FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco Agrario de Colombia S.A.

Key Rating Drivers

Support Driven: Banco Agrario de Colombia S.A.'s Issuer Default Ratings (IDRs) reflect Fitch Ratings' expectations of support from the bank's sole shareholder, the Colombian government (BB+/Stable), should it be needed. The Stable Outlook on Agrario's IDRs mirrors Colombia's sovereign Outlook. Although the bank's ratings are based purely on Fitch's assessment of expected government support, the financial profile is relevant to the agency's appreciation of support propensity.

Operating Environment's High Influence: Colombia's sovereign rating and broader operating environment (OE) considerations highly influence Agrario's Viability Rating. The OE assessment for Colombian financial institutions (FIs) is Stable, as Fitch expects any additional fallout from the pandemic to be manageable for Colombian FIs and Agrario at their current rating levels.

Concentrated Business Model: Agrario's ratings also are highly influenced by its business model, which is concentrated, as its 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.

Improved Profitability: The operating profit-to-risk-weighted asset (RWA) ratio improved to 8.8% at 1H21 from 2.9% at YE 2020. This ratio benefits from the significant proportion of income from the valuation of instruments held to maturity and from the zero-risk weighting received by the large public sector investment portfolio.

The operating profit-to-average total assets ratio improved to 2.9% at 1H21 from 1.0% at YE 2020. The improvement in profitability results from lower credit costs compared with 2020, when the bank anticipated potential deterioration and adopted a conservative approach in terms of provisioning. Fitch expects stable profitability in 2021, as loan impairment charges will be lower.

Stable Asset Quality: The 90-day NPL ratio decreased to 6.8% at June 30, 2021 from 7.6% at YE 2020, reflecting better delinquency levels across all segments due to better risk management and an improved collection process. Loan loss allowance coverage of NPLs is 154.7%, which is adequate and protects the bank amid the current OE. Fitch expects the bank's asset quality to remain stable and commensurate with its rating category due to the agricultural sector's sound performance, as it has been less affected amid the crisis.

Adequate Capitalization: Agrario's Fitch Core Capital/RWA improved to 20.5% at 1H21 from 18.7% at YE 2020 as RWA density decreased with the early adoption of Basel III regulation. Fitch prefers to use the tangible common equity to tangible assets ratio for comparison purposes among peers in light of Agrario's high exposure to the public sector, which receives zero-risk weighting. This ratio was 6.3% at 1H21, lagging the banking system average of 13.2%.

In Fitch's opinion, Agrario's capital position is of moderate importance for the bank's ratings and is commensurate with its rating level and risk exposure despite comparing unfavorably with its rating category benchmarks, due to the Colombian government's support.

Sound Liquidity: Agrario's liquidity is sound and has strengthened as core deposits grew 9.2% at 1H21 from 15.8% at YE 2020. Accordingly, the loan to deposit ratio improved to 82.4% at June 30, 2021 from 89.6% at YE 2020. Liquidity was aided by measures implemented by monetary authorities to provide funds to the banking system amid the crisis.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb
Support Rating	3
Support Rating Floor	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 (February 2020)

Related Research

Fitch Takes Actions on Colombian and Central American FIs Following Colombia's Sovereign Downgrade (July 2021)

Financial Data

Banco Agrario de Colombia S.A.

(COP Bil.)	6/30/21	12/31/20
Total Assets (USD Mil.)	8,347.0	8,050.7
Total Assets	31,356.8	27,733.7
Total Equity	1,984.5	1,835.1

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Rating Sensitivities

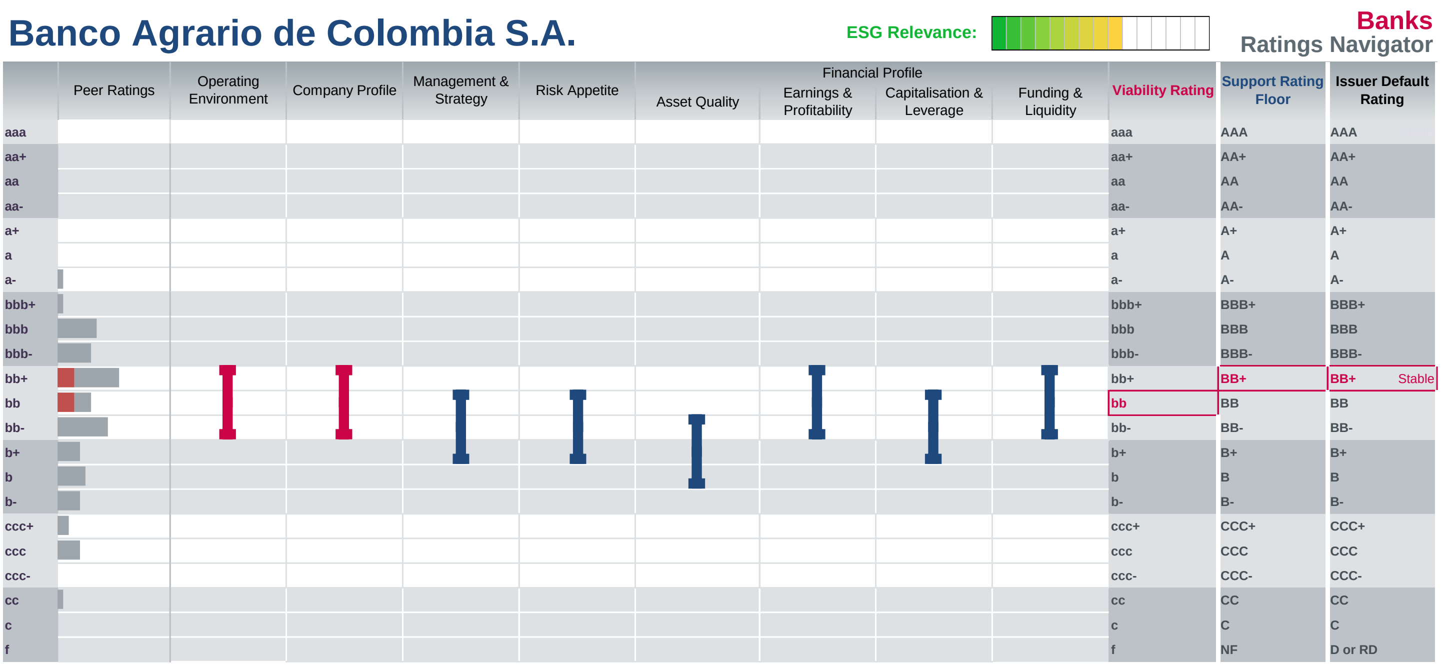
Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Given the limitations of the OE, an upgrade is unlikely in the medium term;
- As a development bank owned by the state, Agrario's creditworthiness and ratings are directly linked to those of the sovereign. Its ratings and Outlook will therefore move in line with any potential change in Colombia's ratings.

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

- As a development bank owned by the state, Agrario's creditworthiness and ratings are directly linked to those of the sovereign. Its ratings and Outlook will therefore move in line with any potential change in Colombia's ratings;
- Fitch will monitor any change in the government's support propensity, and particularly the potential impact on Agrario's ratings after the holding company legal framework is defined;
- Although not a baseline scenario, Agrario's ratings could change if Fitch perceives a decline in the bank's strategic importance to the government's public policies.

Ratings Navigator



Significant Changes in the Operating Environment

Fitch downgraded Colombia's sovereign rating to 'BB+'/Stable from 'BBB–'/Negative on July 1, 2021. Colombia's ability to support Agrario is reflected in its sovereign rating, given its policy role and high strategic importance to the government. Therefore, its ratings have been aligned to the sovereign's. Fitch has adjusted the OE assessment for Colombian FIs to 'bb'/Stable from 'bb+'/Negative. The stabilization of the OE trend indicates that Fitch expects any additional fallout from the pandemic to be manageable for Colombian FIs at their current rating levels.

A more benign macroeconomic environment supported Colombian banks' recovery in 2Q21. Financial pressures from the pandemic remain manageable, with loan impairment charges to preimpairment operating profit significantly declining to 58.4% from 79.8% at YE 2020 amid a moderate resumption of loan growth, still-low interest rates, low employment gains and relief programs. However, pressures on credit costs could rise as the second wave of the relief programs ended in August 2021 amid political turmoil and social unrest.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
Higher influence
Moderate influence
Lower influence
Bar Arrows – Rating Factor Outlook

⇧ Positive	⇩ Negative
⇳ Evolving	▫ Stable

Company Summary

Company Profile

Agrario is 100% owned by the Colombian government through Grupo Financiero Bicentenario, the development financial institution's 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 as of June 30, 2021. 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 has a less diverse business model than the largest Colombian banks; it is focused on agricultural and traditional commercial lending. As of June 30, 2021, the loan portfolio accounted for 48% of total assets, while the investment portfolio accounted for 45% of total assets and was mainly represented by held-to-maturity instruments issued by the government. Net interest income accounted for 51% of total net operating revenues on average over the past four years. Other relevant sources of income for the bank are revenues from the valuation of its held-to-maturity portfolio, fees and commissions for trust fund administration, and the distribution of government subsidies.

The bank is mainly retail funded, with a stable and diversified deposit base. Judiciary deposits are an important, growing and stable source of funding, at 31.7% of total deposits as of June 30, 2021, as Agrario is the only authorized bank for collecting these deposits.

Management and Strategy

Agrario's management team is solid; most senior managers have a long experience in the private banking sector. The corporate governance framework is effective and complies with banking system guidelines. However, similar to other state-owned entities in the region, the bank is not isolated from the risks of political interference in its operations, as it has a key role in executing government objectives for the agricultural segment.

Agrario's strategy is consistent with its identity and corporate culture. The bank's strategic plan is to maintain its leadership in agricultural sector financing and be the most significant bank for rural customers. It also seeks to contribute to the development of the agricultural sector, which is part of its policy role. Agrario implemented sector analysis strategies, following international prices for agricultural products and assessing the challenges of each sector. The bank is also focused on its sales force and strengthening collections, highlighting sound results amid the crisis by involving commercial areas in the collection process.

Risk Appetite

The bank's focus on the higher-risk segment of small- and medium-sized agricultural producers determines a higher risk profile for its loan portfolio compared with larger and more diversified commercial banks. Its clients' cash flows are highly sensitive to price changes, climate conditions and agricultural strikes. Consequently, the bank's NPLs and restructured loan rates are above market averages. However, the loan portfolio's higher risk is mitigated by elevated collateralization. Fitch views this as a strong mitigating factor for the risk inherent to the agricultural segment.

Agrario's balance sheet growth of 13% in 1H21 reflected its ample liquidity from deposit growth of 9.2%, as well as from the liquidity provided by the monetary authorities to the banking system. The bank's loan portfolio expanded by 0.5% in 1H21, reflecting low demand amid political protests during the year's first half. According to management estimates, loan portfolio growth will be moderate, at roughly 4%, at YE 2021, benefitting from sound liquidity and business opportunities in the agricultural segment, which has proven to be resistant to the crisis compared with other sectors.

Summary Financials

	Six Months — Interim 6/30/21		2020	2019	2018
(Years Ended Dec. 31)	(USD Mil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)	(COP Bil.)
Summary Income Statement					
Net interest and Dividend Income	138	518.6	1,030.0	929.4	906.7
Net Fees and Commissions	28	105.7	199.5	246.1	201.3
Other Operating Income	85	319.3	591.7	663.2	634.2
Total Operating Income	251	943.6	1,821.2	1,838.7	1,742.2
Operating Costs	132	497.0	1,001.9	986.8	1,049.5
Preimpairment Operating Profit	119	446.6	819.3	851.9	692.7
Loan and Other Impairment Charges	7	25.3	541.5	268.8	314.2
Operating Profit	112	421.3	277.8	583.1	378.5
Other Non-Operating Items (Net)	3	10.9	5.4	(4.4)	14.2
Tax	35	129.8	102.1	191.3	146.6
Net Income	80	302.4	181.1	387.4	246.1
Other Comprehensive Income	N.A.	N.A.	4.1	(6.5)	8.5
Fitch Comprehensive Income	80	302.4	185.2	380.9	254.6
Summary Balance Sheet					
Assets					
Gross Loans	3,987	14,977.8	14,910.2	13,889.5	12,942.3
– of Which Impaired	273	1,025.0	1,125.1	1,047.1	990.2
Loan Loss Allowances	422	1,585.5	1,641.7	1,305.5	1,281.8
Net Loans	3,565	13,392.3	13,268.5	12,584.0	11,660.5
Interbank	49	183.1	176.1	162.0	246.6
Derivatives	0	0.3	0.8	0.2	0.1
Other Securities and Earning Assets	4,081	15,329.9	11,881.6	10,516.8	9,786.0
Total Earning Assets	7,694	28,905.6	25,327.0	23,263.0	21,693.2
Cash and Due from Banks	379	1,424.1	1,380.2	1,335.4	1,582.0
Other Assets	273	1,027.1	1,026.5	944.0	847.5
Total Assets	8,347	31,356.8	27,733.7	25,542.4	24,122.7
Liabilities					
Customer Deposits	4,840	18,182.4	16,644.3	14,379.6	13,866.9
Interbank and Other Short-Term Funding	380	1,429.3	111.8	1,908.1	790.7
Other Long-Term Funding	2,413	9,064.3	8,558.5	6,652.9	6,432.1
Trading Liabilities and Derivatives	0	0.7	0.1	0.1	0.0
Total Funding	7,634	28,676.7	25,314.7	22,940.7	21,089.7
Other Liabilities	185	695.6	583.9	651.8	518.0
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	528	1,984.5	1,835.1	1,949.9	2,515.0
Total Liabilities and Equity	8,347	31,356.8	27,733.7	25,542.4	24,122.7
Exchange Rate		USD1 = COP3,756.67	USD1 = COP3,444.9	USD1 = COP3294.05	USD1 = COP3,275.01

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

Key Ratios

(%, Years Ended Dec. 31)	6/30/21	2020	2019	2018
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	8.8	2.9	4.0	2.8
Net Interest Income/Average Earning Assets	3.9	4.2	4.1	4.2
Non-Interest Expense/Gross Revenue	52.7	55.0	53.7	60.2
Net Income/Average Equity	32.4	10.0	16.2	9.9
Asset Quality				
Impaired Loans Ratio	6.8	7.6	7.5	7.7
Growth in Gross Loans	0.5	7.4	7.3	0.1
Loan Loss Allowances/Impaired Loans	154.7	145.9	124.7	129.5
Loan Impairment Charges/Average Gross Loans	0.1	3.0	1.6	1.9
Capitalization				
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	20.5	18.7	13.5	18.4
Tangible Common Equity/Tangible Assets	6.3	6.6	7.6	10.4
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(28.4)	(28.3)	(13.3)	(11.7)
Funding and Liquidity				
Loans/Customer Deposits	82.4	89.6	96.6	93.3
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	63.4	65.8	62.7	65.8
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

Stable Asset Quality

The 90-day NPL ratio decreased to 6.8% at June 30, 2021 from 7.6% at YE 2020, reflecting better delinquency levels across all segments due to better risk management and improved collection processes. Fitch expects asset quality to remain stable and commensurate with the bank's rating category due to the agricultural sector's sound performance, as it has been one of the less affected sectors amid the crisis.

Loan loss allowances for impaired loans improved to 154.7% at June 30, 2021 from 145.9% at YE 2020, reflecting voluntary provisioning. Fitch deems this coverage as adequate, as it protects the bank amid the current OE. Chargeoffs are low at 1.1%, and restructured loans decreased to 4.5% of total loans at 1H21 from 4.8% at YE 2020.

Improved Profitability

The operating profit-to-RWA ratio improved to 8.8% at 1H21 from 2.9% at YE 2020. This profitability ratio benefits from the significant proportion of income from the valuation of held-to-maturity instruments and from the zero-risk weighting received by the large public sector investment portfolio. Both compensate for the low net interest margin resulting from the high proportion of assets allocated in debt instruments issued by the government. These assets contribute to income diversification and profit stability.

The operating profit-to-average total assets ratio improved to 2.9% at 1H21 from 1.0% at YE 2020. The profitability improvement is from lower credit costs compared with 2020, when the bank anticipated potential deterioration and adopted a conservative approach to provisioning. Fitch expects profitability to remain stable in 2021, as loan impairment charges will be lower.

Efficiency is sound considering the high need of resources required to attend the agricultural segment. The bank aims to structurally contain operating expenses, although this will not be enough to underpin a significant increase in earnings. The non-interest expense-to-gross revenue ratio was 52.7% at 1H21, compared with 55% at YE 2020.

Adequate Capitalization

Agrario's Fitch Core Capital-to-RWA ratio improved to 20.5% at 1H21 from 18.7% at YE 2020 as RWA density decreased with the early adoption of Basel III regulation. In light of Agrario's high exposure to the public sector, which receives zero-risk weighting, Fitch prefers to use the tangible common equity-to-tangible assets ratio for comparison purposes among peers. This ratio stood at 6.3% at 1H21, lagging the banking system average of 13.2%. Agrario's capital position is of moderate importance for the bank's ratings and is commensurate with its rating level and risk exposure, despite comparing unfavorably with its rating category benchmarks, due to the Colombian government's support.

In Fitch's opinion, Agrario's capitalization is sufficient to maintain asset growth, which is projected to be moderate in 2021. Capitalization is supported by sound profitability and historically moderate dividend payments.

Sound Liquidity

Agrario's liquidity position is sound and has strengthened, as core deposits grew 9.2% at 1H21 from 15.8% at YE 2020. Accordingly, the loan to deposit ratio improved to 82.4% at June 30, 2021 from 89.6% at YE 2020. Liquidity was aided by the measures implemented by the monetary authorities to provide funds to the banking system amid the crisis.

Agrario's funding structure is diversified among customer deposits and financial resources from state agencies or government funds, mainly 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 allows the proper matching of maturities with the agricultural loan portfolio.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BB+ or BB
Actual country D-SIB SRF			BB+
Support Rating Floor:			**BB+**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy	✓		
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank	✓		
Ownership	✓		
Specifics of bank failure		✓	
Policy banks			
Policy role	✓		
Funding guarantees and legal status			✓
Government ownership	✓		

Support Rating and Support Rating Floor

Even though the Colombian government does not explicitly guarantee Agrario's liabilities, its key role in the development of the government's agricultural policy results in an equalization of its Support Rating Floor with the sovereign's Long-Term IDR of 'BB+'. Fitch also believes the government's willingness to support Agrario as needed is strong, given its substantial stake in the bank. The ability of support is reflected in the Republic of Colombia's ratings and underpins the bank's Support Rating of '3'.

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	Company Profile; Management & Strategy; Risk Appetite; 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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	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.

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.

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