CREDIT OPINION
8 July 2024

Update

Send Your Feedback

RATINGS

BBVA Colombia S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Alexandre Albuquerque +55.11.3043.7356
VP-Senior Analyst
alexandre.albuquerque@moodys.com

Marcelo De Gruttola +54.11.5129.2624
VP-Senior Analyst
marcelo.degruttola@moodys.com

Luis Fernando Baza +52.55.1253.5735
Lead Ratings Associate
luis.baza@moodys.com

Ceres Lisboa +55.11.3043.7317
Associate Managing Director
ceres.lisboa@moodys.com

BBVA Colombia S.A.

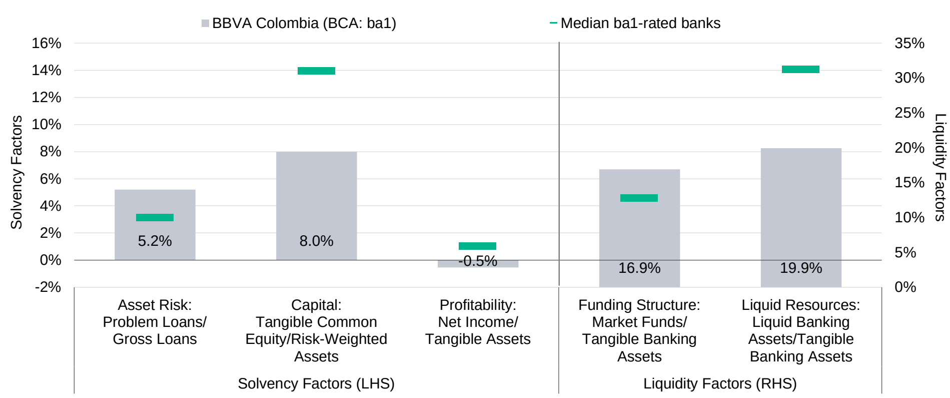
Update following ratings affirmation, outlook changed to negative

Summary

BBVA Colombia S.A. (BBVA Colombia) has a standalone Baseline Credit Assessment (BCA) of ba1 that reflects the bank's access to an ample base of core deposits, stemming from its position as one of the largest banks in Colombia and stable volume of liquid assets. The bank's asset quality metrics have worsened recently, in line with the challenging operating environment in Colombia, but remains smaller than of some peer banks. In addition, the bank's ba1 BCA is challenged by weak profitability, as the bank posted net losses in first quarter 2024. Capitalization also weighs on the bank's standalone financial profile, with a regulatory core capital ratio showing a modest buffer over minimum threshold, particularly with the recent net losses due to rise in interest expenses and provisions.

BBVA Colombia's long-term local- and foreign-currency deposit ratings of Baa2 are positioned tow notches above the standalone BCA of ba1, incorporating a one-notch uplift due to our assessment of moderate affiliate support from its parent, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA Spain, A2 developing, baa2), and a one-notch because of our assessment of high probability of support from the Government of Colombia (Baa2, negative).

Exhibit 1
Rating Scorecard - Key financial ratios
As of June 2023



For the problem loan and profitability ratios, we review the latest three year-end figures as well as the most recent intra-year ratio, where applicable, and base our starting point o the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics™

Credit strengths

- Low reliance on market funds and access to an ample core deposit base, supported by strong market presence in Colombia
- Asset quality metrics are better positioned than that of some peers, reflecting conservative risk management standards
- Access to liquid resources remains adequate

Credit challenges

- Capitalization is modest relative to that of global peers; although core capital will benefit from new capital injection from parent bank announced April 2024
- After declining through 2023, bottom-line results were negative in first quarter 2024, partially due to increase in interest expenses and loan loss provisions

Outlook

The negative outlook on BBVA Colombia's ratings is driven by the negative outlook on Colombia's sovereign debt rating, reflecting our assumption of the high level of support from the federal government to the bank.

Factors that could lead to an upgrade

- Considering the negative outlook on Colombia’s sovereign rating, upward rating pressure is unlikely at this time for BBVA Colombia. However, a stabilization of the outlook on the sovereign rating could lead to a stabilization of the bank’s outlook.
- Upward pressure on the bank’s BCA would stem from material and consistent improvement in asset quality and capital, coupled with a recovery of profitability levels and an improvement of Colombia's operating environment.

Factors that could lead to a downgrade

- The bank’s deposit ratings, which benefit from government support uplift, would face negative pressure in case Colombia's sovereign debt rating is downgraded. Additionally, BBVA Colombia’s long-term ratings would face downward pressure if the BCA is downgraded.
- The bank’s BCA could be downgraded if recent negative pressure on asset quality extends over time and leads to higher provisioning needs, affecting their earnings and, ultimately, capitalization.

Key indicators

Exhibit 2
BBVA Colombia S.A. (Consolidated Financials) [1]

	03-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (COP Billion)	102,283.3	105,898.4	99,573.5	79,920.0	68,888.5	12.9[4]
Total Assets (USD Million)	26,462.3	27,335.7	20,535.3	19,855.7	20,139.9	8.8[4]
Tangible Common Equity (COP Billion)	5,377.7	5,507.0	5,755.0	5,244.0	4,603.2	4.9[4]
Tangible Common Equity (USD Million)	1,391.3	1,421.5	1,186.9	1,302.8	1,345.8	1.0[4]
Problem Loans / Gross Loans (%)	5.2	4.9	4.3	5.3	5.4	5.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.0	8.2	8.9	10.0	9.9	9.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	43.6	40.7	33.4	37.2	36.3	38.2[5]
Net Interest Margin (%)	3.6	4.2	3.9	4.5	4.4	4.1[5]
PPI / Average RWA (%)	2.6	2.8	5.0	4.7	4.2	3.8[6]
Net Income / Tangible Assets (%)	-0.5	0.2	1.0	1.1	0.7	0.5[5]
Cost / Income Ratio (%)	64.0	55.8	41.6	41.2	44.0	49.3[5]
Market Funds / Tangible Banking Assets (%)	14.4	16.9	18.9	12.7	10.5	14.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	18.7	19.9	19.2	22.9	19.8	20.1[5]
Gross Loans / Due to Customers (%)	99.1	98.4	102.9	99.6	100.8	100.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

BBVA Colombia S.A. (BBVA Colombia) is a universal bank that offers loans, deposits and other banking services to individuals, small and medium-sized enterprises, and large companies. It is the fourth-largest bank in Colombia, with about 11% market share in terms of loans as of March 2024. As of March 2024, the bank reported total consolidated assets of COP102.2 trillion ($26.4 billion) and a loan portfolio of around COP75.9 trillion ($19.6 billion).

BBVA Colombia was founded in 1956. The bank operates as a subsidiary of BBVA Spain, which owned 95% of its total capital as of March 2024.

Detailed credit considerations

Problem loan ratios increased in first quarter 2024, driven by weak operating conditions

As of March 2024, BBVA Colombia´s problem loan ratio, measured as stage 3 to gross loans, stood at 5.18%, moving up significantly from 4.40% in March 2023, although still below the recent peak of 5.61% in June 2021. Similar to other banks in the country, BBVA Colombia posted an increase in problem loan ratios driven mostly by higher delinquency in consumer loans in 2023.

The rise in BBVA Colombia's problem loan ratios was partially contained by the bank's conservative origination policy and large participation of low-risk loans in its loan book, including secured residential mortgage and commercial loans with companies. As of March 2024, the bank´s loan book grew 5.2% year-over-year, reflecting mostly growth in consumer loans, which increased 8.8%, including 4.5% in mortgage and 2.3% in commercial loans. The bank´s loan book mix has remained stable, though consumer loans represented 26.2% of total loans as of Q1 2024, up from 24.8% in Q1 2023.

In second half 2024, we expect that BBVA Colombia´s problem loan ratio will remain high compared to previous years, still reflecting the weak operating environment for banks in the country. Despite that, we also anticipate a gradual improvement in asset quality metrics until year-end 2024 because of the bank's more conservative loan origination policies adopted towards the end of 2023. In addition, we expect BBVA Colombia's prudent balance of loan loss reserves, equivalent to 4.8% of gross loans and 92.9% of gross loans, will be an important mitigant against potential further asset quality deterioration.

Capitalization will benefit from parent's injection of new capital

The bank's capitalization, measured by Moody's ratio of tangible common equity to risk-weighted assets (TCE/RWA), was 7.99% in March 2024, slightly above 7.87% from one year prior, but still below the average ratio of 9.0% for years 2021-2023. The TCE/RWA ratio remained below levels observed before 2022 reflecting robust loan growth in 2023, along with increased allocation of capital in market risks, as well as reduction in profits and the payment of dividends in first half 2023, at 44% of 2022´s net income. We calculate TCE by deducting goodwill from common equity and we adjust RWA by assigning a 50% risk-weigh to Colombian government securities, in line with the Colombian government's Baa2 bond rating.

As of March 2024, the bank's regulatory total capital ratio was 12.1%, well above the regulatory minimum threshold of 11.5%, while the CET1 ratio stood at 7.8% as of the same date. In April 2024, the bank received a capital injection of 200 million euros from parent BBVA Spain. As a result, the bank will likely report an increase in its core capitalization in second quarter 2024.

In the next 12 months, BBVA Colombia's capitalization will likely remain steady, but a slightly higher level than in Q1 2024 due to the new capital injection. The bank's capital position will benefit from a more conservative loan growth, yielding to contained RWA growth, because of the still-weak economic activity in Colombia. On the other hand, earnings origination will also remain at a modest level, limiting improvement in capital position, along with the bank's consistently high dividend payout ratio.

High loan loss provisions and funding costs contributed to net losses in first quarter 2024

In first quarter 2024, BBVA Colombia reported net losses of COP 135.30 billion compared with a positive bottom-line result of COP 97.67 billion in the same quarter of 2023. This result followed a 76% annual decline of net income in 2023. In the last five quarters, BBVA Colombia´s results were affected negatively by increase in loan loss provisions, reflecting a growth of problem loans in the consumer portfolio, and in funding costs, driven by a high monetary policy rate and an increase in the minimum net stable funding ratio requirement (CFEN in Colombia) to 100% as of March 2023, leading to fiercer competition among banks for long term time deposits.

The bank's ratio of net income to tangible assets went down to -0.53% in Q1 2024, from 0.40% in the same period of 2023. During the first three months of 2024, BBVA Colombia´s loan loss provisions increased 75% compared with the same period of 2023 and represented 3.6% of gross loans, above the 2.1% in Q1 2023. Also in March 2024, the bank´s net interest margin (Moody´s calculation) was 3.57%, up from 2.60% one year prior. BBVA Colombia´s margin benefited from loan growth in 2023, along with the large share of consumer loans in the total portfolio, a high yield asset type. These positive developments counterbalanced pressure on margins from funding costs, which resulted in an increase of 113.2% in interest expenses in 2023.

BBVA Colombia's profitability was also affected by operating expenses, which accounted for 3.0% of total assets in Q1 2024, above 1.6% in Q1 2023. Despite that, we expect BBVA Colombia´s profitability will recover gradually in the next quarter of 2024 as pressures on provision expenses gradually decrease and funding costs keeps decreasing as monetary authorities will continue reducing the benchmark interest rate.

Large participation of core deposits remains a strength for the bank

The historic large share of low-cost core deposits in BBVA Colombia's funding structure is a credit strength for the bank, nevertheless during 2023 we observed an increase on more expensive deposits, leading to a negative effect on interest expenses. In addition, most of term deposits instruments have historically come from wholesale sources, such as nonfinancial corporates, institutional investors and the public sector, which we consider less stable.

In March 2024, saving deposits accounted for 32% of BBVA Colombia's total liabilities, while demand deposits were another 8.3% of the total. On the same date, BBVA Colombia's market funds represented 14.4% of tangible banking assets, down from 16.9% in year-end 2022. During 2023, BBVA Colombia reported an increase in the volume of term deposits (similar to other banks in Colombia) as new regulatory requirement for liquidity ratios were introduced in Colombia. Consequently, the bank´s term deposits represented 48.4% of total deposits in March 2024, well above the 24% in year-end 2021.

BBVA Colombia´s liquid banking assets accounted for 18.9% of tangible banking assets, which is aligned with metrics reported in previous quarters and still at adequate levels. The bank´s liquid assets are composed largely of Colombian government securities as well as cash and cash equivalents.

BBVA Colombia's ratings are supported by Colombia's Moderate+ Macro Profile

Colombia's Moderate+ profile balances the country's history of predictable macroeconomic policies against relative commodity dependence. The Colombian economy continues to gain momentum with broad-based growth across most sectors. However, boosting medium-term growth remains a key structural challenge.

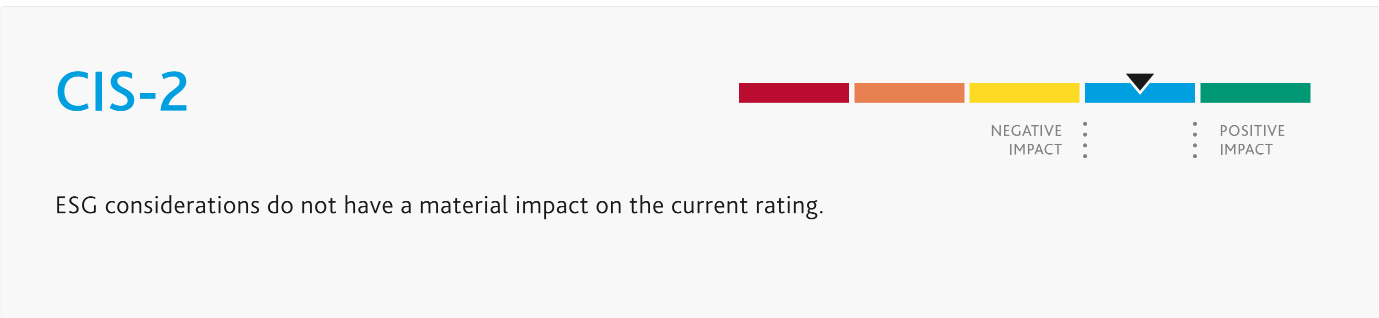
Despite Colombia´s high exposure to terms of trade shocks, external vulnerabilities are limited by the country´s adequate foreign-exchange buffers and access to a sizable credit line from the International Monetary Fund. Moreover, the effectiveness of the government´s policy response to recent commodity shocks illustrates the country´s moderate institutional strength.

While banks are largely deposit funded, a substantial portion of these are provided by institutions, leaving banks potentially vulnerable to funding concentration risk. At the same time, high concentration in the banking system itself supports banks' pricing power and lending spreads.

ESG considerations

BBVA Colombia S.A.'s ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

BBVA Colombia's **CIS-2** indicates that ESG considerations do not have a material impact on the rating to date. The bank has a track record of strong risk management and consistent earnings recurrence.

Exhibit 4
ESG issuer profile scores

Source: Moody's Ratings

Environmental

BBVA Colombia faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large and diversified bank in Colombia. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social

BBVA Colombia faces moderate social risks related to customer relations. The bank's developed policies and procedures, mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation; BBVA Colombia has activities primarily in Colombia, a country which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Opportunities from financial inclusion are reflected in a better than industrywide exposure to demographic and societal trends.

Governance

BBVA Colombia faces low governance risks, reflecting the bank's strong governance framework and risk management, policies and procedures that are in line with industry best practices. Despite that, since 2022, the bank has used a more intense financial strategy to grow its loan book and gain market share, which has hampered our assessment of financial strategy and risk management. Because BBVA Colombia is fully-owned by Banco Bilbao Vizcaya Argentaria, S.A., we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation to the parent, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

BBVA Colombia's adjusted BCA of baa3 is one notch above the bank's standalone BCA of ba1 because it incorporates our assessment of moderate parental support from BBVA Spain, with a standalone BCA of baa2.

Government support

There is a high likelihood of government support for BBVA Colombia's deposits and senior unsecured debt. This reflects the bank's large market share of deposits in Colombia, and hence, the significant systemic consequences that would result from an unsupported failure. Consequently, the bank´s deposit ratings of Baa2 benefit by one notch uplift due to government support.

Foreign-currency debt ratings

We assign a long-term foreign-currency subordinated debt rating of Ba1, one notch below the bank's Adjusted BCA of baa3, to BBVA Colombia's 10-year subordinate debt issuance of $400 million due 21 April 2025 (coupon of 4.875%).

The notes are eligible for Tier 2 capital treatment under Colombian law, and possible changes to the capital eligibility of subordinate debt issuances are likely to grandfather this issuance, although these notes are plain vanilla nonconvertible instruments with no ability to skip coupons.

Counterparty Risk (CR) Assessment

BBVA Colombia's CR Assessment is Baa2(cr)/Prime-2(cr)

The long-term CR Assessment is one notch above the bank's Adjusted BCA of baa3, in line with the bank´s deposit ratings.

Counterparty Risk Ratings (CRRs)

BBVA Colombia's CRRs are Baa2/Prime-2

BBVA Colombia's long-term global local and foreign currency CRRs are positioned at Baa2, one notch above the bank's Adjusted BCA, in line with the bank´s deposit ratings.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.2%	ba2	↔	ba2	Quality of assets	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	8.0%	b2	↑↑	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	-0.5%	caa2	↑	b3	Expected trend	
Combined Solvency Score		b2		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	16.9%	baa2	↑	baa2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	19.9%	ba2	↔	ba2	Quality of liquid assets	
Combined Liquidity Score		baa3		baa3		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba1		
Affiliate Support notching				-		
Adjusted BCA				baa3		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	1	0	baa2 (cr)	0	Baa2(cr)	
Deposits	0	0	baa3	1	Baa2	Baa2
Dated subordinated bank debt	-1	0	ba1	0		Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BBVA COLOMBIA S.A.	
Outlook	Negative
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Subordinate	Ba1

Source: Moody's Ratings

REPORT NUMBER 1413039