FitchRatings

Banks
Development Banks
Colombia

Financiera de Desarrollo Territorial S.A.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B
Government Support Rating	bb+

National Rating

National Long-Term Rating	AAA
National Short-Term Rating	F1+

Sovereign Risk (Colombia)

Long-Term Foreign-Currency IDR	BB+
Long-Term Local-Currency IDR	BB+
Country Ceiling	BBB-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

Colombia (July 2023)

Colombian Banks: 1H23 Review & Update (October 2023)

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Key Rating Drivers

Government Support Rating: Financiera de Desarrollo Territorial S.A.'s (Findeter) Issuer Default Ratings (IDRs) and senior debt are driven by its Government Support Rating (GSR), which is equalized to Colombia's Long-Term IDR (BB+/Stable). The ratings reflect Fitch Ratings' assessment of the Colombian government's propensity and ability to provide timely support to Findeter if needed. Although the Colombian government does not explicitly guarantee all of Findeter's liabilities, Fitch views the entity as an integral arm of the state, given its role in implementing economic development policies of the government's National Development Plan, its role in financing regional and urban infrastructure, and the state's majority ownership. Colombia's ability to support the development bank is reflected in its sovereign rating.

GSR indicates the minimum level to which the entity's Long-Term IDRs could fall if Fitch does not change its view on potential sovereign support.

The national ratings of Findeter, which are at the highest level in the ratings scale, are relative rankings of creditworthiness within Colombia. These are based on potential sovereign support, if needed.

Policy Bank Role: Findeter is a wholesale development bank, which structures general obligation loans to supervised financial institutions, as well as direct lines to a lesser extent, generally backed by promissory notes from infrastructure projects. Findeter's mission as a development bank to channel financing for infrastructure projects on behalf of the state allows the entity to foster a social impact while ensuring a profitable return aligned with inflation.

Since 2020, Findeter has strengthened its role as a local development bank by financing key sectors through special and direct lines of credit. Moreover, aligned with the National Development Plan for 2022-2026, Findeter will grant direct loans to community-based organizations and special purpose vehicles structured for investment projects in eligible sectors. The aforementioned further supports Fitch's opinion of the entity's relevant policy role.

Good Asset Quality: Due to its wholesale nature and its exposure to large, primarily regulated financial institutions, Findeter has historically sustained low rates of delinquency in its loan portfolio. At June 2023, past due loans (PDLs) greater than 30 days totaled 0.1%. Despite its high concentrations, with the top 20 exposures accounting for 99.9% of total loans, concentration risk is mitigated by high reserves, which covered 564.4% of PDLs greater than 30 days.

Improvement in Profitability: At June 2023, the bank's profitability had an exceptional result as the operating profit to risk-weighted assets ratio improved to 5.9%, above the average of the last four years of 2.1%. The significant increase in interest income, given the environment of high interest rates and, during 2020, the entity negotiated its financial costs by changing a part of its financial obligations from variable to fixed rates, boosted the ratio.

Robust Capitalization: Fitch believes Findeter's capital is robust and sufficient to maintain growth and absorb potential losses. The high capitalization metrics are supported by recurrent profitability and the bank's legal restriction on the payment of cash dividends. As of June 2023, the common equity tier 1 (CET1) ratio was 23.1%, which compared favorably with its local and international peers.

Stable Funding: Findeter's funding structure is stable and is diversified by funding source. The loans to customer deposits ratio of 158.1% at the same date exceeded the banking sector average (107.7%), as the bank utilizes longer tenor funding that helps better match its asset and liability structure.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Findeter's GSR and IDRs could be downgraded if the sovereign rating is downgraded.
- Findeter's GSR, IDRs and National Scale ratings could also be downgraded if Fitch perceives a decrease in the bank's policy role for the government, but this scenario is unlikely over the medium term.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Findeter's GSR and IDRs could be upgraded in the event of a similar action on Colombia's sovereign ratings, absent any change in Fitch's view of the government's propensity to provide support to this bank.
- National ratings have no upside potential because they are at the highest level in the national rating scale.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior Unsecured Debt	BB+
National Subordinated Debt	AA(col)

Source: Fitch Ratings

Senior Unsecured Debt

The rating of Findeter’s senior unsecured debt is at the same level as the bank's 'BB+' Long-Term IDR as the likelihood of default of the debt issuance is the same as the likelihood of default of the bank.

Subordinated Debt

Findeter's subordinated bonds are rated 'AA(col)' on the National Scale, two notches below Findeter's Long-Term National Scale rating of 'AAA(col)', reflecting two notches for loss severity (-2) , given the terms of the issuances (plain-vanilla subordinated debt).

Senior and subordinated notes' ratings are sensitive to any changes in Findeter's IDRs; therefore, the debt ratings will follow the same direction and magnitude on Findeter's ratings movements.

Company Summary and Key Qualitative Factors

Business Profile

Findeter is a Special Official Institution (SOI) tied to the Ministry of Finance and Public Credit and is the strategic partner of the national government and territorial entities for the planning, structuring, financing and execution of sustainable projects; thus, its strategy is aligned with the government's long-term National Development Plan. It was established in 1989 as a development bank to promote financing of infrastructure projects in municipalities and departments across Colombia (e.g. in transport, energy, telecommunications, education, health and housing).

As a development bank, Findeter offers rediscount loans for private and public entities, for the financing up to 100% of the project costs. Since 2020, Findeter has strengthen its role as a local development bank by financing key sectors through special and direct lines of credit. Moreover, aligned with the National Development Plan for 2022-2026, Findeter will grant direct loans to community-based organizations and special purpose vehicles structured for investment projects in eligible sectors. The aforementioned further supports Fitch's opinion on the entity's relevant policy role.

Risk Profile

Findeter exhibits a moderate risk appetite in line with its mission and business model. Its loan portfolio consists of loans and leasing arrangements to regulated financial intermediaries and local development entities (INFIS) supervised by the Colombian Financial Superintendence, which channel these resources to development projects. Under its re-discount business model, loans to financial institutions are backed by promissory notes to final beneficiaries. Loans are provided for up to 100% of project cost for a maximum tenor of 15 years, up to a 3-year grace period, in foreign or local currencies at fixed or floating interest rates. In addition, Findeter is restricted from lending to public sector intermediaries.

Findeter's portfolio growth is susceptible to large fluctuations from year to year, affected by changes in the relatively small pool of credits as well as availability of subsidized interest rates. This is exacerbated by long pipeline development processes, large ticket sizes and relatively high levels of liquidity in the banking system. At June 2023, gross loans grew by 0.1%, compared with growth of 15.6%. at YE 2022.

Financial Profile

Asset Quality

In Fitch's opinion, Findeter has a good asset quality, sustained in low rates of delinquency and robust reserves. Due to its wholesale nature and exposure to large, primarily regulated financial institutions and focus on infrastructure projects, Findeter has historically sustained low rates of delinquency in its loan portfolio. At June 2023, the NPL ratio was 0.1%.

Non-performing loans increased 4x in 2022 compared to 2021; however, the NPL ratio is still below 0.2%. The majority of impaired loans correspond to loans granted to small municipalities that have been affected by the spike in interest rates. These loans include specific names of utilities companies but are backed by guarantees. Fitch does not expect a further deterioration in asset quality metrics.

Given the bank's business model, its loan book by economic group is highly concentrated; the top 20 exposures represented 99.9% at June 2023, which accounted for 5.9x of Findeter's capital. Although loan quality indicators could be significantly impacted by a change in creditworthiness of one exposure, concentration risk is mitigated by the high reserves of 564.4% at June 2023. To date, the bank has not recorded chargeoffs.

Findeter holds a minor portion of its assets as securities, which made up 6,1% of total assets and correspond to debt issued by largest local banks and government debt.

Earnings and Profitability

At June 2023, the bank's profitability was exceptional; operating profit to risk-weighted assets improved to 5,9%, above the average of the last four years of 2.1%. The significant increase in interest income, given the environment of high interest rates and, during 2020, the entity negotiated its financial cost, changing from variable to fixed rates, boosted the ratio. However, once the interest rates start to decrease, profitability of Findeter will slowly return to its historical average.

Historically, Findeter's profitability has reflected its business model, with narrow margins given its development bank nature. At June 2023, operating income rose by 47.4%, mainly reflecting the increase of 443 bps in the net interest margin (NIM), which benefited from higher interest rates and Findeter's cost structure. The increase also reflected high gains in derivatives valuation.

Findeter has implemented good expense management; historically, the cost-to-income ratio has been below 60%. Despite non-interest expenses increasing 15%, the cost-to-income ratio improved to 47.4%, due to the significant rise in operating income.

At June 2023, loan impairment charges accounted for 4.8% of pre-impairment operating profit, below its average of the last four years of 12.7%. In Fitch´s opinion, impairment charges remain adequate and reflect Findeter's lower risk business model.

Capital and Leverage

Fitch believes Findeter's capital is robust and deem it sufficient to maintain growth and absorb potential losses. The high capitalization metrics are supported on recurrent profitability and that the bank has a legal restriction on the payment of cash dividends, which further supports the bank's capitalization.

With the adoption of Basel III guidelines in Colombia since 2021, Findeter's regulatory capital ratio has improved, mainly due to the decrease in risk weighted asset density, benefiting from the high coverage of guarantees. At June 2023, CET1 was 23.1%, which compares favorably with its local and international peers. At December 2022, the CET1 ratio decreased to 21.8% from 27.9% in 2021, due to the significant increase of 20% in risk weighted assets.

Funding and Liquidity

Findeter's funding structure primarily comprises term deposits, which made up 62.4% of total funding at June 2023. Additionally, Findeter has established market access to local and international debt markets and multilateral entities. The loans to customer deposits ratio of 158.1% at June 2023 exceeded the banking sector average (107.7%), as the bank utilizes longer tenor funding that helps better match its assets and liabilities structure. Given its business model, there is a high concentration by depositor; the top 9 depositors by economic group accounted 78.8% (3.7x capital) of total deposits.

The bank holds credit lines with international development banks such as Interamerican Development Bank (IDB) (51%), KFW (German state-owned development bank; 15%) and Agence Francaise de Development (11%). In 2022, financial obligations increased with the loan granted by JPMorgan for COP623 billion, which is guaranteed by the multilateral Investment Guarantee Agency (MIGA). IDB obligations are guaranteed by the government. Bonds issuances accounted for 13.7% of total funding at June 2023, with international bonds accounting for 61%, sustainable bonds, 25.8%, and subordinated bonds, 13.1%.

At June 2023, liquid assets accounted for 16.6% of customer deposits. For liquidity risk management, Findeter follows the standard model of the Colombian financial superintendence and monitors liquidity stress scenarios. In addition, Findeter has a liquidity contingency plan, which is activated when the liquidity risk ratio (IRL) in the 7- or 30-days range is negative. The liquidity contingency plan includes an increase of deposits, liquidation of highly liquid investments, liquidation of securities with low liquidity, suspension of loan disbursements, access to interbank loans and, finally, access to temporary liquidity support of Banco de la Republica.

Financials

Income Statement

	June 30, 2023		Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
Summary Income Statement					
Net Interest and Dividend Income	66	277,9	366,7	168,7	173,3
Net Fees and Commissions	4	16,1	60,3	82,0	57,8
Other Operating Income	-2	-8,9	-40,2	41,5	-2,6
Total Operating Income	68	285,1	386,8	292,2	228,5
Operating Costs	32	135,1	234,8	187,2	167,2
Pre-Impairment Operating Profit	36	149,9	152,0	105,0	61,3
Loan and Other Impairment Charges	2	7,2	16,3	11,7	14,7
Operating Profit	34	142,7	135,7	93,3	46,6
Other Non-Operating Items (Net)	0	0,0	0,0	-1,7	-16,1
Tax	12	52,2	49,5	14,4	22,9
Net Income	22	90,5	86,2	77,2	7,6
Other Comprehensive Income	N.A.	N.A.	-61,9	2,6	-7,2
Fitch Comprehensive Income	22	90,5	24,3	79,8	0,4

N.A. – Not applicable
Source: Fitch Ratings, Fitch Solutions

Balance Sheet

	June 30, 2023		Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
Assets					
Gross Loans	2.653	11.118,5	11.104,5	9.608,7	10.070,9
- of which impaired	3	12,2	16,5	3,2	6,9
Loan Loss Allowances	16	68,6	64,9	63,0	70,4
Net Loan	2.636	11.049,9	11.039,6	9.545,7	10.000,5
Interbank	14	56,8	13,6	190,7	47,0
Derivatives	0	1,1	65,5	62,2	0,6
Other Securities and Earning Assets	194	811,2	665,5	556,0	362,1
Total Earning Assets	2.844	11.919,0	11.784,1	10.354,6	10.410,2
Cash and Due From Banks	178	744,8	1.019,9	922,7	1.133,6
Other Assets	158	664,2	605,8	320,5	229,5
Total Assets	3.180	13.328,1	13.409,8	11.597,8	11.773,3
Assets					
Liabilities					
Customer Deposits	1.678	7.032,6	6.916,1	6.296,5	6.776,7
Interbank and Other Short-Term Funding	644	2.699,2	3.154,5	2.220,5	0,0
Other Long-Term Funding	369	1.546,7	1.545,3	1.542,7	3.579,2
Trading Liabilities and Derivatives	59	247,7	14,8	2,5	58,4
Total Funding and Derivatives	2.750	11.526,1	11.630,7	10.062,2	10.414,3
Other Liabilities	76	320,5	395,5	232,6	135,9
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	353	1.481,5	1.383,6	1.303,0	1.223,1
Total Liabilities and Equity	3.180	13.328,1	13.409,8	11.597,8	11.773,3
Exchange Rate		USD1 = COP4191,28	USD1 = COP4810,2	USD1 = COP3997,71	USD1 = COP3444,9

N.A. – Not applicable
Source: Fitch Ratings, Fitch Solutions

Summary Financials and Key Ratios

	June 30, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Ratios (annualized as appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	5,9	2,9	2,4	0,8
Net Interest Income/Average Earning Assets	4,7	3,3	1,6	1,7
Non-Interest Expense/Gross Revenue	47,4	60,7	64,1	73,2
Net Income/Average Equity	12,8	6,5	6,2	0,6
Asset Quality				
Impaired Loans Ratio	0,1	0,2	0,0	0,1
Growth in Gross Loans	0,1	15,6	-4,6	12,9
Loan Loss Allowances/Impaired Loans	564,4	394,7	1.968,8	1.020,3
Loan Impairment Charges/Average Gross Loans	0,1	0,2	0,1	0,2
Capitalization				
Common Equity Tier 1 Ratio	23,8	21,8	27,9	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	N.A.	32,9	20,1
Tangible Common Equity/Tangible Assets	11,1	10,3	11,2	10,4
Funding and Liquidity				
Gross Loans/Customer Deposits	158,1	160,6	152,6	148,6
Gross Loans/Customer Deposits + Covered Bonds	N.A.	N.A.	N.A.	N.A.
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	62,4	59,5	62,6	65,4
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable
Source: Fitch Ratings, Fitch Solutions

Support Assessment

Policy Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bb+ or bb
Actual jurisdiction D-SIB GSR	bb+
Government Support Rating	bb+
Government ability to support D-SIBs	
Sovereign Rating	BB+/ Stable
Sovereign financial flexibility (for rating level)	
Government propensity to support D-SIBs	
Resolution legislation	
Support stance	
Government propensity to support bank	
Systemic importance	
Liability structure	
Ownership	
Policy role and status	
Ownership	Equalised
Policy role	Equalised
Guarantees and legal status	Equalised

The colors indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

In Fitch's opinion, the bank's GSR of 'bb+', in line with the sovereign, reflects the high propensity of the Colombian government to support, given the bank's ownership structure and policy role. The government's current ability to support is reflected in the sovereign's IDR of BB+. GSR indicates the minimum level to which the entity's Long-Term IDR could fall if Fitch does not change its view on potential sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Financiera de Desarrollo Territorial S.A. - Findeter**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Financiera de Desarrollo Territorial S.A. - Findeter has 5 ESG potential rating drivers

- Financiera de Desarrollo Territorial S.A. - Findeter has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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