S&P Global Ratings

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Research Update:

Three Colombian Financial Institution Outlooks Revised To Negative After Similar Action On Sovereign; Ratings Affirmed

March 30, 2020

Overview

- On March 26, 2020, S&P Global Ratings revised its outlook on the long-term ratings on Colombia to negative from stable, reflecting the recent drop in oil prices, compounded by the negative global impact of COVID-19, which has weakened Colombia's external profile through lower export earnings and a wider current account deficit, and heightened concerns about its economic growth prospects.
- In our opinion, Colombia's external profile is weakening and reducing its capacity to absorb additional external shocks. Therefore, if a global economic slowdown is prolonged or external financing conditions tighten, the Colombian banking system would be more vulnerable.
- However, the prolonged period of moderate credit expansion--with conservative lending practices--and limited housing price growth are keeping economic imbalances stable.
- Moreover, our economic risk evaluation in Colombia's Banking Industry Country Risk Assessment (BICRA)--currently at '7'--already captures the potentially deteriorating credit risk resulting from the challenging economic conditions.
- Therefore, we're maintaining Colombia's BICRA at group '6' with the economic and industry risk scores unchanged, at '7' and '5', respectively. The anchor for banks operating in Colombia remains 'bb+'. The trends on economic and industry risk remain unchanged at stable and positive, respectively.
- Consequently, following the rating action on the sovereign, we're revising the outlook to negative from stable on one commercial bank--Banco Davivienda--and on two government-related entities--Financiera de Desarrollo Nacional and Financiera de Desarrollo Territorial--because they are capped by the sovereign rating.

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Rating Action

On March 30, 2020, S&P Global Ratings revised the outlook to negative from stable on the following Colombian financial institution long-term ratings, and affirmed all ratings.

- Banco Davivienda S.A.
- Financiera de Desarrollo Territorial S.A. (Findeter)
- Financiera de Desarrollo Nacional S.A. (FDN)

Please see the complete rating list below.

Rationale

The rating actions on these Colombian financial institutions follows the similar action on the sovereign (see "Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed," published March 26, 2020). This action reflects the recent drop in oil prices, compounded by the negative global impact of COVID-19, which has weakened Colombia's external profile through lower export earnings and a wider current account deficit, and heightened concerns about its economic growth prospects. In our view, there's risk that negative external shocks could undermine GDP growth prospects, contributing to worsening public finances, or pose further risks to Colombia's external liquidity. The sovereign ratings also keep reflecting its record of cautious economic management and monetary flexibility, which should partially mitigate external shocks.

The outlook revision of the above-mentioned government-owned banks, following the similar action on the sovereign, reflects their current roles and very important links to the government. Similarly, the ratings on the sovereign cap those on Banco Davivienda given its large exposure to country risk and the highly sensitive nature of its businesses to sovereign stress. The rating actions on the financial institutions are not due to the worsening of the banking system or of the entities' respective stand-alone credit profiles (SACPs).

Banking Industry Country Risk Assessment (BICRA)

We're maintaining Colombia's BICRA at group '6' with the economic and industry scores unchanged, at '7' and '5', respectively. The trends on both economic and industry risk remain unchanged at stable and positive, respectively. The anchor for banks operating in Colombia remains 'bb+'. Other countries in group '6' are Brazil, Brunei, China, Indonesia, Oman, Portugal, Thailand, Trinidad and Tobago, and Uruguay.

In 2019, Colombia's economic growth improved--its GDP increased by 3.3%, one of the highest among the region--and lending picked up in the second half of that year, after three years of moderate expansion. However, as COVID-19 spreads to more countries, the global economy is moving towards a recession, in our view. We expect the economy will slow this year--we estimate Colombia's GDP growth at 0.7%--due to the coronavirus and the collapse in oil prices, but it would avoid an economic contraction. Therefore, the expected credit rebound will remain on hold until 2021 when we expect the economy to have a sound recovery, estimated at 3.8%.

In our opinion, Colombia's weakening external profile--due to the slump in oil prices and exacerbated by the negative impact of COVID-19--will pressure export revenues and widen the current account deficit. Therefore, in our view, because the country has less capacity to absorb additional external shocks, if a global economic slowdown is prolonged or access to external funding worsens, the Colombian banking system would be more vulnerable. We believe that the increasing deficit in Colombia's current account will be transmitted to the banking system in the form of higher external funding costs and by the negative impact on banking customers who belong to economic sectors sensitive to currency fluctuations. However, we believe the prolonged period of moderate credit expansion--with conservative lending practices--and limited housing price growth somewhat contain a potential significant increase of economic imbalances in Colombia.

Due to the current stressed conditions, we expect some deterioration in asset quality because we expect lower spending on discretionary goods and services, with higher impact to entities more exposed to sensitive sectors such as oil, transportation, tourism, and importers. However, our economic risk assessment on Colombia--which is a component of our BICRA analysis, and which currently stands at '7'--already captures the potentially worsening credit risk and weaker external profile.

Outlook

Banco Davivienda S.A.

The negative outlook on Banco Davivienda reflects our view that if we downgrade the sovereign in the next 18 months, we could take the same rating action on the bank. This is because we rarely rate financial institutions above the long-term sovereign rating given that we believe that during a sovereign stress, regulatory and supervisory powers may restrict the bank's financial flexibility. We expect Banco Davivienda to maintain its leading market position in the Colombian banking industry, particularly in the consumer segment, along with its stable internal capital generation to support a projected risk-adjusted capital (RAC) ratio above 5%.

Financiera de Desarrollo Territorial S.A. (Findeter) and Financiera de Desarrollo Nacional (FDN)

The negative outlook on Findeter and FDN for the next 18 months reflects that on Colombia. If we lower the ratings on Colombia, we would do the same on these banks. It also reflects our expectation that Findeter and FDN will maintain their very high likelihood of extraordinary government support in a scenario of financial distress. We forecast Findeter and FDN to maintain their very important role and very strong link with the government. In the case of Findeter, we believe it will continue developing and implementing public policies to support the financing of sustainable urban infrastructure projects; while FDN will maintain its core goal to develop the 4G program, which is still the government's main initiative to grow the country's infrastructure sector.

Thus, the ratings on both development banks will move in tandem with those on the sovereign. Nevertheless, we could also lower the ratings on Findeter and FDN if we revise their likelihood of extraordinary government support to a weaker category due to a change in our expectations of the banks' relationship with the government.

Ratings Score Snapshot

Colombia -- BICRA Score Snapshot*

BICRA group: 6

Economic risk: 7

Economic resilience: High risk

Economic imbalances: High risk

Credit risk in the economy: High risk

Industry risk: 5

Institutional framework: High risk

Competitive dynamics: Intermediate risk

Systemwide funding: Intermediate risk

Trends

Economic risk trend: Stable

Industry risk trend: Positive

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed, March 26, 2020

- COVID-19's Darkening Shadow, March 3, 2020
- Banking Industry Country Risk Assessment Update: February 2020, Feb. 21, 2020
- Credit Conditions Latin America: Political Challenges Will Prevail In 2020, Dec. 3, 2019
- Banking Industry Country Risk Assessment: Colombia, Nov. 1, 2019
- S&P To Publish Economic And Industry Risk Trends For Banks, March 12, 2013
- Analytical Linkages Between Sovereign And Bank Ratings, Dec. 6, 2011

Ratings List

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Ratings Affirmed; Outlook Action		
	To	**From**
Banco Davivienda S.A.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
*** * * * * * * * * Financiera de Desarrollo Nacional S.A. * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Financiera de Desarrollo Nacional S.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
*** * * * * * Financiera de Desarrollo Territorial S.A. FINDETER * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Financiera de Desarrollo Territorial S.A. FINDETER		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Ratings Affirmed		
Financiera de Desarrollo Territorial S.A. FINDETER		
Senior Unsecured	BBB-	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.