



RATING ACTION COMMENTARY

Fitch Affirms BBVA Colombia at 'BBB'; FC IDR Outlook Negative, LC IDR Outlook Stable

Tue 15 Dec, 2020 - 12:18 ET

Fitch Ratings - Bogota - 15 Dec 2020: Fitch Ratings has affirmed BBVA Colombia S.A.'s (BBVA Colombia) Long-Term (LT) Foreign (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BBB' and Viability Rating (VR) at 'bbb-'. The Rating Outlook remains Negative for the FC LT IDR and Stable for the LC LT IDR.

Under Fitch's current assessment, BBVA Colombia's IDRs will likely remain one notch below the parent's IDRs (BBB+/Stable), or at the level determined by its own VR whichever is higher. The bank's LT LC IDR Rating Outlook is Stable, in line with that of its parent. Conversely, since the LT FC IDR is subject to country ceiling restrictions, its rating Outlook is Negative, reflecting the downside potential on the rating due to the Negative Outlook in Colombia's sovereign rating. Fitch has also affirmed the long- and short-term National Scale ratings of BBVA Colombia, BBVA Valores Colombia S.A. and BBVA Asset Management S.A. at 'AAA(col)' and 'F1+(col)'. The Rating Outlook is Stable.

Even though the VRs do not have an Outlook, Fitch believes there is downside potential from the economic implications of the coronavirus pandemic, as reflected in the Negative Outlook for the operating environment score. Fitch is unlikely to rate banks in Colombia higher than the sovereign based on their intrinsic credit profiles (VR). Fitch believes the

recession of at least 6.9% in 2020, will result in asset quality deterioration and will weigh on profitability.

KEY RATING DRIVERS

BBVA COLOMBIA

IDRS AND NATIONAL RATINGS

The bank's IDRs and National ratings reflect the support it would receive from its parent, Banco Bilbao Vizcaya Argentaria (BBVA; BBB+/Stable), should it be required. Fitch believes BBVA Colombia is a strategic subsidiary for its parent mainly due to the relevance of the Latin American operations and the integration and synergies among the entities. Furthermore, BBVA Colombia's profitability and growth potential sustain Fitch's assessment of support.

VR

The bank's VR is highly influenced by the deteriorating operating environment and its company profile. Fitch's banking sector outlook for 2021 is worsening in Colombia. The operating environment remains a high influence factor for the ratings of the large banks and any negative rating action on the sovereign or further deterioration of the operating conditions will likely lead to a similar adjustment of this factor.

BBVA Colombia has a leading franchise in retail banking in Colombia. At September 2020, it was the third largest bank in consumer loans with a market share of 14.4%, the third largest in mortgages (17.4%), the fourth largest in deposits (11.7%), and ranked fourth by total assets and liabilities. BBVA Colombia's rating also considered the bank's fully integrated risk management structure with that of its parent, reasonable profitability and reserve cushions which are commensurate to its rating level. Fitch's capitalization strength assessment incorporates the ordinary support provided and expected from its parent company.

In Fitch's opinion, BBVA's asset quality metrics are good and remain in line with the bank's current rating level. The 90-day past due loans ratio decreased to 3.1% at September 2020 from 3.5% in 2019. Past due loans declined in September 2020, due to the implementation of the government's Debtor Relief Program (PAD). As of September 2020, 1% of gross loans had some sort of relief, a significant decline from 30.1% in June 2020, considering the

regulations issued by the Financial Superintendence of Colombia that were in force until June 2020. Nevertheless, Fitch expects sustained weak operating conditions due to the coronavirus crisis to pressure BBVA Colombia's asset quality in the first half of 2021, when relief measures start to expire, and given the bank's significant exposure to sensitive sectors such as retail (38% of total loans).

BBVA's profitability has proven to be resilient over the past few years. The bank's operating profit to risk weighted assets (RWAs) increased to 2.94% at September 2020, above an average of 1.8% over the past four years, and also above the Colombian banking system average of 1.1%. An increase in non-interest income, lower non-interest expenses and the decrease of 11.0% in risk weighted assets, due to the early implementation of Basel III convergence rules, underpinned the bank's profitability. Tighter net interest margins due to recent policy rate cuts, and higher credit costs due to the economic impact of the coronavirus pandemic will pressure profitability in the short term.

At September 2020, BBVA Colombia's FCC also increased to 11.6%, above the 10.06% average of the past four years. As expected by Fitch, lower risk weighted assets, after the bank anticipated the implementation of Basel III convergence rules (Decree 1477 of 2018) in June 2020, underpinned the improvement in capital ratios. Fitch views the bank's capital ratios as adequate considering its asset quality, conservative risk management, profitability and ordinary support. Given the importance of the bank in Colombia, both the regional franchise and the parent's financial capacity, Fitch believes that the parent would provide BBVA Colombia with additional capital should the need arise.

BBVA Colombia enjoys a broad, stable and growing customer base that funds an average of 85.8% of the bank's operations. At September 2020, the loans to customer deposits ratio was 98.9%, which compares favorably with the peer average of 107.7%. Despite the improvement in depositor concentration, nearly 80% of deposits still come from institutional investors, resulting in higher funding costs compared with banks with a wider retail deposit base. The bank's liquidity position is ample, and in accordance with the parent's strict policies which follow Basel III guidelines and European regulatory requirements.

SUPPORT RATING

The bank's Support Rating of '2' reflects its role as one of BBVA's important subsidiaries in Latam. In Fitch's opinion, BBVA Colombia is strategically important for BBVA's strategy and institutional support should be forthcoming, if required. BBVA has a consistent track record

of support for its subsidiaries and its ability to support them is illustrated by its 'BBB+' rating.

SENIOR UNSECURED DEBT

BBVA's Colombia national senior unsecured debt rating is at the same level as the bank's 'AAA(col)' National Long-Term Rating, as the likelihood of default for the debt issuance is the same as the likelihood of a default for the bank.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

BBVA Colombia's subordinated debt is rated two notches below what Fitch considers the appropriate anchor rating, the bank's support-driven FC LT IDR of 'BBB'.

BBVA Colombia's national subordinated debt rating is at the same level as the bank's 'AAA(col)' National Long-Term Rating. There are no differences in the rating of senior unsecured and subordinated debt with respect to the bank's rating, due to the presence of institutional support from its parent.

BBVA VALORES COLOMBIA S.A. AND BBVA ASSET MANAGEMENT S.A.

BBVA Valores and BBVA Asset Management's national ratings reflect the potential support they would receive from its ultimate parent, BBVA S.A., should it be required. Fitch views the entities as strategic subsidiaries for its ultimate parent, as they complement the universal banking model of BBVA operations in Colombia. Fitch's assessment of support also considers the integration and synergies among the entities and its parent.

RATING SENSITIVITIES

BBVA COLOMBIA

IDRs, Support Ratings and Senior Unsecured Debt

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Negative rating action on BBVA's IDRs would lead to similar actions in BBVA Colombia's IDRs;

--Negative rating action on the Colombian sovereign's ratings would also lead to a similar action on the Foreign Currency IDR;

--BBVA Colombia's IDRs and Support Rating could also change if Fitch's assessment of its parent's ability and/or willingness to support the bank changes;

--Fitch considers that the ability and propensity of support could be reduced by the effects of the international contingency stemming from the coronavirus over BBVA's credit profile.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--BBVA Colombia's IDR will likely remain at the level determined by its own Viability Rating (VR), or one notch below the parent's IDR, whichever is higher, but subject to sovereign rating and country ceiling considerations.

VR

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--BBVA Colombia's VR could be negatively affected if the bank's operating profit to risk weighted assets is consistently below 1.5%, or its FCC ratio consistently falls below 10%;

--An extended period of economic disruption as a result of the coronavirus that leads to a significant deterioration in the operating environment, asset quality and/or profitability, resulting in an erosion of capital cushions would also be negative for ratings.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upside potential for the VR is limited in the near future, as reflected by the Negative Outlook on the Operating Environment Assessment;

--The FC LT IDR outlook could be revised to Stable if the sovereign Rating Outlook and the operating environment stabilizes.

SENIOR UNSECURED DEBT

Senior unsecured debt ratings are sensitive to any changes in BBVA Colombia's IDRs.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt ratings will mirror any action on anchor rating, the bank's support-driven FC LT IDR.

BBVA VALORES COLOMBIA S.A. AND BBVA ASSET MANAGEMENT S.A. NATIONAL RATINGS

BBVA Valores and BBVA Asset Management ratings could change if Fitch's assessment of its parent's ability and/or willingness to support the bank changes.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BBVA Colombia S.A and its Subsidiaries ratings are driven by the support of Banco Bilbao Vizcaya Argentaria S.A.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact

on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

IDR		mea		
Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable	
Natl ST	F1+(col)	Affirmed	F1+(col)	
Viability	bbb-	Affirmed	bbb-	
Support	2	Affirmed	2	
● subordinated	LT	BB+	Affirmed	BB+

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Metodología de Calificación de Bancos \(pub. 18 Sep 2019\)](#)[Metodología de Calificación de Instituciones Financieras no Bancarias \(pub. 18 Sep 2019\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria - Effective from 8 June 2020 to 22 December 2020 \(pub. 08 Jun 2020\)](#)

[Metodología de Calificaciones en Escala Nacional - Efectivo desde junio 8, 2020 hasta diciembre 22, 2020 \(pub. 08 Jun 2020\)](#)

ADDITIONAL DISCLOSURES

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BBVA Colombia S.A.

EU Endorsed

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