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Fitch Affirms Banco BBVA Argentina S.A.'s IDR at 'CCC-'

Fitch Ratings - New York - 07 Aug 2023: Fitch Ratings has affirmed Banco BBVA Argentina S.A.'s (BBVA Arg) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'CCC-' and Viability rating (VR) at 'ccc-'. In addition, Fitch has affirmed BBVA Arg's Short-Term Foreign and Local Currency IDRs at 'C' and Government Support Rating (GSR) at 'no support' (ns).

Key Rating Drivers

Highly Challenging Operating Environment: Banco BBVA Argentina S.A.'s Viability Rating (VR) drives its IDRS. The 'ccc-' VR is capped by the operating environment (OE) score of 'ccc-'. In Fitch's view, regardless of its overall adequate financial condition, the bank's ratings are highly influenced Argentina's IDRs ('CC' Foreign Currency IDR), and the still volatile OE, which has risks clearly skewed to the downside.

Weak Macroeconomic Factors: BBVA Arg's VR is below the 'ccc' implied level and is highly influenced by Fitch's assessment of the challenging operating environment (OE). The OE in Argentina remains very challenging due to very weak macroeconomic factors, triple digit inflation, a severe drought affecting FX revenues and asset quality, pending negotiations for support from the IMF, as well as political uncertainties during an election year.

Good Market Position: BBVA Arg is a universal commercial bank, that provides retail and corporate banking services to individuals, small and medium companies and large-sized corporates. The bank benefits from its strong franchise, which places it among the top four private sector banks in Argentina by loans and deposits, with market shares of approximately 9.3% and 6.8%, respectively, as of March 31, 2023. This Argentine subsidiary benefits from the ample expertise of its main (66.6%) shareholder, Spain's Banco Bilbao Vizcaya Argentaria (BBVA; 'BBB+'/Stable). The other shareholder is ANSES with 7% and 26.4% is Free Float.

Good Asset Quality: Over the past few years the bank has maintained better-than-peers asset quality indicators, despite its large retail and middle market corporate portfolios, and the challenging OE. BBVA Arg's impaired loan ratio ended March 2023 at 1.4% from 1.2% at YE2022, and a four-year average of 2%. The bank maintains an internal policy of exceeding regulatory loan loss reserve requirements, and keeps presenting comfortable coverage levels, with loan loss allowances to impaired loans ratio at 220%, which also compares favorably to its peer group.

Satisfactory Profitability: BBVA Arg has sustained adequate profitability, even in a difficult economic scenario. For the first quarter ended March 31, 2023, its operating profit (adjusted for inflation)/Risk

Weighted Asset (RWA) ratio increased to 5.9% from 4.9% by year-end 2022. That was mainly due to improved interest income, due to a higher monetary policy rate. The bank's ROAA reached 2.6% (from 3.6% in 4Q22), while its ROAE was 13.7% (versus 19.4% in 4Q22). Fitch expects BBVA Arg's performance to remain pressured until the political uncertainty abates and the economy strengthens, leading to higher credit demand, albeit an unlikely scenario in the short term. The bank prioritizes asset quality over profitability.

Comfortable Capitalization: Similar to other banks in the financial system, BBVA Arg's capitalization has continued to strengthen over the past few years given the low loan growth. Its Common Equity Tier 1 (CET 1) to RWA ratio was strong at nearly 27% at March 31, 2023. Given the bank's traditionally conservative risk appetite, Fitch expects management will maintain the bank's capital cushion at comfortable levels in the short term, but as the operating environment improves, the ratio will likely revert to lower level similar to that of YE 2019 when it was slightly over 17%.

Good Liquidity and Funding Metrics: BBVA Arg's main funding source are deposits from its customer base, and the bank has a long track record of attracting and maintaining a stable base. As of March 31, 2023, these deposits accounted for slightly over 92% of the bank's total non-equity funding. The bank's loan to deposit ratio as of the same date continued to shrink to a low 56%, reflecting a modest risk appetite and low customer credit demand which is driven by the challenging operating environment. Short-term liquidity is mostly allocated in central bank instruments.

Rating Sensitivities

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

--The bank's IDRs and VRs would be pressured by a further downgrade of Argentina's sovereign rating or a deterioration in the local operating environment beyond current expectations that leads to a significant deterioration in their financial profiles;

--Any policy announcements that would be detrimental to the banks' ability to service their obligations, including a tightening of capital controls to the extent that they restrict debt payments, would be negative for creditworthiness.

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

--The IDRs and VRs would benefit from an upgrade of Argentina's sovereign rating.

No Government Support: BBVA Argentina's Government Support Rating (GSR) of 'no support (ns)' reflects Fitch's view that, despite the bank's systemic importance, government support cannot be relied upon given the constraints on such ability. Fitch does not consider the possibility of any potential support from BBVA Argentina's parent entity, Banco Bilbao Vizcaya Argentaria (BBVA; BBB+/Stable), given the risk of government intervention in the Argentine financial system.

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

--Changes in BBVA Arg's GSR are unlikely in the medium term given Argentina's low sovereign rating.

VR ADJUSTMENTS

--The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason(s): Operating Environment / Sovereign Rating Constraint (negative).

--The Operating Environment score has been assigned below the implied score due to the following adjustment reason: Sovereign Rating (negative) and Macroeconomic Stability (negative).

--The Business Profile score has been assigned below the implied score due to the following adjustment reason: Business Model (negative).

--The Earnings and Profitability score has been assigned below the implied score due to the following adjustment reason: Earnings Stability (negative).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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.

ESG Considerations

BBVA Argentina's ESG score for Management Strategy of '4' reflects the high level of government intervention in the Argentine banking sector. The enforcement of interest rate caps can lead to inadequate loan pricing and, together with the imposing of interest rate floors on time deposits, applies significant pressure on banks' net interest margins. In addition, restrictions on fee levels can negatively affect performance ratios. This challenges the bank's ability to define and execute its own strategy. This has a moderately negative impact on the rating in conjunction with other factors

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Banco BBVA Argentina S.A.	LT IDR	CCC-	Affirmed	CCC-
	ST IDR	C	Affirmed	C
	LC LT IDR	CCC-	Affirmed	CCC-
	LC ST IDR	C	Affirmed	C
	Viability	ccc-	Affirmed	ccc-
	Government Support	ns	Affirmed	ns

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Banco BBVA Argentina S.A. EU Endorsed, UK Endorsed

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