Banco Agricola, S.A.

Key Rating Drivers

Country Risk Limits IDR Driven by Bancolombia's Support: Banco Agricola, S.A.'s (Agricola or the bank) Long-Term Issuer Default Rating (IDR) reflects Fitch Ratings' assessment of the ability and propensity of its ultimate parent, Bancolombia S.A. (Bancolombia; 'BB+'/Stable), to provide support if required. Bancolombia's ability to support Agricola is highly influenced by the constraints El Salvador's Country Ceiling of 'B' imposes on the bank's rating. The Negative Rating Outlook on Agricola's IDR is in line with the Negative Rating Outlook on El Salvador's sovereign rating.

Challenging Operating Environment: Agricola's Viability Rating (VR) of 'b-' is highly influenced by El Salvador's challenging operating environment (OE), which, in Fitch's view, will continue to pressure the bank's financial performance in 2021, as well as its peers, although partially mitigated by its leading franchise. Once the credit relief measures expired the asset quality deterioration became visible; however, the prudent and additional loan loss allowances (LLA) made in 2020 will allow the bank to continue managing the asset quality deterioration.

Leading Local Franchise: Agricola's VR also reflects, with high importance, its company profile characterized by its leading franchise in the local credit and deposits markets and a diversified business model.

Visibility of Loan Quality: Fitch expects Agricola's asset quality deterioration to be lower than 2020. As the relief measures expired, the non-performing loans (NPL) to gross loans ratio increased to 2.2% as of 1H21, a high for the periods analyzed (average 2017-2020: 1.5%). However, the LLA coverage of NPLs (225%) remains ample to absorb unexpected losses.

Profitability Stabilizing: Despite the challenging conditions in the OE, Fitch expects that Agricola's profitability will benefit from the business expansion in 2021, supported by its leading franchise and lower LLAs given the ample reserves. Agricola's profitability is stabilizing, although it is still below pre-pandemic levels. During the 1H21, the operating profits to risk-weighted assets (RWA) ratio remained at 2.0% sustained by increasing contribution from non-interest income and the control of the operating efficiency that offset the continued decreasing trend in the net interest margin and a still relatively high LLAs.

Adequate Capitalization: Since the bank will not distribute any dividends in 2021, its capital position allows it to absorb the expected business expansion. Agricola's capitalization core metric as of June 2021 increased but remained below pre-pandemic levels. The Fitch Core Capital (FCC) to RWA ratio stood at 13.8%. The constitution of additional LICs also contributes to the bank's loss absorption capacity.

Robust Funding and Liquidity: Fitch believes Agricola's liquidity risk is mitigated by its solid franchise in deposits, its reasonable liquidity levels and the ample access to alternative sources of funding. Agricola's deposit base's participation in the funding structure continued increasing in 1H21 driven by its leading franchise. The loans to customer deposits ratio slightly increased to 84.8% in 1H21, a level still below pre-pandemic records.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Agricola's ratings remain highly sensitive to changes in El Salvador's sovereign rating and country ceiling. Negative changes in the bank's IDR and SR would mirror negative changes in El Salvador's sovereign rating and country ceiling.

Ratings

Foreign Currency	
Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b-
Support Rating	4
National	
National Long-Term Rating	AAA(slv)
National Short-Term Rating	F1+(slv)
Outlooks	
Long-Term Foreign-Currency IDR	Negative
National Long-Term Rating	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Bitcoin Could Increase Regulatory, AML Risks for El Salvador Banks (June 2021)

El Salvador (June 2021)

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- Any perception by Fitch of a reduced strategic importance of Agricola to Bancolombia may trigger a downgrade of Agricola's IDRs, SR and National Ratings. This perception would also apply to IFBA's national ratings.
- Agricola's IDRs could be downgraded by a multi-notch downgrade of Bancolombia's IDRs; however, this scenario is unlikely in the rating horizon given Bancolombia's Stable Rating Outlook.
- A slower than expected recovery, which could lead to a downward revision of Fitch's assessment of the OE score for Salvadoran's banks, would pressure Agricola's VR. Downgrades of Agricola's VR could also come from a material deterioration in the bank's financial profile that results in constant operating losses, and an FCC-to-RWA ratio consistently below 10%.
- Agricola's senior secured and unsecured debt National Ratings would be downgraded in the event of negative rating actions on the bank's National Ratings.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The Negative Rating Outlook on Agricola's IDR indicates positive actions in the ratings are highly unlikely in the foreseeable future. However, over the medium term, Agricola's IDR, SR and VR, could be upgraded in the event of an upgrade of El Salvador´s sovereign rating and country ceiling.
- The upside potential of the VR is limited due to the challenging OE as a result of the impact of the economic challenges. The VR could only be upgraded over the medium term by an improvement of the OE accompanied by consistent financial metrics while maintaining it robust company profile
- The national ratings of Agricola, IFBA and Agricola's senior secured and unsecured debt are at the highest level of the national rating scale.

Ratings Navigator

Banco Agricola, S.A.

ESG Relevance:

Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Financial Profile: Asset Quality	Financial Profile: Earnings & Profitability	Financial Profile: Capitalisation & Leverage	Financial Profile: Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA Stable	AAA Stable
aa+										aa+	AA+ Stable	AA+
aa										aa	AA Stable	AA
aa-										aa-	AA- Stable	AA-
a+										a+	A+ Stable	A+
a										a	A Stable	A
a-										a-	A- Stable	A-
bbb+										bbb+	BBB+ Stable	BBB+
bbb										bbb	BBB Stable	BBB
bbb-										bbb-	BBB- Stable	BBB-
bb+										bb+	BB+ Stable	BB+
bb										bb	BB Stable	BB
bb-										bb-	BB- Stable	BB-
b+										b+	B+ Stable	B+
b										b	B Stable	B Negative
b-										b-	B- Stable	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC Stable	CCC
ccc-										ccc-	CCC- Stable	CCC-
cc										cc	CC Stable	CC
c										c	C Stable	C
f										f	NF Stable	D or RD

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

Summary Financials and Key Ratios

(USD Mil., Year End as of Dec. 31)	6/30/21 6 Months - Interim Reviewed – Unqualified (Emphasis of Matter)	2020 Audited – Unqualified (Emphasis of Matter)	2019 Audited – Unqualified (Emphasis of Matter)	2018 Audited – Unqualified (Emphasis of Matter)	2017 Audited – Unqualified (Emphasis of Matter)
Summary Income Statement					
Net Interest and Dividend Income	120.0	248.7	238.4	226.3	204.1
Net Fees and Commissions	27.5	55.9	66.3	29.5	27.8
Other Operating Income	9.5	1.9	1.7	34.9	29.6
Total Operating Income	157.0	306.5	306.5	290.7	261.4
Operating Costs	67.3	129.8	148.5	141.7	128.9
Pre-Impairment Operating Profit	89.7	176.7	158.0	149.0	132.5
Loan and Other Impairment Charges	49.6	99.8	45.5	64.6	54.2
Operating Profit	40.1	76.9	112.5	84.4	78.3
Other Non-Operating Items (Net)	28.7	13.1	28.1	21.1	23.8
Tax	17.0	25.5	44.5	39.5	34.3
Net Income	51.8	64.5	96.1	66.0	67.8
Other Comprehensive Income	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Comprehensive Income	51.8	64.5	96.1	66.0	67.8
Summary Balance Sheet					
Assets					
Gross Loans	3,484.1	3,335.3	3,458.6	3,221.0	3,027.4
- of which impaired	75.1	38.3	45.8	55.3	49.2
Loan Loss Allowances	169.1	150.4	87.4	100.6	81.6
Net Loan	3,314.9	3,184.9	3,371.2	3,120.4	2,945.8
Interbank	616.3	824.3	896.6	905.0	913.0
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.
Other Securities and Earning Assets	1,043.4	862.3	322.8	222.8	228.1
Total Earning Assets	4,974.6	4,871.6	4,590.5	4,248.2	4,086.9
Cash and Due From Banks	171.4	152.2	124.9	118.5	104.3
Other Assets	181.9	232.3	178.7	153.6	151.9
Total Assets	5,327.9	5,256.1	4,894.2	4,520.3	4,343.1
Liabilities					
Customer Deposits	4,111.0	4,041.2	3,559.2	3,158.2	3,050.0
Interbank and Other Short-Term Funding	N.A.	N.A.	16.3	16.4	28.6
Other Long-Term Funding	295.8	330.2	397.6	453.4	371.4
Trading Liabilities and Derivatives	212.1	212.1	214.1	249.2	247.2
Total Funding	4,618.9	4,583.5	4,187.3	3,877.2	3,697.1
Other Liabilities	107.4	122.8	127.2	121.1	104.0
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	601.6	549.8	579.7	522.1	542.0
Total Liabilities and Equity	5,327.9	5,256.1	4,894.2	4,520.3	4,343.1

N.A. – Not applicable.
Source: Agricola, Fitch Ratings, Fitch Solutions.

Summary Financials and Key Ratios

Ratios (annualized as appropriate)	6/30/21	12/31/20	12/31/19	12/31/18	12/31/17
Profitability					
Operating Profit/Risk-Weighted Assets	2.0	2.0	3.1	2.5	2.4
Net Interest Income/Average Earning Assets	5.2	5.6	5.9	6.1	5.5
Non-Interest Expense/Gross Revenue	42.9	42.4	48.4	48.8	49.3
Net Income/Average Equity	18.2	12.0	18.1	12.5	13.1
Asset Quality					
Impaired Loans Ratio	2.2	1.2	1.3	1.7	1.6
Growth in Gross Loans	4.5	(3.6)	7.4	6.4	0.3
Loan Loss Allowances/Impaired Loans	225.3	392.4	190.6	181.8	166.0
Loan Impairment Charges/Average Gross Loans	2.9	2.9	1.4	2.1	1.8
Capitalization					
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	13.8	12.8	15.3	15.1	16.6
Tangible Common Equity/Tangible Assets	10.4	9.5	11.4	11.4	12.4
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(17.1)	(22.6)	(7.5)	(8.8)	(6.1)
Funding and Liquidity					
Loans/Customer Deposits	84.8	82.5	97.2	102.0	99.3
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	89.0	88.2	85.0	81.5	82.5
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Agricola, Fitch Ratings, Fitch Solutions.

Institutional Support Assessment

Institutional Support			Value
Parent IDR			BB+
Total Adjustments (notches)			-4
Institutional Support:			**B**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size		✓	
Country risks			✓
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding		✓	
Legal commitments			✓
Cross-default clauses			✓

The bank's Support Rating (SR) reflects Fitch's opinion of a limited probability of support because of the heightened risks in the OE. The bank's SR is based on Fitch's opinion of Bancolombia's ability and propensity to support Agricola, if needed. Agricola's SR is also constrained by El Salvador's sovereign rating, as reflected in the Country Ceiling. Per Fitch criteria, Agricola's IDR of 'B' corresponds to an SR of '4'.

Environmental, Social and Governance Considerations

FitchRatings **Banco Agricola, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Agricola, S.A. has 5 ESG potential rating drivers

- Banco Agricola, 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.
- 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	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	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

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	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

S Scale: 5, 4, 3, 2, 1

Governance (G)

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

G Scale: 5, 4, 3, 2, 1

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.

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.

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.

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