FitchRatings

Banks
Universal Commercial Banks
Colombia

Banco Agrario de Colombia S.A.

Key Rating Drivers

IDR, GSR and VR

Support Driven IDRs: Banco Agrario de Colombia's IDRs are driven by its Government Support Rating (GSR) of 'bb+', which reflects Fitch's assessment of the propensity and ability of support from the bank's sole shareholder, the Colombian government (BB+/Stable), if needed. The Stable Outlook on Agrario's IDRs mirrors the Outlook on Colombia's IDRs. The bank's assigned Viability Rating (VR) is in line with its implied VR based on its business, risk and financial profile.

Important Policy Role: The Colombian government does not explicitly guarantee Agrario's liabilities, nevertheless, 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 a 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.

Deteriorated Asset Quality: The 90-day NPL ratio deteriorated to 6.9% at 1H23, from 6.0% at YE 2022, reflecting the bank's microcredit exposure and weaker borrower payment capacity in an unfavorable operating environment. Agrario's loan portfolio is supported by its adequate loan loss allowances coverage of impaired loans of 124.9% at 1H23. Fitch expects asset quality to deteriorate further due to the effect of expected climate events like El Niño weather pattern on the agricultural segment and decelerating economic growth.

Solid Profitability: Agrario's operating profit to risk-weighted assets (RWA) ratio remains high at 7.8% at 1H23 (YE 2022: 7.9%). Solid profitability benefited from the higher interest income on loans a result of interest rate hikes, which compensated for the significant increase in loan impairment charges related to asset quality deterioration and funding costs. This ratio also compares favorably to the banking system level due to the bank's low risk-weighted assets density. Fitch expects profitability to decline slightly in 2023 due to higher credit costs but to remain solid and commensurate to its rating category.

Adequate Capitalization: Agrario's common equity Tier 1 (CET1) ratio declined to 16.2% at 1H23 from 17.0% at YE 2022, mainly reflecting the increase in RWA. 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, Agrario'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 its loans-to-deposit ratio of 93.9% at 1H23, which has improved as core deposits grew by 9.5% during 1H23 and 3.4% in 2022. 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.

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 (Colombia)	
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 2023)

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Rating Sensitivities

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

Agrario's GSR and IDRs could be downgraded if the sovereign rating is downgraded;

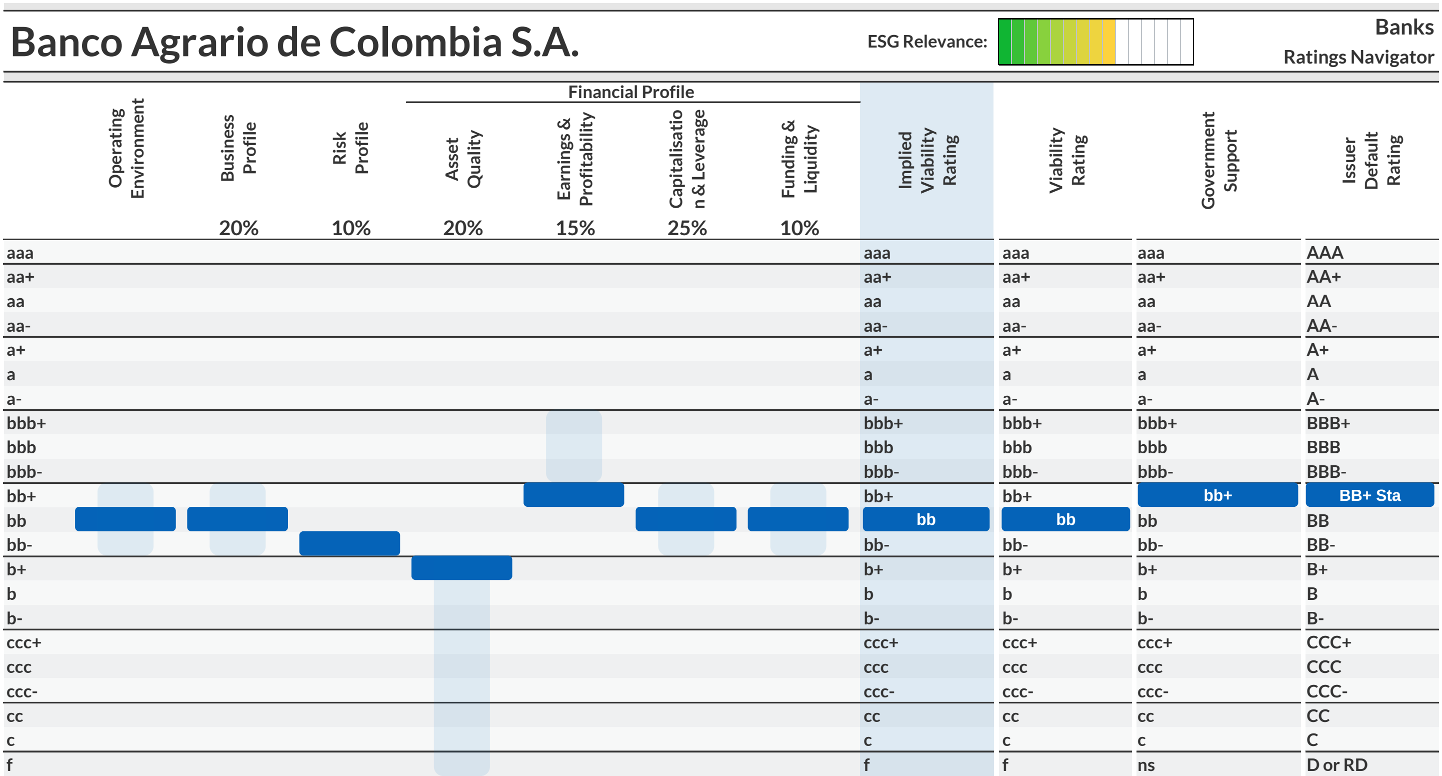
- Agrario's GSR and IDRs could be downgraded if Fitch perceives a decrease in the bank's policy role for the government, but this scenario is unlikely over the medium term;
- The VR could be downgraded if a significant deterioration of the bank's asset quality and/or profitability ratios result in a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

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

- Agrario's GSR and IDRs could be upgraded in the event of a similar action in Colombia's sovereign ratings, absent any change in Fitch's view of the government's propensity to provide support to this bank;
- The VR could be upgraded by the confluence of improvements in the operating environment and asset quality that results in an operating profit to RWA ratio consistently above 4.75%.

Other Debt and Issuer Ratings

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.

VR - Adjustments to Key Rating Drivers

Fitch has assigned an Earnings and Profitability score of 'bb+' that is below the 'bbb' category implied score due to the following adjustment reason: Earnings stability (negative).

Company Summary and Key Qualitative Factors

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 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 2.9% of total loans and 1.92% of deposits at the end of June 2023.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.

The bank has a less diverse business model than the largest Colombian banks; it's focused on agricultural and traditional commercial lending. As of June 2023, the loan portfolio accounted for 52.7% of total assets, while the investment portfolio accounted for 39.4% of total assets. Other relevant sources of income for the bank are net gains from the valuation of held to maturity portfolio; as well as fees and commissions.

The bank is mainly retail funded, with a stable and diversified deposit base. Judiciary deposits are an important, growing and stable source of funding (26% of liabilities as of June 2023), as Agrario is the only authorized bank for collecting these deposits.

Agrario's organizational structure is simple and doesn't affect the ratings.

Risk Profile

Underwriting Standards

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. 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.

Risk Controls

The high risk of the loan portfolio is mitigated by the important level of tangible collateralization. For small and medium-sized producers, a special guarantee is provided by the government through a guarantee fund (coverage range of 50% to 100%). Fitch views this as a strong mitigating factor for the risk inherent to the agricultural segment. The residential mortgage portfolio is also well collateralized. The diversification guidelines, by geography, product and stage of production also contribute to mitigate credit risk.

Growth

The loan portfolio growth of 6.5% at 1H23 was higher than the banking system loan growth. It 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.

Financial Profile

Asset Quality

The 90-day NPL ratio deteriorated to 6.9% at 1H23, from 6.0% at YE 2022, reflecting the bank's microcredit exposure and weaker borrower payment capacity in an unfavorable operating environment. Agrario's loan portfolio is supported by its adequate loan loss allowances coverage of impaired loans of 124.9% at 1H23. Fitch expects asset quality to deteriorate further due to the effect of expected climate events like El Niño weather pattern on the agricultural segment and decelerating economic growth.

Restructured loans are stable at 3.0% of total loans at 1H23 (YE22: 3.1%). Obligor concentrations are moderate; as of June 2023, the 20 largest credit exposures by economic group accounted for 5% of total loans, equivalent to 0.4x of the bank's total equity.

The investment portfolio is concentrated in held to maturity fixed rate and available for sale sovereign securities. In Fitch's view investment policies maintain an adequate risk profile. The term structure of the loan portfolio is well distributed and the average duration is 3.5 years.

Earnings and Profitability

Agrario's operating profit to risk-weighted assets (RWA) ratio remains high at 7.8% at 1H23 (YE 2022: 7.9%). Solid profitability benefited from the higher interest income on loans a result of interest rate hikes, which compensated for the significant increase in loan impairment charges related to asset quality deterioration and funding costs. This ratio also compares favorably to the banking system level due to the bank's low risk-weighted assets density. Fitch expects profitability to decline slightly in 2023 due to higher credit costs, but to remain solid and commensurate to its rating category.

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 remained stable, reflecting the bank's adequate asset and liability management in higher interest rate environment. The contribution of non-interest income as a proportion of gross revenues remains high and improved, reflecting the higher net gains from available for sale and held to maturity instruments.

Impairment charges increased, reflecting the deterioration of the loan portfolio. Efficiency is sound considering the high need of resources required to attend the agricultural segment.

Capital and Leverage

Agrario's common equity Tier 1 (CET1) ratio declined to 16.2% at 1H23 from 17.0% at YE 2022, mainly reflecting the increase in RWA. 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, Agrario's capital position is commensurate with its rating level and risk exposure due to the Colombian government's support.

Agrario has distributed cash dividends for an average of 82% of net income over the last ten years. In 2023, the bank recapitalized 15% of the 2022 net income, which was similar to the historical average, reflecting the guidelines of its sole shareholder, the Colombian government.

In Fitch's opinion, Banagrario's capitalization is sufficient to maintain assets growth, which is projected to be moderate in 2023. Capitalization is supported by sound profitability despite non-conservative dividend payments.

Funding and Liquidity

Agrario's sound liquidity position is reflected in its loans-to-deposit ratio of 93.9% at 1H23, which has improved as core deposits grew by 9.5% during 1H23 and 3.4% in 2022. 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.

Agrario's funding structure is diversified among costumer deposits, including judicial deposits (26% of total liabilities) 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.

Financials

	2Q23 USD Mil. Interim	2Q23 COP Bil. Interim	YE22 COP Bil. Audited	YE21 COP Bil. Audited	YE20 COP Bil. Audited
Summary income statement					
Net interest and dividend income	135	565.3	1,128.8	1,026.7	1,030.0
Net fees and commissions	27	113.5	230.6	245.1	199.5
Other operating income	202	847.8	1,144.7	717.2	591.7
Total operating income	364	1,526.6	2,504.1	1,989.0	1,821.2
Operating costs	155	647.9	1,192.2	1,047.5	1,001.9
Pre-impairment operating profit	210	878.6	1,311.9	941.5	819.3
Loan and other impairment charges	72	302.7	241.7	-173.2	541.5
Operating profit	137	575.9	1,070.2	1,114.7	277.8
Other non-operating items (net)	1	5.3	29.0	27.9	5.4
Tax	55	230.7	427.4	363.7	102.1
Net income	84	350.5	671.8	778.9	181.1
Other comprehensive income	—	—	9.3	-5.9	4.1
Fitch comprehensive income	84	350.5	681.0	773.0	185.2
Summary balance sheet					
Assets					
Gross loans	4,495	18,841.4	17,694.6	15,487.7	14,910.2
- Of which impaired	310	1,298.0	1,060.9	978.2	1,125.1
Loan loss allowances	387	1,622.1	1,409.3	1,312.2	1,641.7
Net loans	4,108	17,219.4	16,285.3	14,175.5	13,268.5
Interbank	38	160.1	80.1	67.7	176.1
Derivatives	0	1.3	0.4	0.4	0.8
Other securities and earning assets	3,549	14,873.1	14,672.9	15,419.2	11,881.6
Total earning assets	7,695	32,253.8	31,038.7	29,662.8	25,327.0
Cash and due from banks	370	1,548.9	1,429.7	1,471.1	1,380.2
Other assets	461	1,931.5	1,464.7	999.2	1,026.5
Total assets	8,526	35,734.3	33,933.0	32,133.1	27,733.7
Liabilities					
Customer deposits	4,788	20,068.7	18,329.6	17,729.7	16,644.3
Interbank and other short-term funding	2,915	12,219.6	12,111.4	11,118.7	111.8
Other long-term funding	—	—	—	—	8,558.5
Trading liabilities and derivatives	0	1.9	2.2	0.3	0.1
Total funding and derivatives	7,704	32,290.2	30,443.2	28,848.7	25,314.7
Other liabilities	212	889.8	1,062.2	816.0	583.9
Preference shares and hybrid capital	—	—	—	—	—
Total equity	609	2,554.2	2,427.6	2,468.4	1,835.1
Total liabilities and equity	8,526	35,734.3	33,933.0	32,133.1	27,733.7
Exchange rate		USD1 = COP4,191.28	USD1 = COP4,810.2	USD1 = COP3,997.71	USD1 = COP3,444.9

Source: Fitch Ratings, Fitch Solutions, Agrario

	2Q23	YE22	YE21	YE20
Ratios (annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	7.8	7.9	8.9	2.9
Net interest income/average earning assets	3.6	3.7	3.7	4.2
Non-interest expense/gross revenue	42.4	47.6	52.7	55.0
Net income/average equity	28.9	30.0	37.7	10.0
Asset quality				
Impaired loans ratio	6.9	6.0	6.3	7.6
Growth in gross loans	6.5	14.3	3.9	7.4
Loan loss allowances/impaired loans	125.0	132.8	134.1	145.9
Loan impairment charges/average gross loans	2.8	1.2	-1.3	3.0
Capitalization				
Common equity Tier 1 ratio	16.2	17.0	19.4	—
Fully loaded common equity Tier 1 ratio	—	—	—	—
Fitch Core Capital ratio	—	—	19.7	18.7
Tangible common equity/tangible assets	7.1	7.1	7.7	6.6
Basel leverage ratio	6.6	6.5	—	—
Net impaired loans/common equity Tier 1	-13.4	-15.0	-13.8	—
Net impaired loans/Fitch Core Capital	—	—	-13.6	-28.3
Funding and liquidity				
Gross loans/customer deposits	93.9	96.5	87.4	89.6
Gross loans/customer deposits + covered bonds	—	—	—	—
Liquidity coverage ratio	—	—	—	—
Customer deposits/total non-equity funding	62.2	60.2	61.5	65.8
Net stable funding ratio	—	—	—	—

Source: Fitch Ratings, Fitch Solutions, Agrario

Support Assessment

Policy Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bb+ or bb
Actual jurisdiction D-SIB GSR	bb+
Government Support Rating	bb+
Government ability to support D-SIBs	
Sovereign Rating	BB+/ Stable
Sovereign financial flexibility (for rating level)	
Government propensity to support D-SIBs	
Resolution legislation	
Support stance	
Government propensity to support bank	
Systemic importance	
Liability structure	
Ownership	
Policy role and status	
Ownership	Equalised
Policy role	Equalised
Guarantees and legal status	No Impact

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Agrario's IDRs are driven by its Government Support Rating (GSR) of 'bb+', which reflects Fitch's assessment of the propensity and ability of support from the bank's sole shareholder, the Colombian government (BB+/Stable), 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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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