



Fitch Affirms BBVA Colombia at 'BBB+'; Outlook Negative

Fitch Ratings-New York-17 June 2019: Fitch Ratings has affirmed BBVA Colombia S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB+' and Viability Rating (VR) at 'bbb'. The Rating Outlook remains Negative. Fitch assigned the Negative Outlook in December 2018 after revising the Outlook for BBVA Colombia's parent, Banco Bilbao Vizcaya Argentaria (BBVA; A-/Negative), to Negative from Stable.

Fitch has also affirmed the long- and short-term National Scale ratings of BBVA Valores Colombia S.A. and BBVA Asset Management S.A. at 'AAA(col)' and 'F1+(col)'.

A full list of rating actions follows at the end of this press release.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND SENIOR DEBT

The bank's IDRs, National and senior debt 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 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 our support assessment.

VR

The bank's VR is highly influenced by the operating environment in which its business operates. BBVA Colombia's rating also considers that the bank's risk management structure is fully integrated its parent's, its reasonable asset quality metrics, resilient profitability, tight capitalization, and its strong liquidity management that is in line with Colombian market and Basel III guidelines.

BBVA Colombia's loan quality ratio experienced additional deterioration in 2018. This was mainly due to weakening of its installment portfolio caused by greater risk appetite in the segment since 2017. Moreover, loan quality continues to be pressured by a specific credit event in the commercial loan portfolio. The Impaired loans to gross loans ratio deteriorated to 3.77% at December 2018; however, at March 2019 the ratio improved to 3.54%, given a write-off of a commercial credit exposure, in addition to adjustments to risk policies and fine tuning of risk models. In Fitch's opinion, BBVA's asset quality metrics are good and remain in line with the bank's current rating level, and Fitch believes the bank will continue to recover its loan quality ratios, which are supported by the bank's history of taking appropriate corrective measures to improve its credit quality.

In Fitch's view, BBVA's profitability has proven to be resilient as evidenced by its operating profit to risk weighted assets (RAWs), which recovered to 1.91% in 2018 from 1.43% in 2017. The bank's profitability was underpinned by an increase in the net interest margin, efficient cost controls, and lower impairment charges. At March 2019, Fitch's core metric ratio of operating profit to RWAs increased to 2.63% driven by efficiency gains and reduced impairment charges during the same period.

Recurrent profitability and earnings retention supports BBVA Colombia's stable capital ratios. While Fitch deems the bank's capital (2018: Fitch Core Capital (FCC) ratio 10.03%) sufficient in light of its asset quality and risk management, it compares unfavorably with similarly rated international peers (universal commercial banks

in a 'bbb' operating environment). Fitch considers the bank's capital the primary weakness for its VR. Fitch expects that the forthcoming adoption of Basel III guidelines in Colombia will benefit the bank's capital ratios between 200 and 300 bps due to a lower risk weighted assets density, increased capital buffers and more comparable capital definitions. Given the importance of the bank in Colombia, both for the regional franchise and for the parent's financial capacity, Fitch believes that the parent will provide BBVA Colombia with ordinary support if additional capital requirement is needed.

BBVA Colombia enjoys a broad, stable and growing customer base that funds 80%-90% of the bank's operations. However, the bank's deposits are primarily from institutional and public investors, resulting in higher funding costs compared to banks with a wider retail deposit base and high depositor concentration (top 20 accounting for 33.7% of deposits at YE18). The bank closely monitors its liquidity risk, and its liquidity position is ample and in compliance 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 would 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 its IDR to reflect lower expected recoveries, while there is no notching differentiation due to incremental non-performance risk given the terms of the issuances (plain vanilla subordinated debt).

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

The bank's IDRs, national and senior debt ratings could change if Fitch's assessment of its parent's ability and/or willingness to support the bank changes. In general, the IDRs would move in line with those of the parent, subject to country ceiling restrictions. ST IDRs could only be negatively affected by the confluence of a downgrade of the LT IDR and a potential downgrade of the parent's ST IDR.

VR

Upside potential for the VR is limited given the sovereign's current rating and BBVA Colombia's relatively moderate franchise. BBVA Colombia's VR could be negatively affected if the bank's operating profit to risk weighted assets is consistently below 1.5%, if impaired loans/gross loans ratio is sustained above 4% or its FCC ratio falls below 9%.

SUPPORT RATING AND SUPPORT RATING FLOOR

BBVA Colombia's Support Rating would be affected by a change in BBVA's ability or willingness to support the bank.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt ratings will mirror any action on the banks IDR.

Fitch has affirmed the following ratings:

BBVA COLOMBIA S.A.

- Long-Term Foreign and Local Currency IDRs at 'BBB+'; Outlook Negative;
- Short-Term Foreign and Local Currency IDR at 'F2';
- Support Rating at '2';

--Viability Rating at 'bbb';
--Subordinated debt at 'BBB';
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term Rating at 'F1+(col)';
--National senior unsecured debt at 'AAA(col)';
--National Long-Term subordinated debt at 'AAA(col)'.

BBVA Asset Management S.A.

--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term Rating at 'F1+(col)'.

BBVA Valores Colombia S.A.

--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--National Short-Term Rating at 'F1+(col)'.

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

Short-Term Ratings Criteria (pub. 02 May 2019)

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