

Research Update:

Three Colombian Financial Institutions Downgraded To 'BB+' From 'BBB-' On Same Action On Sovereign, Outlook Stable

May 20, 2021

Overview

- On May 19, 2021, S&P Global Ratings lowered its long- and short-term foreign currency ratings on Colombia to 'BB+/B' from 'BBB-/A-3'.
- We believe that fiscal adjustment will prove to be more protracted and gradual than previously expected, diminishing the likelihood of reversing the recent deterioration in public finances.
- As a result, we're lowering our long-term ratings on one commercial bank--Banco Davivienda S.A.--and on two government-owned lenders--Financiera de Desarrollo Nacional S.A. (FDN) and Financiera de Desarrollo Territorial S.A. FINDETER (Findeter)--to 'BB+' from 'BBB-'. Additionally, we're lowering our short-term rating on Banco Davivienda and Findeter to 'B' from 'A-3'.
- The outlook on the three banks is stable, reflecting that on the sovereign. The stable outlook on Colombia reflects our view that economic recovery, coupled with some fiscal measures, will stabilize the government's recently worsening debt burden in the next two to three years.

Rating Action

On May 20, 2021, S&P Global Ratings lowered the long-term ratings on Banco Davivienda, FDN, and Findeter to 'BB+' from 'BBB-' after the same rating action on the sovereign. Additionally, we lowered our short-term rating on Banco Davivienda and Findeter to 'B' from 'A-3'. The stable outlook on these banks continues mirroring that on Colombia. At the same, time we lowered our issue-level rating on Findeter's senior unsecured notes to 'BB+' from 'BBB-'.

Rationale

The downgrade of the sovereign follows the withdrawal of a fiscal reform introduced to Congress in a context of high spending pressures, which has resulted in a significantly lower likelihood of

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Colombia improving its fiscal position following a recent and marked deterioration. Given the country's high external vulnerability and moderate economic profile (balanced by adequate institutions and monetary credibility), Colombia's debt, stabilizing at about 60% of GDP during 2021-2024, and relatively large fiscal deficits are no longer consistent with an investment-grade ('BBB-' or higher) foreign currency rating.

The downgrade of the two government-owned banks reflects their economic 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. Finally, the rating actions don't reflect a deterioration in the entities' stand-alone credit profiles (SACPs).

Outlook

Banco Davivienda

The outlook on Banco Davivienda--with SACP at 'bbb'--is stable for the next 12-18 months, reflecting that on the sovereign. 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 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%.

Findeter and FDN

The outlook on Findeter and FDN--with SACPs of 'bb+' and 'bb', respectively--is stable for the next 12-18 months, reflecting that on Colombia. The outlook also reflects our view of a 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. We believe Findeter will continue developing and implementing public policies to support the financing of sustainable urban infrastructure projects. Moreover, in our view, FDN will continue focusing on developing the country's infrastructure sector, which is the government's main priority.

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

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

Downgraded; CreditWatch/Outlook Action

	To	From
Banco Davivienda S.A.		
Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3

***** Financiera de Desarrollo Nacional S.A. *****

Downgraded; CreditWatch/Outlook Action

	To	From
Financiera de Desarrollo Nacional S.A.		
Issuer Credit Rating	BB+/Stable/--	BBB-/Negative/--

***** Financiera de Desarrollo Territorial S.A. FINDETER *****

Downgraded

	To	From
Financiera de Desarrollo Territorial S.A. FINDETER		
Senior Unsecured	BB+	BBB-

Downgraded; CreditWatch/Outlook Action

	To	From
Financiera de Desarrollo Territorial S.A. FINDETER		
Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3

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