

Banco de Occidente (Panama), S.A.

Key Rating Drivers

Support-Driven Ratings: Banco de Occidente (Panama), S.A.'s (BOP) Issuer Default Rating (IDR) is aligned with that of its parent, Banco de Occidente, S.A. (Occidente), reflecting the potential support BOP would receive if required. The parent's ability to support its Panamanian subsidiary is primarily based on Occidente's Long-Term IIDR of 'BB+' with Stable Rating Outlook.

Core Subsidiary: BOP's IDRs also reflect its importance to Occidente in expanding its international services. Fitch Ratings views this role as crucial, as it enhances Occidente's business profile due to its regional footprint and diversified asset and liability allocation.

High Operational Integration: BOP acts as a business unit to Occidente's operation, which explains its high management and operational integration. While the subsidiary has local staff and its own board of directors, the strategic objectives are set by and reported to Occidente. Some relevant units are ultimately run by Occidente, such as the risk department.

High Reputational Risk: Fitch's assessment of propensity of support also considers the high reputational risk to Occidente and its parent Grupo Aval if the subsidiary should default. BOP shares the same brand as and is highly associated with Occidente.

Good Asset Quality: BOP's loan growth rate has been high over the past four years, averaging 30%, while Stage III loans have remained low. BOP's Stage III loans to gross loans ratio was 0.36% as of June 2024, with a 2020-2023 average of 0.50%. The bank focuses on financial institutions and corporate clients in several Latin American countries, which explains the good payment history but also results in high borrower concentrations.

Modest Financial Performance: BOP's financial performance is commensurate with its role, underpinned by tight capital metrics and modest profitability. The bank's 2020-2023 average operating profit to average total assets ratio is 1.2%. The ratio has gradually improved due to increased loan activities and stood at 1.7% as of 6M24. The bank's operating income could potentially continue the positive trend as loan activities increase.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Shareholder Support Rating	bb+
National Rating	
National Long-Term Rating	AAA(col)
National Short-Term Rating	F1+(col)
Sovereign Risk (Panama)	
Long-Term Foreign-Currency IDR	BB+
Country Ceiling	A+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)
[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Affirms Banco de Occidente and Subsidiaries; Outlook Stable \(November 2024\)](#)

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Rating Sensitivities

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

- BOP's IDRs would be negatively affected if Fitch's assessment of its parent's ability and/or willingness to provide support changes. In general, BOP's IDRs would move in line with those of its parent.

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

- BOP's IDRs would be positively affected if Fitch's assessment of its parent's rating is upgraded. In general, BOP's IDRs would move in line with those of its parent.

Ratings Navigator

Banco de Occidente (Panama), S. A.							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+ Sta
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Company Summary and Key Qualitative Factors

Business Profile

BOP is a commercial bank domiciled in Panama and one of Banco de Occidente, S.A.'s (Occidente) subsidiaries, a commercial mid-size Colombian bank. Occidente is a subsidiary of Grupo Aval, the largest financial holding in Colombia and a relevant player in Central America.

BOP operates in Panama as an internationally licensed bank. The bank provides financial services to Colombian and other Latin American clients, mainly to those seeking USD-based operations. BOP has improved access to customers due to the association with its parent, as both share the same brand. This recognition and association with its parent company have contributed to the bank's deposit stability in U.S. dollars. As of June 2024, the bank's loan portfolio continued to grow, becoming a significant component of BOP's total assets, accounting for 60%.

Risk Profile

BOP's risk management mirrors Occidente's, as policies and guidelines are established in Colombia. Credit and market risks are managed by Occidente's Risk VP. Policies follow both Panamanian regulation and the group's guidelines. Occidente is involved in the underwriting process, although the ultimate approval comes from BOP's board of directors.

BOP's loan portfolio is focused in commercial loans. In terms of country exposure, the most relevant regions are Guatemala, Honduras, Ecuador and Mexico. The high loan growth rate reflects the group's strategy of increasing its subsidiaries' operations, both in Panama and Barbados. BOP has more room to underwrite larger tickets because the Panamanian regulator considers the parent's capitalization compliant with local rules.

The investment portfolio accounted for around 28% of total assets as of June 2024 and is mandated to have positions only in investment grade or sovereign securities. Foreign exchange risk is low, as most of the bank's operations are in U.S. dollars. The bank holds a small long position in euros that does not pose a relevant risk.

Financial Profile

Asset Quality

BOP's asset quality continues to be a positive despite high credit growth rates. As of December 2023, the bank's loan portfolio grew by 53%; the growth rate moderated to 5% by June 2024. The Stage III loans to gross loans ratio remained sound at 0.36%, with the 2020-2023 average at 0.5%. Reserve coverage is ample at over 200%.

Borrower concentrations are high when considering its own capital, but the bank's appetite for large loans relies on the regulatory consideration of its parent's capitalization. The top 20 debtors accounted for 47.4% of gross loans as of June 2024 (4.1x of total equity). Considering the parent's CET1, the exposure would be a manageable 22%. The investment portfolio, which has gradually diminished, focuses on sovereign bonds from different countries, primarily Colombia.

Earnings and Profitability

BOP's profitability has historically been modest. The bank's 2020-2023 average operating profit to average total asset ratio is 1.23%, but it has been gradually improved due to increased loan activities. As of the second half of 2024, the annualized ratio stood at 1.68%, representing an increase from 1.53% in December 2023. The bank's improvement is also driven by controlled non-interest expenses and low loan impairment charges due to its portfolio's good payment behavior. Although there is personnel in Panama, most areas rely on the parent company, which lightens operational costs.

Capitalization and Leverage

BOP's capitalization levels remain tight due to the aggressive loan growth but show a positive trend due to increased internal capital generation. The bank's tangible common equity to tangible assets ratio was 6.97% as of June 2024, up from 6.65% in December 2023. This improvement is due to the bank's increased income generation and its consistent strategy of retaining 100% of earnings. BOP reports its parent's capital ratio to the Panamanian regulator, which was 10.6% as of September 2024. Fitch believes that BOP would benefit from ordinary capital support from Occidente if required.

Funding and Liquidity

BOP's main funding source are customer deposits, primarily from Colombian clients. The bank's loan to deposit ratio was a healthy 64.6% as of June 2024, which has been gradually receding due to aggressive loan growth (2020-2023 average: 46.3%). Similar to the loan portfolio, the bank exhibits concentrations per depositor. BOP's top 20 depositors comprised 47.1% of total deposits as of June 2024 (49.5% as of June 2023).

Financials

Summary Financials and Key Ratios

	June 30, 2024 6 months - interim (USD 000) Reviewed - unqualified	December 31, 2023 Year end (USD 000) Audited - unqualified	December 31, 2022 Year end (USD 000) Audited - unqualified	December 31, 2021 Year end (USD 000) Audited - unqualified	December 31, 2020 Year end (USD 000) Audited - unqualified
Summary income statement					
Net interest and dividend income	10,551.3	17,291.4	16,390.4	11,138.6	9,398.8
Net fees and commissions	475.7	942.9	888.9	1,342.8	632.2
Other operating income	144.1	433.1	587.7	3,148.5	5,490.1
Total operating income	11,171.1	18,667.4	17,867.0	15,629.9	15,521.1
Operating costs	3,205.3	5,742.8	5,394.4	5,368.9	5,237.2
Pre-impairment operating profit	7,965.8	12,924.6	12,472.6	10,261.0	10,283.9
Loan and other impairment charges	-43.1	64.4	1,909.0	557.6	1,093.1
Operating profit	8,008.9	12,860.2	10,563.6	9,703.4	9,190.8
Other non-operating items (net)	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	N.A.	N.A.	N.A.	N.A.	N.A.
Net income	8,008.9	12,860.2	10,563.6	9,703.4	9,190.8
Other comprehensive income	-1,371.1	12,114.7	-22,024.9	-16,458.4	5,052.9
Fitch comprehensive income	6,637.8	24,974.9	-11,461.3	-6,755.0	14,243.7
Summary balance sheet					
Assets					
Gross loans	589,293.4	560,692.6	365,761.2	305,464.4	234,462.2
- Of which impaired	2,120.3	2,104.8	4,035.3	6.0	1,215.3
Loan loss allowances	4,910.8	4,997.1	5,123.1	2,833.4	2,085.9
Net loan	584,382.6	555,695.5	360,638.1	302,631.0	232,376.3
Interbank	121,246.9	116,406.1	222,035.5	168,152.3	226,060.2
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.
Other securities and earning assets	274,205.1	257,577.4	241,640.0	356,731.3	353,575.9
Total earning assets	979,834.6	929,679.0	824,313.6	827,514.6	812,012.4
Cash and due from banks	52.2	62.6	18.6	12.4	N.A.
Other assets	2,357.1	1,845.8	6,818.1	7,362.1	6,576.3
Total assets	982,243.9	931,587.4	831,150.3	834,889.1	818,588.7
Liabilities					
Customer deposits	912,108.7	867,866.4	721,135.9	784,530.9	755,590.3
Interbank and other short-term funding	N.A.	N.A.	71,181.9	N.A.	N.A.
Other long-term funding	N.A.	N.A.	N.A.	N.A.	5,000.7
Trading liabilities and derivatives	N.A.	N.A.	N.A.	N.A.	N.A.
Total funding and derivatives	912,108.7	867,866.4	792,317.8	784,530.9	760,591.0
Other liabilities	1,521.8	1,745.4	1,831.8	1,896.2	2,780.7
Preference shares and hybrid capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total equity	68,613.4	61,975.6	37,000.7	48,462.0	55,217.0
Total liabilities and equity	982,243.9	931,587.4	831,150.3	834,889.1	818,588.7
Exchange rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

N.A. - Not applicable.
Source Fitch Ratings, Fitch Solutions, BOP

Summary Financials and Key Ratios

	June 30, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020
Ratios (% , annualized as appropriate)					
Profitability					
Operating profit/risk-weighted assets	N.A.	N.A.	N.A.	N.A.	N.A.
Net interest income/average earning assets	2.2	2.1	1.9	1.4	1.1
Non-interest expense/gross revenue	28.7	30.8	30.2	34.4	33.7
Net income/average equity	24.7	26.3	27.5	18.6	19.4
Asset quality					
Impaired loans ratio	0.4	0.4	1.1	0.0	0.5
Growth in gross loans	5.1	53.3	19.7	30.3	23.5
Loan loss allowances/impaired loans	231.6	237.4	127.0	47,223.3	171.6
Loan impairment charges/average gross loans	0.0	0.0	0.6	0.3	0.2
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	N.A.	N.A.	N.A.	N.A.	N.A.
Tangible common equity/tangible assets	7.0	6.7	4.4	5.8	6.7
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	N.A.	N.A.	N.A.	N.A.	N.A.
Funding and Liquidity					
Gross loans/customer deposits	64.6	64.6	50.7	38.9	31.0
Gross loans/customer deposits + covered bonds	N.A.	N.A.	N.A.	N.A.	N.A.
Liquidity coverage ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer deposits/total non-equity funding	100.0	100.0	91.0	100.0	99.3
Net stable funding ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.

Source: Fitch Ratings, Fitch Solutions, BOP

Support Assessment

Shareholder Support	
Parent IDR	BB+
Total Adjustments (notches)	0
Shareholder Support Rating	bb+
Shareholder ability to support	
Shareholder Rating	BB+/ Stable
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colors indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

The SSR of 'bb+' reflects Fitch's opinion on the key role of BOP to Occidente and Grupo Aval. The subsidiary is crucial to the group's strategy of offering international banking services in the form of deposits in U.S. dollar for Colombian clients and loans to other clients in Latin America.

Additionally, there is a high operational and managerial integration, as most of BOP's areas report to the parent. The shared branding and strong association with Occidente and Aval increase reputational risk. Fitch believes that support from Occidente would be forthcoming if needed.

Environmental, Social and Governance Considerations

FitchRatings

Banco de Occidente (Panama), S. A.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco de Occidente (Panama), S. A. has 5 ESG potential rating drivers				Credit Rating	
<div>➡ Banco de Occidente (Panama), 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.</div> <div>➡ Governance is minimally relevant to the rating and is not currently a driver.</div>	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 reflect a negative impact unless indicated with a '+' sign for positive impact. In scores of 3, 4 or 5) and provides a brief explanation for the score.

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	

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.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance		CREDIT-RELEVANT ESG SCALE
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5		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		4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3		3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2		2
				1		1

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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