CREDIT OPINION
19 December 2024

Update

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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	Stable

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.

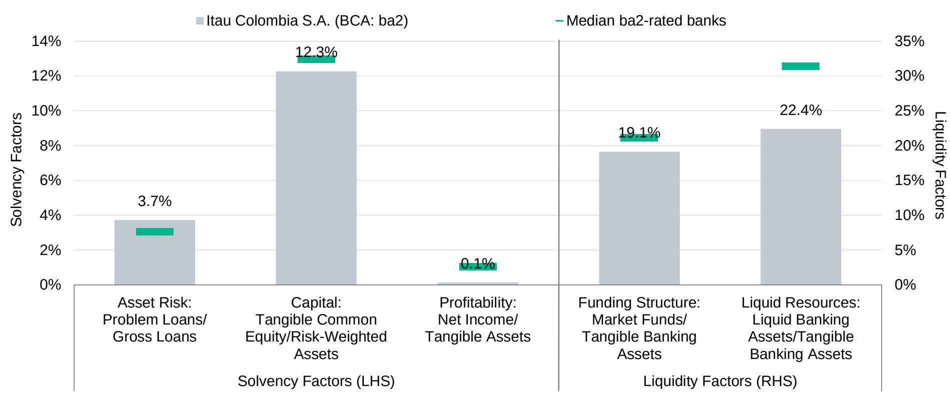
Update to credit analysis

Summary

We assign 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 four 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.

We also assign 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 our assessment of very high affiliate support from Banco Itau Chile (A3 stable, baa2).

Exhibit 1
As of September 2024
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 o 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 continues to be pressured by relatively high interest rates in Colombia, with a negative effect on funding costs

Rating outlook

The stable outlook on the long-term deposit ratings reflects our expectation that the bank's solvency and liquidity will remain broadly at levels consistent with their recent trend in 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.
- » If the bank shows good asset quality metrics while increasing lending diversification, particularly in the competitive retail segment, we could also see positive pressure on its BCA.
- » A one-notch upgrade of Itau Colombia's BCA would also result in a one-notch upgrade in the bank's deposit ratings, reflecting our 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 significantly 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]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (COP Billion)	29,854.4	29,710.1	30,904.7	32,219.0	28,842.8	0.9[4]
Total Assets (USD Million)	7,152.4	7,669.1	6,373.6	8,004.6	8,432.3	(4.3)[4]
Problem Loans / Gross Loans (%)	3.7	3.6	2.8	3.9	4.9	3.8[5]
Net Interest Margin (%)	4.1	2.8	4.0	4.4	5.0	4.1[5]
PPI / Average RWA (%)	2.3	2.7	1.9	2.4	0.8	2.0[6]
Net Income / Tangible Assets (%)	0.1	-0.1	0.2	0.4	-3.3	-0.6[5]
Cost / Income Ratio (%)	73.2	66.3	72.6	66.4	87.7	73.3[5]
Market Funds / Tangible Banking Assets (%)	22.4	19.1	24.4	23.2	23.2	22.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	25.7	22.4	18.0	27.4	24.1	23.5[5]
Gross Loans / Due to Customers (%)	105.4	107.1	122.9	113.5	119.1	113.6[5]

[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 Ratings 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 ninth-largest bank in Colombia in term of loans, with about 3% market share of loans as of September 2024. At the same date, the bank reported total consolidated assets of COP29.8 trillion ($7.1 billion) and a loan portfolio of around COP20.3 trillion ($4.9 billion).

The bank operates as a subsidiary of Banco Itau Chile, which owned 95% of its total capital as of September 2024. Itau Colombia's ultimate parent is Itau Unibanco Holding S.A. (Ba2 positive), the largest retail bank by assets in Brazil.

Detailed credit considerations

Asset quality remains at an adequate level, despite mild weakening in 2024

Itau Colombia has a loan portfolio comprised predominantly of commercial loans with corporate clients, at 67.2% of gross loans in September 2024, and a diversified exposure to companies from different economic sectors. The intense competition for clients in retail banking in Colombia will likely slowdown market share growth in the segment for the bank. In September 2024, mortgage financing accounted for 16.4% of gross loans and consumer financing represented 16.4% 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 of its 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 2024, Itau Colombia's problem loan ratio, measured as Stage 3 under IFRS to gross loans, was 3.73%, marking an increase of 23 bps from 3.50% one year prior. The increase in loan delinquency was in line with the weak operating environment in the country, despite the central bank's efforts to ease monetary policy. The loan book was mostly affected by a rise in the volume of problem loans in the commercial and mortgage portfolios. On the other hand, the formation of problem loans in the consumer segment has begun to decline. The non-performing loans over 90 days in September 2024 were 2.6% of gross loans, which is well positioned compared with those of other rated banks in Colombia.

Itau Colombia's loan book contracted 6.3% annually as of September 2024. This contraction was mainly driven by the commercial and consumer portfolios, which decreased 4.5% and 13.4% when compared to the previous year, respectively. The decline in the consumer portfolio was aligned with the bank's strategy to focus growth on less risky segments.

The bank´s asset quality metrics will likely continue to reflect the challenging economic environment in Colombia in 2025. Despite that, further pressure in asset risk will be partially mitigated by the bank's ample volume of loan loss reserves. As of September 2024, the coverage ratio stood at 134% of Stage 3 loans, a relatively high figure compared with those of the three biggest banks in Colombia.

Capital will likely remain robust in 2025, reflecting the bank's conservative risk policies

Itau Colombia maintained strong capitalization levels, the bank reported, on a regulatory basis, a common equity tier 1 (CET1) ratio of 11.9% and total capital ratio of 15.5% in September 2024. Both ratios are adequately above the minimum regulatory thresholds of 6.0% and 10.5%, respectively.

In September 2024, the bank's capitalization, measured by our ratio of tangible common equity to risk-weighted assets (TCE/RWA), was 12.26%, slightly below the 12.31% recorded in September 2023 but still above the levels of 2022 (12.06%), 2021 (11.44%) and 2020 (9.68%). Since 2020, this ratio has benefited mostly from a decrease in risk-weighted assets and the retention of net income generated in 2021-2022. We expect Itau Colombia's capitalization to be affected positively by the reinvestment of recurring earnings in 2025.

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

Profitability remains at modest levels, likely to still be challenged by modest loan growth in 2025

In the first nine months of 2024, Itau Colombia returned its net income to a positive figure after a year in which the Colombian banking system faced pressure from high interest rates, resulting in high funding costs and an overall deterioration in loan growth. As of September 2024, our ratio of net income to tangible assets for the bank was 0.14%, showing an improvement from -0.12% in December 2023, yet still below that of its peer banks in Colombia.

Itau Colombia reported a net income of COP30.8 million as of September 2024, which represented a 136% increase when compared to the same month of the previous year. This increase was mainly driven by a 23% decrease in provisions, reflecting the bank's continued conservative loan underwriting standards and a slow ongoing improvement in the system's asset quality conditions in 2024. As a result, the bank's ratio of loan loss provision as a percentage of gross loans stood at 1.8% on the same date, lower than the three-year average ratio of 2.1%.

The bank's net interest margin (NIM), as we calculate it, increased to 4.13% in September 2024, from 2.7% one year prior. In line with the country's easing monetary policy, funding costs decreased by 9% in 9M2024, despite an increase in the volume of term deposits, while interest income from loans also experienced a decrease of 11%. However, total interest income increased 6%, mainly driven by trading operations and derivates.

The bank's efficiency ratio, as we measure it, has remained well above those of its peer banks in Colombia, reflecting the relatively high cost structure of the bank. In September 2024, Itaú Colombia's efficiency ratio was 73.2%, higher than the 66.2% recorded in September 2023 because of an increase in personnel expenses.

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 2024. In September 2024, the bank's ratio of market funds to tangible banking assets, as we calculate it, was 22.4%, compared with 23.4% in September 2023. At this level, the ratio was higher than those of its peer Colombian banks.

As of September 2024, Itau Colombia's deposits represented around 71% 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 39% 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 was 25.7% in September 2024, at an adequate level compared to peer banks and also above the 20.6% ratio in September 2023. 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.

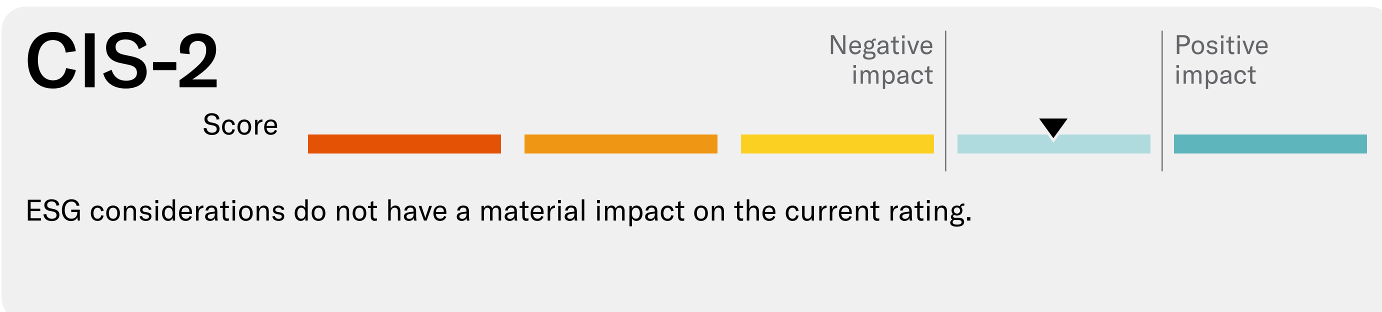
While banks are largely deposit funded, a substantial portion of these are provided by institutions, leaving banks potentially vulnerable to funding concentration risk. At the same time, high concentration in the banking system itself supports banks' pricing power and lending spreads.

ESG considerations

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

Exhibit 3

ESG credit impact score

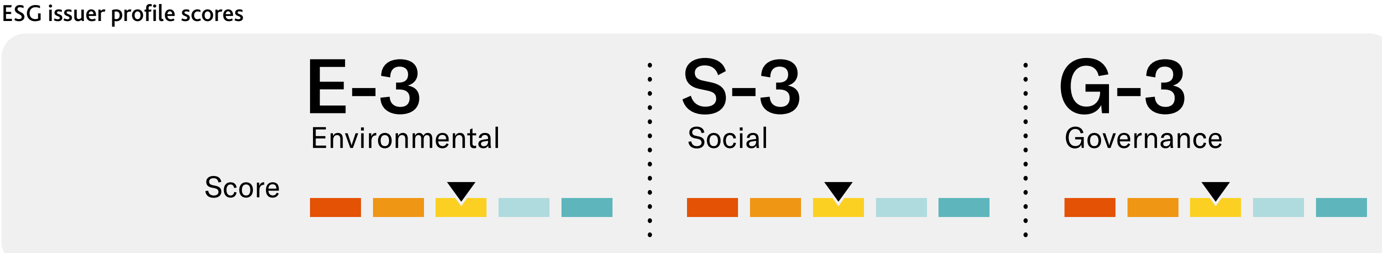


Source: Moody's Ratings

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 Ratings

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
Rating Factors

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		3.7%	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		0.1%	b2	↔	b3	Earnings quality	Expected trend
Combined Solvency Score			baa3		ba3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		19.1%	baa2	↔	baa3	Deposit quality	Expected trend
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		22.4%	baa3	↔	ba1	Stock of liquid assets	Expected trend
Combined Liquidity Score			baa2		baa3		
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 Ratings

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 Ratings

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