



RATING ACTION COMMENTARY

Fitch Maintains BBVA Colombia's Local Currency LT and ST IDRs on Rating Watch Negative

Thu 11 Jun, 2020 - 22:42 ET

Fitch Ratings - Bogota - 11 Jun 2020: Fitch Ratings has maintained BBVA Colombia S.A.'s Short-Term (ST) Foreign-Currency (FC) and Local-Currency (LC) Issuer Default Ratings (IDR) on Rating Watch Negative (RWN). Fitch has affirmed BBVA Colombia's Long-Term (LT) FC IDR at 'BBB' with a Negative Outlook and the Viability Rating (VR) at 'bbb-'. Fitch has also affirmed BBVA Colombia's national scale ratings, as well as those of its subsidiaries, BBVA Valores Colombia S.A. and BBVA Asset Management S.A., with a Stable Outlook.

The RWN on BBVA Colombia's LT and ST LC IDRs and FC ST IDR indicates that the ratings would be downgraded in the event of a downgrade of the IDRs of its parent, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, A-/RWN). Under Fitch's support assessment, BBVA Colombia's IDRs will likely remain at the level determined by its Viability Rating, or one notch below the parent's IDRs, whichever is higher. The LT FC IDR is sensitive to a downgrade of Colombia's sovereign ratings (BBB-/Negative). See "Fitch Takes Actions on Colombian FIs & Related Entities After Sovereign

Downgrade" at [fitchratings.com/site/pr/10117458](https://www.fitchratings.com/site/pr/10117458) and "Fitch Takes Actions on BBVA's and SAN's Latina American Subsidiaries", [fitchratings.com/site/pr/10116751](https://www.fitchratings.com/site/pr/10116751)

Although VRs do not have an Outlook, Fitch has revised the outlook on the operating environment to negative, from stable, as it believes there is downside potential from the economic implications of the coronavirus pandemic. Fitch also believes the weaker economic conditions will see the economy contract by 4.5% in 2020, leading to asset quality deterioration and lower profitability. The magnitude and depth of this is uncertain and will depend on the length of the crisis.

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, BBVA, should it be required. Fitch believes BBVA Colombia is a strategic subsidiary for its parent 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 our assessment of support. The bank's FC IDR is capped by Colombia's Country Ceiling of 'BBB'.

VR

The bank's VR is highly influenced by the deteriorating operating environment and its company profile. Fitch has revised Colombia's banking sector outlook for 2020 to negative from stable. The operating environment is of high influence for the ratings of large banks. 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 March 2020, it was the third-largest bank in consumer loans, with a market share of 12.2%, the third-largest in mortgage (17.3%), the fourth-largest in deposits (11.2%), 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. Capitalization metrics compare unfavorably with similarly rated international

peers (universal commercial banks in a 'bb' operating environment), and is considered by Fitch as the main weakness on the bank's VR.

BBVA Colombia's asset quality metrics are adequate and remain below with the bank's current rating level. The 90-day past-due loans ratio improved to 3.57% in December 2019, from 3.77% in 2018. The tightening of the underwriting standards on the installment loans since 2018 and a higher increase in gross loans (7.4%) benefited the ratio. Moreover, the specific deterioration in the commercial portfolio is no longer pressuring the ratio, as it was written-off in March 2019. At March 2020, the 90-day past-due loans ratio remained stable at 3.4%. Fitch expects weak operating conditions due to the coronavirus crisis to pressure BBVA Colombia's asset quality in 2H20, given its significant exposure to sensitive sectors, such as retail (62% of total loans).

In Fitch's view, a well-executed business strategy, conservative risk management and efficient cost controls underpin BBVA Colombia's ability to generate recurrent profit. As Fitch expected, the operating profit/risk-weighted assets (RWA) ratio recovered to 2.12% in 2019, above the average of 1.80% of the last three years. An increase in the net interest margin, an improvement in loan quality and a decline in impairment charges underpinned the bank's profitability. At March 2020, the increase of 13% in RWAs, coupled with higher impairment charges, pressured the core profitability ratio, which decreased to 1.85%. We expect lower business volume, tighter net interest margins, and higher credit costs as a result of the economic impact of the pandemic to pressure profitability in 2020.

Recurrent profitability and earnings retention supported BBVA Colombia's stable capital ratios in 2019. However, the Fitch Core Capital/RWAs ratio declined to 8.4% in March 2020, below the 10% average of the past four years. An increase in RWAs and the decline in Fitch Core Capital pressured the ratio. At this lower level, the bank's capitalization could pressure its VR if it does not recover to a level above 9% and/or if there is a material deterioration in asset quality over the short term. Fitch believes the parent will provide BBVA Colombia with ordinary support if additional capital is needed to meet minimum regulatory requirements in light of the bank's importance in Colombia - both for the regional franchise and for the parent's financial capacity. Capital metrics have yet to be tested in a less benign operating environment.

BBVA Colombia enjoys a broad, stable and expanding customer base that funds an average of 85% of the bank's operation. At March 2020, the loans/customer deposits

ratio was 96.2%, which compares favorably with the peer average of 105.6%. The bank has moderate concentration by depositor, with the top-20 equaling 31.3% of deposits (2017: 38.7%). However, nearly 80% of deposits come from institutional investors, despite the improvement in depositor concentration, resulting in higher funding costs compared with banks that have 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 Latin America. 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 'A-' rating.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

BBVA Colombia's subordinated debt is rated one notch below what Fitch considers the appropriate anchor rating, the bank's support-driven FC LT IDR of 'BBB'. Since this anchor rating is capped by Colombia's country Country Ceiling of 'BBB', which addresses transfer and convertibility risk, the overall notching for this issue rating is only -1 from such anchor to reflect loss severity risk partially mitigated by institutional support, instead of the baseline case of -2 notches.

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

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

RATING SENSITIVITIES

BBVA COLOMBIA

IDRs, National Ratings and Support Ratings

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

--Negative rating action on BBVA's IDRs would lead to similar action on BBVA Colombia's LC IDRs.

--Negative rating action on the Colombian sovereign's ratings would lead to similar action on the FC IDR.

--BBVA Colombia's IDRs, national scale and Support Rating could 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 pandemic 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 VR, or one notch below the parents' IDR, whichever is higher, but subject to sovereign rating and Country Ceiling considerations.

--A removal of the parent's RWN without a downgrade could prompt similar action on BBVA Colombia's LC IDR. While not likely in the current operating environment, BBVA Colombia's FC IDRs could be upgraded in the event of an upgrade of Colombia's sovereign rating.

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/RWAs is consistently below 1.5%, if the impaired loans/gross loans ratio remains above 4.0% or its Fitch Core Capital ratio consistently falls below 9.0%.

--An extended period of economic disruption as a result of the pandemic 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 the VR.

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

--Upside potential for the VR is limited in the near term, as reflected by the negative outlook on the operating environment assessment, and BBVA Colombia's company profile.

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

The ratings could change if Fitch's assessment of its parent's ability and/or willingness to provide support the bank changes.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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 IDRs are driven by support from BBVA.

BBVA Asset Management and BBVA Valores' national-scale ratings are driven by support from BBVA.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			P
BBVA Colombia S.A.	LT IDR	BBB Rating Outlook Negative	Affirmed	B C N
	ST IDR	F2 Rating Watch Negative	Rating Watch Maintained	F V N
	LC LT IDR	BBB+ Rating Watch Negative	Rating Watch Maintained	B V N
	LC ST IDR	F2 Rating Watch Negative	Rating Watch Maintained	F V N

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APPLICABLE CRITERIA

[Metodología de Calificaciones en Escala Nacional - Efectivo desde agosto 2, 2018 hasta junio 8, 2020 \(pub. 01 Aug 2018\)](#)

[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 \(pub. 08 Jun 2020\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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BBVA Asset Management S.A.	-
BBVA Colombia S.A.	EU Endorsed
BBVA Valores Colombia S.A.	-

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Non-Bank Financial Institutions Banks Latin America Colombia

