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**Financiera de Desarrollo Territorial S.A. -FINDETER  
1Q-2016 Financial Results  
Transcription of the Event**

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*[Please note all figures are in Colombian pesos (COP), except explicitly indicated]*

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Dear investors and analysts:

Welcome to Findeter's financial results presentation, where we will present the results of the company during the first quarter of 2016, the most important highlights of the period, the outlook for 2016, and the commencement of Findeter's Strategic Plan 2015-2025.

As you all know, we have effectively become the National Government's vehicle that brings welfare to the regions of Colombia through technical assistance and sustainable infrastructure financing in different economic sectors such as health, education, housing, transportation, social infrastructure and others.

We believe in a better Colombia. For this reason, we work towards a sustainable country, that generates economic and social growth, with a direct impact in the quality of life of our inhabitants.

In order to continue working for the regional and sustainable urban development, we started 2016, with the alignment and deployment of the new Strategic Plan 2015-2025. The execution of this Plan will consolidate our position as the strategic partner of the regions of Colombia.



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## **Strategic Plan 2015-2025**

We began 2016 with the implementation of the new Strategic Plan 2015-2025, which is our route to achieve our Vision to become *"the leading development bank that transforms our regions into sustainable territories"*.

The Plan was built around six strategic perspectives: Financial; Customer/Market; Efficiency; Innovation; Sustainability; and Strategic Capital.

For each of these perspectives, we included 16 strategic objectives and 50 projects. To control the execution of the projects, we implemented the best practices of the Project Management Institute.

From the Financial perspective, we will work to improve our sustainable profitability, based on income diversification, optimization of capital structure and precise cost control. In the past four years, we have had a rapid growth and now its time to review and improve processes, upgrade methodologies and price our clients accordingly to our excellent services.

From the Innovation point of view, we created the Innovation and Knowledge Center. This Center will work towards the creation of better and new solutions through innovation. In addition, this Center will compile our institutional memory, our experiences and learned lessons. All this information will be available to be shared with all our stakeholders.

In the Sustainability front, we will be more careful in the selection of the projects we finance. Additionally, we will work with our stakeholders to generate shared value projects, in order to build win-win relationships with the community, government, banks and investors.

Furthermore, we will implement the Business Intelligence software tool, which aims to provide functionalities and applications, development of dashboards, analysis and reports, to support our decision-making process.

With the implementation of this new Plan, we expect to consolidate our position as the strategic partner in the regions of Colombia, through a promise of added value and excellent service. This way, we will work together, growing faster and benefiting millions of Colombians.

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Before presenting Findeter's financial and commercial performance during the period, we will provide a brief review of the global and local economic background.



## **Global Economic Environment**

### **Growth**

During 2015, Colombia's economy grew at a rate of 3.1%, which represented a slowdown from recent years. This level of economic growth has been consistent with a general decrease in the growth of emerging economies. However, compared to other Latin American and the Caribbean countries, Colombia stands out above the average of the region. Despite the decline in the rate of investment and the contraction in exports, consumption grew 3.6%, supported by a good performance of financial services, trade and construction.

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### **Oil and Exchange Rate**

The Falling of commodity prices, especially of oil prices, has had consequences in countries like Colombia. The exchange rate recorded a significant depreciation reaching historically high prices in February 2016; and then going upward in line with the recovery of oil prices. This reaction of the exchange rate has partly offset the external current account imbalance of Colombia.

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## **Economic Environment in Colombia**

### **Inflation and Monetary Policy**

Inflation during the 1Q-2016 was 3.55% and the 12-month inflation reached 7.98%. The continuance of factors such as El Niño and the devaluation of the Colombian Peso pressed upward food prices and tradable components. The effect of wage and price indexing also pressed upward general prices.

In this scenario, the Central Bank of Colombia continued the upward trend in its intervention policy, increasing 75 basic points its interest rate. The Central Bank's priority is to anchor in the policy horizon the inflation expectations to the target range of 2 to 4%.

Regarding the behavior of the **Colombian Financial System**, between March 2015 and March 2016, the loan and leasing portfolio in the financial system increased 13.26%. Private local banks generated this behavior accounting 71% of this growth.

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Now we will present **Findeter's Financial Results**, noting firstly that as of January 1, 2016, all governmental financial institutions, including Findeter, are reporting their financial information according to the international accounting standards IFRS.



**Analysis of the Balance Sheet.** During 1Q-2016, the balance sheet structure of Findeter showed a scenario of expansion with a 19.7% increase in Assets and 22% in Liabilities, while Equity grew 4.5 %.

**Asset Analysis.** The Gross Loan Portfolio continues to be Findeter's main asset, with 86% participation over total Assets, equivalent to \$7.35 trillion. The Net Loan Portfolio accounted for 85% of Total Assets and amounted to \$7.3 trillion.

Between 1Q-2015 and 1Q-2016, the Net Portfolio increased 21%, reaching \$1.26 trillion. This behavior is the result of greater disbursements during 1Q-2006 equivalent to \$482 billion.

In addition, Prepayments received during this period grew from \$71 billion to \$91 billion.

**Analysis of Liabilities and Equity.** Liabilities increased 22%, or \$1.36 trillion. Certificate Deposits (\$4.5 trillion) represented 62% of total liabilities in 1Q-2016. This figure shows a decrease compared to 1Q-2015, when it represented 68%. This behavior is mainly due to the increase in the loan portfolio, a reduction in market liquidity, and the increase in multilateral funding. Also, by the collection of certificate deposits with the proceeds from the international bond issuance. The value of external loans grew \$880 billion, due to an increase in the dollar balance and the exchange rate.

Equity grew 4.5% when comparing both periods. The value in 1Q-2016, amounted \$43 billion due to the \$36 billion profit capitalization.

As for the **Analysis of the Income Statement**, in 1Q-2016, Findeter showed 110% increase of Operating Income or \$242 billion greater than 1Q-2015. This performance was mainly caused due to the volatility of the exchange rate that influenced the valuation of derivatives and exchange adjustment due to restatement of assets and liabilities.

In addition, Portfolio Interest Income showed an increase of 40% (or \$74 billion) due to the increase in the average balance of portfolio, as well as higher interest rates during the period.

Operating Expenses increased 108% or \$227 billion. This figure also responds to the increase in valuation of derivatives, exchange rate adjustment, and increase in financial costs. With these results, we achieved an Operating Profit of \$25 billion and an Operating Margin of 5.5%.

Our Net Income grew \$11 billion compared to 1Q-2015, amounting \$ 15.6 billion.



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In regards to the **Financial Ratio Analysis**, it is important to note that the financial indicators as of 1Q-2016, are based on IFRS standards, while indicators of 1Q-2015, were reported under COLGAAP standards. Comparable financial indicators reported completely under IFRS standards, will start on the first quarter of 2017.

Return on Equity was 6.5%, increasing 475 basic points compared to 1Q-2015.

**Efficiency.** In the past financial results, Findeter had been presenting growth in the Indicator of Administrative Expenses over Average Total Assets, which is a consequence of the organizational transformation process that began on the 4Q-2011, mainly explained by the increase in costs linked to technical assistance and sustainability programs. However, the trend has now changed, caused by a slight reduction when comparing the expenses performance obtained in 1Q-2015 and 1Q-2016, from 1.56% to 1.55%, respectively.

**Solvency Ratios.** Solvency Indicator (Tier 1) stood at 12.14%, 160 bps below that reported in the 1Q-2015. Similarly, basic solvency ratio (Tier 2) stood at 11.59%, posting a reduction of 122 bps compared to 1Q-2015. These figures explain our loan portfolio growth. In order to improve these indicators at our desired levels, and support the future growth of our loan portfolio, we executed in May 2016, a portfolio securitization. Later in this call, we will give more details of this transaction.

Our 0.06% **Portfolio Quality Index** placed us among the best in the local financial system. Meanwhile, the index portfolio coverage ended the year at 1,300%.

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Regarding our **Funding**, we raised \$878 billion through the issuance of certificate deposits. Of the previous amount, we raised approximately \$320 billion through an auction at the Colombian Stock Exchange.

Despite the benefits of the certificate deposits, over the past four years we have been working to diversify our funding sources. In this line, External Credits with Development Banks and International Banks have become a very important source of funding. These credits allow us favorable conditions in terms of rate and maturity. They are also very relevant on optimizing our duration gap.

During 1Q-2016, we signed loans with the following international banks worth \$ 175 million:

- \$50 million dollar with Citibank N.A
- \$75 million dollar with Bank of Tokyo.



- \$50 million dollar credit line with the Central American Bank for Economic Integration -CABEI.

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Dear analysts, remember that in Findeter we grant loans to authorized financial intermediaries, composed of commercial banks and other financial institutions. In turn, financial intermediaries grant loans to public entities and private companies to execute infrastructure projects throughout Colombia. We call this type of operation **Rediscount Loans**.

During the first quarter, we maintained high level of credit placements, which amounted to \$771 billion. We placed these loans in strategic sectors such as in health, transportation, energy and education.

Disbursements during 1Q-2016, presented a variation of 175% compared to 1Q-2015. Our strategy and joint work with the Ministries of Health and Education during the last quarter of 2015, contributed to this important result. These reflects the active work developed by Findeter in the implementation of strategies that leverage projects in strategic sectors that generate welfare for Colombians.

Disbursements by Sector. During the first quarter of 2016, the sectors with the largest share on our rediscount loan placements were: Health with \$404 billion, transportation with \$126 billion, and energy with \$98 billion. These three sectors registered 81% of the total disbursements during the first quarter of 2016.

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Disbursements by Type of Intermediary. During this period, banks accounted 99% of the rediscount operations. Other intermediaries, such as finance companies, family compensation funds and institutes for regional development, among others, accounted the remaining 1%.

Disbursements by Type of Beneficiary. This first quarter, Findeter disbursed \$643 billion to private sector beneficiaries and \$128 billion to public sector beneficiaries.

Disbursements according to Maturity. Long-term maturity loans has the largest share in our disbursements. Loans with maturities over 5 years accounted 79%, while short-term loans, between 1 and 5 years, accounted 21%.



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## **Relevant News and Transactions after 1Q-2016**

On May 19, we executed a \$234 billion portfolio securitization. In this transaction, we sold to Titularizadora Colombiana a portion of our loan portfolio valued at \$234 billion, allowing Titularizadora to carry out the structuring and issuance of the securities in the local capital market. Titularizadora issued two types of securities: Security A (\$205 billion) and Security B (\$29 billion).

Through the Colombian Stock Exchange (BVC), we placed Security A, with a maturity term of 12 years and rated AAA by Fitch Ratings Colombia.

The issuance of the securities resulted in a successful transaction. Security A received \$492 billion offers, which was 2.4 times the \$205 billion issuance. In addition, Findeter purchased Security B, subordinated to Security A.

This transaction produced a new partnership between Findeter and Titularizadora Colombiana, that resulted in two principal purposes: first, improving our solvency margin; and secondly, making financial resources available, to grant rediscount loans to public and private companies, for the development of sustainable infrastructure projects.

On the other hand, the Latin American Association of Development Financing Institutions (ALIDE) awarded us the “Information, Technical Assistance and Social Responsibility 2016 ALIDE Award” for to the execution of the Water for Prosperity Program that we have been implementing with the Ministry of Housing and local authorities.

As part of this Program, we have been providing specialized technical assistance throughout Colombia, in the execution of projects in water, sewage, and solid waste management.

The Water for Prosperity Program, worth \$1.8 trillion, has benefited more than 9 million people with the implementation of 202 projects, and generated more than 5 thousand direct employments in the construction sector. Throughout 2016, we will continue working, reaching 27 departments, 200 municipalities and benefiting over 12 million people.

Finally, in June 2016, we reached \$1 trillion disbursements in rediscount loans.

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## **2016 Expectations**

We have great expectations for 2016. We will continue working towards a sustainable country, bringing welfare to the regions of Colombia through technical assistance and financing sustainable infrastructure through the following actions:



We expect to raise approximately 1.8 trillion in certificate deposits and \$1 trillion in external loans with multilateral banks and international banks.

In the commercial front, we expect to disburse \$1.8 trillion.

We will continue developing our structuring services, technical assistance programs, and financial advice to local authorities. These services are important for us as they generate value added to our financial products and strengthen the relationship with our customers.

Thank you very much for your assistance, we will now begin the Q&A session.

## **Q&A.**

Through our chat, we received four questions:

### **Question #1:**

**In your opinion, which will be the impact of economical deceleration on the behavior of Findeter's portfolio?**

Economical deceleration and the raise of the interest rates from the Central Bank have affected the growth rate of the financial system's portfolio. Nevertheless, it is remarkable the adjustment capacity of the economy facing the fall in oil prices. The construction sector keeps leading and the financial one maintains healthy numbers, contributing positively to the economic growth, which favors our loan placements.

### **Question #2:**

**¿Which will be Findeter's role in a post-conflict era?**

As a Development Bank, we will keep supporting the regions through financial and technical assistance services. We think, post conflict will raise many opportunities increasing social and infrastructure investment, allowing room for Findeter's funds and technical assistance in sustainable infrastructure sectors.

### **Question #3**

**What could be the explanation for the 175% increment in the loan placements between the first quarter of 2015 and the same quarter of 2016?**

This is the result of credit placement from subsidized rates, especially in health sector, which had a 4,744% increase from \$7.5 billion pesos during the first quarter of 2015, to \$366 billion pesos during the same quarter of 2016.





#### **Question #4**

##### **What is a subsidized interest rate?**

It is a common instrument utilized by Findeter and the National Government that seeks to strength investments in a specific sector. The Ministry of Finance and Public Credit or other institutions in the National level (Municipalities, Departments, among others) contribute with financial resources. The sum of money allocated to each subsidized rate and its specific destination is defined by the institution that owns the financial resource. We denominate this type of loan as Findeter´s Compensated Rediscount Rate.

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