Fitch Takes Actions on Colombian Banks Following Colombia's Sovereign Outlook Revision

Fitch Ratings has conducted a portfolio review of Colombian banks following Colombia's sovereign rating outlook revision to Negative (see, “Fitch Revises Colombia’s Outlook to Negative from Stable; Affirms IDR at ‘BB+’, dated March 6, 2025 available on www.fitchratings.com). A full list of the rating actions follows at the end of this release.

Fitch revised the Outlook on Colombia's ratings to Negative from Stable on the deterioration in its fiscal position and uncertain prospects for corrective measures. The central government fiscal balance for 2024 came in at 6.7% of GDP, sharply underperforming Fitch's forecast of 5.6% of GDP, mainly due to revenue shortfalls and an inability to implement offsetting spending cuts.

Fitch Ratings assessment of the Operating Environment (OE) for Colombian banks remains unchanged, despite the Negative Outlook on the sovereign rating. This outlook is mostly driven by worsening fiscal and public debt dynamics, but not necessarily reflecting weaker economic activity or any other material headwind to the banks’ operating conditions. The banking system's sufficient capitalization, improving profitability, and reducing loan impairment charges provide adequate resilience to withstand stress from government and external shocks. GDP growth is projected to increase to approximately 2.7% in 2025, up from 1.7% in 2024.

This portfolio review includes Colombian banks with Issuer Default Ratings (IDR) rated at the same level or above that of the sovereign. Fitch believes these ratings are more sensitive to operating environment deterioration, or further actions a potential downgrade on the sovereign rating. Furthermore, the agency will not rate Colombian FIs higher than the sovereign rating, based on their current intrinsic credit profiles, except for those with highly -rated parents. Fitch has affirmed all of the ratings for the Colombian banks included in this review.

The banks' national ratings, as well as those of other financial institutions rated in Colombia, are not directly impacted, as these ratings reflect the relative strengths and weaknesses of each institution in a specific jurisdiction.

Key Rating Drivers

This group considers state-owned banks with IDRs and Government Support Ratings (GSRs) driven by implicit support from the sovereign: Financiera de Desarrollo Territorial (Findeter).

The Colombian government is the shareholder and the source of any potential support, if required. Their respective IDRs are driven by their Government Support Rating (GSR) of 'bb+', which reflects Fitch's assessment of the propensity and ability of support from the bank's sole shareholder, the Colombian government (BB+/Negative), if needed. Their LT IDRs were revised to negative as the creditworthiness of these entities is linked to the sovereign, given their policy role, state ownership and high strategic importance to the government. Therefore, their ratings have been traditionally equalized to the sovereign's.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

--As development banks that are majority owned by the state, Findeter, creditworthiness and ratings are directly linked to those of the sovereign. Hence, its ratings and Outlook will move in line with any potential change in Colombia's ratings;

-- Although not a baseline scenario, Findeter's ratings could change if Fitch perceives a decrease in the bank's strategic importance to the government's public policies, such as a shift in its countercyclical role or supporting commercial companies either directly or through wholesale loans.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An upgrade is highly unlikely in the near future as the IDRs are constrained by the sovereign rating;

--Positive Rating actions on Findeter will mirror any potential positive change in Colombia's sovereign rating.