FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms BBVA Colombia at 'BBB-'; Outlook Stable

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Fitch Ratings - Bogota - 29 Nov 2023: Fitch Ratings has affirmed BBVA Colombia S.A.'s Long-Term (LT) Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BBB-' and 'BBB', respectively, and its Viability Rating (VR) at 'bb+'. The Rating Outlook for the LT IDRs is Stable.

Under Fitch's current assessment, BBVA Colombia's IDRs will likely remain one notch below the parent's IDR (BBB+/Stable) subject to the sovereign rating and Country Ceiling considerations, or at the level determined by its own VR, whichever is higher. The bank's Outlook on its LT IDRs is in line with that of its parent. Fitch has also affirmed the LT 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 on the LT National ratings is Stable.

KEY RATING DRIVERS

Parent Support: BBVA Colombia's IDRs, Shareholder Support Rating (SSR) and National ratings reflect the support it would receive from its parent, Banco Bilbao Vizcaya Argentaria S.A. (BBVA S.A.; 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. The LT FC IDR of 'BBB-' is rated two notches below the parent IDR as it is capped by Colombia's Country Ceiling of 'BBB-', due to transfer and convertibility risks, which constrains Fitch's assessment of the shareholder's ability to support its subsidiary. The LT LC IDR of 'BBB' is rated one notch below the parent's IDR and two notches above Colombia's LT IDR of 'BB+' and one notch above Colombia's Country Ceiling of 'BBB-', consistent with Fitch's criteria.

Relevant Market Position and Group Benefits: The bank's VR, at 'bb+', considers BBVA Colombia's business profile, with a leading market position in retail banking in Colombia. At

August 2023, it was the third largest bank in consumer loans with a market share of 13%, the third largest in mortgage (14.2%), the fourth largest in deposits (11.1%), and ranked fourth by total assets and liabilities. BBVA Colombia's rating also considered the bank's integrated corporate governance and risk management structure with that of its parent, as well as its reasonable profitability and reserve cushions, which are commensurate to its rating level. Fitch's capitalization assessment incorporates the ordinary support provided and expected from its parent company.

Deteriorating Asset Quality: At June 2023, the 90-day past due loans ratio deteriorated to 2.3% from 2% at YE 2022, although still below the average of the last four years of 2.7%. The increase in the ratio reflects the deterioration in the retail segment, however, BBVA Colombia's PDL ratio compares favorably against the average of the financial system of 3.1%. Given a less benign operating environment, with continuing high inflation and low growth of the economy, Fitch expects a further deterioration on PDL ratios. However, as the bank is increasing its exposure to the corporate segment, PDLs are expected to remain around 3% for YE 2023.

Pressured Profitability: As of June 2023, the operating profit to risk weighted assets (RWA) had a significant declined to 0.8% from 2.6% in 2022. The tightening on profitability is mainly explained by the net interest margin (NIM) decline of almost 150 basis points, given the prevalent environment of high interest rates, and the moderate loan portfolio growth. Although the bank was able to reprice its loan portfolio, the increase in funding costs was higher, reflecting the banks negative sensitivity in the NIM. In addition, loan impairment charges increased by 15.4%, which also weighed on profitability. For YE 2023, Fitch expects the key profitability ratio to remain relatively stable, below 1%. Given the medium-term funding concentration and lower interest rates expected next year, Fitch would expect profitability levels to recover towards historical averages by 2025.

Tight Capitalization, Benefited by Ordinary Support: As of June 2023, CET1 ratio fell to 7.7% from 8.7% in December 2022, and still compares below its regional peers, making it the weakest feature in the bank's credit profile. However, in Fitch's opinion the bank's capital ratios remain adequate, considering the ordinary support given by BBVA S.A., its conservative risk management, and ample loan loss provisions. To strengthen its capital, in June 2023, BBVA Colombia subscribed a subordinated debt with its parent company, which computes as an Additional Tier 1 capital (AT1); this allows the bank to have an additional capital buffer, and strengthen its capital ratio. As of June 2023, the Tier 1 capital (CET1 + AT1) ratio was 9% and the regulatory capital ratio was 12.1%. Fitch expects a slight recovery on the CET1 ratio around 8.4%, due to an expected decrease of its securities portfolio, lowering its market risk contribution to RWA.

Stable Funding and Adequate Liquidity: In Fitch's opinion, BBVA Colombia has an adequate funding structure and liquidity. At June 2023, loans to customer deposits ratio was 104.9% comparing favorably against the financial system average of 105.7%. The bank's liquidity position is ample, according to the parent's strict guidelines, which include Basel III and European regulatory requirements. At June 2023, BBVA Colombia's liquid assets covered 29,2% of deposits. Fitch expects the bank to maintain its stable funding structure and expects the gross loan-to-deposit ratio to increase slightly to around 105%, given the higher growth prospects for loans relative to deposits.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs and Shareholder Support Rating

--Negative rating action on BBVA S.A.'s IDRs would lead to similar actions in BBVA Colombia's IDRs and potentially its SSR if the parent is downgraded by two notches or more;

--Negative rating action on the Colombian sovereign's ratings would also lead to a similar action on the LT FC IDR and its SSR as they are capped by the Country Ceiling;

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

VR

--BBVA Colombia's VR could be negatively affected if tighter NIMs continue to pressure operating income to risk-weighted assets consistently below 1.2%, a level below its 'bb' rating category, and if the CET1 ratio consistently falls below 10%, accompanied by a change in Fitch's assessment of the parent's ordinary support to this subsidiary.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDRs and Shareholder Support Rating

--BBVA Colombia's IDR will likely remain at the level determined by its own VR, or one notch below the parent's IDR subject to sovereign rating and Country Ceiling considerations, whichever is higher.

VR

--Upside potential for the VR is limited in the near future, as reflected by the Operating Environment assessment and Outlook;

--While not likely in the current operating environment, a positive rating action on Colombia's sovereign rating could lead to a similar action on BBVA Colombia's VR.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SENIOR UNSECURED DEBT

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

SUBORDINATED DEBT

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 is rated at the same level as the bank's 'AAA(col)' National LT 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.

SHAREHOLDER SUPPORT RATING

The bank's SSR of 'bbb-' reflects its role as one of BBVA S.A.'s important subsidiaries in Latam. In Fitch's opinion, BBVA Colombia is strategically important for BBVA S.A.'s strategy and institutional support should be forthcoming, if required. The parent has a consistent track record of support for its subsidiaries and its ability to support them is illustrated by its 'BBB+'/Outlook Stable rating.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SENIOR UNSECURED DEBT

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

SUBORDINATED DEBT

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

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

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.

BBVA VALORES

As of June 2023, the operating income to average equity ratio was 64.1%. The significant increase in the r ratio is mainly explained due to the good results from investment banking, as well as the increase in recurring revenues. Fitch expects a substantial and sustained improvement in the entity's profitability levels, given the new model of specialization of activities among the subsidiaries, where BBVA Valores will now be in charge of selling and distributing the group's investment products, including collective investment funds and BBVA Valores' products. In Fitch's opinion, BBVA Valores has a consistent and sufficient level of capitalization to support its activity and maintain a stable funding, not dependent on financial obligations.

BBVA AM

In Fitch's view, BBVA AM's consolidation and consistent performance over the cycle reflect the competitive, operational and management advantages of being part of the BBVA Group. As of June 2023, the EBITDA margin was 73.4%, which is considered robust and in line with the investment manager's low-balance-sheet usage business model.

Also, thanks to the steady growth of its assets under management through collective investment funds (FICs, as in Spanish) and structured trusts, BBVA AM maintains its ability to generate fees with a level of expenses in line with its operations, which allows it to maintain a competitive position in the market. As of August 2023, BBVA AM ranks 10th in the market with a 3.16% share of assets under management. BBVA AM operates mainly with its own resources, which is why Fitch highlights that the company maintains robust capitalization and liquidity levels. In Fitch's view, the company's capital has significant potential to strengthen the growth of its assets under management in the future, in line with its strategy, which is reflected in its solvency ratio, which stood at 44.5% as of June 2023.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

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.

VR ADJUSTMENTS

The Business Profile score has been assigned above the implied score due to the following adjustment reason(s): Group Benefits and Risk (positive).

The Capitalization & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Capital Flexibility and Ordinary Support (positive), Core Capital Calculation (positive).

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, BBVA Valores and BBVA AM ratings are driven by the support of BBVA S.A.'s ratings.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
BBVA Asset Management S.A.	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
BBVA Colombia S.A.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	LC ST IDR	F2	Affirmed	F2

	Natl LT	AAA(col) Rating Outlook Stable Affirmed		AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
	Viability	bb+	Affirmed	bb+
	Shareholder Support	bbb-	Affirmed	bbb-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Non-Bank Financial Institutions Rating Criteria (pub. 05 May 2023) (including rating assumption sensitivity)

Metodología de Calificación de Instituciones Financieras No Bancarias (pub. 25 Jul 2023)

Bank Rating Criteria (pub. 01 Sep 2023) (including rating assumption sensitivity)

Metodología de Calificación de Bancos (pub. 28 Sep 2023)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

BBVA Colombia S.A.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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