



## RATING ACTION COMMENTARY

# Fitch Affirms and Withdraws Itau Colombia's Ratings

Fri 23 Feb, 2024 - 10:25 AM ET

Fitch Ratings - Monterrey/Bogota - 23 Feb 2024: Fitch Ratings has affirmed and withdrawn Itau Colombia S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and the Viability Rating (VR) at 'bb'. Fitch has also affirmed and withdrawn all other ratings including the Shareholder Support Rating (SSR) at 'bb'.

Fitch has chosen to withdraw the ratings for commercial reasons. Fitch will no longer provide ratings or analytical coverage for the issuer.

## KEY RATING DRIVERS

**VR-Driven Ratings:** Itau Colombia S.A.'s 'bb' VR reflects the bank's intrinsic creditworthiness, which in turn, drives the bank's IDRs. The VR is one notch above its implicit 'bb-' VR, reflecting a positive adjustment due to the bank's prudent risk profile. The IDRs do not consider any extraordinary support from its parent, Itau Unibanco Holding (Itau; BB+/Stable). Nevertheless, the bank's IDRs are currently at the same level, as it would be if including an institutional support approach, and given that Itau Colombia is considered a strategically important subsidiary for its parent.

**Shareholder Support Rating:** The bank's 'bb' Shareholder Support Rating (SSR) is one notch below its ultimate parent's (Itau Unibanco Holding) 'BB+' IDR, reflecting Fitch's assessment of the parent's ability and propensity for support. Fitch considers Itau Colombia's strategic importance for its Brazilian parent in the context of its regional expansion initiatives - a core aspect for Itau Colombia's SSR. Consequently, Fitch expects that the parent company will extend support to Itau Colombia if required.

**Operating Environment Pressures Declining:** Fitch expects the operating environment (OE) for Colombian banks to remain stable during 2024 due to lower GDP growth; declining inflation, although still above the central bank's 3+/-1% target; slow decrease in funding cost and gradual improvement on asset quality after a peak in 2H23. Furthermore, exposure to global markets and political uncertainty will likely continue to pose challenges and headwinds to economic growth. Fitch believes sustained capitalization, resilient profitability and adequate reserves provide the banks with sufficient support to face stress.

**Itau's Group Regional Expansion:** The bank continues to extensively implement Itau's expansion strategy and business model. Itau Colombia has a consistent business model, with a focus on corporate business and medium to high income retail clients. The bank had a market share of 3.0% of the Colombian banking system's assets at end-September 2023. The bank has 10 position by assets and is the third largest international franchise in Colombia.

**Itau's Risk Policies:** Itau Colombia S.A.'s VR benefits from a positive adjustment, reflecting a cautious risk profile that enhances the bank's financial profile. The bank's risk management is fully integrated with its parent company, incorporating the entirety of Itau's global risk management guidelines. Itau Colombia also adheres to a comprehensive risk appetite framework that encompasses a global policy statement, core and specific risk metrics and capital consumption. Asset quality is supported on adjustments in its business profile and continues tuning on its risk models and risk controls.

**Resilient Asset Quality:** Similar to the Colombian system, high interest rates, weighing on borrowers' ability to repay, coupled with still-high inflation, has negatively affected asset quality, particularly for unsecured retail portfolio. As of 3Q23, the consolidated Stage 3 increased to 3.5% of gross loans from 2.8% at YE 2022, while reserve coverage decreased to 140% from 163% one year earlier. The bank's loan performance has proven resilient to date, due to continued adjustment of its internal models and ongoing monitoring of the loan portfolio and warning signals, as well as a strengthened collection process.

**Pressures on NIM and Provisions Explain Profitability:** Itau Colombia's profitability is low relative to peers due to the bank's corporate focus and limited scale. However, operating profitability in 2023 reflected pressure on net interest income (NIM) due to limited asset growth, higher inflation and higher funding cost resulting from the implementation of the NSFR adoption in Colombia. In addition, provisions expenses driven by asset deterioration reduced net income, which was partially offset by cost controls and treasury gains. The bank's operating profit to RWA ratio was -0.2% at September 2023 (YE 2022: 0.2%) but above negative 0.43% on average from 2018-2021.

**Improved Capitalization:** Itau Colombia's CET1 improved to 10.1% at 3Q23 from 9.9% at YE 2022, reflecting lower RWA due to asset contraction. However, this ratio compares unfavorably with that of regional peers. In addition, loan loss allowances for impaired loans are sound which further supports the bank's loss absorption capacity. Fitch believes that capital ordinary support from its parent would be forthcoming if needed.

**Reasonable Funding and Liquidity:** The bank maintains good liquidity levels that somewhat offset its concentrated liability structure. Nevertheless, Itau Colombia's moderate franchise constrains its pricing power and competitive advantage, influencing its funding costs. The bank has made a significant effort toward growing low-cost and stable funding. Its loans to deposits ratio was 115% at September 2023 due to the use of mid- to long-term time deposits, bond issuances and credit lines.

The deposit structure is increasingly composed of stable resources, in line with more conservative liquidity policies and liquidity coverage ratios. The deposit base has also been stable in recent years but concentrated, with a gradual increase of term deposits aligned with its business strategy.

## **RATING SENSITIVITIES**

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

--Negative rating sensitivities are not applicable as the ratings have been withdrawn.

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

--Positive rating sensitivities are not applicable as the ratings have been withdrawn.

## **VR ADJUSTMENTS**

The VR is one notch above the 'bb-' implied rating due to the following adjustment reason: risk profile (positive).

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Itau Colombia SSR is linked to Itau Unibanco's rating.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](https://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Itau Colombia S.A.	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	LT IDR	WD	Withdrawn	BB Rating Outlook Stable
	ST IDR	B	Affirmed	B
	ST IDR	WD	Withdrawn	B
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable

LC LT IDR	WD	Withdrawn	BB Rating Outlook Stable
LC ST IDR	B	Affirmed	B
LC ST IDR	WD	Withdrawn	B
Viability	bb	Affirmed	bb
Viability	WD	Withdrawn	bb

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

**ADDITIONAL DISCLOSURES**

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Itau Colombia S.A.

EU Endorsed, UK Endorsed

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