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## Research Update:

# Financiera de Desarrollo Territorial S.A. FINDETER 'BBB/A-2' Ratings Affirmed, Outlook Still Negative

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## Research Update:

# Financiera de Desarrollo Territorial S.A. FINDETER 'BBB/A-2' Ratings Affirmed, Outlook Still Negative

## Overview

- We continue to view the Colombian development bank, Findeter, a government-related entity (GRE), with a very high likelihood of receiving extraordinary government support in case of financial distress.
- Findeter's strong risk-adjusted capital (RAC) remains as the main credit strength.
- We're affirming our 'BBB/A-2' issuer credit and 'BBB' issue-level ratings on Findeter.
- The negative outlook on Findeter is based on our outlook on Colombia.

## Rating Action

On Feb. 28, 2017, S&P Global Ratings affirmed its 'BBB' long- and 'A-2' short-term foreign and local currency issuer credit ratings (ICRs) on Financiera de Desarrollo Territorial S.A. FINDETER (Findeter). We also affirmed our 'BBB' issue-level rating on the bank's \$500 million fixed-rate senior unsecured notes due 2024, or its equivalent in Colombian pesos. The outlook remains negative.

## Rationale

The ratings on Findeter reflect its considerable business position as one of the largest development banks in the country. The ratings also reflect the strong commitment from the government to keep the bank well-capitalized through its full-recapitalization policy. We project Findeter's RAC ratio at 13.7% on average for the next 24 months. The relatively high credit quality of Findeter's direct customers, reflected in its consistently sound asset quality metrics, offsets high risk concentrations. Findeter's funding structure lacks a retail deposit base, while its liquidity metrics remain adequate.

Our ratings on the bank continue to reflect our view of a very high likelihood of extraordinary government support thanks to Findeter's GRE status, based on the following characteristics:

- Very strong link with the government. Currently, the government has a 92.5% ownership of the bank and will continue to exert a strong influence on it. We expect the government to remain Findeter's main shareholder.
- Very important role in Colombia's economic development strategy by providing financial and technical support to public and private entities involved in development of infrastructure, mainly transportation,

housing, energy, technology, innovation, healthcare, and education.

Our bank criteria use our Banking Industry Country Risk Assessment's (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Colombia is 'bb+'. (Please see "Banking Industry Country Risk Assessment: Colombia," published on Aug. 31, 2016, on Global Credit portal.

In our view, Findeter's business position benefits from the bank's role as a government arm to develop infrastructure in Colombia. As of Dec. 31, 2016, Findeter was the largest development bank in the country in terms of assets (\$2.5 billion) and loans (\$2.1 billion), representing market shares of 1.5% and 3.03%, respectively. However, it's currently the 14th-largest financial institution in Colombia in terms of total assets. Its loan portfolio increased by 14% in 2016, with a compound annual growth rate (CAGR) of 8.7% for the past three years.

Findeter's loan portfolio represents 87% of its total assets and mainly consists of commercial loans to regulated financial institutions, which represent 98.7% of its total loan portfolio. For 2017 and 2018, we expect Findeter's total loans to expand around 10% and we don't expect major changes in the portfolio mix during these years. Total operating revenues' CAGR has been 17% for the past three years, while the CAGR for its loan portfolio was 9.1%. These metrics reflect the bank's expansion and strong business stability. Despite its small customer base, because Findeter lends to only a few commercial banks, its overall risk position is under control.

We still consider Findeter's capital and earnings as its main credit strength and it reflects our projected RAC ratio at 13.7% for the next two years. Our financial forecasts for the next two years incorporate the following assumptions:

- Loan portfolio growth of 10% on average for 2017 and 2018. Given the somber economic conditions in the country and election year, growth expectations could moderate;
- Nonperforming assets (NPAs) below 0.1% on average and fully covered by reserves, and no charge-offs in 2017 and 2018;
- Credit loss provisions of around 10% of operating revenue in the next two years, which are lower than in previous years given regulations that reduce provisions when the credits are granted to regulated entities;
- Efficiency levels, measured as non-interest expense to operating revenues, at 52%, which are in line with those in the past two fiscal years;
- Return on assets (ROA) of about 0.5% for the next two years; and
- By law, there are no dividend payments; all net income will be reinvested.

Findeter's capital structure has remained stable in the past five years. Its equity mainly consists of paid-in capital and retained earnings. The bank plans to issue subordinated debt but we're not granting any equity content on Findeter's forecasted total adjusted capital based on the instrument

characteristics and based on our criteria for hybrid capital instruments. On the other hand, given the low risk profile of Findeter's business portfolio, profitability is modest in relation to other commercial banks operating in Colombia, which limits its internal capital generation capacity.

Findeter's risk position assessment reflects the bank's consistently sound asset quality metrics with NPAs at 0.09% as of Dec. 31, 2016 (0.06% on average in the past three years) and no charge-offs. We expect this trend to continue in the next two years based on the low-risk profile of Findeter's main customers. As a second-floor bank, Findeter is exposed mainly to Colombian commercial banks, given that its top 20 exposures represent 98.7% of its gross customer loans as of Dec. 31, 2016, similar to the 2015 level. We believe these characteristics mitigate the high-risk concentrations that its loan portfolio exhibits. As of Dec. 31, 2016, the bank's top 20 loans represent 98.7% of total loans. If we consider Findeter's exposure to final beneficiaries, its concentration metric would drop to 18%-20%. Its asset-liability management remains satisfactory and matched, and the bank maintains its policy to protect its balance sheet from foreign-exchange and interest rate movements through derivatives, providing stability to its income statement.

Findeter's funding structure mainly consists wholesale funding instruments with long-term tenors (average duration of total liabilities stand around 3.6%, which support its liquidity profile). The bank doesn't have a retail deposit base; however, we believe that its GRE status provides flexibility in terms of financing. As of Dec. 31, 2016, Findeter's funding structure consisted of debt issuances (term deposit certificates; 62%) in the local market, credit facilities from multilateral banks (26%), and international bond issuances (12%). At the end of 2016, Findeter's stable funding ratio was 105.9% with a three-year average of 98.2%, which we consider adequate.

The bank has historically maintained prudent liquidity policies and adequate liquidity metrics to meet its short-term financial obligations. As of Dec. 31, 2016, its broad liquid assets covered its short-term wholesale funding by 4.0x, and averaged 4.6x for the past three years. In our opinion, Findeter's strategy to fully match its assets and liabilities, will allow the bank to maintain its liquidity metrics relatively stable.

## **Outlook**

The negative outlook on Findeter is based on our outlook on Colombia. Our ratings on the bank incorporate two notches uplift of government support from Findeter's GRE status, which results in a very high likelihood of support given the bank's very important role and very strong link to the government. We don't expect the bank's GRE status to change in the next two years.

### Downside scenario

We could lower the ratings on Findeter following a similar rating action on Colombia's local currency rating, if the narrow net external debt burden doesn't stabilize and begin to reverse the recently sharp increase, which could reflect export weakness or continued sharp rise in external debt.

Moreover, if the fiscal deficit fails to sufficiently decline and net general government debt/GDP rises more than we expect, which could reflect, among other things, higher spending associated with implementation of the peace accords or unexpected underperformance of the tax package, we could also lower the rating on the sovereign. Finally, an unforeseen reversal in the peace process could also weaken growth prospects and exacerbate Colombia's weakened external profile.

### Upside scenario

We could revise our outlook on Findeter to stable, following the same action on the sovereign if the fiscal deficit declines and the net general government debt and interest burdens improve more quickly than we expect, potentially bolstering economic growth.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bb+
Anchor	bb+
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Below average and adequate (-1)
Support	0
GRE Support	2
Group Support	0
Sovereign Support	0
Additional Factors	0

## Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges

For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## Ratings List

Ratings Affirmed

Financiera de Desarrollo Territorial S.A. FINDETER	
Counterparty Credit Rating	BBB/Negative/A-2
Senior Unsecured	BBB

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.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.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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