FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco Agrario de Colombia S.A.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb
Government Support Rating	bb+
Sovereign Risk	
Long-Term Foreign Currency IDR	BB+
Long-Term Local Currency IDR	BB+
Country Ceiling	BBB–

Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
Sovereign Long-Term Foreign Currency IDR	Stable
Sovereign Long-Term Local Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Colombian Banks: 1H22 Review & Update (July 2022)

Financial Data

Banco Agrario de Colombia S.A.

(COP Bil.)	6/30/22	12/31/21
Total Assets (USD Mil.)	8,160.4	8,037.9
Total Assets	33,681.7	32,133.1
Total Equity	2,108.5	2,468.4

Analysts

Aguilar, Ricardo
+52 81 4161 7086
ricardo.aguilar@fitchratings.com

Arteaga, Larisa
+57 601 241 3270
larisa.arteaga@fitchratings.com

Key Rating Drivers

Government Support Rating: Banco Agrario de Colombia S.A.'s (Agrario, or the bank) Issuer Default Ratings (IDRs) are driven by its Government Support Rating (GSR) of 'bb+', which reflects Fitch Ratings' assessment of the propensity and ability of support from the bank's sole shareholder, the Colombian government, if needed.

High Policy Role: Although the Colombian government does not explicitly guarantee Agrario's liabilities, its key policy role in the development of the agricultural sector results in an equalization of its GSR with the sovereign's LT IDR of 'BB+'. The GSR also reflects moderate probability of support being forthcoming because of uncertainties about the ability or propensity of Colombia due to its speculative-grade IDR, should it be needed.

Improved Asset Quality: The 90-day NPL ratio improved to 5.8% at 1H22 from 6.3% at YE21, reflecting better risk management and improved collection processes. Agrario's loan portfolio is supported by its sound loan loss allowances coverage of impaired loans of 133% at 1H22 and high collateralization levels. Fitch expects asset quality to remain stable and commensurate with the bank's business model and rating category due to the agricultural sector's sound performance, as it has been one of the less affected sectors amid the crisis.

Solid Profitability: Agrario's operating profit to risk-weighted assets (RWA) remains high at 8.3% at 1H22 (YE21: 8.9%). Solid profitability resulted from the significant decrease in loan impairment charges given the considerable amount of voluntary provisions created during 2020. This ratio also compares better than pre-pandemic levels due to the adoption of Basel 111 principles, which reduced the RWA density. Fitch expects profitability to remain sound in 2023, driven by stable asset quality and credit growth; however, it could slightly reduce due to higher provisioning needs.

Adequate Capitalization: Agrario's common equity Tier 1 (CET1) reduced to 15.0% at 1H22 from 19.4% at YE21, mainly reflecting cash dividend payment (90% of 2021 net income) and the increase of RWA. In 2021, the bank's capital ratio was strengthened following the adoption of Basel 111 guidelines. Despite the recent decrease at 1H22, this ratio is still sound. Fitch does not anticipate significant pressure on capitalization metrics in 2023 and believes capitalization will remain adequate, driven by moderate asset growth and stable earnings. In Fitch's opinion, Banagrario's capital position is commensurate with its rating level and risk exposure due to the Colombian government's support.

Sound Liquidity: Agrario's sound liquidity position is reflected in the loans-to-deposit ratio of 87.6% at 1H22, which has remained stable as core deposits grew by 5.7% during 2H22 and 6.5% in 2021. Historically, customer deposits have covered almost two-thirds of the bank's funding needs. Fitch expects liquidity to remain sound as the bank benefits from an ample and stable deposit base and access to local funds from other financial institutions.

Rating Sensitivities

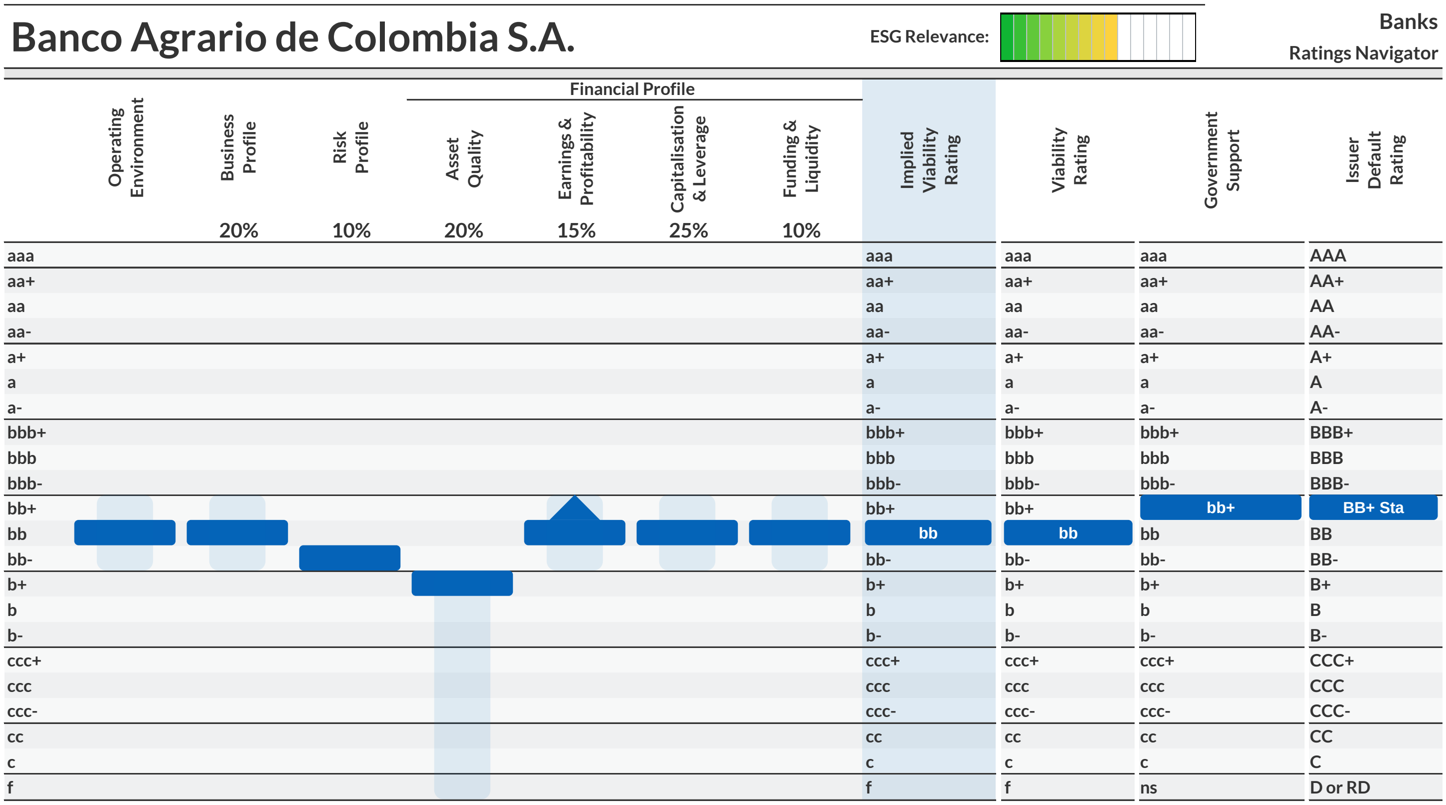
Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Agrario's GSR and ID Rs could be downgraded if the sovereign rating is downgraded;
- Agrario's GSR and ID Rs could be downgraded if Fitch perceives a decrease in the bank's policy role for the government, but this scenario is unlikely in the short and medium term;
- The VR could be downgraded if a significant deterioration of the asset quality and/or profitability results in a sustained decrease in the CET1 ratio below 12%.

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

- Agrario's GSR and ID Rs could be upgraded in the event of a similar action in Colombia's sovereign ratings, while Fitch continues to view as having a high policy role for the government;
- The VR could be upgraded by the confluence of improvements in the operating environment and asset quality that results in a profitability (operating profit to RWA) consistently above 4.75%.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Operating Environment

System Well Placed to Face Rising Inflation and Market Volatility

Colombian economy rapidly rebounded from the COVID-19 pandemic, supporting banking sector's high growth, adequate capitalization levels and lower NPLs during 2021. As of 1Q22, profitability ratios outpaced 2021 results, while asset quality and reserve coverage remain commensurate with most banks' credit risk profiles.

Fitch expects the performance of the banking system to moderate during the remaining 2022 as there are headwinds for GDP growth, persistently high inflation and market volatility as a result of the political transition to the new government of Gustavo Petro. However, the current system's metrics support banks' performance under increased macroeconomic risk, as improved margins, lower impairment charges and higher fee income will offset a slight deterioration in asset quality.

Fitch expects a potential deterioration in borrower repayment capacity to pressure asset quality by YE22. However, stronger capital buffers will offset the impact of higher inflation, interest rates and currency pressures in 2022, supporting current bank rating levels.

Business Profile

Agrario is 100% owned by the Colombian government through Grupo Financiero Bicentenario, the development financial institutions holding in Colombia. The bank's key policy role is to promote the consistent and sustainable development of the agricultural sector. The bank maintains a clear focus and a strong franchise in the small-and medium-sized agricultural producer markets. However, its overall market share in the Colombian banking system is moderate at about 4% of total loans and deposits at the end of June 2022. The bank's other key policy roles include the administration of several trusts for special purposes and the payment and distribution of government subsidies through its large branch network.

Agrario's strategy is consistent with its identity and corporate culture. The strategic plan seeks to maintain leadership in agricultural sector financing and be the most important bank for the rural customers. The bank also seeks to strengthen financial inclusion, promote the agricultural sector development, increase its commercial participation in areas where the private sector doesn't have a presence, strengthen digital banking, being profitable and maintain good asset quality, among others.

Agrario has implemented sector analysis strategies, following up on agricultural products' international prices and assessing the challenges of each particular sector. The bank is also focused on the sales force and collections strengthening, highlighting the sound results amid the crisis, from the involvement of the commercial areas in the collection process.

Risk Profile

The bank's focus on the riskier segment of small and medium-sized agricultural producers determines a higher risk profile for the loan portfolio compared to larger and more diversified commercial banks. Client's cash flows are highly sensitive to price changes, climate conditions and agricultural strikes. Consequently, the bank's NPLs and restructured loans rates are above market average due to the bank's business model; however, the microsegment portfolio NPL ratio compares better than the banking system average. Banagrario's loan portfolio is its primary source of credit risk, representing 49% of total assets at June 2022. The loan portfolio's high risk is mitigated by elevated collateralization. Fitch views this as a strong mitigating factor for the risk inherent to the agricultural segment.

Underwriting standards are based on integral knowledge of the client and the project to be financed, sectorial and product analysis, customer's ability to pay, historical payment behavior, projected cash flow, solvency, indebtedness, assets and equity quality. Moreover, specialized officers in the agricultural sector perform fieldwork, visit customers and actively collect. The bank has adequately segregated origination, approval and collections. Credit limits are set by local regulation and outlined in the internal credit policy approved by the board of directors.

The loan portfolio growth of 6% at 1H22 reflected the bank's strategy to help borrowers by offering financial facilities according to their specific needs and to use liquidity resulting from deposits growth of 5.7% at the end of June 2022. Fitch believes that a loan portfolio growth of around 10% at YE22 seems achievable, considering the business opportunities in the agricultural segment, which has proven to be resistant to the crisis compared with other sectors.

Summary Financials and Key Ratios

	Six Months 6/30/22		2021	2020	2019
(Years Ended Dec. 31)	USD Mil. Interim	COP Bil. Interim	COP Bil. Audited	COP Bil. Audited	COP Bil. Audited
Summary Income Statement					
Net Interest and Dividend Income	129	532.7	1,026.7	1,030.0	929.4
Net Fees and Commissions	27	109.8	245.1	199.5	246.1
Other Operating Income	125	514.0	717.2	591.7	663.2
Total Operating Income	280	1,156.5	1,989.0	1,821.2	1,838.7
Operating Costs	139	572.3	1,047.5	1,001.9	986.8
Pre-impairment Operating Profit	142	584.2	941.5	819.3	851.9
Loan and Other Impairment Charges	5	21.5	(173.2)	541.5	268.8
Operating Profit	136	562.7	1,114.7	277.8	583.1
Other Non-operating Items (Net)	3	14.3	27.9	5.4	(4.4)
Tax	52	215.8	363.7	102.1	191.3
Net Income	88	361.2	778.9	181.1	387.4
Other Comprehensive Income	N.A.	N.A.	(5.9)	4.1	(6.5)
Fitch Comprehensive Income	88	361.2	773.0	185.2	380.9
Summary Balance Sheet					
Assets					
Gross Loans	3,976	16,409.4	15,487.7	14,910.2	13,889.5
- Of Which Impaired	231	953.8	978.2	1,125.1	1,047.1
Loan Loss Allowances	307	1,268.2	1,312.2	1,641.7	1,305.5
Net Loans	3,668	15,141.2	14,175.5	13,268.5	12,584.0
Interbank	19	80.0	67.7	176.1	162.0
Derivatives	0	0.5	0.4	0.8	0.2
Other Securities and Earning Assets	3,764	15,537.6	15,419.2	11,881.6	10,516.8
Total Earning Assets	7,452	30,759.4	29,662.8	25,327.0	23,263.0
Cash and Due from Banks	367	1,514.1	1,471.1	1,380.2	1,335.4
Other Assets	341	1,408.2	999.2	1,026.5	944.0
Total Assets	8,160	33,681.7	32,133.1	27,733.7	25,542.4
Liabilities					
Customer Deposits	4,540	18,739.0	17,729.7	16,644.3	14,379.6
Interbank and Other Short-term Funding	2,731	11,271.7	11,118.7	111.8	1,908.1
Other Long-term Funding	N.A.	N.A.	N.A.	8,558.5	6,652.9
Trading Liabilities and Derivatives	0	1.7	0.3	0.1	0.1
Total Funding and Derivatives	7,271	30,012.4	28,848.7	25,314.7	22,940.7
Other Liabilities	378	1,560.8	816.0	583.9	651.8
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	511	2,108.5	2,468.4	1,835.1	1,949.9
Total Liabilities and Equity	8,160	33,681.7	32,133.1	27,733.7	25,542.4
Exchange Rate		USD1 = COP4,127.47	USD1 = COP3,997.71	USD1 = COP3,444.9	USD1 = COP3,294.05

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Banco Agrario de Colombia S.A.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	6/30/22	2021	2020	2019
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-weighted Assets	8.3	8.9	2.9	4.0
Net Interest Income/Average Earning Assets	3.5	3.7	4.2	4.1
Non-Interest Expense/Gross Revenue	49.5	52.7	55.0	53.7
Net Income/Average Equity	33.7	37.7	10.0	16.2
Asset Quality				
Impaired Loans Ratio	5.8	6.3	7.6	7.5
Growth In Gross Loans	6.0	3.9	7.4	7.3
Loan Loss Allowances/Impaired Loans	133.0	134.1	145.9	124.7
Loan Impairment Charges/Average Gross Loans	0.2	(1.3)	3.0	1.6
Capitalization				
Common Equity Tier 1 Ratio	15.0	19.4	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	15.5	19.7	18.7	13.5
Tangible Common Equity/Tangible Assets	6.3	7.7	6.6	7.6
Basel Leverage Ratio	5.8	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	0.0	(13.8)	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(14.9)	(13.6)	(28.3)	(13.3)
Funding and Liquidity				
Gross Loans/Customer Deposits	87.6	87.4	89.6	96.6
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-equity Funding	62.4	61.5	65.8	62.7
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Banco Agrario de Colombia S.A.

Key Financial Metrics — Latest Developments

Improved Asset Quality

The 90-day NPL ratio improved to 5.8% at 1H22 from 6.3% at YE21, reflecting better risk management and improved collection processes. Agrario's loan portfolio is supported by its sound loan loss allowances coverage of impaired loans of 133% at 1H22 and high collateralization levels. Fitch expects asset quality to remain stable and commensurate with the bank's business model and rating category due to the agricultural sector's sound performance, as it has been one of the less affected sectors amid the crisis.

Asset quality improvement is also reflected in the significant reduction of credit reliefs and restructured loans to 3.5% of total loans at YE22 (YE20: 5%), signaling that asset quality pressures are contained. Credit reliefs were granted in the agricultural and commercial segments which have the largest participation in the portfolio. Regarding the loan portfolio diversification by segment, as of 1H22, 46% was in commercial loans, followed by microcredit (46%) and consumer (8%).

The investment portfolio is concentrated in held to maturity, fixed rate sovereign securities. In Fitch's view investment policies maintain an adequate risk profile.

Solid Profitability

Agrario's operating profit to RWA remains high at 8.3% at 1H22 (YE21: 8.9%). Solid profitability resulted from the significant decrease in loan impairment charges given the considerable amount of voluntary provisions created during 2020. This ratio also compares better than pre-pandemic levels due to the adoption of Basel 111 principles, which reduced the RWA density. Fitch expects profitability to remain sound in 2023, driven by stable asset quality and credit growth; however, it could slightly reduce due to higher provisioning needs.

The low net interest margin (NIM) compared to the banking system average results from the high proportion of assets allocated in debt instruments issued by the government. Agrario's NIM reduction is explained by higher funding cost and slow upward adjustment of assets interest rates. The contribution of non-interest income as a proportion of gross revenues remains high, reflecting the higher net gains from held to maturity instruments.

Impairment charges were low, reflecting the better than expected improvement of the loan portfolio and the sound reserve cushion created in 2020 to address the pandemic's impact. Efficiency is sound considering the high need of resources required to attend the agricultural segment.

Adequate Capitalization

Agrario's common equity Tier 1 (CET1) reduced to 15.0% at 1H22 from 19.4% at YE21, mainly reflecting cash dividend payment (90% of 2021 net income) and the increase of RWA. In 2021, the bank's capital ratio was strengthened following the adoption of Basel 111 guidelines. Despite the recent decrease at 1H22, this ratio is still sound. Fitch does not anticipate significant pressure on capitalization metrics in 2023 and believes capitalization will remain adequate, driven by moderate asset growth and stable earnings. In Fitch's opinion, Banagrario's capital position is commensurate with its rating level and risk exposure due to the Colombian government's support. Furthermore, it is sufficient to maintain assets growth, which is projected to be moderate in 2022.

Agrario has distributed cash dividends for an average of 94% of net income over the past 10 years. In 2022, the bank recapitalized 10% of the 2021 net income, which was similar to the historical average, reflecting the guidelines of its sole shareholder, the Colombian government.

Sound Liquidity

Agrario's sound liquidity position is reflected in the loans-to-deposit ratio of 87.6% at 1H22, which has remained stable as core deposits grew by 5.7% during 2H22 and 6.5% in 2021. Historically, customer deposits have covered almost two-thirds of the bank's funding needs. Fitch expects liquidity to remain sound as the bank benefits from an ample and stable deposit base and access to local funds from other financial institutions.

Banagrario's funding structure is diversified among customer deposits and financial resources from state agencies or government funds, mainly Findeter and Fondo para el Financiamiento del Sector Agropecuario (FINAGRO). This funding structure allows the bank to maintain funding costs below the banking system. Funding from FINAGRO also provides a proper matching of maturities with the agricultural loan portfolio.

Government Support

Policy Role and Status	
Ownership	Equalized
Policy role	Equalized
Guarantees and legal status	No Impact

Fitch has withdrawn Agrario's Support Rating of '3' and Support Rating Floor of 'BB+' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned a 'bb+' rating for Agrario's GSR.

Agrario's IDRs are driven by its GSR of 'bb+', which reflects Fitch's assessment of the propensity and ability of support from the bank's sole shareholder, the Colombian government, if needed.

Environmental, Social and Governance Considerations

FitchRatings

Banco Agrario de Colombia S.A.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Agrario de Colombia S.A. has 7 ESG potential rating drivers

- Banco Agrario de Colombia S.A. has exposure to impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations but this has very low impact on the rating.
- Banco Agrario de Colombia S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Banco Agrario de Colombia S.A. has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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

DISCLAIMER & DISCLOSURES