

CREDIT OPINION

27 December 2023

New Issue

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RATINGS

Itau Colombia S.A.

Domicile	Colombia
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Not Assigned

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Itau Colombia S.A.

New issuer

Summary

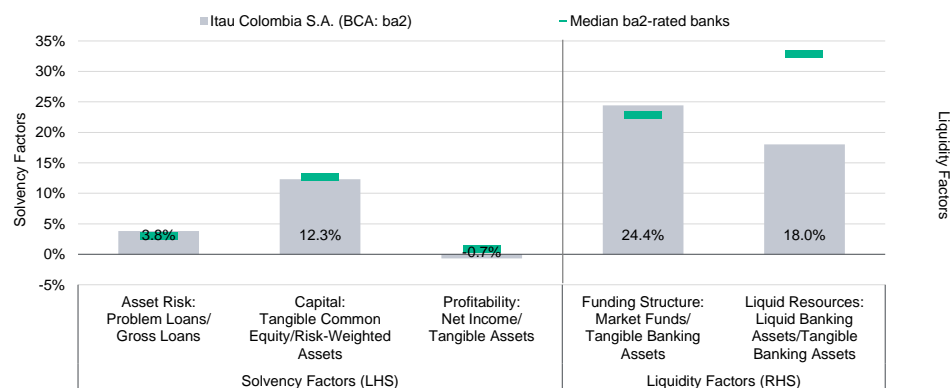
Moody's assigns a baseline credit assessment (BCA) of ba2 to [Itau Colombia S.A.](#) (Itau Colombia) that reflects the bank's adequate capitalization and asset quality metrics, which have performed better than those of other large Colombian banks in the past three years. Itau Colombia has conservative risk management and business guidelines in place that are in line with the robust risk culture of the Itau group. These strengths, however, are counterbalanced by Itau Colombia's modest profitability, which reflects the bank's focus on expanding its retail banking operation amid highly competitive market conditions.

Moody's also assigns local and foreign currency deposit ratings of Baa3 and Prime-3, long- and short-term, respectively to Itau Colombia. The ratings incorporate the BCA of ba2 and Moody's assessment of very high affiliate support from [Banco Itau Chile](#) (A3 stable, baa2).

Exhibit 1

As of September 2023

Scorecard ratios



For the problem loan and profitability ratios, we review the latest three year-end figures as well as the most recent intra-year ratio, where applicable, and base our starting point on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.

Source: Moody's Financial Metrics

Credit strengths

- » Track record of low asset quality metrics, reflecting large share of corporate loans and conservative risk management policies
- » Volume of liquid assets has remained consistently adequate in recent years
- » Capital metrics are better positioned than most of its peer Colombian banks

Credit challenges

- » Execution risks associated with current strategy to grow retail operations
- » Profitability remains pressured by high interest rates in Colombia, with a negative effect on funding costs, and by high credit costs

Rating outlook

The stable outlook on the long-term deposit ratings reflects Moody's expectation that the bank's solvency and liquidity will remain broadly stable over the next 12 to 18 months.

Factors that could lead to an upgrade

- » Itau Colombia's BCA could be upgraded if the bank reports material and consistent improvement in the origination of recurring earnings, while also strengthening its capital position.
- » The ba2 BCA could also face upward pressure if the bank reports good asset quality metrics in the next 12 to 18 months, while it demonstrates its capacity to diversify lending operations by growing into the competitive retail lending segment.
- » A one-notch upgrade of Itau Colombia's BCA would also result in a one-notch upgrade in the bank's deposit ratings, reflecting Moody's assessment of very high affiliate support.

Factors that could lead to a downgrade

- » Downward pressure to Itau Colombia's BCA could arise if the bank's profitability and capital metrics weaken materially in the next 18 months.
- » The BCA could also be lowered if the bank's asset quality metrics deteriorate in the same period.
- » Because of the very high probability of affiliate support, a one-notch downgrade of the bank's BCA would have limited downward pressure on the bank's deposit ratings.

Key Indicators

Exhibit 2

Itau Colombia S. A. (Consolidated Financials) [1]

	09-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (COP Billion)	30,424.7	30,904.7	32,219.0	28,842.8	2.0 ⁴
Total Assets (USD Million)	7,519.8	6,373.6	8,004.6	8,432.3	(4.1) ⁴
Problem Loans / Gross Loans (%)	3.5	2.8	3.9	4.9	3.8 ⁵
Net Interest Margin (%)	2.7	4.0	4.4	5.0	4.0 ⁵
PPI / Average RWA (%)	2.7	1.9	2.4	0.8	1.9 ⁶
Net Income / Tangible Assets (%)	0.1	0.2	0.4	-3.3	-0.7 ⁵
Cost / Income Ratio (%)	66.2	72.6	66.4	87.7	73.2 ⁵
Market Funds / Tangible Banking Assets (%)	23.4	24.4	23.2	23.2	23.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	20.6	18.0	27.4	24.1	22.5 ⁵

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Gross Loans / Due to Customers (%)	115.5	122.9	113.5	119.1	117.8 ⁵
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[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Itau Colombia S.A. (Itau Colombia) is a universal bank that offers loans, deposits and other banking services to individuals, small and medium-sized enterprises, and large companies. It is the eight-largest bank in Colombia in term of loans, with about 3% market share of loans as of September 2023. As of September 2023, the bank reported total consolidated assets of COP30.4 trillion (\$7.5 billion) and a loan portfolio of around COP21.6 trillion (\$5.3 billion).

The bank operates as a subsidiary of Banco Itau Chile, which owned 95% of its total capital as of September 2023. Itau Colombia's ultimate parent is [Itau Unibanco Holding S.A.](#) (A3 stable), the largest retail bank by assets in Brazil.

Detailed credit considerations

Asset quality remains at adequate level, despite rise in problem loans in 2023

Itau Colombia has a loan portfolio comprised predominantly of commercial loans with corporate clients, at 65.9% of gross loans in September 2023, and a diversified exposure to companies from different economic sectors. Despite that, the bank is also focused on increasing loan operations in the retail sector, particularly in the segment of high income individuals. The intense competition for clients in retail banking in Colombia will likely slowdown market share growth in the segment for the bank. In September 2023, mortgage financing accounted for 16.4% of gross loans and consumer financing represented 17.7% of the total, including roughly equal portfolios of personal loans, payroll loans and credit cards.

Itau Colombia has conservative loan underwriting policies that are in line with prudent credit risk management practices adopted by its indirect owner, Itau Unibanco, as well as other banking subsidiaries in Latin America. This disciplined approach towards credit risk, along with the large participation of low-risk operations in the bank's loan book, such as commercial loans and mortgage, contributes with the adequate performance of Itau Colombia's asset quality metrics.

In September 2023, Itau Colombia's problem loan ratio, measured as Stage 3 under IFRS to gross loans, was 3.5%, showing an increase from 2.8% in year-end 2022. The increase in loan delinquency was in line with the weak operating environment in Colombia in 2023, which led particularly to a rise in the volume of problem loans in the segment of consumer financing. Itau Colombia also reported a decline of its loan book in the same period, as the bank adopted a more restrictive loan underwriting standard in order to avert a more pronounced deterioration in asset quality in 2023. Itau Colombia's problem loan ratio still remained below the high level of 4.9% observed in December 2020. In September 2023, the bank's problem loan ratio was well positioned compared with those of other rated banks in Colombia.

Itau Colombia's loan book contracted 6.1% annually as of September 2023. This contraction was mainly driven by the commercial and consumer portfolios, which decreased 4.5% and 13.8% annually as of September 2023, respectively.

The bank's asset quality metrics will likely continue to reflect the challenging economic environment in Colombia in the next two to three quarters. Despite that, further pressure in asset risk will be partially mitigated by the bank's ample volume of loan loss reserves. As of September 2023, they stood at 140% of Stage 3 loans, which is a relatively high ratio compared with other peers in Colombia.

Robust capital buffer over minimum regulatory requirement will support loan growth in 2024

In September 2023, the bank's capitalization, measured by Moody's ratio of tangible common equity to risk-weighted assets (TCE/RWA), was 12.32%, slightly above the ratio of 12.06% in December 2022. The bank's capital position, however, has improved compared with year-end 2021 (11.44%) and 2020 (9.68%), benefiting from low growth or decline in loan operations, but mostly due to the retention of net income originated in 2021-2022.

Moody's calculate TCE by deducting goodwill from common equity. In addition, we adjust banks' RWA by assigning a 50% risk-weight to Colombian government securities, weighted 0% by local regulations.

On a regulatory basis, the bank reported a common equity tier 1 (CET1) ratio of 10.1% and total capital ratio of 13.9% in September 2023, both adequately above minimum regulatory thresholds and also supporting future loan growth. We expect Itau Colombia's capitalization to benefit from the reinvestment of recurring earnings in 2024, particularly as the bank continues to expand its retail banking business in Colombia.

Profitability remains modest, but is bound to improve as bank grows retail franchise

For the past three years, Itau Colombia has reported profitability metrics that have remained below those of peer banks in Colombia. In 2023, the bank's bottom-line earnings have been pressured by increase in credit costs, in line with the overall rise in asset risk in the Colombian banking system, and higher funding costs, reflecting intense competition for funding in Q1 2023 and the high level of the basic policy rate in the country. As of September 2023, Moody's ratio of net income to tangible assets ratio for the bank was 0.06%, showing a decline from 0.17% in December 2022.

In 2014, Brazilian Itau Unibanco acquired part of Corpbanca's shares in Chile. As a result, the bank also purchased Corpbanca's operation in Colombia, originated with the acquisition of Banco Santander's assets in 2012 and the following merger with Helm Bank's operation in 2014. The rebranding of the Colombian subsidiary as Itau Colombia happened in 2016. The restructure of the bank's operation in Colombia, including the renovation of Helm Bank's original 85 branches, in addition to the operating expenses related to the merger and the realignment of internal risk policies to those of Itau Unibanco constrained profitability in 2016-2017.

In the first nine months of 2023, Itau Colombia's net interest margin (NIM), as calculated by Moody's, declined to 2.7%, from 4.0% in December 2022. Similar to other banks in Colombia, the bank's NIM was affected negatively by the increase of the country's monetary policy rate to counter inflation pressure. In addition, funding costs for Colombian banks went up in late Q1 2023 due to an increase in the minimum net stable funding ratio requirement (CFEN) to 100%, which intensified competition between banks for longer term time deposits. As a result of these factors, in September 2023, the bank reported a rise of 112.2% in interest expense year-over-year. On the other hand, negative pressure on bottom-line results were counterbalanced by the good performance of interest income on loan operations in the first nine months of 2023, up by 45.7% compared with the same period one year prior.

The total volume of loan loss provisions Itau Colombia reported in September 2023 went up 74.7% year-over-year, reflecting the increase in problem loans associated with the weak economic conditions in the country, particularly in consumer financing. As a result, the bank's ratio of loan loss provision as a percentage of gross loans stood at 2.6% on the same date, higher than the three-year average ratio of 2.2%.

The bank's efficiency ratio, as measured by Moody's, has remained above those of peer banks in Colombia, reflecting the relatively high cost structure of the bank, particularly funding and provision expenses. In September 2023, Itau Colombia's efficiency ratio was 66.2%, lower than 72.6% in December 2022. We expect efficiency will improve in the next 12-18 months as the bank expands its retail operation in the country.

Large volume of market funds reflects modest deposit base in Colombia

Itau Colombia has a large participation of market funds from institutional investors on its balance sheet, which is also related to the bank's modest share of retail deposits in the Colombian banking system, at roughly 3% of total deposits in September 2023. In September 2023, the bank's ratio of market funds to tangible banking assets, as calculated by Moody's, was 23.4%, compared with 24.4% in December 2022. At this level, the ratio was higher than those of its peer Colombian banks.

As of September 2023, Itau Colombia's deposits represented around 68% of total liabilities. This metric has remained stable over the last three years. Despite that, the participation of term deposits in the mix increased to 36% of total liabilities, from 26% in December 2020. This rise in term deposit volume was in line with the government's regulatory requirement to increase the minimum net stable funding ratio (CFEN) to 100% in 2023.

The bank's ratio of liquid banking assets to tangible banking assets stood at 20.6% in September 2023, at an adequate level compared to peer banks and also above the 18% ratio in December 2022. Itau Colombia's liquid assets are comprised mainly of cash and highly liquid securities, mostly from the Colombian government.

Itau Colombia's ratings are supported by Colombia's Moderate+ Macro Profile

Colombia's Moderate+ profile balances the country's history of predictable macroeconomic policies against relative commodity dependence. The Colombian economy continues to gain momentum with broad-based growth across most sectors. However, boosting medium-term growth remains a key structural challenge.

Despite Colombia's high exposure to terms of trade shocks, external vulnerabilities are limited by the country's adequate foreign-exchange buffers and access to a sizable credit line from the International Monetary Fund. Moreover, the effectiveness of the government's policy response to recent commodity shocks illustrates the country's moderate institutional strength.

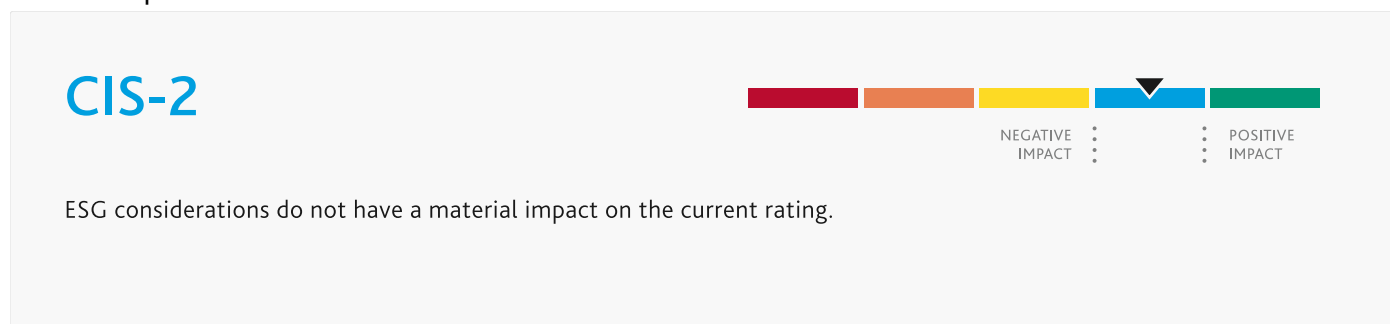
While banks are largely deposit funded, a substantial portion of these are provided by institutions, leaving banks potentially vulnerable to funding concentration risk. At the same time, high concentration in the banking system itself supports banks' pricing power and lending spreads.

ESG considerations

Itau Colombia S.A.'s ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

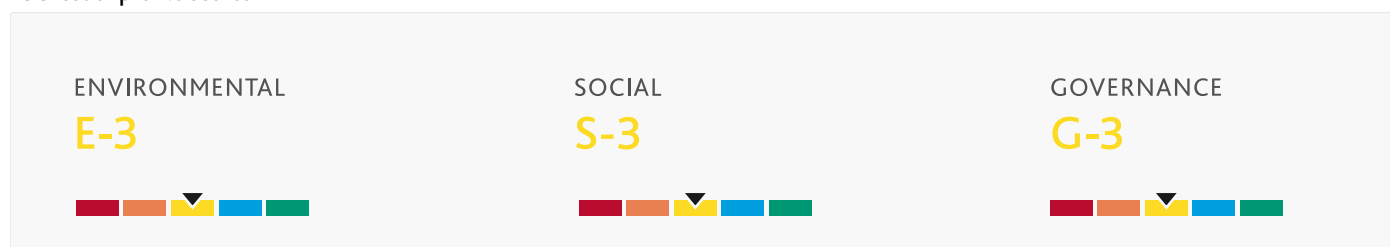


Source: Moody's Investors Service

Itau Colombia's **CIS-2** indicates that ESG considerations do not have a material impact on the ratings to date. Despite its concentrated ownership, Itau Colombia has robust corporate governance practices that are in line with those of its ultimate parent. However, the bank still faces execution risks associated with the restructuring and growth of its retail banking operation in Colombia.

Exhibit 4

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Itau Colombia faces moderate environmental risks because of its indirect exposure to carbon transition risks related to its corporate banking activity. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social

Itau Colombia has moderate exposure to customer relations risks. The bank focuses on mitigating risk arising from its expansion in retail banking by investing in digitization to improve customer experience. The bank's long track record of handling sensitive customer data, as well as appropriate culture and governance and compliance functions that ensure adherence to regulatory standards, help to mitigate the associated credit risk.

Governance

Itau Colombia faces moderate governance risks related to execution risks associated with the restructure and growth of its retail banking operations and a concentrated ownership and control by Itaú Unibanco Holding S.A. Because Itau Colombia is fully-owned by the Itau Group, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation to the parent, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate Support

Itau Colombia's adjusted BCA of baa3 is two notches above the bank's standalone BCA of ba2 because it incorporates our assessment of very high parental support from Banco Itau Chile, with a standalone BCA of baa2.

Government Support

There is a low likelihood of government support for Itau Colombia's deposits. This reflects the bank's small market share of deposits in Colombia, and hence, modest systemic consequences that would result from an unsupported failure. Consequently, the bank's deposit ratings of Baa3 do not benefit from any additional uplift due to government support.

Counterparty Risk (CR) Assessment

The long-term CR Assessment is one notch above the bank's Adjusted BCA of baa3. Itau Colombia's CR Assessment is one notch above the bank's deposit rating of Baa3, reflecting our view that its probability of default is lower for operating obligations than for deposits.

Counterparty Risk Ratings (CRRs)

Itau Colombia's long-term global local and foreign currency CRRs are positioned at Baa2, one notch above the bank's adjusted BCA and deposit ratings.

Rating methodology and scorecard factors

Exhibit 5

Itau Colombia S.A.

Macro Factors							
Weighted Macro Profile		Moderate	100%				
+							
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	3.8%	baa2	↔	ba2	Expected trend		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	-	-	-	ba1	Capital retention	Expected trend	
Profitability							
Net Income / Tangible Assets	-0.7%	caa2	↔	caa1	Earnings quality	Expected trend	
Combined Solvency Score		ba1		ba3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	24.4%	baa3	↔	baa3	Deposit quality	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	18.0%	ba2	↔	ba2	Stock of liquid assets	Expected trend	
Combined Liquidity Score		ba1		ba1			
Financial Profile							
				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa2			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				2			
Adjusted BCA				baa3			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	baa2	0	Baa2	Baa2	
Counterparty Risk Assessment	1	0	baa2 (cr)	0	Baa2(cr)		
Deposits	0	0	baa3	0	Baa3	Baa3	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
ITAU COLOMBIA S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
PARENT: BANCO ITAU CHILE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Investors Service

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