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CREDIT OPINION

11 July 2019

Update

✓ Rate this Research

RATINGS

BBVA Colombia S.A.

Domicile	Bogota, Distrito Capital, Colombia
Long Term CRR	Baa1
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Long Term Debt	Withdrawn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	Stable

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

Diego Kashiwakura +55.11.3043.7316
VP-Senior Analyst
diego.kashiwakura@moody's.com

Vicente Gomez +52.55.1555.5304
Associate Analyst
vicente.gomez@moody's.com

Felipe Carvallo +52.55.1253.5738
VP-Sr Credit Officer
felipe.carvallo@moody's.com

BBVA Colombia S.A.

Update to credit analysis

Summary

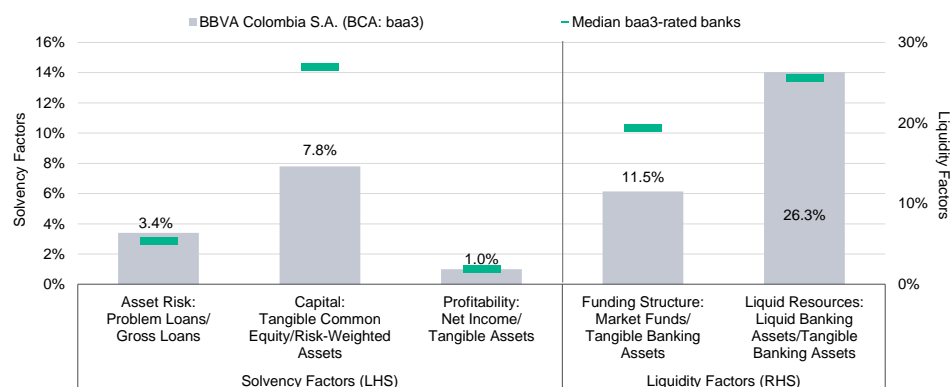
BBVA Colombia S.A.'s (BBVA Colombia) Baa2 deposit ratings benefit from the bank's low reliance on market funds, stable liquidity, and stronger bottom line results supported by lower credit costs and high margins. Asset quality has begun to recover, benefiting from the country's economic recovery that has improved borrowers' repayment capacity. Asset risks remain moderated given the bank's conservative risk management.

The ratings are constrained by the bank's lower core capitalization levels than those of rated peers globally. Finally the deposit ratings also benefit from a notch of uplift because of the moderate probability that it will receive financial support from its parent, [Banco Bilbao Vizcaya Argentaria, S.A.](#) (BBVA Spain, deposits A2 stable, Baseline Credit Assessment [BCA] baa2).

Exhibit 1

Rating Scorecard - Key financial ratios

Scorecard factor as of March 2019



Source: Moody's Financial Metrics

Credit strengths

- » Low reliance on market funds supported by strong market presence
- » Conservative risk management

Credit challenges

- » Low core capitalization levels compared with those of rated banks globally

Outlook

All the ratings have a stable outlook, reflecting the bank's conservative risk management, low reliance on market funds and strong revenue generation, which counterbalance the bank's low capitalization.

Factors that could lead to an upgrade

BBVA Colombia's standalone BCA and its subordinated debt rating could experience upward pressure should the bank exhibit substantial and sustained improvement in capitalization and profitability and asset quality returns to historical levels.

However, a higher BCA would not lead to a higher deposit rating because it is already in line with BBVA Spain rating.

Factors that could lead to a downgrade

BBVA Colombia's standalone BCA could be lowered if the recent recovery in profitability proves unsustainable, delinquencies continue to rise, and/or capitalization continues to fall.

However, a lower BCA would not lead to a lower deposit rating, given the high support from its affiliate bank in Spain.

Key indicators

Exhibit 2

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

	03-19 ²	12-18 ²	12-17 ²	12-16 ²	12-15 ²	CAGR/Avg. ³
Total Assets (COP Billion)	63,755.7	62,866.7	58,067.4	51,780.8	50,548.4	7.4 ⁴
Total Assets (USD Million)	20,014.5	19,358.5	19,456.3	17,248.8	15,923.3	7.3 ⁴
Tangible Common Equity (COP Billion)	3,987.5	4,082.0	4,072.4	3,652.2	3,589.8	3.3 ⁴
Tangible Common Equity (USD Million)	1,251.8	1,257.0	1,364.5	1,216.6	1,130.8	3.2 ⁴
Problem Loans / Gross Loans (%)	3.4	3.7	3.2	1.8	1.5	2.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	7.8	8.4	8.9	8.4	8.9	8.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.6	24.4	23.3	14.4	11.9	19.5 ⁵
Net Interest Margin (%)	3.6	4.5	4.4	4.1	4.9	4.3 ⁵
PPI / Average RWA (%)	4.5	4.2	4.1	3.7	3.9	4.1 ⁶
Net Income / Tangible Assets (%)	1.3	0.9	0.8	1.1	1.2	1.1 ⁵
Cost / Income Ratio (%)	51.0	44.1	46.3	48.4	47.6	47.5 ⁵
Market Funds / Tangible Banking Assets (%)	15.6	11.5	9.4	6.5	13.8	11.3 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	25.8	26.3	22.3	18.9	21.5	23.0 ⁵
Gross Loans / Due to Customers (%)	102.8	97.9	99.5	98.5	103.2	100.4 ⁵

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel II; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel II periods presented.

Source: Moody's Investors Service; Company Filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

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 (SMEs), and large companies. It is the fourth-largest bank in Colombia in terms of total deposit. As of March 2019, the bank reported total consolidated assets of COP64 trillion.

BBVA Colombia was founded in 1956. The bank operates as a subsidiary of BBVA Spain, which owned 95.43% of its total share capital, as of March 2019.

Detailed credit considerations

Conservative risk management

BBVA Colombia focuses on loans to households, which represented 61% of its total loans as of March 2019, vis-à-vis 44% of the Colombian banking system. This typically has made the bank more vulnerable to economic cycles that hurt individuals repayment capacity. However, this risk is partially counterbalanced by the bank's focus on lower-risk products, such as mortgage loans with reduced loan-to-value ratios, which represent 25% of exposure to households. Further, the bank's secured payroll lending products (credito libranza) represent about half of total exposure to consumer segment.

BBVA Colombia's commercial lending represents 29% of gross loans, including corporates and SMEs. This portfolio has a relatively moderate degree of concentration because the 20 largest exposures were equivalent to about 1.5x tangible common equity (TCE) in March 2019. The bank also maintains best practices in corporate governance, with almost null related-party lending.

The bank's problem loan ratio has started to improve, decreasing to 3.4% as of March 2019 from 3.7% as of September 2018. The improvement shows the bank's better vintages for consumer loans and the fact the bank has written off its COP250,000 million exposure to Electrificadora del Caribe S.A. E.S.P (Electricaribe). We expect asset quality to continue to improve as the bank continues to benefit from the improved economic environment in Colombia.

Low core capitalization levels compared with those of rated banks globally

BBVA Colombia had a modest ratio of TCE to risk-weighted assets (RWA) of 7.8% as of March 2019. We calculate TCE by deducting goodwill from common equity. We adjust RWA by risk weighing government securities at 50%, in line with the Colombian government's Baa2 bond rating.

BBVA Colombia, unlike its rated Colombian bank peers, has not had an aggressive acquisition policy, nor does it hold assets outside of Colombia and, as such, capitalization has remained stable but low.

Improved bottom line results owing to lower credit costs

BBVA Colombia's earnings stability has traditionally been supported by a diversified lending book. The bank's profitability was hurt in 2017 and 2018 by the substantial increase in credit costs related to asset-quality deterioration in commercial and consumer portfolios owing to a more difficult operating environment. However, the bank has started to benefit from the fact that is not exposed to other large troubled corporate borrowers such was the case with Electricaribe, and that Colombia's economy continues to gain momentum with broad-based growth across most sectors.

As a result, cost of credit decreased to 2.1% as of March 2019 from the peak reached in September 2017 at 2.7%. The improvement in credit costs is evident by how provisions have now consume a still high 47% of pre-provision income but significantly less than 66% reported in September 2017.

Low reliance on market funds supported by strong market presence

Funding is largely based on core deposits, as illustrated by the bank's loan-to-deposit ratio of 98% as of March 2019, while market funds represent 15.6% of tangible banking assets. Nevertheless, according to Superfinanciera, about 25% of deposits are sourced from individuals. The remaining 75% include non-financial corporates, institutional investors and the public sector, which are potentially less stable deposits.

Liquid assets were 25.8% of tangible banking assets as of March 2019, and are largely composed of Colombian government securities, and cash and cash equivalents. This high quality of liquid assets creates a good buffer, which would help the bank to ride out short-term liquidity disruptions if needed.

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

Colombia's "Moderate +" macro profile reflects the country's relatively large and resilient economy and history of predictable policymaking, balanced against a relatively high dependence on commodities and sensitivity to trade shocks, and borrower concentration in the banking system.

Notwithstanding some fiscal tightening coupled with tight monetary policy, the economy continued to expand. Nevertheless, growth potential will remain lower than it was in the past given our expectation that oil prices will remain relatively low by recent historical standards.

Despite high exposure to terms of trade shocks, external vulnerabilities are limited by the country's adequate foreign exchange buffers and access to a sizeable credit line from the IMF. Moreover, the effectiveness of the government's policy response to recent commodity shocks illustrates the country's moderate institutional strength. In line with lower economic growth, credit growth has decelerated substantially, and credit to GDP remains relatively modest.

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.

Support and structural considerations

Affiliate support

BBVA Colombia's Baa2 deposit ratings are one notch above the bank's baa3 standalone BCA because they incorporate our assessment of moderate parental support from BBVA Spain with a baa2 standalone BCA. The bank's Adjusted BCA is baa2.

Government support

We believe there is a likelihood of government support for BBVA Colombia's rated wholesale deposits and senior unsecured debt. This reflects the bank's large market share of deposits in Colombia and hence the material systemic consequences that would result from an unsupported failure. Government support translates into no rating uplift because the Colombian government's bonds are rated at the same level as BBVA Colombia's Adjusted BCA of baa2.

Foreign-currency debt ratings

We assign a long-term foreign-currency subordinated debt rating of Baa3, one notch below the bank's Adjusted BCA of baa2, to BBVA Colombia's 10-year subordinate debt issuance of \$400 million due 21 April 2025 (coupon of 4.875%).¹

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

Counterparty Risk Assessment

Moody's Counterparty Risk (CR) Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

BBVA Colombia's long- and short-term CR Assessments are positioned at Baa1(cr)/Prime-2(cr)

The long-term CR Assessment is one notch above the bank's Adjusted BCA of baa2 and therefore above the deposit rating of the bank, reflecting our view that its probability of default is lower at the operating obligations than of deposits.

Counterparty Risk Rating (CRR)

Moody's Counterparty Risk Ratings are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs

are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

BBVA Colombia's long- and short-term CRR are positioned at Baa1/Prime-2

The long-term CRR is one notch above the bank's Adjusted BCA of baa2.

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 3

BBVA Colombia S.A.

Macro Factors

Weighted Macro Profile	Moderate	100%					
	+						
Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.4%	baa2	←→	baa2	Expected trend	Collateral and provisioning coverage	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel II)	7.8%	b2	←→	b2	Expected trend		
Profitability							
Net Income / Tangible Assets	1.0%	baa2	←→	baa2	Expected trend		
Combined Solvency Score		ba1		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	11.5%	baa1	←→	baa1	Expected trend		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	26.3%	baa2	←→	baa2	Quality of liquid assets		
Combined Liquidity Score		baa1		baa1			
Financial Profile				baa3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa2			
Scorecard Calculated BCA range				baa2 - ba1			
Assigned BCA				baa3			
Affiliate Support notching				1			
Adjusted BCA				baa2			

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	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa1(cr)	0	Baa1(cr)	
Deposits	0	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	baa3	0		Baa3

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

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
BBVA COLOMBIA S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Subordinate	Baa3

Source: Moody's Investors Service

Endnotes

¹ See Moody's Press Release titled [Moody's rates Baa3 BBVA Colombia's proposed foreign-currency subordinated debt issuance](#), 8 April 2015.

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