

RATING ACTION COMMENTARY

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

Thu 16 May, 2024 - 1:51 PM ET

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's 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		BB Rating Outlook Stable
	Affirmed			
	ST IDR	B	Affirmed	B
	LC LT IDR	BB Rating Outlook Stable		BB Rating Outlook Stable
	Affirmed			

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

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Ricardo Aguilar

Director

Primary Rating Analyst

+52 81 4161 7086

ricardo.aguilar@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,
Monterrey 64920

Liza Tello Rincon

Associate Director

Secondary Rating Analyst

+57 601 241 3242

liza.tellorincon@fitchratings.com

Claudio Gallina

Senior Director

Committee Chairperson

+55 11 4504 2216

claudio.gallina@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in

accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

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.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws,

the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for

structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.