1Q25

Results Presentation Transcript

BBVA Colombia

1. Audio Conference 1Q25

Intro [Santiago Ramos]: Good morning everyone, and thank you for joining BBVA Colombia's first quarter 2025 earnings call. My name is Santiago Ramos from the ALM & Investor Relations team of BBVA Colombia. Joining us today are Alejandro Reyes, Principal Economist from the Economic Research team, Carlos Gabriel Garcia, Head of Financial Planning and Performance, Nicolas Tripodi, Head of Individuals Credit Risk, Carlos Torres, Head of Wholesale Credit Risk, and Mario Sanchez, Head of ALM and 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 Mario Sanchez.

Slide 2 [Mario Sanchez]: Thank you Santiago. Good Morning everyone, my name is Mario Sanchez and I'm the Head of ALM and Investor Relations at BBVA Colombia. It's my pleasure to welcome you to our earnings call, where we'll review the key developments of this first quarter of 2025. Throughout the session, I'll invite members of our panel to share their insights on specific topics.

Let's begin with slide 2, where we summarize the highlights of the first quarter. These topics will be covered in more detail as we progress through the presentation.

During the first quarter of 2025, we posted a net profit of 30 billion COP, paving the way to a recovery in profitability as economic conditions and asset quality improved. At the same time, we had a 2.60% growth in loans portfolio compared to 1Q 2024.

Regarding operational performance, our efficiency ratio stood at 58.3%, meaning a year-over-year decline of 580 basis points as a result of the cost discipline efforts. Our focus on operational efficiency enabled us to achieve an 8.94% growth in gross profit compared to the same quarter last year.

Our asset quality keeps recovering, as our cost of risk has experienced a year-over-year decrease of 102 basis points. We also maintain a strong capital position with a Common Equity Tier 1 ratio (CET1) above the minimum regulatory level by 158 basis points, reflecting a strong and efficient balance sheet structure.

With that summary of the quarter, I'll now hand over to Alejandro Reyes, our Principal Economist, who will provide an economic outlook. Alejandro, over to you.

Slide 3 y 4 [Alejandro Reyes]: Thank you Mario. Good morning to everyone. I'm Alejandro Reyes, an Economist at BBVA Research.

I will take a few minutes to briefly cover the economic outlook for the Colombian economy for 2025 and 2026. We can start on slide 3.

The global economy has endured extraordinary uncertainty in the last couple of months, driven by a significant change in trade policies by the new US administration and subsequent retaliations by other nations worldwide.

In this context, global financial uncertainty peaked during the first part of the year with the "liberation day" announcements. In addition, the expectation of the potential impacts driven by this new policy stance conditioned as well the evolution of monetary policy, particularly in the US, where rates have remained unchanged this year.

In this scenario, we expect inflation to continue rising in the coming months, pressured by the new tariffs, and monetary policy to start a gradual reduction to compensate for a weakening labor market in the US. Activity will also weaken compared to 2024, but will close near 1.7% year-over-year growth for the US. Europe and China will show a more moderate response both in activity and inflation.

Colombia has surfaced with a relatively favorable position, with the lowest hike in tariffs (10%) and the exemption of close to half the products exported to the US. Despite this, the financial turmoil of the beginning of the year had an impact on Colombia, with both a deterioration of risk premium and the exchange rate in that period.

In terms of activity, the economy has continued its recovery path, with growth averaging 2.4% for the first half of the year, above the 1.6% reported for 2024. This improvement in activity has been driven mainly by internal demand, which grew above 4.0% in the first half of the year with consumption, both private and public, and investment in machinery and equipment leading the performance. We continue to observe a lagging construction investment.

In part, the recovery in consumption has been driven by a robust labor market, with low unemployment levels, high employment growth and an improvement in real wages; and by a boost in remittances and coffee prices. We expect activity to remain strong in the remainder of the year, with growth hovering around 2.3% for 2025 and 2.7% for 2026.

On the nominal variables, inflation has proven to be more persistent than expected, reducing just 30 basis points in the year to date and standing in July at 4.9%. This result has been the combination of some upward pressure from foodstuffs and rigidities in service inflation. We expect inflation to remain relatively stable and close 2025 at 5.0% and then moderate somewhat in 2026 to 4.1%.

This combination of strength on the activity and persistence on inflation has balanced BanRep's board towards a cautious stance, with interest rates reducing only 25 basis points in the year to date (April's meeting). Given the trend of inflation and activity, and fiscal challenges, we expect rates to remain stable in the remainder of the year and reduce slowly in 2026 towards 8.25%.

Finally, on the macroeconomic balances, the current account deficit has started to deteriorate, as expected, in line with the improvement in internal demand, particularly from durable good consumption and machinery investment. We expect it should close the year at a 2.7% deficit and continue towards a 3.1% deficit for 2026.

On the other hand, one of the rising challenges the Colombian economy faces is the widening fiscal deficit, closing 2024 at 6.7% and having the government suspend the fiscal rule compliance under its escape clause for 2025 to 2027, estimating a 7.1% deficit for 2025 and a 6.2% for 2026. These high deficits come in hand with stronger expenditure from the government, reaching new highs as a percentage of GDP.

Thank you all and I give the floor back to Mario.

Slide 5 [Mario Sanchez]: Moving forward to slide 5, we see that our digital strategy remains a key factor in delivering the best possible experience for our clients.

By first quarter close, we ended with 2.27 million active digital clients and 2.16 million active mobile users, reflecting the increasing preference of our customers for digital banking solutions, and the success of our digital platforms which include the best rated mobile banking app in Colombia.

Engagement of our digital platforms remains strong and improving, with 76% of our customers actively interacting with our website or mobile app as of 1Q 2025, which means a 2% increase in engagement compared to the same quarter from last year. Moreover, the percentage of sales originated from the digital channel stood at 84%, continuing the trend seen in prior quarters and confirming the effectiveness of these platforms in delivering an outstanding customer experience.

Looking ahead, our path is clear: we will continue to strengthen our platforms to deliver an engaging and seamless experience for our customers. Permanent innovation, enriched features, and ease of use will remain the cornerstones of our digital transformation, reinforcing the leadership in digital banking that we have built.

And now, let's move on to our financials. I'll hand over the call to Carlos, so he can walk us through the key financial performance indicators and how they align with our strategy.

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

Let's move on to business activity. In the first quarter of 2025, we saw a clear acceleration in our business momentum. The total loan portfolio grew 2.4% year-over-year, driven by a strong performance in the commercial segment, which expanded 10% compared to last year. This is fully aligned with our strategic focus. In contrast, the consumer portfolio contracted by 5% 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 have returned to profitability, delivering on the guidance we provided at the end of last year. The bank posted a net profit of 30 billion COP for the first three months, 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 by 22% 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 17% 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 rose just 6% year-over-year, well below revenue growth, demonstrating positive operating leverage.

In conclusion, the first quarter marks a clear turning point. We are once again running a profitable business, positioning us strongly to achieve our 2025 targets.

Slide 8 [Mario Sanchez]: Thank you Carlos. Moving to slide 8, let's dive into the highlights of the funding strategy.

This first quarter, our funding had a slight decline of -0.1% compared to the previous quarter, but posted a solid 2.7% increase year-over-year, aligned with the growth trends of the loans portfolio. Compared to the same quarter from a year ago, the funding mix presented a slight change in its structure towards term deposit, whose share in total funding grew from 49.1% to 51.9%, following the industry's current trends.

The stability of our funding reinforces our financial resilience, enabling us to meet both internal and regulatory requirements effectively while continuing to support sustainable growth.

Slide 9 [Mario Sanchez]: On slide 9, we observe that credit spreads have continued onto the downward trend that began back in Q3 2023, with a steeper slope since 2024, and reached a 3-year minimum of 55 basis points over TES in Q1 2025.

Given our funding term and rate structure, we have been able to quickly adapt our funding cost to this tightening credit spreads, leveraging a detailed analysis of interest rates curves and trends. Current interest rate trends made our gross interest income decrease by 9.3% year-over-year, whereas our funding cost went down by an outstanding 19.5%, leading to the 17% increase in interest margin that Carlos mentioned before and fueling the turnaround of profitability for the quarter. Our proactive approach regarding changing market conditions has proved to be successful.

Now, let me handover the call to Nicolas Tripodi and Carlos Torres, who will provide details into BBVA's credit portfolio and risk management.

Slide 10 [Nicolas Tripodi]: Good morning, everyone. I'm Nicolas, Head of Individuals Credit Risk.

As of March 2025, the Cost of Risk stands at 2.59%, improving from 3.42% in December 2024. This positive evolution is mainly explained by the retail portfolios, where both personal loans and credit cards continue to show solid progress.

This is not coincidental. Since we refocused our retail policy in early 2024, we've seen close to a 50% improvement in early vintages, leading to fewer roll rates, lower stage 2 inflows, and reduced delinquency entries. Today, both 30-day and 90-day delinquency ratios are back to levels last seen in late 2022, a clear sign of healthier portfolio dynamics.

Looking ahead, our strategy remains centered on growing with resilient profiles, particularly clients with their payroll with BBVA, while further strengthening origination, monitoring, and recovery models, always with a strong commitment to delivering the best solutions to our customers.

That concludes my remarks. Carlos, over to you.

Slide 10 [Carlos Torres]: Thank you, Nicolas. Good morning, my name is Carlos Torres, and I am responsible for client admission in the Wholesale Banking segment, covering Corporates, Enterprises, Government Entities, Real Estate Developers and Financial Institutions.

During the first quarter of 2025, BBVA achieved a solid 5.8% growth in the Wholesale Banking portfolio, significantly higher than the 1.8% variation achieved in the same period of 2024.

This increase was primarily driven by the corporate segment. The clients with the largest portfolio growth were: Empresa de Acueducto y Alcantarillado de Bogotá (244 billon COP), Parque Arauco Colombia (160 billion COP), and Meals de Colombia, part of Grupo Nutresa (100 billion COP).

At the economic sector level, portfolio growth was mainly supported by the agricultural sector, which has shown a particularly strong performance during the period.

In terms of credit quality, the portfolio remains very sound, with a NPL ratio of 0.95%. This figure positions BBVA significantly better than the industry average, which stands at 2.98%, three times higher.

Back to you Mario.

Intro Capital [Mario Sanchez]: Thank you Nicolas and Carlos for your analysis regarding asset quality. Now let's move to slide 11 where Carlos is going to explain our capital position.

Slide 11 [Carlos Gabriel]: During the first quarter of 2025, the total capital ratio was **12.63%,** representing a decrease of 46 basis points compared to the December 2024 level of **13.09%**.

This variation is explained by several factors: First, in CET1 capital, we observed a 22 basis points decline, closing the quarter at 8.58%. This reduction was mainly driven by accounting deductions, because of an increase in deferred tax assets and a reduction in Other Comprehensive Income (OCI). Additionally, as we grew our business, risk-weighted assets (RWAs) contributed -20 basis points on this component.

In total capital, the main impact was observed in Tier 2, due the appreciation of the Colombian peso against the US dollar, which reduced the book value of foreign currency instruments.

On the RWAs side, we saw a mixed performance: There was an increase in market RWAs, while credit RWAs decreased mainly due to lower contingent exposures and credit exposures.

Finally, despite the quarterly decline, we continue to maintain a solid capital position, with a CET1 ratio that remains 158 basis points above the minimum regulatory requirement. And we keep our commitment on generating capital to support our strategy and growth.

Slide 12 [Mario Sanchez]: Thank you Carlos. It's my honor to share with you the continuous efforts made by BBVA to maintain its social impact footprint in Colombia, and to tell you about the different initiatives that we performed during this quarter to keep this commitment and that allowed us to reach 23.500 people, hoping to positively impact their quality of life.

Education remained the core axis of social investment, with programs such as “Transforming Realities,” which granted 120 primary education scholarships to students linked to Bancamía from BBVA Microfinance Foundation; university scholarships awarded to social leaders from the Pacific region who stood out academically and strengthened their leadership in their communities; and “Connected for Education,” a newly launched network of more than 800 teachers from over 300 institutions, providing access to digital tools to enhance teaching. Additionally, BBVA donated 5,900 school kits to primary school students across 85 towns.

In terms of sustainability, BBVA disbursed 450 billion COP for inclusive finance projects, which included infrastructure initiatives like highway building and maintenance in

Magdalena, as well as financial inclusion programs benefiting people in Atlántico, Magdalena, and Cesar.

Volunteerism was another key area, with 116 BBVA volunteers participating in activities such as packaging humanitarian aid and building a school garden. Humanitarian support during the quarter included the delivery of 3,700 aid packages to families in vulnerable situations in Catatumbo and Chocó, reaching a total of 14,800 people.

Allow me to thank you all for your assistance. We are pleased to present you this first quarter results which show a turnaround after a challenging 2024. The decisions we took and the compromises made are now paying off and now we are back into green numbers, and we are sure that the new strategy focuses and operative discipline will maintain these amazing results through 2025. Without further ado, we will open the call now for questions.

Closing [Santiago Ramos]: Since there are no more questions, we conclude the event here. Thank you.

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