarca. Santander, Meta and Guaviare who were affected by adverse weather conditions.

On the sustainability side, BBVA mobilized 1.3 trillion COP towards education, financial inclusion, climate change, and the protection of clean water sources. These initiatives reflect our commitment to generate financial results while also generating a positive impact in the society we operate.

Thank you for your assistance today. We are pleased to present you these results from Q2 2025, which are a reflection of the strategies aimed to pursue a profitable and sustainable growth.

We will now open the call for questions.

Closing [Santiago Ramos]: As there are no questions, we conclude the call here. Thank you.

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