



RATING ACTION COMMENTARY

Fitch Affirms Findeter's IDR at 'BB+'; Outlook Stable

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Fitch Ratings - Monterrey/Bogota - 12 Oct 2022: Fitch Ratings has affirmed Financiera de Desarrollo Territorial S.A.'s (Findeter) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+'. The Rating Outlook is Stable. Fitch has also affirmed Findeter's National Long-Term Rating at 'AAA(col)', Outlook Stable.

Fitch has withdrawn Findeter's Support Rating of '3' and Support Rating Floor of 'BB+' as it is no longer relevant to the agency's coverage following the publication of Fitch's updated Bank Rating Criteria on Nov. 12, 2021. In line with the updated criteria, Fitch has assigned Findeter a new Government Support Rating (GSR) of 'bb+'.

KEY RATING DRIVERS

Government Support Rating: Findeter's IDRs and senior debt are driven by its GSR, which is equal to Colombia's Long-Term IDR (BB+/Stable). The ratings reflect Fitch's 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.

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

Since the national government declared an economic, social and ecological emergency in 2020, Findeter has strength its role as a local development bank, supporting private sector and state-owned companies and financing key sectors through special and direct lines of credit after the coronavirus outbreak, which further supports Fitch's opinion on the entity's relevant policy role.

Findeter's impairments have been low historically, as the majority of its credit exposure is to the nation's largest banks, with NPLs reaching only 0.03% at June 2022. Despite its high concentrations, top 20 exposures accounted for 99.98% of total loans, concentration risk is mitigated by the high reserves of 1702.2%. At the same date, the bank's operating profit to risk-weighted assets ratio improved to 2.5 %, above the average of the last four years of 1.8%. The significant increase in net interest margin, given the environment of high interest rates, boosted the ratio.

Fitch believes Findeter's capital is robust and is deem sufficient to maintain growth and absorb potential losses. The high capitalization metrics are supported on recurrent profitability and in the fact that the bank has a legal restriction on the payment of cash dividends. As of June 2022, the common equity Tier 1 was 25.4%, which compares favorably with its local and international peers. At the same date, the loans to customer deposits ratio of 156.9% exceeded the banking sector average (108.5%), as the bank utilizes longer tenor funding that helps to 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 be downgraded if Fitch perceives a decrease in the bank's policy role for the government, but this scenario is unlikely in the short- and 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 in Colombia's sovereign ratings, while Fitch continues to view Findeter as having a high policy role for the government;

--National ratings have no upside potential because they are at the highest level in the national rating scale.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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).

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SENSITIVITIES

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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating

categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings are support-driven. This entity's ratings are linked to those of the Colombian Sovereign.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Financiera de Desarrollo Territorial S.A. - Findeter	LT IDR BB+ Rating Outlook Stable Affirmed	BB+ Rating Outlook Stable
	ST IDR B Affirmed	B
	LC LT IDR BB+ Rating Outlook Stable Affirmed	BB+ Rating Outlook Stable
	LC ST IDR B Affirmed	B

AAA(col) Rating
Outlook
Stable

Natl LT

AAA(col) Rating Outlook Stable

Affirmed

F1+(col)

Natl ST F1+(col) Affirmed

3

Support WD Withdrawn

BB+

Support Floor WD Withdrawn

Government Support bb+

New Rating

BB+

senior unsecured

LT BB+ Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Ricardo Aguilar

Director

Primary Rating Analyst

+52 81 4161 7086

ricardo.aguilar@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,
Monterrey 64920

Natalia Pabon

Associate Director

Secondary Rating Analyst

+57 601 241 3231

natalia.pabon@fitchratings.com

Alejandro Tapia

Senior Director

Committee Chairperson

+52 81 4161 7056

alejandro.tapia@fitchratings.com

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

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APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)[Metodología de Calificación de Bancos \(pub. 28 Mar 2022\)](#)[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Financiera de Desarrollo Territorial S.A. - Findeter

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Banks Latin America Colombia
