Outlooks On Seven Banks Revised To Negative Following Similar Rating Action On Colombia; Ratings Affirmed

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- On Jan. 18, 2024, we revised our outlook on Colombia to negative from stable due to subdued economic growth prospects. Lower growth, absent corrective measures, could contribute to fiscal slippage or higher external vulnerabilities. At the same time, we affirmed our 'BB+/B' foreign currency and 'BBB-/A-3' local currency sovereign credit ratings on the country.
- These risks are already incorporated in our analysis of the Colombian banking sector and remain consistent with our current assessment of the economic risk. Therefore, we're maintaining Colombia's Banking Industry Country Risk Assessment (BICRA) factors (including their stable trends), subfactors, group, and anchor unchanged.
- However, we're revising our outlook on three Colombian commercial banks and subsidiaries, and on two government-owned banks to negative from stable. We're also affirming all ratings on these entities. This is because we don't rate Colombian financial institutions above the foreign currency sovereign ratings due to the direct and indirect effects sovereign stress would have on banks' business operations and creditworthiness.

MEXICO CITY (S&P Global Ratings) Jan. 19, 2024--S&P Global Ratings revised its outlook on the following Colombian banks:

- Bancolombia S.A. y Companias Subordinadas (Bancolombia) and its Panama-based core subsidiaries Banistmo S.A. and Bancolombia Panama S.A.;
- Banco de Bogota S.A. y Subsidiarias (BBogota);
- Banco Davivienda S.A. (Davivienda);
- Financiera de Desarrollo Territorial S.A. FINDETER; and
- Financiera de Desarrollo Nacional S.A. (FDN).

At the same time, we affirmed the 'BB+/B' long- and short-term issuer credit ratings on the banks. Finally, we affirmed all the issue ratings on the banks' debt (see the ratings list for details).

The sovereign rating action signals the risk of a potential structural change in Colombia's economic growth prospects in the coming years. If this scenario materializes, with GDP growth dropping below its trend rate of just above 3%, absent corrective measures, it could contribute to fiscal slippage or higher external vulnerabilities. Therefore, there's a risk of a downgrade in the next two years. We expect broad continuity in fiscal and monetary policies within a stable political environment. Please see "Colombia Outlook Revised To Negative On Subdued Economic Growth Prospects; 'BB+/B' Foreign Currency Ratings Affirmed", Jan. 18, 2024.

The risks stemming from the rating action on Colombia are already incorporated in our BICRA and remain consistent with our current assessment of the economic risk. We believe that risks of a potential structural downshift in economic growth, which could dent Colombia's fiscal and external position, is increasing. However, our base-case scenario is that if these risks materialize, they wouldn't occur simultaneously during the next 6-12 months. Therefore, we're maintaining Colombia's BICRA factors (including their stable trends), subfactors, group, and anchor unchanged (please see below our current BICRA score snapshot for Colombia). If one of these risks materializes in the short term, we could revise our economic risk trend for the Colombian banking sector to negative from stable, reflecting weakening economic resilience and a smaller room to maneuver under the current economic risk level ('7').

In our view, the Colombian banking sector maintains characteristics that still support a stronger economic risk assessment than those of regional peers at an economic risk level of '8', such as Costa Rica, Honduras, Jamaica, and Paraguay. For instance, the Colombian economy reflects wider diversification and higher GDP per capita than those of peers, resulting in a more resilient economy. Moreover, the Colombian banking sector's loan portfolio is well-diversified (by economic sectors, business lines, and customers), it has a low exposure to foreign-currency loans, and it has a conservative approach toward consumer and mortgage lending. The latter is seen in payroll loans representing about 40% of consumer loans, while loan-to-values for mortgages are regulated by the banking authority.

We're revising our outlook on five Colombian banks to negative from stable, and affirming our ratings on them. Even though our BICRA assessment (and trends) on Colombia remain unchanged, we're taking the rating action on Bancolombia and its subsidiaries, Banco de Bogota and Davivienda, similar to that on the sovereign. This is because we don't rate Colombian financial institutions above the foreign currency sovereign ratings due to the direct and indirect effects sovereign stress would have on banks' business operations and creditworthiness. The ratings on Findeter and FDN, which are government-related entities, benefit from the sovereign support and they can't be above that level.

Bancolombia

Outlook

The negative outlook on Bancolombia reflects our negative outlook on Colombia. This is because in a sovereign stress, regulatory and supervisory powers may restrict the bank's financial flexibility. In our view, the bank is affected by many of the same economic factors that cause sovereign stress.

The negative outlooks on subsidiaries Banistmo and Bancolombia Panama reflect the outlook on Bancolombia. The ratings on the subsidiaries will move in tandem with those on their parent because we consider them integral to the group's current identity and future strategy.

Downside scenario. If we downgrade the sovereign in the next two years, we could take the same action on Bancolombia.

Upside scenario. If we revise the outlook on Colombia to stable in the next 12-24 months, we would take the same action on Bancolombia.

BBogota And Davivienda

Outlook

The negative outlook for the next two years on Davivienda and BBogota mirrors that on Colombia. This is because in a sovereign stress, regulatory and supervisory powers may restrict the banks' financial flexibility. In our view, banks are affected by many of the same economic factors that cause sovereign stress.

Downside scenario. We could lower the ratings on both entities if we downgrade the sovereign in the next 24 months.

Upside scenario. We could revise our outlook on both entities to stable if we were to take the same rating action on the sovereign.

Findeter And FDN

Outlook

The negative outlook on FDN and Findeter for the next two years reflects the negative outlook on Colombia. Thus, the ratings on both government-related entities will continue to move in tandem with those on the sovereign, reflecting their key role for--and very strong link to--the government as both support and develop the infrastructure sector in the country.

Downside scenario. We could lower the ratings on both entities if we downgrade Colombia in the next 24 months.

Upside scenario. We could revise the outlook on both entities to stable in the next 24 months if we were to take the same action on Colombia.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Sovereign Rating Methodology, Dec. 18, 2017
- 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. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Colombia Outlook Revised To Negative On Subdued Economic Growth Prospects; 'BB+/B' Foreign Currency Ratings Affirmed, Jan. 18, 2024
- Banking Industry Country Risk Assessment Update: December 2023, Dec. 20, 2023
- Latin America Sector Roundup Q4 2023: Uneven Trends Amid Rising Crosscurrents, Oct. 24, 2023
- Banking Industry Country Risk Assessment: Colombia, May 30, 2023
- Colombia's Banking Industry Country Risk Assessment Unchanged On Evolving Industry Risks; No Ratings Affected, May 9, 2023

BICRA Score Snapshot*

Colombia

BICRA group	6
Economic risk	7
Economic resilience	High risk
Economic imbalances	High risk
Credit risk in the economy	High risk
Trend	Stable
Industry risk	5
Institutional framework	Intermediate risk
Competitive dynamics	Intermediate risk
Systemwide funding	High risk
Trend	Stable

*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.

Ratings List

* * * * * * * * * * * * * Banco Davivienda S.A. * * * * * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Banco Davivienda S.A.		
Issuer Credit Rating	BB+/Negative/B	BB+/Stable/B
* * * * * * * * * * Banco de Bogota S.A. y Subsidiarias * * * * * * * * *		
Ratings Affirmed		
Banco de Bogota S.A. y Subsidiarias		
Senior Unsecured	BB+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Banco de Bogota S.A. y Subsidiarias		
Issuer Credit Rating	BB+/Negative/B	BB+/Stable/B
* * * * * * * * Bancolombia S.A. y Companias Subordinadas * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Bancolombia Panama S.A.		
Banistmo S.A.		
Bancolombia S.A. y Companias Subordinadas		
Issuer Credit Rating	BB+/Negative/B	BB+/Stable/B
* * * * * * * * * Financiera de Desarrollo Nacional S.A. * * * * * * * * *		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Financiera de Desarrollo Nacional S.A.		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
* * * * * * Financiera de Desarrollo Territorial S.A. FINDETER * * * * * *		
Ratings Affirmed		
Financiera de Desarrollo Territorial S.A. FINDETER		
Senior Unsecured	BB+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Financiera de Desarrollo Territorial S.A. FINDETER		
Issuer Credit Rating	BB+/Negative/B	BB+/Stable/B

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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