

FITCH AFFIRMS BANCOLDEX'S FC IDR AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-09 November 2018: Fitch Ratings has affirmed Banco de Comercio Exterior de Colombia S.A.'s (Bancoldex) Foreign- and Local-Currency Long-Term Issuer Default Ratings (IDRs) and Support Rating Floor at 'BBB'. The Rating Outlook is Stable.

Fitch has also affirmed Bancoldex's subsidiaries' -- ARCO Grupo Bancoldex S.A. Compania de Financiamiento (Arco) and Fiduciaria Colombiana de Comercio Exterior S.A. (Fiducoldex) -- national ratings. A full list of rating actions is at the end of this release.

The affirmation of Bancoldex's IDRs reflects Fitch's unchanged view of potential support, if it were needed, by the government of Colombia.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND SENIOR DEBT

Bancoldex's ratings and outlook are aligned with those of the sovereign, reflecting Fitch's assessment of the Colombian government's willingness and capacity to provide timely support to Bancoldex if needed. Although the Colombian government does not explicitly guarantee all of Bancoldex's liabilities, Fitch views the entity as an integral arm of the state given its status as a Special Official Institution, its strategic importance to the implementation of the country's National Development Plan and its majority ownership by two state bodies (together owning 99.8% of shares).

Bancoldex is one of Colombia's wholesale development banks. Its primary activity is the provision of wholesale credit and guarantees to commercial banks and other non-bank financial institutions, which in turn originate financing to enterprises seeking to access foreign markets. Bancoldex also has two major affiliates, Arco and Fiducoldex, financial services providers with mandates and target markets in line with Bancoldex's wider mission.

Although its financial profile does not drive its ratings, Bancoldex has historically reported high asset quality. Impaired loans greater than 30 days remain low (0.75 % of gross loans at June 2018). Also, Bancoldex's earnings reflect the relatively low margins and low administrative costs typical of a wholesale lending business. As is typical of development banks, high levels of loan concentrations could lead to volatility in Bancoldex's loan quality indicators.

Its capital ratios benefit from low levels of asset growth and low asset impairment, which compensates its low profitability, and a high pay-out ratio. After regulation issued in 2017, rediscount loans backed by promissory notes issued by regulated financial institutions are no longer weighted according to the risk of the final beneficiary. This change explains the bank's hike in regulatory solvency and FCC ratios during 2018. Without this change, the ratios would have been stable.

Bancoldex's increased liquidity is supported by low asset and loan growth and new bond issuances. This in turn resulted in a decrease in the renewal of term deposits. As a consequence, certificates of deposit were no longer the largest proportion of Bancoldex's funding at June 2018 (35% of total funding, down from 45% and 52% of funding at December 2017 and December 2016, respectively).

SUPPORT RATING AND SUPPORT RATING FLOOR

Bancoldex's Support Rating and Support Rating Floor were affirmed at '2' and 'BBB', respectively, given the entity's important policy in financing regional and urban infrastructure. Fitch's Support Rating Floors indicate a level below that which the agency will not lower the bank's long-term IDRs, as long as assessment of the support factors does not change.

FIDUCOLDEX AND ARCO

Ratings for Fiducoldex and Arco reflect the support they would receive from Bancoldex in case of need. Consequently, Fitch affirmed both institutions' national long- and short-term ratings at 'AAA(col)/Outlook Stable and 'F1+(col)' respectively, reflecting the agency's opinion on their relevance for Bancoldex's business model. Furthermore, Fitch highlights the subsidiaries' synergies with their parent and respective roles in executing the group's long-term strategy.

RATING SENSITIVITIES

BANCOLDEX

IDRS, NATIONAL RATINGS AND SENIOR DEBT

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

SUPPORT RATING AND SUPPORT RATING FLOOR

Potential changes in Bancoldex's Support Rating and Support Rating Floor would be driven by a change in Colombia's sovereign rating and/or a change in the expected propensity of support from the Colombian government.

FIDUCOLDEX AND ARCO

The Ratings of Fiducoldex and Arco will reflect any rating action taken on their main shareholder Bancoldex and any change in Fitch's assessment on the propensity and/or ability of the parent to provide support.

Fitch has affirmed the following ratings:

Banco de Comercio Exterior de Colombia S.A.

- Foreign-Currency, Long-Term IDR at 'BBB'; Outlook Stable;
- Foreign-Currency, Short-Term IDR at 'F2';
- Local-Currency, Long-Term IDR at 'BBB'; Outlook Stable;
- Local-Currency, Short-Term 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)';
- Senior unsecured bond issuance national-scale rating at 'AAA(col)'.

Fiduciaria Colombiana de Comercio Exterior S.A.

- Long-term national-scale rating at 'AAA(col)'; Outlook Stable;
- Short-term national-scale rating at 'F1+(col)'.

Arco Grupo Bancoldex S.A. Compania de Financiamiento

- Long-term national-scale rating at 'AAA(col)'; Outlook Stable;
- Short-term national-scale rating at 'F1+(col)'.

Contact:

Primary Analyst (Bancoldex)

Theresa Paiz-Fredel
Senior Director
+1 212 908 0534
Fitch Ratings Inc.
33 Whitehall St.
New York, NY 10004

Andres Villa (Fiducoldex)
Analyst
+57 1 484 6770

Natalia Pabon (Arco)
Associate Director
+57 1 484 6770

Secondary Analyst
Sergio Pena (Bancoldex and Fiducoldex)
Associate Director
+57 1 484 6770

Andres Marquez (Arco)
Director
+57 1 484 6770

Committee Chairperson
Alejandro Garcia Garcia, CFA
Managing Director, Regional Group Head
Latin America Financial Institutions
+1 212 908 9137

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email:
elizabeth.fogerty@thefitchgroup.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

<https://www.fitchratings.com/site/re/889541>

Metodología de Calificaciones en Escala Nacional (pub. 02 Aug 2018)

<https://www.fitchratings.com/site/re/10038720>

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

<https://www.fitchratings.com/site/re/892947>

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