



Fitch Affirms Findeter's IDR at 'BBB'; Outlook Negative

Fitch Ratings-New York-21 November 2016: Fitch Ratings has today affirmed Financiera de Desarrollo Territorial S.A.'s (Findeter) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and Support Rating Floor at 'BBB'. The Rating Outlook is Negative. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

IDRs, NATIONAL RATINGS AND SENIOR DEBT

Findeter's ratings are aligned with those of the sovereign, reflecting Fitch's assessment of the Colombian government's willingness and capacity to provide timely support to Findeter if needed. Although the Colombian government does not explicitly guarantee Findeter's liabilities, Fitch views the entity as an integral arm of the state given its strategic alignment with the government's National Development Plan, its importance for the financing of regional and urban infrastructure, and its majority ownership by the state.

Findeter is a wholesale development bank which structures general obligation loans to supervised financial institutions. Its loan portfolio has historically exhibited near 0% delinquency, benefitting from exposure to the largest commercial banks in the country. Loans past due more than 30 days, were 0.2% at June 2016. Reserves declined moderately to 0.7% of gross loans at June 2016, a level Fitch considers only adequate given elevated borrower concentration. Findeter's top 20 borrowers represented approximately 98% of gross loans.

Findeter's capital position compares unfavourably with other wholesale banks in the region. Its Fitch Core Capital ratio has gradually declined to 12.7% at June 2016 from 15.4% at year-end 2014. Despite benefitting from a legal restriction on the payment of cash dividends, asset growth has outpaced internal capital generation.

As a development bank, Findeter balances profitability with the social mission of incentivizing greater infrastructure lending, targeting a return on equity equal to inflation. Findeter's net interest margin widened during the six months ended June 2016 to 9.2% compared to 7.5% for full year 2015, reflecting upward adjustments in benchmark interest rates. Non-interest income, comprised largely of fees from the management of government programs, has provided a stable contribution to profitability since 2012 (averaging 30% of earnings).

Findeter's steadily decreasing reliance on deposit funding and greater access to longer-term multilateral loans and bond issuances has improved its funding profile. Deposits declined as a share of funding from 91.3% at year-end 2013 to 62.9% at June 2016. Notwithstanding the improvement, Findeter's liabilities maturing within 12 months exceed assets maturing within 12 months by COP 1.53 trillion (1.5x equity). This is mitigated by the stability of its deposit funding and the company's available credit lines.

The Negative Outlook is in line with Fitch's outlook of the sovereign.

RATING SENSITIVITIES

IDRs, NATIONAL RATINGS AND SENIOR DEBT

As a development bank that is majority owned by the state, Findeter's creditworthiness and ratings are directly linked to those of the sovereign. Hence, its ratings should move in line with any potential change in Colombia's ratings.

Fitch affirms the following ratings:

Financiera de Desarrollo Territorial S.A.

--Long-Term Foreign Currency IDR at 'BBB'; Outlook Negative;

--Short-Term Foreign Currency IDR at 'F2';

--Long-Term Local Currency IDR at 'BBB'; Outlook Negative;

--Short-Term Local Currency IDR at 'F2';

--Support Rating at '2';

--Support Rating Floor at 'BBB';

--Long-term National-scale Rating at 'AAA(col)'; Outlook Stable;

--Short-term National-scale Rating at 'F1+(col)';

--COP-denominated 10-year senior unsecured, unsubordinated market linked notes maturing 2024 at 'BBB(emr)'.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884135>)

Additional Disclosures

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