



Rating Action: Moody's affirms BBVA Colombia's Baa2 deposit ratings and downgrades BCA to ba1; outlook remains stable

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New York, October 02, 2023 -- Moody's Investors Service, ("Moody's") today affirmed BBVA Colombia S.A.'s (BBVA Colombia) long- and short-term local and foreign currency deposit ratings at Baa2 and Prime-2, respectively. Concurrently, the rating agency downgraded BBVA Colombia's Baseline Credit Assessment (BCA) to ba1, from baa3, and Adjusted BCA to baa3, from baa2. Moody's also downgraded the bank's long-term local and foreign currency Counterparty Risk Ratings to Baa2, from Baa1, and long-term Counterparty Risk Assessment to Baa2(cr), from Baa1(cr). The foreign currency subordinated debt rating on BBVA Colombia's plain vanilla Tier 2-eligible subordinated notes was also downgraded to Ba1, from Baa3. Moody's affirmed the bank's short-term local and foreign currency Counterparty Risk Ratings at Prime-2 and short-term Counterparty Risk Assessment at Prime-2(cr). Moody's maintained the stable outlook on the long-term deposit ratings.

RATINGS RATIONALE

The downgrade of BBVA Colombia's BCA to ba1 reflects the deterioration in profitability and capital metrics, measured under Moody's Banks Methodology, that the bank has undergone in the past 18 months. BBVA Colombia's net income fell to 0.32% of tangible assets in June 2023, from 1.57% one year prior, as provision costs and interest expense on rose steadily in the period. At this level, BBVA Colombia's net income to tangible assets ratio was the lowest among rated Colombian banks. The normalization of the bank's profitability to levels reported before the COVID pandemic will likely be slow over the next 12 to 18 months, as provision expenses remain high and business volume slows down amid Colombia's weak economic growth in 2023 and 2024, at about half of the average 3.3% real GDP growth registered in the last ten years.

BBVA Colombia's capitalization, measured by Moody's ratio of tangible common equity (TCE) to risk weighted assets (RWA), fell to 7.92% in June 2023, from 8.77% one year before, reflecting a reduction in profits concurrent with an increase in RWAs, driven by accelerated loan growth in the last three years, as well as higher capital allocation to market risks. Concurrently, the distribution of 44% of profits as dividends also contributed with the decline in the TCE/RWA ratio. On a regulatory basis, BBVA Colombia had a Common Equity Tier 1 (CET1) ratio of 7.72% in June 2023, only slightly above the regulatory minimum level of 7.0%. In 2023, Moody's expects the bank's capital position to improve only modestly because the slow business activity in the country will limit the recovery of revenue.

The bank's ba1 BCA is affected positively by asset quality metrics that remain well-positioned compared with those of its peers in Colombia. Despite that, BBVA Colombia's problem loan ratio, measured as Stage 3 loans under IFRS to gross loans, grew to 4.53% in June 2023, from 4.41% in June 2022, but remaining below levels recorded before the pandemic. The steady growth in gross loans of 12.5% year-over-year, along with a loan book with predominance of low-risk operations, such as commercial loans to companies (39%) and secured loans with individuals, i.e. payroll loans (21%) and mortgage (20%), will continue to limit loan delinquency. The performance of BBVA Colombia's problem loans was aligned with the weakening trend in asset quality posted by Colombian banks. The bank had an adequate volume of loan loss reserves at 105.1% of Stage 3 loans and 4.76% of gross loans in June 2023.

The downgrade of BBVA Colombia's subordinated debt rating to Ba1, from Baa3, stemmed from the lowering of the adjusted BCA to baa3, from baa2. As per Moody's standard notching guidance for dated subordinated bank debt, the bank's subordinated debt ratings are one notch below Adjusted BCAs, in line with their structural subordination and

loss absorption features that kick in after a liquidation. BBVA Colombia's Adjusted BCA incorporates one notch of uplift from the standalone BCA of ba1 to reflect our assessment of moderate probability of affiliate support from Spain-based parent Banco Bilbao Vizcaya Argentaria, S.A. (BBVA Spain, A2 stable, baa2).

The affirmation of the bank's Baa2 long-term deposit ratings reflects our assessment of a high probability of support from the Government of Colombia (Baa2, stable). In our view, BBVA Colombia would benefit from government support in an event of financial stress considering its substantial market share of deposits, at 11.5% in June 2023. This results in one notch of uplift from the bank's baa3 Adjusted BCA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

BBVA Colombia's BCA could be upgraded if the bank reports material and consistent improvements of profitability and capital metrics in the next 18 months. A possible upgrade of the bank's BCA would also depend on asset quality metrics that remain in line with levels observed currently. A BCA upgrade would not translate into an upgrade in deposit ratings because they are already in line with BBVA Spain's standalone BCA of baa2.

Moody's could downgrade BBVA Colombia's BCA if profitability and capital metrics weaken materially in the next 18 months. The BCA could also be lowered if the bank's asset quality metrics deteriorate in the same period. The bank's deposit ratings could be downgraded if the BCA is lowered by one notch, despite the high probability of support from the Government of Colombia.

METHODOLOGY USED

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Alexandre Albuquerque
Vice President - Senior Analyst
Financial Institutions Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Ceres Lisboa
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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