Fitch Ratings

Banks
Development Banks
Colombia

Banco de Comercio Exterior de Colombia S.A.

Key Rating Drivers

Government Support Drives Ratings: Banco de Comercio Exterior de Colombia S.A.'s (Bancoldex) Issuer Default Ratings (IDRs) are driven by its Government Support Rating (GSR), which is equalized with the Long-Term IDR of Colombia (BB+/Stable). The ratings reflect Fitch's assessment of the Colombian government's high propensity and ability to provide timely support to Bancoldex, if needed. Fitch also believes Bancoldex plays a prominent policy role, as it is an integral arm of the state in implementing economic development policies.

The entity also has many operational and financial synergies with the public administration. The GSR indicates the minimum level to which the entity's Long-Term IDRs could fall if Fitch does not change its view on potential sovereign support.

Policy Bank Role: Bancoldex's ratings consider its high strategic importance within Colombia for promoting SMEs, as well as large commercial and corporate entities, improving competitiveness and fostering foreign trade. Its primary activity as a development bank is the provision of wholesale funds and guarantees to commercial banks and other non-bank financial institutions, as well as direct credit lines to SMEs and corporates to promote economic growth. Aligned with the National Development Plan for 2022-2026, Bancoldex will grant resources to promote the "Popular Economy" program, specifically credits with rediscount lines to the microfinance segment and SMEs, as well as more inclusive, productive developments.

Development Role Explains Financial Performance: Bancoldex's good asset quality is aligned with its development bank model. Past-due loans (PDLs) greater than 90 days increased to 2.9% as of June 2023 due to deterioration in the SME direct loan portfolio. However, the asset quality of second-floor operations remained relatively stable and largely unchanged from YE22.

Stable Financial Performance: Bancoldex's countercyclical role underpinned loan growth and profitability. The development bank's operating profit to risk-weighted assets (RWA) of 2.7% at June 2023 is close to its pre-pandemic levels of 2.8% (2018-2019) amid a higher interest rate environment, and given its alternative funding lines, cost control and lower impairment charges. In Fitch's view, Bancoldex's stable financial performance is supported by lower credit costs and operational expenses that offset narrow interest margins, in accordance with its social role.

Comfortable Capital Position: Bancoldex's capital benefits from stable profit generation, high reserve levels and low asset impairment, which help to offset modest levels of internal capital generation and a high pay-out ratio. As of June 2023, its Common Equity Tier 1 (CET1) ratio was 25.8%, boosted by the 100% capitalization of 2022 net income and lower business growth.

Diversifying Funding: Bancoldex has diversified its funding sources through bond issuances, term deposits, and credit lines with local and international financial institutions. In terms of liquidity, the bank maintains adequate liabilities coverage by maturity in both local currency and U.S. dollars, benefiting from its liquid investment portfolio.

Rating Sensitivities

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

- Bancoldex's GSR and IDRs could be downgraded if the sovereign rating is downgraded.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B
Government Support Rating	bb+

National Rating

National Long-Term Rating	AAA
National Short-Term Rating	F1+

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
National Long-Term Rating	Stable
Sovereign Long-Term, Foreign-Currency IDR	Stable
Sovereign Long-Term, Local-Currency IDR	Stable

Applicable Criteria

National Scale Rating Criteria (December 2020)

Bank Rating Criteria (September 2023)

Related Research

Colombia (July 2023)

Colombian Banks: 1H23 Review & Update (October 2023)

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- Bancoldex´s GSR, IDRs and National Scale ratings could also be downgraded if Fitch perceives a decline in the bank's policy role for the government, but this scenario is unlikely over the medium term.

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

- Bancoldex's GSR and IDRs could be upgraded in the event of a similar action on Colombia's sovereign ratings, absent any change in Fitch's view of the government's propensity to provide support to this bank.
- National ratings have no upside potential because they are at the highest level in the national rating scale.

Significant Changes from Last Review

Acceleration of Loan Impairment Charges and Reduction of NIMs

Colombian banks' performance weakened in 1H23 amid high interest rates and credit costs, and a sharp depreciation of the Colombian peso. Overall, Colombian banks' 1H23 results were in line with Fitch's baseline expectations. These expectations included declining loan growth, higher credit and funding costs, tighter net interest margins (NIMs) and stable capital ratios.

Fitch expects the central bank's monetary tightening to keep interest rates in restrictive territory for the remainder of 2023 due to persistent inflation, which will sustain high borrowing costs. As a result, credit demand is expected to remain low. However, core financial metrics will remain commensurate with most banks' credit-risk profiles.

Company Summary and Key Qualitative Factors

Business Profile

Bancoldex is a local development bank that provides financing to SMEs, and large commercial and corporates entities to improve competitiveness and to foster foreign trade. Its primary activity as a development bank is the provision of wholesale funds and guarantees to commercial banks and other non-bank financial institutions, which redirect the resources to strategic economic sectors.

Bancoldex's business model has transformed to that of a business development bank, which supports early- to intermediate-stage companies in all sectors, including an expansion into direct corporate lending. The entity is committed to supporting sustainability, fostering Colombia's interests abroad and acting as a policy bank. Fitch expects Bancoldex to continue to work as a government arm to support productive sectors aligned with the National Development Plan and to boost sustainable goals. Additionally, Bancoldex is expected to continue to play a countercyclical role in stimulating productive sectors and the economy overall. Aligned with the National Development Plan for 2022-2026, Bancoldex will grant resources to promote the "Popular Economy," specifically credits with rediscount lines to the microfinance segment and SMEs, as well as more inclusive productive developments.

Risk Profile

Bancoldex exhibits a moderate risk appetite in line with its mission and business model. Since 2022, the bank has adjusted its risk appetite to incorporate advances in economic recovery, higher exposure to SMEs and direct credit. The risk appetite framework included specific definitions of appetite, tolerance and capacity approved by the board, as well as a set of alerts and limits aligned with the bank's strategy and budget.

The bank's countercyclical role spurs credit growth to support its target market. Its portfolio growth is susceptible to large yoy fluctuations owing to economic variation and the availability of subsidized interest rates. This is exacerbated by long pipeline development processes, large ticket sizes and relatively high levels of liquidity in the banking system. In addition, macroeconomic fundamentals, new Basel III requirements within the Colombian financial market, FX volatility and high interest rates underpinned asset growth during 2022 and 1H23.

Financial Profile

Asset Quality

Bancoldex's good asset quality is aligned with its development bank model. PDLs greater than 90 days increased to 2.9% as of June 2023 because of deterioration in the SME direct loan portfolio. However, the asset quality of second-floor operations remained relatively stable and largely unchanged from YE22.

Bancoldex's loan portfolio (68% of total assets at June 2023) represents its largest source of credit risk. As a wholesale lender to financial institutions, Bancoldex's loan portfolio has been historically characterized by low levels of impairment, countercyclical growth, and elevated concentration by borrower and economic sector. Financial institution borrowers are located primarily in Colombia with ultimate beneficiaries operating throughout the country in a diverse range of economic sectors. The bank's direct loan stake in the gross loan portfolio has increased due to the new business plan, but its borrower concentration is lower, thanks to the focus on SMEs.

The top 20 borrowers remained in good standing, with the best internal risk designation, and included the largest banks in the country. Reserves have remained above 100% amid prepayments of higher banks and the new exposure to direct credit lines. Reserve models follow the bank's internal expected loss model, which was approved by the local regulator for rediscount lines and reference models for corporates and SMEs, as also defined by the Finance Superintendence. For the 12 months ended June 2023, there were no restructured loans and no chargeoffs.

Earnings and Profitability

Bancoldex's countercyclical role underpinned loan growth and profitability. The development bank's operating profit to RWA of 2.7% at June 2023 is close to its pre-pandemic levels of 2.8% (2018-2019) amid a higher interest rate environment, and given its alternative funding lines, cost control and lower impairment charges. In Fitch's view, Bancoldex's stable financial performance is supported by lower credit costs and operational expenses that offset narrow interest margins, per its social role.

Higher funding costs as a consequence of higher interest rates since 4Q21 has increased alternative funding such as credit lines with multilaterals against term deposits. This allowed NIM to remain relatively stable during 1H23 and supported small financial entities that face difficulties funding operations.

Non-interest revenues also returned to previous levels (36% of gross revenues as of June 2023), mainly related to treasury operations due to changes in the liquidity, portfolio valuation and structural portfolio strategy. Efficiency levels remained stable (non-interest expenses/gross revenues: 52% at June 2023; and 48% for 2019-2022) and incorporated inflation impacts, while loan impairment charges mainly related to asset deterioration of credit lines to SMEs were offset by prepayments and decrease to 21% of pre-impairment profits.

Capital and Leverage

Bancoldex's capital position continues to compare favorably to that of local and international peers, and represents a key strength in its financial profile. Bancoldex's capital benefits from stable profit generation, high reserve levels and low asset impairment, which help to offset modest levels of internal capital generation and a high pay-out ratio. As of June 2023, its CET1 ratio was 25.8%, boosted by the 100% capitalization of 2022 net income and lower business growth.

Funding and Liquidity

In Fitch´s opinion, Bancoldex´s funding structure is well diversified by funding source, maturity and interest rate. Given its wholesale business model, the entity balances its funding structure among credit lines with banks and multilaterals, senior unsecured debt and term deposits. To support its strategy, Bancoldex continues to issue specific-purpose bonds, depending on market conditions and giving preference to those denominated in Colombian pesos over USD.

Direct financings are sourced from a large network of banks and multilaterals (61% of total funding at June 2023), with most also long term. Of these, the main lender is BID, which provided Bancoldex with a 20-year, USD650 million line, followed by CAF (with USD350 million) and JP Morgan (with a guarantee of MIGA). Only the BID credit line is fully guaranteed by the Colombian government. Funding concentration remains elevated both in terms of CDTs and borrowings. The top 20 funders represented 53% of total investor funding at June 2023, including term deposits and bonds.

In terms of liquidity, the bank maintains adequate coverage of liabilities by maturity in both local currency and USD, benefitting from its liquid investment portfolio. The liquidity of its balance sheet mitigates minor short-term maturity mismatches in COP and USD. The bank also counts on undrawn USD lines of credit from foreign banks and multilateral institutions.

Financials

	2Q23 USD mil. Not disclosed	2Q23 COP mil. Not disclosed	YE22 COP mil. Not disclosed	YE21 COP mil. Not disclosed	YE20 COP mil. Not disclosed
Summary income statement					
Net interest and dividend income	25	106,384	216,455	191,311	202,004
Net fees and commissions	0	-1,376	669	-12,371	-11,664
Other operating income	15	61,874	86,214	30,989	103,255
Total operating income	40	166,882	303,338	209,929	293,595
Operating costs	21	86,108	150,138	129,467	114,635
Pre-impairment operating profit	19	80,774	153,200	80,462	178,960
Loan and other impairment charges	4	17,149	50,358	11,245	-18,247
Operating profit	15	63,626	102,842	69,217	197,207
Other non-operating items (net)	0	626	-916	1,924	-204
Tax	6	24,901	30,796	15,822	64,299
Net income	9	39,350	71,130	55,318	132,704
Other comprehensive income	—	—	108,181	-206,891	—
Fitch comprehensive income	9	39,350	179,312	-151,572	132,704
Summary balance sheet					
Assets					
Gross loans	1,877	7,866,984	8,512,938	7,149,680	7,580,755
- of which impaired	53	220,657	225,301	180,570	145,868
Loan loss allowances	59	245,662	235,696	192,024	181,515
Net loan	1,818	7,621,322	8,277,242	6,957,656	7,399,240
Interbank	73	307,095	143,416	268,927	205,029
Derivatives	6	23,715	72,462	150,778	44,950
Other securities and earning assets	647	2,710,086	3,495,988	2,275,995	2,188,569
Total earning assets	2,544	10,662,218	11,989,108	9,653,356	9,837,788
Cash and due from banks	24	98,717	161,659	142,135	160,624
Other assets	103	430,886	539,364	346,433	315,072
Total assets	2,670	11,191,822	12,690,131	10,141,924	10,313,483
Liabilities					
Customer deposits	599	2,511,794	3,159,078	3,380,461	2,808,190
Interbank and other short-term funding	1,448	6,068,140	6,469,587	4,053,663	4,326,102
Other long-term funding	159	667,081	1,110,345	1,043,769	1,093,816
Trading liabilities and derivatives	15	61,492	85,494	54,103	177,119
Total funding and derivatives	2,221	9,308,507	10,824,504	8,531,996	8,405,227
Other liabilities	83	346,505	453,145	307,208	340,001
Preference shares and hybrid capital	—	—	—	—	—
Total equity	367	1,536,809	1,412,481	1,302,721	1,568,255
Total liabilities and equity	2,670	11,191,822	12,690,131	10,141,924	10,313,483
Exchange rate		USD1 = COP4191.28	USD1 = COP4810.2	USD1 = COP3997.71	USD1 = COP3444.9

Source: Fitch Ratings, Fitch Solutions

	2Q23	YE22	YE21	YE20
Ratios (annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.7	1.8	1.1	3.4
Net interest income/average earning assets	1.9	2.1	2.1	2.1
Non-interest expense/gross revenue	51.6	49.5	61.7	39.1
Net income/average equity	5.4	5.2	3.9	8.8
Asset quality				
Impaired loans ratio	2.8	2.7	2.5	1.9
Growth in gross loans	-7.6	19.1	-5.7	13.2
Loan loss allowances/impaired loans	111.3	104.6	106.3	124.4
Loan impairment charges/average gross loans	0.2	0.6	0.2	-0.3
Capitalization				
Common Equity Tier 1 ratio	25.8	20.0	16.1	22.1
Fully loaded Common Equity Tier 1 ratio	—	—	—	—
Fitch Core Capital ratio	—	—	20.7	26.8
Tangible common equity/tangible assets	13.7	11.1	12.8	15.1
Basel leverage ratio	10.9	8.7	—	—
Net impaired loans/Common Equity Tier 1	-2.0	-0.9	-1.1	—
Net impaired loans/Fitch Core Capital	—	—	-0.9	-2.3
Funding and liquidity				
Gross loans/customer deposits	313.2	269.5	211.5	270.0
Gross loans/customer deposits + covered bonds	313.2	269.5	211.5	270.0
Liquidity coverage ratio	—	—	—	—
Customer deposits/total non-equity funding	27.2	29.4	39.9	34.1
Net stable funding ratio	—	—	—	—

Source: Fitch Ratings, Fitch Solutions

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

Government Support

The ratings reflect Fitch's assessment of the Colombian government's high propensity and ability to provide timely support to Bancoldex if needed. Fitch also believes Bancoldex plays a prominent policy role, as it is an integral arm of the state in implementing economic development policies. The national ratings of Bancoldex, which are at the highest level in the ratings scale, are relative rankings of creditworthiness within Colombia.

The entity also has many operational and financial synergies with the public administration. The GSR indicates the minimum level to which the entity's Long-Term IDRs could fall if Fitch does not change its view on potential sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Banco de Comercio Exterior de Colombia S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Credit-Relevant ESG Derivation				ESG Relevance to Credit Rating
Banco de Comercio Exterior de Colombia S.A. has 5 ESG potential rating drivers Banco de Comercio Exterior 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. Governance is minimally relevant to the rating and is not currently a driver.	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) 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	2	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	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	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.

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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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