

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.

PRIMARY CREDIT ANALYST

Alfredo E Calvo

Mexico City

(52) 55-5081-4436

alfredo.calvo

@spglobal.com

SECONDARY CONTACTS

Claudia Sanchez

Mexico City

(52) 55-5081-4418

claudia.sanchez

@spglobal.com

Ricardo Grisi

Mexico City

(52) 55-5081-4494

ricardo.grisi

@spglobal.com

Jesus Sotomayor

Mexico City

(52) 55-5081-4486

jesus.sotomayor

@spglobal.com

Fernando Staines

Mexico City

(52) 55-5081-4411

fernando.staines

@spglobal.com

Erick Rubio

Mexico City

(52) 55-5081-4450

erick.rubio

@spglobal.com

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

***** Banco Davivienda S.A. *****

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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.