FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Banco GNB Sudameris S.A.'s IDRs at 'BB'; Outlook Stable

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Fitch Ratings - Monterrey/Bogota - 16 May 2024: Fitch Ratings has affirmed Banco GNB Sudameris S.A. (GNB) Long-Term Foreign Currency and Local Currency Issuer Default Ratings (IDRs) at 'BB', its Viability Rating (VR) at 'bb' and its Government Support Rating (GSR) at 'b+'. The Rating Outlook is Stable.

KEY RATING DRIVERS

Challenging Operating Environment: Fitch expects a stable operating environment for Colombian banks in 2024, with modest GDP growth and inflation rates slowly retroceding, yet still above the central bank's target of 3+/-1%. Funding costs are expected to gradually decrease, and asset quality should see a steady enhancement. Nonetheless, the local economy' exposure to volatile global markets and ongoing political instability may present obstacles to economic growth.

Fitch believes GNB's conservative risk profile, diverse business model, strong asset quality and liquidity, along with improving profitability, provide sufficient resilience to face the stresses brought by the current challenging operating environments of Colombia, Peru and Paraguay. Despite the bank's relevant presence outside of Colombia, its operating environment score of 'bb' is due to the fact that most of its operations remain in the country.

Diversified Business Model: GNB's IDRs are driven by the bank's VR, which is aligned with its implied VR. The bank's business profile continues to be diverse with a dual focus in the wholesale and lower risk retail segments in Colombia, Paraguay and Peru. Fitch also considers the bank's strong market positions in payroll-backed lending products known locally as 'Libranza'. The bank has made significant progress in growing its digital banking capabilities and greatly expanding the number of digital customers, which is expected to lower operational costs, as well as consolidating its local position in Paraguay.

Conservative Risk Profile: The bank's business and risk profile assessment of 'bb+' considers its consolidated retail segment exposure, which is composed mostly of lower-risk, payroll-backed loans. As of YE23, GNB's payroll lending portfolio represented approximately 27.2% of gross loans and where it has a market share of 7.9%. Fitch also considers the conservative underwriting policies for its consolidated commercial segment focused on medium to large sized companies with high levels of collateral.

Solid Asset Quality Metrics: GNB's asset quality metrics remain strong and compare very well with domestic and regional peers. As of YE23, the bank's 90-day Non-Performing Loans (NPL) ratio stood at 1.8% decreasing from 2.1% from YE22 and driven by improvements in underwriting standards and more conservative loan placement policies. Breaking down by geography, the bank in Colombia still has the lowest 90-day NPLs ratio within the Colombian banking system (2023: 0.6%), and the other subsidiaries in Paraguay and Peru evidenced relatively steady impairment levels, with 90-day NPLs ratios of 3.0% and 3.3% respectively.

Fitch anticipates that the bank's asset quality will remain stable over the foreseeable future, driven by GNB's moderate growth prospects, conservative policies, relatively robust underwriting standards and adequate risk controls and its robust and conservative risk management practices.

Resilient Profitability despite NIM decline: As of YE23 GNB's operating profit to risk weighted assets (RWAs) improved to 1.5% from 1.0% in 2022 despite a deterioration in its net interest margin (NIM), due to higher funding costs evidenced at a systemic level and a 2.8% contraction of gross loans, that was overcompensated by profits generated by other income streams such as securities portfolio' gains, profits related to stock issuances, and the additional selling of 12.0% stake in GNB Paraguay' to Grupo Vierci which generated a profit of USD10.4 million.

Fitch considers that the bank's revenue diversification from multiple business lines has proven to be effective in maintaining an adequate performance with positive operating profits amid economic cycles. In recent years, GNB has experienced important operating expenses stemming from the merger process of former BBVA Paraguay in Paraguay (formalized in 2021), however given that in 2023 the process was fully completed, operating expenses are expected to stabilize and earnings to strengthen, which will lead to a moderate improvement on core profitability metrics in the mid-term.

Low but Stable Capital Ratios: GNB's capitalization metrics have evidenced stability over time, however they remain low, being this its weakest rating factor. As of YE23, Common Equity Tier 1 (CET1) ratio stood at 9.8% improving from the 8.3% from YE22, but still comparing below its regional peers rated in the 'bb' category. During 2023 capitalization metrics benefited by lower RWAs due to the contraction of gross loans, driven from a more conservative risk appetite amid the challenging operating environment; in addition to this, capital ratios also benefited by an earnings retention of approximately 50% of GNB Colombia's profits in 2023.

Fitch considers that the bank's current capitalization metrics remain commensurate to the bank's business model, risk profile and current ratings, and these are expected to remain fairly stable over the medium term. Strong asset quality metrics and low risk appetite mitigates GNB's relatively low CET1 ratio.

Sound Liquidity Levels: GNB's funding structure and liquidity position remains sound, with adequate ability to meet its short-term obligations and sustain its operations. This is reflected by a solid loans-to-deposit ratio of 73.7% at YE23 (four-year avg.: 68.1%), which compares favorable among its local and regional peers. Customer deposits have reliably constituted a significant portion of GNB's funding, accounting 72.8% of total funding at YE23, with savings accounts representing 49.2% of total deposits and term deposits 38.7%. Liquidity remains commensurate with the bank's current ratings, and Fitch does not anticipate any changes to the bank's funding liquidity structure.

RATING SENSITIVITIES

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

--Negative VR and IDR pressure would arise if the CET1 ratio is consistently below 9% and the operating profit to RWA ratio continues below 1.25%, in addition to deterioration in asset quality and its business model;

--The ratings are sensitive to operating environment deterioration.

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

--The ratings could be positively affected if the bank sustains or rebuilds its profitability;

--Upside potential depends heavily upon material improvement in GNB's capitalization and profitability. An upgrade to the VR and IDRs could occur if the bank can reach and sustain a CET1 capital ratio greater than 14% while avoiding material deterioration of its other financial and qualitative credit fundamentals, with consistently better results, in the form of operating profit over RWAs greater than 2.5%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

DEBT ISSUANCES RATINGS:

GNB's subordinated debt and Tier 2 subordinated debt are rated two notches below its VR to reflect their subordinated status and expected high loss severity. The rating on the Tier 2 notes does not incorporate incremental non-performance risk, given the relatively low write-off trigger (Regulatory CET1 ratio at or below 4.5%) and considering the fact that coupons are not deferrable or cancellable before the principal write-off trigger is activated.

GOVERNMENT SUPPORT:

Possible Government Support: The bank's GSR of 'b+' is driven by its moderate systemic importance as a market maker and its payroll lending share of the Colombian market of 7.9%. GNB is also working to grow its share of retail deposits, though this metric is still a modest 3.5% when compared with local systemically important banks. Fitch believes there is a limited probability that the bank would receive sovereign support if needed, which underpins its GSR.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

RATING SENSITIVITIES:

--The subordinated debt rating of GNB's issuances is two notches below GNB's VR anchor. As such, the rating will move in tandem with the anchor rating;

--The rating is also sensitive to a wider notching from the VR if there is a change in Fitch's view on the non-performance risk of these instruments on a going-concern basis, which is not the baseline scenario.

RATING SENSITIVITIES:

--GNB's GSR would be affected by a positive change in the bank's systemic importance that would affect Fitch's perception of the government's willingness and ability to support the bank;

--GNB's GSR would be affected by a negative change in Fitch's perception of the government's willingness and ability to support the bank.

VR ADJUSTMENTS

The earnings and profitability score has been assigned above the implied score due to the following adjustment reason: Historical and Future Metrics (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.

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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Banco GNB Sudameris S.A.	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable

	LC ST IDR B Affirmed	B
	Viability bb Affirmed	bb
	Government Support b+ Affirmed	b+
subordinated	LT B+ Affirmed	B+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Future Flow Securitization Rating Criteria (pub. 14 Apr 2023) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco GNB Sudameris 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. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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