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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+/Negative/B |

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

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

| Support: 0 | |
|---|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |

| Issuer credit rating |
|---|
| BB+/Negative/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

| Key strengths | Key risks |
|---|---|
| Key role to the government given its mandate to promote urban infrastructure in Colombia, which translates to explicit support from the government. | Narrow product offering that results in a small market share in the Colombian banking system. |
| Sound capitalization levels that should withstand the bank's growth strategy. | Limited funding diversification because the bank can't take retail deposits by law. |
| Healthy asset quality, given its prudent risk management and conservative origination policies. | |

***Findeter will continue to be a key player in developing Colombia's urban infrastructure.*** The bank experienced significant growth in 2023, achieving record disbursements and expanding its loan portfolio by 10.6%. However, due to political uncertainty leading to credit prepayments and subdued credit demand, we expect loan portfolio growth to slow. We anticipate modest credit expansion averaging 5% annually from 2024 to 2025, alongside lower, but still favorable, net interest margins and increased fees. Still, we project this to sustain Findeter's operating revenues growth, ensuring continued business stability.

***We expect Findeter to maintain sound capitalization despite pressures.*** The bank's robust bottom-line results have been sufficient to support loan portfolio growth of 10.6% in 2023. We expect solid revenue to support growth, resulting in our forecast risk-adjusted capital (RAC) ratio averaging slightly above 11% over the next two years.

***Prudent risk management supports healthy asset quality.*** Findeter's sound asset quality metrics continue to support our view of its risk position. The bank's prudent underwriting standards have resulted in significantly lower delinquency levels compared to the Colombian banking system's average, and it maintains healthy coverage levels and marginal credit losses. Additionally, Findeter's loan portfolio is well diversified among infrastructure subsectors, although it has above-average concentration by customer, reflecting its second-floor lending orientation.

***In our opinion, the bank's strategic funding strategy will be enough to manage upcoming funding and liquidity needs.*** Findeter's funding structure predominantly relies on wholesale sources, with Certificados de Depósito a Término (CDTs) constituting 68% of its funding mix as of March 2024, along with interbank lines (20%) and local and international market debt (12%). The bank plans to adjust its funding mix by replacing upcoming debt maturities with interbank facilities with commercial and multilateral banks. Therefore, we expect Findeter will increase its CDTs to approximately 70% of the mix and its interbank lines to 30% by the end of 2024.

Furthermore, Findeter benefits from government support and access to liquidity sources with the central bank, alongside strong rollover rates for its certificates of deposit. Considering that, we think the bank is well-prepared to manage upcoming debt maturities, including its upcoming international bond maturity in August 2024 for Colombian peso (COP) 946.2 billion.

## Outlook

The negative outlook on Findeter for the next two years reflects the negative outlook on Colombia (foreign currency: BB+/Negative/B). Thus, the ratings on the bank will continue to move in tandem with those on the sovereign, reflecting Findeter's key role for--and very strong link to--the government as it continues to support and develop the infrastructure sector in the country.

### Downside scenario

We could lower the ratings on the bank if we downgrade Colombia in the next 24 months.

### Upside scenario

We could revise the outlook on Findeter to stable in the next 24 months if we were to take the same action on Colombia.

## Key Metrics

**Financiera de Desarrollo Territorial S.A. (Findeter)--Key ratios and forecasts***

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2021a** | **2022a** | **2023a** | **2024f** | **2025f** |
| Growth in operating revenue (%) | 16.2 | 40.4 | 55.5 | 6.0-8.0 | 10.0-12.0 |
| Growth in customer loans (%) | (4.5) | 16.5 | 10.6 | 4.0-6.0 | 4.0-6.0 |
| Growth in total assets (%) | (3.0) | 15.2 | 12.4 | 4.0-6.0 | 4.0-6.0 |
| Net interest income/average earning assets (NIM) (%) | 1.7 | 3.7 | 5.3 | 4.5-5.1 | 4.2-4.8 |
| Cost to income ratio (%) | 65.8 | 60.1 | 47.5 | 49.0-51.0 | 50.0-52.0 |

| Financiera de Desarrollo Territorial S.A. (Findeter)--Key ratios and forecasts* (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year ended Dec. 31-- | | | | |
| | **2021a** | **2022a** | **2023a** | **2024f** | **2025f** |
| Return on equity (%) | 6.1 | 6.4 | 11.3 | 8.0-10.0 | 8.0-10.0 |
| Return on assets (%) | 0.7 | 0.7 | 1.2 | 0.8-1.0 | 0.8-1.0 |
| New loan loss provisions/average customer loans (%) | (0.1) | 0.0 | 0.2 | 0.4-0.6 | 0.5-0.7 |
| Gross nonperforming assets/customer loans (%) | 0.0 | 0.0 | 0.0 | 0.1-0.2 | 0.1-0.2 |
| Risk-adjusted capital ratio (%) | 12.0 | 10.1 | 11.2 | 11.4-11.8 | 11.6-12.0 |

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

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

The anchor--or starting point for our ratings--for banks operating in Colombia is 'bb+', reflecting our view of economic and industry risks.

The economic risk trend for banks operating in Colombia is stable. However, we expect Colombia's GDP growth to be low this year, at about 1.1%, due to persistently weak investor confidence that could affect private investment. Uncertainty over the government's economic policies--including the implementation of ambitious social reforms--could weaken business confidence, amplifying obstacles to economic growth.

We expect lending to contract by about 1.5% in real terms this year and grow about 2.9% in 2025 due to the subdued economic growth, low private investment, and resulting modest commercial credit demand. Even though we expect a slight recovery in banks' asset quality in 2024-2025 toward normal patterns, we still believe high household debt, weakening income capacity, and narrowing corporate margins amid elevated inflation will maintain nonperforming assets (NPAs) above their five-year averages.

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 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: Operating Revenues To Keep Growing Despite Challenging Political And Economic Dynamics

Findeter's business position will continue to be underpinned by its pivotal role in promoting economic development in Colombia by fostering sustainable infrastructure, regional development, and public sector efficiency through financing and advisory services.

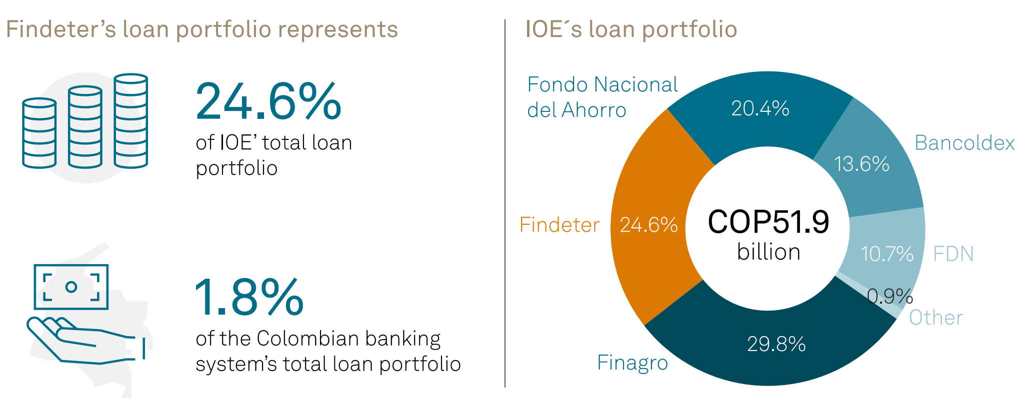
In 2023, the bank achieved a record level of disbursements, reflected in loan portfolio growth of 10.6%. This growth, together with a higher proportion of direct lending within the loan portfolio--26% as of March 2024--and still high interest rates, supported growth in operating revenues. However, we forecast Findeter's loan portfolio growth will decelerate in the next two years due to political and economic challenges in the country, which will continue to affect the business climate and credit demand in the country.

Therefore, we expect modest credit growth of about 5% on average for 2024-2025. This credit expansion, along with diminishing but still healthy net interest margins and higher fees, will continue supporting the bank's operating revenue growth of 7%-9%, further strengthening its business stability.

In addition, Findeter's business position remains limited by its concentrated business model and modest market share. The bank's business model is mainly focused on developing sustainable infrastructure in Colombia. We believe Findeter will remain an important player by mobilizing the financial resources required for infrastructure development, while it participates --through rediscount products and direct lending-- jointly with public and private entities. In our view, Findeter has reached a significant market share in the Colombian infrastructure sector, but it's still very concentrated in this segment, given its social mandate.

Finally, the bank continues to have modest market access within the banking system. As of March 2024, market share in terms of total loans was 1.8%. In our opinion, this modest share could make the bank more vulnerable to downturns in the economic cycle, compared to larger and more diversified entities.

**Findeter's business position**
As of March 2024




IOE--Intituciones Oficiales Especiales; the conjunction of development banks plus other government institutions in Colombia. Sources: S&P Global Ratings and Superintendencia Financiera Colombia.


## Capital And Earnings: Sound Capital Levels Will Persist Despite Pressures On Profitability

The bank's solid bottom-line results have been sufficient to lead to 10.6% portfolio growth in 2023. This growth resulted in a RAC ratio at 11.2% at year-end 2023, and we forecast that it will remain slightly above 11% on average for the next 24 months, which continues to compare favorably against the ratios of its local peers.

On the other hand, deferred tax assets (DTAs) continue to represent a large proportion of the bank's adjusted common equity (ACE) (about 12% as of March 2024), which continue to be partially deducted from our total adjusted capital (TAC), preventing higher capitalization levels. We expect DTA levels to remain relatively stable and that internal capital generation will be sufficient to sustain the current RAC ratio in the next 12 to 24 months.

Finally, we expect Findeter's profitability will remain lower than the Colombian banking system's average because it continues to target social goals with favorable credit terms outside the scope of most commercial banks. Additionally, we forecast the cost of risk to slightly increase to about 50% for year-end 2024, as the bank continues to offer direct credit and inflation remains high in Colombia. Therefore, we forecast return on average assets of about 1% on average for the next 24 months, which continue to compare unfavorably against the historical average for the Colombian banking system.

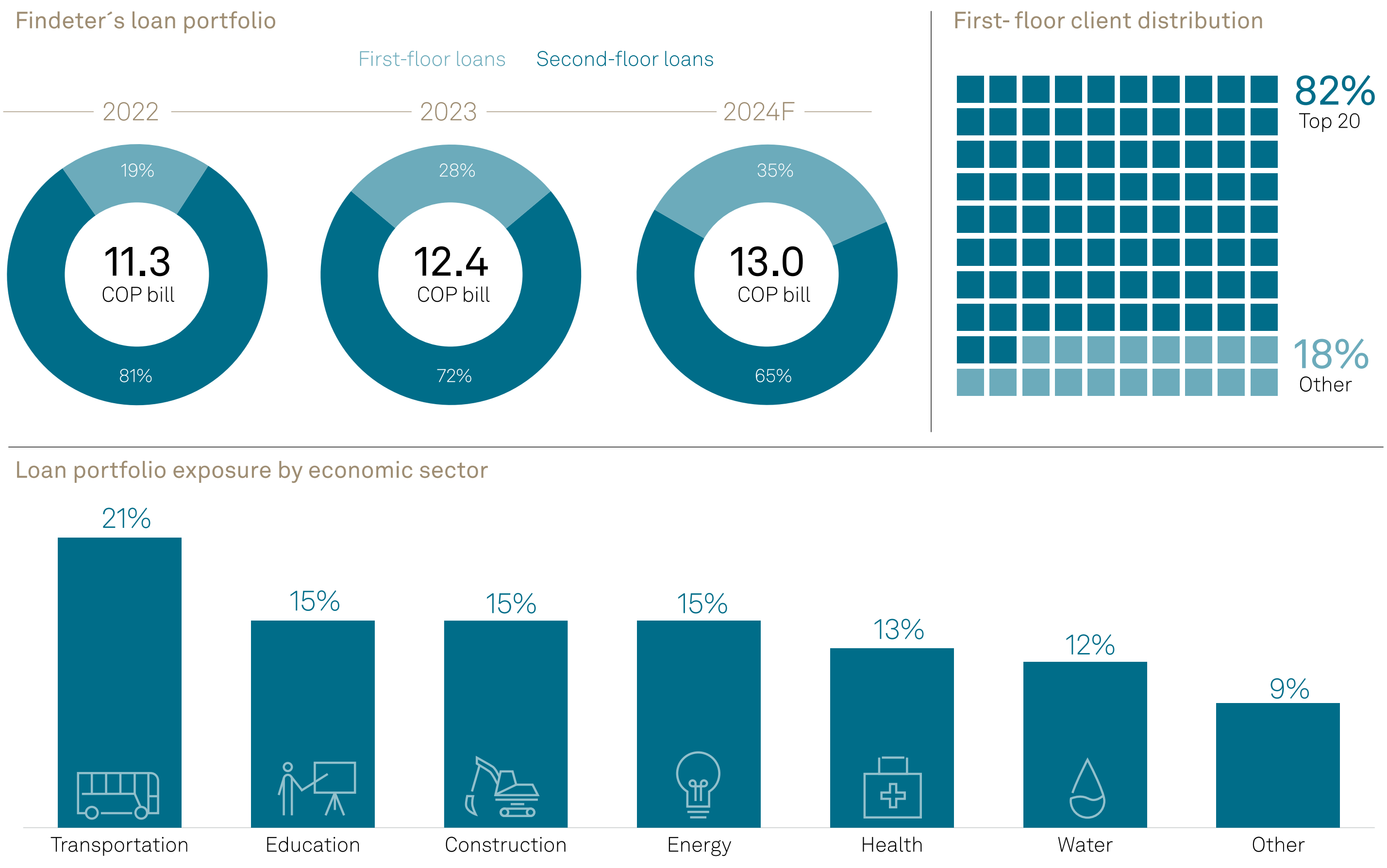
## Risk Position: Prudent Risk Management And Conservative Underwriting Standards Will Contain Asset Quality Deterioration

Findeter's sound asset quality metrics continue to support our risk position assessment, reflecting its healthy underwriting standards that result in lower-than-average nonperforming assets (NPAs) compared to the Colombian banking system, fully covered by reserves, and marginal credit losses.

The bank's NPAs were 0.02% as of March 2024, and have averaged 0.03% during the past three fiscal years (ended Dec. 31). This is significantly lower than the 3.1% average for the banking system during the same period. For 2024-2025 we expect strong asset quality metrics, with an NPA ratio of 0.1% on average for 2024-2025 given Findeter's prudent risk management and conservative underwriting policies. We expect the NPA ratio to stay low despite the forecast growth in direct lending, which we anticipate will represent between 30% and 35% of the total loan portfolio in the next 24 months, with a statutory limit of up to 41%.

Furthermore, Findeter's loan portfolio is well diversified among infrastructure subsectors. However, it has above-average concentration by client--its top 20 first-floor clients represented 82.5% of the direct credit loan portfolio as of March 2024. Still, its historically low credit losses reflect the healthy credit risk profile of its clients, which are mostly the country's largest financial institutions. We don't expect significant changes in terms of risk concentrations by client, since Findeter will remain focused on its second-floor lending scheme to promote strategic infrastructure subsectors such as education, transportation, health care, energy, and basic services.

**Findeter's risk position**




F--forecast. Source: S&P Global Ratings



## Funding And Liquidity: Funding Strategy Will Comfortably Manage Upcoming Maturities

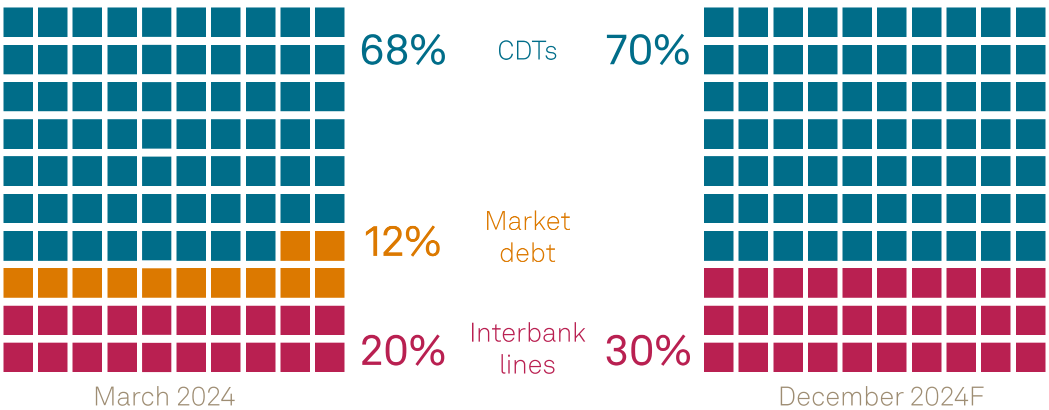
Findeter's funding assessment reflects its concentrated funding structure compared with other banks in Colombia, since it can't take retail deposits by law. This is counterbalanced by the financial flexibility that comes with being a government-related entity (GRE). The government has provided ongoing support to access funding sources with favorable conditions.

As of March 2024, the bank's funding mix consisted of CDTs ("certificados de depósito a termino" or certificates of deposit; 68%), interbank lines (20%), and market debt (12%). We expect the bank will replace its outstanding market debt with interbank lines with commercial and multilateral banks, given the still unfavorable conditions in global capital markets. Therefore, we expect a funding mix composed of about 70% CDTs, and 30% interbank lines in 2024-2025.

In our view, the bank benefits from the high rollover rate of its certificates of deposit. In addition, the bank will increase the duration of its CDTs to terms between one and three years, seeking to reduce dependence on short-term funding and thus have a better match with the loan portfolio.

Finally, we expect the bank to be able to comfortably cope with the upcoming maturities, replenishing market debt with interbank facilities--including the international bond. Furthermore, we expect management to maintain its conservative liquidity strategy, with low refinancing risk and a highly liquid investment portfolio.

**Findeter's funding base evolution**




F--forecast. Source: S&P Global Ratings


## Support: No Uplift To The SACP

In our view, the bank's GRE status reflects its position as a key partner to the government, given its strategic alignment with Colombia's National Development Plan and its importance for financing 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 ratings uplift from its GRE status. However, if the bank's SACP worsens, we could incorporate notches of support.

## Environmental, Social, And Governance

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 to promote Colombia's urban infrastructure through financing, structuring, planning, and executing projects that improve 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**

### Financiera de Desarrollo Territorial S.A. FINDETER--Key figures

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. COP)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Adjusted assets | 14,719,977.7 | 14,780,083.7 | 13,150,874.7 | 11,414,416.3 | 11,771,339.3 |
| Customer loans (gross) | 12,925,237.0 | 12,420,021.3 | 11,227,175.6 | 9,637,213.5 | 10,095,657.2 |
| Adjusted common equity | 1,528,504.4 | 1,510,659.6 | 1,235,291.0 | 1,302,615.7 | 1,230,225.6 |
| Operating revenues | 130,619.9 | 541,340.9 | 348,212.7 | 248,003.4 | 213,406.5 |
| Noninterest expenses | 72,807.4 | 257,063.1 | 209,212.4 | 163,175.2 | 170,396.8 |
| Core earnings | 15,284.0 | 165,937.1 | 86,189.9 | 77,178.9 | 7,630.4 |

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

**Table 2**

### Financiera de Desarrollo Territorial S.A. FINDETER--Business position

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Total revenues from business line (currency in millions) | 130,619.9 | 541,340.9 | 348,212.7 | 248,003.4 | 213,406.5 |
| Commercial and retail banking/total revenues from business line | 135.1 | 130.4 | 131.4 | 102.1 | 114.7 |
| Trading and sales income/total revenues from business line | (38.9) | (34.5) | (35.5) | (13.2) | (21.1) |
| Other revenues/total revenues from business line | 3.8 | 4.2 | 4.1 | 11.1 | 6.4 |
| Investment banking/total revenues from business line | (38.9) | (34.5) | (35.5) | (13.2) | (21.1) |
| Return on average common equity | 3.9 | 11.3 | 6.4 | 6.1 | 0.6 |

*Data as of March 31.

**Table 3**

### Financiera de Desarrollo Territorial S.A. FINDETER--Capital and earnings

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Tier 1 capital ratio | 23.3 | 22.7 | 21.8 | 27.9 | 17.2 |
| S&P Global Ratings' RAC ratio before diversification | N/A | 11.2 | 10.1 | 12.0 | 12.2 |
| S&P Global Ratings' RAC ratio after diversification | N/A | 9.8 | 6.8 | 8.0 | 8.2 |
| Net interest income/operating revenues | 127.8 | 120.6 | 114.1 | 69.1 | 87.3 |
| Fee income/operating revenues | 7.4 | 9.8 | 17.3 | 33.0 | 27.3 |
| Market-sensitive income/operating revenues | (38.9) | (34.5) | (35.5) | (13.2) | (21.1) |
| Cost to income ratio | 55.7 | 47.5 | 60.1 | 65.8 | 79.8 |
| Preprovision operating income/average assets | 1.6 | 2.0 | 1.1 | 0.7 | 0.4 |
| Core earnings/average managed assets | 0.4 | 1.2 | 0.7 | 0.7 | 0.1 |

*Data as of March 31. N/A--Not applicable. RAC--Risk-adjusted capital.

**Table 4**

| Financiera de Desarrollo Territorial S.A. FINDETER--Risk position | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Growth in customer loans | 16.6 | 10.6 | 16.5 | (4.5) | 12.8 |
| Total managed assets/adjusted common equity (x) | 9.6 | 9.8 | 10.6 | 8.8 | 9.6 |
| New loan loss provisions/average customer loans | 0.9 | 0.2 | 0.0 | (0.1) | 0.1 |
| Gross nonperforming assets/customer loans + other real estate owned | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Loan loss reserves/gross nonperforming assets | 5,691.8 | 2,484.4 | 2,050.7 | 1,976.8 | 1,314.4 |

*Data as of March 31.

**Table 5**

| Financiera de Desarrollo Territorial S.A. FINDETER--Funding and liquidity | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Core deposits/funding base | 67.7 | 66.8 | 58.6 | 61.9 | 65.2 |
| Customer loans (net)/customer deposits | 146.7 | 142.6 | 164.6 | 154.6 | 147.9 |
| Long-term funding ratio | 92.3 | 92.0 | 87.8 | 88.9 | 89.7 |
| Stable funding ratio | 101.9 | 106.0 | 99.4 | 101.6 | 101.6 |
| Short-term wholesale funding/funding base | 8.7 | 8.9 | 13.6 | 12.5 | 11.5 |
| Broad liquid assets/short-term wholesale funding (x) | 1.5 | 1.9 | 1.1 | 1.2 | 1.3 |
| Broad liquid assets/total assets | 11.5 | 15.2 | 13.0 | 13.6 | 13.1 |
| Broad liquid assets/customer deposits | 19.4 | 26.0 | 25.3 | 25.1 | 22.7 |
| Short-term wholesale funding/total wholesale funding | 26.9 | 26.9 | 32.9 | 32.9 | 32.9 |

*Data as of March 31.

| Financiera de Desarrollo Territorial S.A. (Findeter)--Rating component scores | |
|---|---|
| **Issuer credit rating** | **BB+/Negative/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 |

| Financiera de Desarrollo Territorial S.A. (Findeter)--Rating component scores (cont.) | |
|---|---|
| **Issuer credit rating** | **BB+/Negative/B** |
| Additional factors | 0 |

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

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, 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 July 19, 2024)* | |
|---|---|
| **Financiera de Desarrollo Territorial S.A. FINDETER** | |
| Issuer Credit Rating | BB+/Negative/B |
| Senior Unsecured | BB+ |
| **Issuer Credit Ratings History** | |
| 19-Jan-2024 | BB+/Negative/B |
| 20-May-2021 | BB+/Stable/B |
| 30-Mar-2020 | BBB-/Negative/A-3 |
| **Sovereign Rating** | |
| Colombia | |
| *Foreign Currency* | BB+/Negative/B |
| *Local Currency* | BBB-/Negative/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.