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Ratings

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Financiera de Desarrollo Territorial S.A. (Findeter)

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Financiera de Desarrollo Territorial S.A. (Findeter)

Ratings Score Snapshot

Issuer Credit Rating
BB+/Stable/B

SACP: bb+ → **Support: 0** → **Additional factors: 0**

Anchor	bb+	
Business position	Adequate	0
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BB+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Government support if needed, reflecting key role as financial arm to the sovereign in development of sustainable infrastructure	High concentration per client and sector, increasing vulnerability to adverse economic events compared with more diversified peers
Solid capitalization compared with the Colombian banking system average	Funding base concentrated in wholesale sources because company can't receive retail deposits by law
Healthy asset quality metrics, reflecting conservative underwriting standards	Low market share in the Colombian financial system

In our view, Findeter remains a key financial arm to the government in developing Colombia's urban infrastructure. We expect Financiera de Desarrollo Territorial S.A. (Findeter) to remain a strategic vehicle for the government and territorial entities in the planning, structuring, financing, and execution of sustainable projects. Additionally, during the COVID-19 pandemic, Findeter helped the government deal with the economic fallout and social effects through countercyclical actions, such as granting first-floor loans to local governments and public-service companies. As a result, we believe the bank continues to play an important role in the government's economic strategy--as one of the most relevant government-related entities (GREs) in the country. Therefore, in our view, the government will support the bank, if needed, in the case of a stress scenario.

The company's risk-adjusted capital ratio is weakening but still above the industry norm. In 2022, the risk-adjusted capital (RAC) ratio decreased to 10.1%, from 12% in 2021, reflecting significant loan portfolio growth, but sound bottom-line results were not enough to compensate for this growth. Additionally, the bank's deferred tax assets (DTAs) significantly increased, absorbing the bank's internal capital generation. When DTAs represent an important proportion of the bank's adjusted common equity (ACE), we deduct some of them from our total adjusted capital (TAC) because in our view, they can't absorb losses in all circumstances. However, for 2023-2024, we forecast the RAC ratio will remain stable, supported by modest loan and DTA growth, sound financial performance, and the lack of dividend payments. These factors will translate into a RAC ratio of 10.2%, on average, for the next two years, which continues to compare favorably with local peers' ratios.

Despite high client and sector concentrations, we expect healthy asset quality metrics. We view Findeter's concentration in urban infrastructure and client concentrations as weaknesses compared with more diversified commercial banks. However, we believe its higher-credit-quality customer base--including the largest banks in the country--and well-diversified loan portfolio by economic subsector in the infrastructure segment partly mitigate this risk. The latter, coupled with conservative underwriting policies, has helped the bank maintain solid asset quality metrics compared with the system's average. We therefore expect Findeter's nonperforming assets (NPAs) will be around 0.05% for 2023-2024, with marginal credit losses fully covered by reserves.

Findeter's funding structure will remain concentrated in wholesale sources, with comfortable liquidity for the next 12 months. In our view, the bank's funding base remains limited because it can't receive retail deposits by law; therefore, the funding remains fully concentrated in wholesale sources, which compares negatively with the industry norm. Nonetheless, the bank's higher financial flexibility compared with other local participants, given its government support, results in ample access to domestic and international debt markets with lower funding costs. On the other hand, we expect the bank to maintain a healthy liquidity position, supported by management's conservative liquidity strategy, which leads to low refinancing risk and a high proportion of liquid assets.

Outlook

The stable outlook on Findeter in the next 12 months stems from S&P Global Ratings' stable outlook on Colombia (foreign currency: BB+/Stable/B; local currency: BBB-/Stable/A-3). Thus, the ratings on Findeter will continue to move in tandem with those on the sovereign, reflecting its status as a Colombian GRE and our view that it will remain the government's financial arm in developing urban infrastructure.

Downside scenario

We could lower the ratings on Findeter if we take a negative rating action on the sovereign.

Upside scenario

We could raise the ratings on Findeter if we upgrade the sovereign; however, this scenario is unlikely, considering the stable outlook on Colombia.

Key Metrics

Findeter key ratios and forecasts*

	--Fiscal year ended Dec. 31--				
	2020a	**2021a**	**2022a**	**2023f**	**2024f**
Growth in operating revenue (%)	(15.6)	16.2	40.4	17.0-19.0	12.0-14.0
Growth in customer loans (%)	12.8	(4.5)	16.5	4.0-6.0	7.0-9.0
Growth in total assets (%)	15.4	(3.0)	15.2	4.0-6.0	6.0-8.0
Net interest income/average earning assets (NIM) (%)	1.9	1.7	3.7	3.5-3.8	3.3-3.6
Cost to income ratio (%)	79.8	65.8	60.1	58.0-60.0	57.0-59.0
Return on equity (%)	0.6	6.1	6.4	6.8-7.1	7.2-7.4
Return on assets (%)	0.1	0.7	0.7	0.7-0.9	0.8-1.0
New loan loss provisions/average customer loans (%)	0.1	(0.1)	0.0	0.1-0.2	0.1-0.2
Gross nonperforming assets/customer loans (%)	0.1	0.0	0.0	0.1-0.2	0.1-0.2
Risk-adjusted capital ratio (%)	12.2	12.0	10.1	10.0-10.4	10.1-10.5

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Anchor: 'bb+' For Banks Operating Only In Colombia

Our bank criteria use our Banking Industry Country Risk Assessment (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 in Colombia is 'bb+'.

The economic risk trend for banks operating in Colombia is stable. However, we expect Colombia's GDP growth to decelerate this year to 1.4% due to persistent and elevated inflation and rising interest rates. Uncertainty over the government's economic policies--including the implementation of ambitious social reforms--could weaken business confidence, amplifying obstacles for economic growth. Therefore, we expect lending to contract by about 2.5% in real terms this year, after expanding at an average of 6.7% in 2021-2022, due to the cooling economy and lower credit demand. Higher household debt and weakening income capacity, deteriorating labor market dynamics, and narrowing corporate margins amid elevated inflation will erode banks' asset quality beyond cyclically low levels. In 2024, once economic conditions improve and credit resumes growing, we believe asset quality metrics will return to more normal patterns.

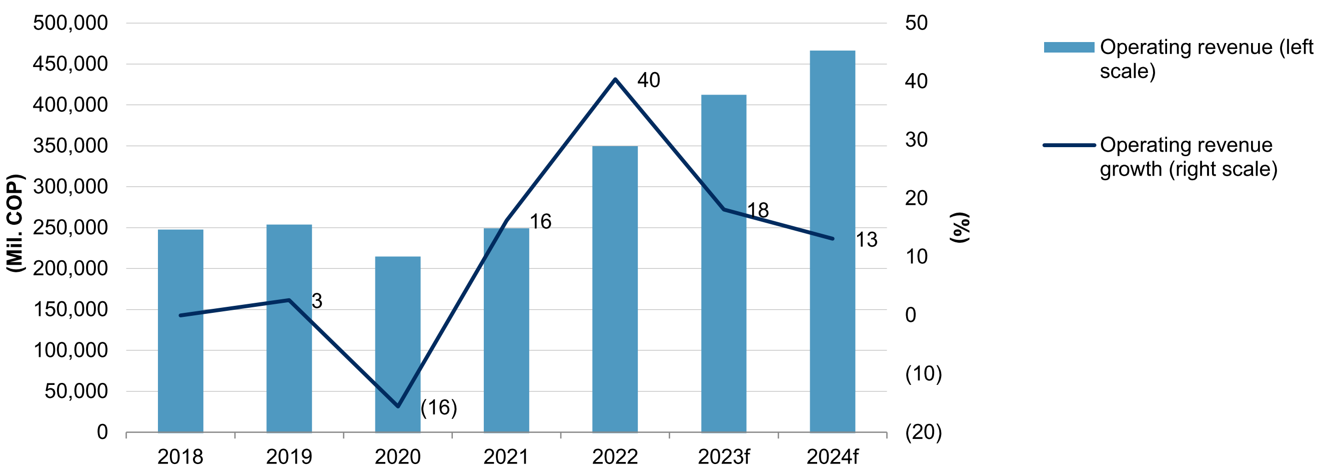
Our industry risk trend for Colombian banks remains stable. Over the past few years, the regulator has strengthened its supervision capacity, proactive stance, and transparency in preventing the potential erosion of banks' credit fundamentals. Improving regulations are gradually strengthening banks' RAC levels and reducing wholesale funding concentrations. On the other hand, reliance on wholesale funding will persist in the next few years, although we expect it to lessen slightly due to the recent implementation of the regulatory net stable funding ratio. We expect competition to remain strong but competitive dynamics to remain healthy and profitability to remain resilient, based on adequate risk appetite.

Business Position: Modest Lending Volumes For 2023-2024

We expect Findeter to remain a strategic vehicle for the government and territorial entities in the planning, structuring, financing, and execution of sustainable projects. We forecast Findeter's loan portfolio growth will decelerate in the next two years due to less credit demand and higher prepayments. The latter reflects Colombia's high inflation, still-high interest rates, and diminished domestic investor confidence, which could dent infrastructure credit demand. Therefore, we forecast loans will grow 5% in 2023 and 8% in 2024. In addition, we believe the bank's credit growth will boost net interest margins--which we estimate at around 3.4% for the next two years. Coupled with higher fees, this will increase operating revenue 16% on average for 2023-2024.

Chart 1

Findeter operating revenue



f--Forecast. Source: S&P Global Ratings.

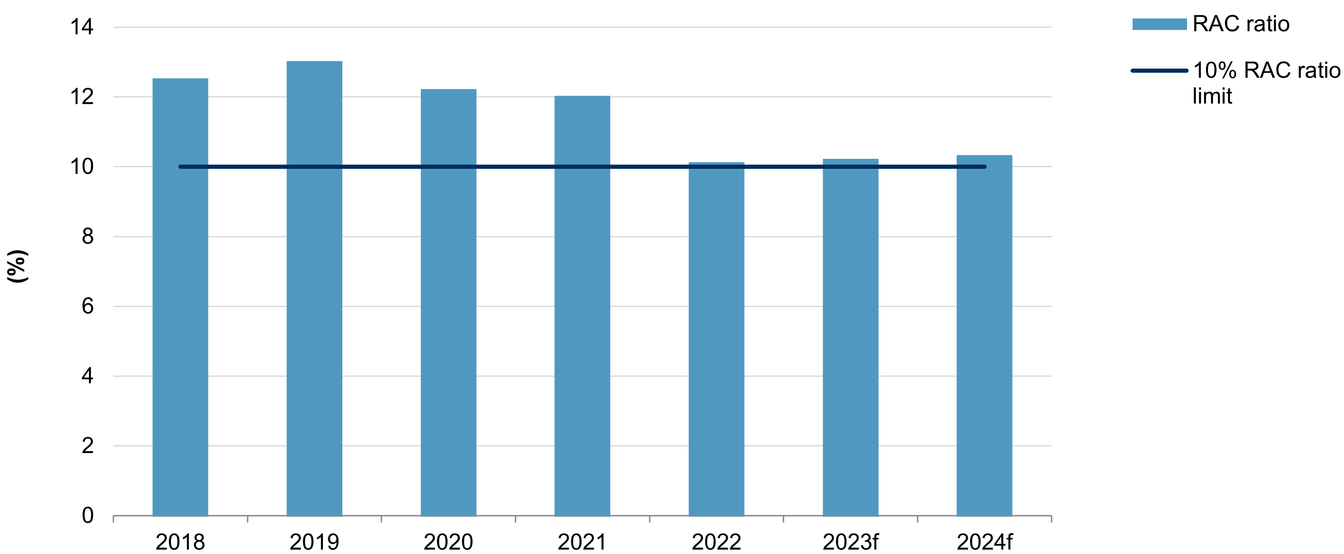
Despite Findeter remaining the second-largest development institution in Colombia, we view the bank's business model as highly concentrated, with a limited market share of less than 2% of loans. However, we expect direct credit to gradually mitigate this concentration, complementing the company's rediscount credit and technical assistance products. We expect this diversification to be gradual, and we expect the company's concentrations to continue to compare unfavorably with its larger and more diversified peers.

Capital And Earnings: RAC Ratio Weakening But Still Above Industry Norm

In 2022, the RAC ratio decreased to 10.1%, from 12% in 2021, reflecting significant loan portfolio growth of 16.5%, but sound bottom-line results were not enough to compensate for this growth. Additionally, the bank's DTAs significantly rose because of the increase in the statutory tax rate and exchange rate volatility. When DTAs represent an important proportion of the bank's ACE, we deduct some of them from TAC because in our view, they can't absorb losses in all circumstances. The rise in DTAs resulted in a negative adjustment in our TAC, absorbing the bank's internal capital generation. However, for 2023-2024, we forecast the RAC ratio will remain stable, supported by modest credit and DTA growth, sound financial performance, and the lack of dividend payments. These factors will translate into a RAC ratio of 10.2%, on average, for the next two years. In our view, this level still compares favorably with the Colombian banking industry. Nonetheless, we will continue monitoring the bank's loan portfolio growth, bottom-line results, and DTA evolution and its possible effects on our RAC ratio. Therefore, if we see a significant deviation from our base-case scenario that could drag the RAC ratio consistently below 10%--our threshold for the strong category--we would reassess our view of capital and earnings.

Chart 2

Findeter RAC ratio evolution



f--Forecast. Source: S&P Global Ratings.

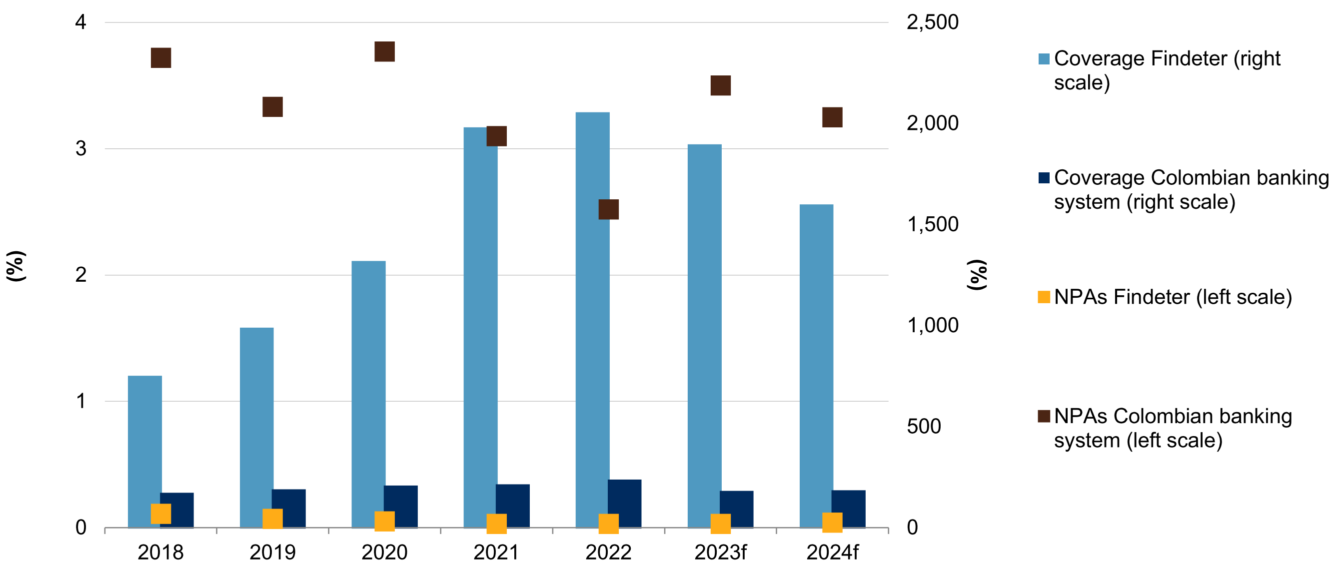
We expect the bank's profitability will continue improving, underpinned by the low cost of risk and higher operating revenue. The bank will thus be able to maintain healthy asset quality metrics and a growing net interest margin, given the widening gap between the asset and liability rates. Additionally, efficiency will slightly improve, given we expect the company's digital transformation and cost control will contain some of its operating expenses. The latter will be reflected in an increasing return on average assets to closer to 1%, compared with 0.7% last year. However, this remains below our 1.4% expectation of the Colombian banking industry in 2023.

Risk Position: Asset Quality Still Compares Favorably To Banking System Despite High Client And Sector Concentrations

In our opinion, the bank continues to have outstanding asset quality metrics compared with the system's average, supported by its conservative exposure to direct credit and its healthy underwriting policies. As of March 2023, first-floor loans represented 20% of the bank's total loan portfolio, and we expect this share to be 22%-25% in the next 24 months, maintaining a statutory limit of up to 30% of the total loan portfolio. Moreover, Findeter's NPAs were 0.03% as of March 2023 and have averaged 0.04% in the past three fiscal years. We expect Findeter to maintain NPAs at around 0.05% for 2023-2024, fully covered by reserves and with marginal credit losses.

Chart 3

Asset quality
Findeter versus Colombian banking system



f--Forecast. NPAs--Nonperforming assets. Source: S&P Global Ratings.

The company's concentrations per client and sector are higher than the industry's; however, we believe its higher-credit-quality customer base--including the largest banks in the country--and good diversification by subsector in the infrastructure segment somewhat mitigate this risk. The bank's top 20 clients represented 98% as of March 2023, mostly stemming from its second-floor exposure. Furthermore, we believe the bank's loan portfolio will remain focused on its strategic subsectors such as energy, transportation, education, and health care and basic services, among others.

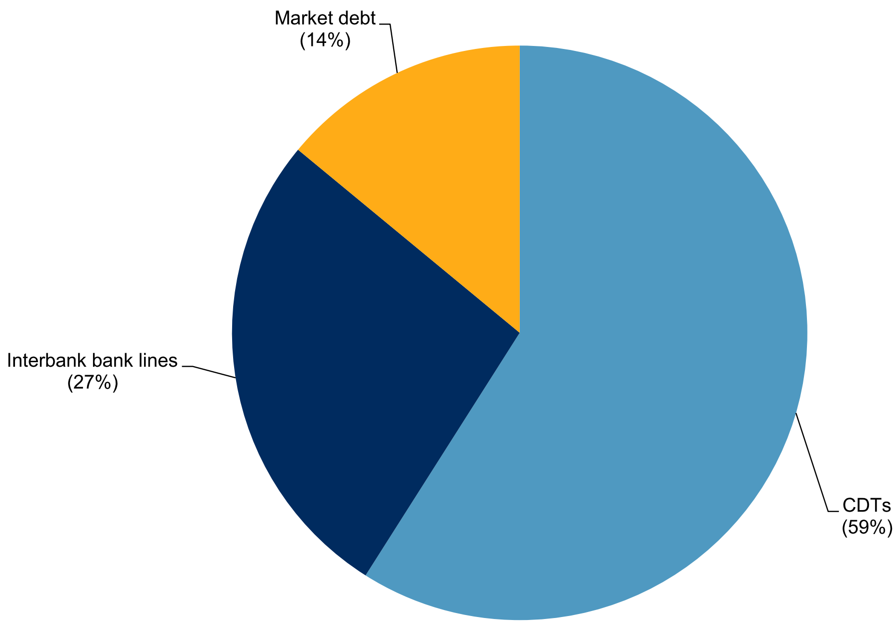
Funding And Liquidity: Government Support Increases Financial Flexibility

Findeter's funding base remains limited because it can't receive retail deposits by law; therefore, the bank's funding remains fully concentrated in wholesale sources, which compares negatively with the banking system. However, the bank has higher financial flexibility than other commercial banks, given the support it could receive from the

Colombian government. The latter results in ample access to domestic and international debt markets with lower funding costs. As of March 2023, the funding mix consisted of CDTs (certificados de depósito a termino) (59%), multilateral interbank lines (27%), and market debt (14%). This mix, together with modest funding needs, will result in a stable funding ratio at around 100% for the next 24 months, in line with the historical average.

Chart 4

Findeter funding base
As of March 2023



Source: S&P Global Ratings.

The bank's comfortable maturity profile and its securities portfolio concentrated in government instruments--which we consider highly liquid--underpin its healthy liquidity. In addition, the bank benefits from the high rollover of its certificates of deposit. We expect management to maintain its conservative liquidity strategy, with low refinancing risk and a liquid investment portfolio, which we expect will result in a ratio of broad liquid assets to short-term wholesale funding of close to 1.5x in the next 24 months, in line with its three-year average.

Support: No Uplift To The SACP

In our view, the GRE status of the bank reflects its position as a key financial arm to the government, given its strategic alignment with the National Development Plan and its importance in developing urban infrastructure. Findeter's stand-alone credit profile (SACP) is 'bb+', which is at the same level as the foreign currency rating on Colombia;

therefore, the bank does not receive rating uplift from its GRE status. However, if the bank's SACP deteriorates, we could incorporate notches of support.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

- N/A	- Social capital	- N/A

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

In our opinion, environmental, social, and governance (ESG) credit factors, primarily social ones, boost Findeter's credit quality more than the industry norm, given its well-defined social mission. The bank has strengthened its position as the financial arm of the national government and territories to promote Colombia's urban infrastructure through financing, structuring, planning, and executing projects that generate quality of life for Colombians. In our opinion, the bank has adequate corporate governance practices that match those of the banking industry in Colombia. The bank's exposure to environmental risks is similar to that of peers.

Key Statistics

Table 1

Findeter--key figures

		--Year ended Dec. 31--			
(Mil. COP)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	12,919,304.1	13,150,874.7	11,414,416.3	11,771,339.3	10,201,120.5
Customer loans (gross)	11,084,631.9	11,227,175.6	9,637,213.5	10,095,657.2	8,951,175.9
Adjusted common equity	1,273,803.9	1,235,291.0	1,302,615.7	1,230,225.6	1,223,199.3
Operating revenues	132,638.3	348,212.7	248,003.4	213,406.5	252,779.7
Noninterest expenses	67,840.9	209,212.4	163,175.2	170,396.8	143,476.4
Core earnings	35,827.7	86,189.9	77,178.9	7,630.4	73,910.8

*Data as of March 31. COP--COP-Colombian peso.

Table 2

Findeter--business position

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (currency in mil.)	132,638.3	348,212.7	248,003.4	213,406.5	252,779.7

Table 2

Findeter--business position (cont.)

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Commercial and retail banking/total revenues from business line	123.8	131.4	102.1	114.7	105.9
Trading and sales income/total revenues from business line	(31.8)	(35.5)	(13.2)	(21.1)	(8.3)
Other revenues/total revenues from business line	7.9	4.1	11.1	6.4	2.4
Investment banking/total revenues from business line	(31.8)	(35.5)	(13.2)	(21.1)	(8.3)
Return on average common equity	10.2	6.4	6.1	0.6	6.3

*Data as of March 31.

Table 3

Findeter--capital and earnings

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	21.6	21.8	27.9	17.2	18.6
S&P Global Ratings' RAC ratio before diversification	N/A	10.1	12.0	12.2	13.0
S&P Global Ratings' RAC ratio after diversification	N/A	6.8	8.0	8.2	8.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	118.2	114.1	69.1	87.3	77.6
Fee income/operating revenues	5.6	17.3	33.0	27.3	28.3
Market-sensitive income/operating revenues	(31.8)	(35.5)	(13.2)	(21.1)	(8.3)
Cost-to-income ratio	51.1	60.1	65.8	79.8	56.8
Preprovision operating income/average assets	2.0	1.1	0.7	0.4	1.1
Core earnings/average managed assets	1.1	0.7	0.7	0.1	0.7

*Data as of March 31. N/A--Not applicable.

Table 4

Findeter--risk position

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	8.8	16.5	(4.5)	12.8	4.4
Total diversification adjustment/S&P Global Ratings’ RWA before diversification	N/A	49.1	50.2	48.8	46.8
Total managed assets/adjusted common equity (x)	10.1	10.6	8.8	9.6	8.3
New loan loss provisions/average customer loans	0.1	0.0	(0.1)	0.1	(0.1)
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.0	0.0	0.1	0.1
Loan loss reserves/gross nonperforming assets	2,022.5	2,050.7	1,976.8	1,314.4	985.5

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Findeter--funding and liquidity

		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	58.6	58.6	61.9	65.2	61.4

Table 5

Findeter--funding and liquidity (cont.)					
		--Year ended Dec. 31--			
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Customer loans (net)/customer deposits	167.5	164.6	154.6	147.9	163.3
Long-term funding ratio	87.9	87.8	88.9	89.7	89.0
Stable funding ratio	98.3	99.4	101.6	101.6	97.0
Short-term wholesale funding/funding base	13.6	13.6	12.5	11.5	12.6
Broad liquid assets/short-term wholesale funding (x)	1.1	1.1	1.2	1.3	0.9
Broad liquid assets/total assets	12.9	13.0	13.6	13.1	9.4
Broad liquid assets/customer deposits	25.3	25.3	25.1	22.7	17.7
Short-term wholesale funding/total wholesale funding	32.9	32.9	32.9	32.9	32.6

*Data as of March 31.

Findeter--rating component scores	
Issuer Credit Rating	BB+/Stable/B
SACP	bb+
Anchor	bb+
Economic risk	7
Industry risk	5
Business position	Adequate
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions , July 1, 2019

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings Detail (As Of August 3, 2023)*	
Financiera de Desarrollo Territorial S.A. FINDETER	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Issuer Credit Ratings History	
20-May-2021	BB+/Stable/B
30-Mar-2020	BBB-/Negative/A-3
12-Dec-2017	BBB-/Stable/A-3
Sovereign Rating	
Colombia	
Foreign Currency	BB+/Stable/B
Local Currency	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.