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## Research Update:

# Various Rating Actions Taken On Six Colombian Financial Institutions After Downgrade Of Sovereign, BICRA Remains At '6'

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## Research Update:

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## Overview

- On Dec. 11, 2017, we lowered our long-term foreign currency sovereign credit rating on the Republic of Colombia to 'BBB-' from 'BBB' and its long-term local currency sovereign credit rating to 'BBB' from 'BBB+'. Such rating action reflects Colombia's weakened fiscal and external profiles diminishing policy flexibility.
- However, our economic risk assessment on the Colombian banking system already reflects the country's weakening fiscal profile and external position that results in moderate vulnerability to current account imbalances that affect financial institutions. Also, our very high economic risk score in Colombia's Banking Industry Country Risk Assessment (BICRA) already captures the potentially deteriorating credit risk resulting from the increasing economic imbalances.
- Therefore, we're maintaining Colombia's BICRA at group '6' with the economic and industry scores unchanged, at '7' and '5', respectively. The anchor for banks operating in Colombia remains at 'bb+'. The trends on economic and industry risk remain stable.
- However, as a result of the sovereign downgrade, we're lowering our ratings on two commercial banks--Bancolombia and Banco de Bogota (including their related core subsidiaries)--and on two government-related entities--Financiera de Desarrollo Nacional and Financiera de Desarrollo Territorial--reflecting lower support capacity from the government. At the same time, we're affirming our ratings on Banco Davivienda--based on its stand-alone credit profile that's currently at the sovereign level--and on Credivalores.

## Rating Action

On Dec. 12, 2017, S&P Global Ratings lowered its ratings on the following Colombian commercial banks and on their respective core entities to 'BB+/B' from 'BBB-/A-3'. The outlook on these entities is now stable.

- Bancolombia, S. A. y Compañías Subordinadas (Bancolombia);
- Bancolombia Panama S.A.;
- Banistmo S.A.;
- Banco de Bogota S.A. y Subsidiarias (BBogota);
- BAC International Bank Inc. (BIB); and
- Credomatic International Corp.

We also lowered our ratings on BBogota's senior unsecured notes due 2027 and

on Banistmo's senior unsecured notes for approximately \$300 million with maturity of up to 10 years to 'BB+' from 'BBB-'.

We also lowered our ratings on the following government-related entities (GREs): Financiera de Desarrollo Territorial S.A. FINDETER (Findeter) to 'BBB-/A-3' from 'BBB/A-2' and Financiera de Desarrollo Nacional S.A. (FDN) to 'BBB-' from 'BBB'. The outlook on these entities is now stable. We also lowered our issue-level rating on Findeter's \$500 million fixed-rate senior unsecured notes due 2024, or its equivalent in Colombian pesos, to 'BBB-' from 'BBB'.

Finally, we affirmed our ratings on Banco Davivienda S.A. at 'BBB-/A-3' and on Credivalores - Crediservicios SAS at 'B+/B'. The outlook on both entities remains stable. We also affirmed our 'BBB-' issue-level rating on Davivienda's \$500 million senior unsecured debt and on our 'B+' issue-level rating on Credivalores' senior unsecured notes.

Please see the complete rating list below.

## **Rationale**

The rating actions on these Colombian financial institutions follows the downgrade of the sovereign (see "Colombia Foreign Currency Issuer Credit Ratings Lowered To 'BBB-/A-3' On Weaker Policy Flexibility; Outlook Stable," published Dec. 11, 2017). The downgrade reflects, in our view, Colombia's weakening external profile given still high external debt, which is subject to terms of trade volatility. Even though we expect Colombia's fiscal deficits to decrease, the benefits of the 2016 fiscal reform have been lower than expected with recourse to one-off revenues. In our view, fiscal challenges include complying with the fiscal rule beyond 2018 amid low expenditure flexibility and limited appetite for additional and immediate tax reforms.

The combination of weaker-than-expected growth and reliance on one-off revenues this year to offset revenue underperformance from the 2016 tax reform demonstrates the difficulty of gradually reducing the general government deficits to comply with Colombia's fiscal rule. The Colombian economy continues to suffer from the knock-on effects of lower commodity prices, reflected in the high level of external debt and pronounced volatility in the country's terms of trade.

Our economic risk assessment, which is a component of our BICRA analysis, already captures Colombia's weaker fiscal profile and external condition. The latter results in a moderate vulnerability to current account imbalances that affect financial institutions. Moreover, the very high economic risk score in Colombia's BICRA already captures the potentially deteriorating credit risk resulting from the increasing economic imbalances. Therefore, we're maintaining Colombia's BICRA at group '6' with the economic and industry scores unchanged, at '7' and '5', respectively, with stable trends in both cases. The anchor for banks operating in Colombia remains at 'bb+'.

The weakening credit quality of the abovementioned financial institutions stem from the downgrade of the sovereign, reflecting the government's lower capacity to support commercial banks of high systemic importance and financial GREs. We want to emphasize that rating actions on financial institutions are not due to deterioration of the banking system or of their respective stand-alone credit profiles (SACPs).

Our ratings on Bancolombia and BBogota incorporate one notch of government support, given the banks' high systemic importance and our view of the government as being supportive towards its financial system, which results in a moderately high likelihood of extraordinary government support to the bank. Nevertheless, our view of these banks and the government hasn't changed: following the sovereign's downgrade, we're not incorporating this additional notch anymore. In our view, the Colombian government's capacity and willingness to support banks is now lower than in the past. Therefore, the ratings now reflect the banks' SACP.

Given the core status of Bancolombia Panama and Banistmo to Bancolombia, the ratings on both subsidiaries will move in tandem with those on the parent. Therefore, we lowered ratings on both entities to 'BB+/B' from 'BBB-/A-3'. The core subsidiary status of BIB and Credomatic also prompted us to move their ratings in tandem with those on BBogota. Therefore, rating on these subsidiaries reflects those on BBogota at 'BB+/B-'.

After the sovereign's downgrade, Davivienda's 'bbb-' SACP is now at the same level as the 'BBB-' foreign currency sovereign rating. Therefore, even though we consider this entity of high systemic importance, the issuer credit ratings on it still don't reflect government support and remain at 'BBB-/A-3'.

As a result of the downgrade on Colombia, we are taking a similar rating action on its two development banks, FDN and Findeter, reflecting the government's lower capacity to support its GREs. FDN's 'bb' SACP and the extremely high likelihood of government support now provide two-notch uplift to the 'BBB-' credit rating. And Findeter's 'bb+' SACP and a very high likelihood of extraordinary government support in case of financial distress now results in a one-notch uplift to the 'BBB-' credit rating.

The 'B+' issuer credit rating on Credivalores is lower than the sovereign rating and doesn't reflect any government or group support. Also, the unchanged anchor for Colombia's finance companies has no impact on the firm.

## **Outlook**

The stable outlook on Bancolombia and BBogota reflects their respective SACPs. For the next 12 months, we expect both banks to maintain leading business positions in Colombia and Central America, while maintaining asset quality indicators at manageable levels and a conservative liquidity management. Also, the stable outlook reflects their risk-adjusted capital ratios (RACs) of below

5% and a funding mix in line with the Colombian financial system.

As we mentioned above, given the core status of Bancolombia Panama and Banistmo to Bancolombia, and BIB and Credomatic to BBogota, these subsidiaries' stable outlook reflects that on their parents.

The stable outlook on Davivienda for the next 24 months reflects that on Colombia and our expectation that the bank will maintain its solid market position as one of the three largest financial conglomerates in the country, while continuing to strengthen its market position in Central America. We believe that, despite the economic challenges in the region, Davivienda's asset quality metrics and its capitalization levels will remain stable in the next 24 months, with nonperforming assets of around 2.20% and a projected RAC ratio above 5%. The bank's diversified business activities, prudent underwriting standards, and stable internal capital generation will support these metrics. We could lower our long-term rating on Davivienda during the next two years if we take a similar rating action on the sovereign or if the bank's SACP drops to 'bb+' from 'bbb-'. We don't expect an upgrade in the next 24 months because even if the bank's SACP rises to 'bbb' from 'bbb-', we would maintain its issuer credit ratings at the same level as on the sovereign, given that we rarely rate financial institutions above the sovereign long-term rating. This is because during sovereign stress, the latter's regulatory and supervisory powers may restrict a bank's or financial system's flexibility, and because banks are affected by many of the same economic factors that cause sovereign stress.

The stable outlook on FDN and Findeter for the next 24 months reflects that on Colombia. Our ratings on both entities reflect our current assessments of the likelihood of extraordinary government support--extremely high for FDN and very high for Findeter--and their respective SACPs. We could lower the ratings on these entities if we reassess the likelihood of government support to a weaker category or if FDN's SACP drops two or more notches and Findeter's by three or more notches. However, such an event is not part of our base-case scenario. An upgrade of Colombia would result in a similar rating action on FDN and Findeter if our assessments of extraordinary government support and their SACPs remain unchanged.

The stable outlook on Credivalores for the next 12 months reflects our view that it will maintain a RAC ratio of 8.5%, manageable asset quality metrics--with NPAs below 12.5% of its total portfolio and similar reserve coverage--and a concentrated funding structure. The stable outlook also incorporates our view of the company's good market position and diversified business mix.

## **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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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 Foreign Currency Issuer Credit Ratings Lowered To 'BBB-/A-3' On Weaker Policy Flexibility; Outlook Stable, Dec. 11, 2017 Credit Conditions: Favorable Conditions In Latin America Should Remain, But Elections Loom, Nov. 30, 2017
- Banking Industry Country Risk Assessment Update: November 2017, Nov. 10, 2017
- Banking Industry Country Risk Assessment: Colombia, Sept. 14, 2017
- Latin American Banks 2017 Midyear Outlook: Sluggish Economy To Continue Adding Pressure, Despite Comfortable Liquidity Levels, Aug. 24, 2017

## Ratings List

Ratings Lowered, Outlook Action

	To	From
Bancolombia Panama S.A. Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3
Bancolombia, S. A. y Companias Subordinadas Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3
Banistmo S.A. Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3
Senior Unsecured	BB+	BBB-

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Credomatic International Corp.

Issuer Credit Rating      BB+/Stable/B      BBB-/Negative/A-3

BAC International Bank Inc.

Issuer Credit Rating      BB+/Stable/B      BBB-/Negative/A-3

Banco de Bogota S.A. y Subsidiarias

Issuer Credit Rating      BB+/Stable/B      BBB-/Negative/A-3

Senior Unsecured      BB+      BBB-

Financiera de Desarrollo Nacional S.A.

Issuer Credit Rating      BBB-/Stable/--      BBB/Negative/--

Financiera de Desarrollo Territorial S.A. FINDETER

Issuer Credit Rating      BBB-/Stable/A-3      BBB/Negative/A-2

Senior Unsecured      BBB-      BBB

Ratings Affirmed

Banco Davivienda S.A.

Issuer Credit Rating      BBB-/Stable/A-3

Senior Unsecured      BBB-

Credivalores - Crediservicios SAS

Issuer Credit Rating      B+/Stable/B

Senior Unsecured      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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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