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Financiera de Desarrollo Territorial S.A. -FINDETER
2019 Annual Results & 1Q-2020 financial Results
Event TRanscript

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Welcome to Findeter's financial results presentation, where we will be sharing the company's financial and corporate results for 2019, and the first quarter of 2020.

Today the following members of the team will be joining us: Juan Camilo Galvan our recently appointed Treasurer and Andrés Sanchez our Investor Relations Officer.

We now begin by informing you that in 2019 Findeter continued to consolidate its position as the strategic partner of the National Government and the territories by executing commitments of the national agenda and providing comprehensive support for project development. As a Colombian Territorial Development Bank, we managed to efficiently assist the planning, structuring, financing and execution of infrastructure projects that aim to build an equitable, dynamic and sustainable country.

Thanks to an effective financial, commercial, technical and administrative management, as well as the consolidation of the corporate governance model, which ensures the Company's strategic position and the highest governing body's effective control; in 2019 we achieved excellent results that secure our position as the leading development bank in Colombia. Our commercial management and solid financial behavior allowed us to reach all our 2019 goals.

I give the floor now to Andrés Sanchez who will continue with the next part of the presentation.

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Thank you Richard. Before I start I want to note that in order to avoid any confusion in the translation of figures, when applicable, in this presentation we refer to billions as thousands of millions pesos, and trillions as billion pesos.

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Now, regarding our **financial management**, we had an excellent performance compared to previous years, as a result of the efficient use of resources, in line with the goals of the National Government.

The effective management expense during 2019 brought our **Operational Efficiency** to 1.40%, an improvement of 11 points compared to 2018. Our “**ROE**” increased by 1.09 points with respect to 2018, reaching 6.05% for 2019, directly evidenced in the year’s net income, resulting from the positive financial margin, which increased 26.13% Year over Year, due to better management of the differential between the Entity’s lending and borrowing rates, and an adequate management of operating expenses.

EBITDA increased by COP \$23.4 billion pesos compared to 2018, mainly as a result of a higher operating profit of COP \$29.9 billion pesos. The importance of this indicator is that it shows the Entity’s profitability before deducting debt and tax expenses, which reflects Findeter’s ability to generate benefits exclusively taking into account its productive activity.

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In 2019, the balance sheet accounts increased compared to 2018. Our **assets** grew 5% Year over Year, amounting to COP \$10.2 trillion pesos, and **equity** increased by 7.22%, from COP \$1.14 trillion pesos in December 2018 to COP \$1.22 trillion pesos in December 2019. **Net income** was COP \$73.9 billion pesos, an all-time high for the Entity, which represented a Year over Year growth of 30.68%.

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Findeter’s gross portfolio grew by 4.47% in the last year, reaching COP \$8.9 trillion pesos as of December 2019. This growth corresponded to COP \$381.1 billion, thus maintaining the positive trend of the last six years, despite the volume of prepayments registered in 2019 for COP \$1.5 trillion pesos. Additionally, 59.19% of the on-loan portfolio corresponds to offset rates and special lines. Furthermore, in 2019, we disbursed funds for COP \$2.7 trillion pesos, exceeding the commercial goal, which was COP \$ 2.39 trillion pesos.

Findeter’s revenue for 2019 increased by 11.06% compared to 2018. One of the factors that improved the results was the valuation of derivatives, due to a lower average devaluation in 2019 of 1.87% compared to 2.47% in 2018.

In addition, to optimize income generation, Findeter began operating its own investment portfolio, investing its own resources in the stock market in accordance with the policies set out by the Board of Directors. From May to December 2019, the portfolio generated a gross profitability increase of 6.47% Year over Year, from COP \$55.5 billion pesos to COP \$194.5 billion pesos, which translates into a net income of COP \$2.01 billion pesos.

Solvency ratio was 21.60%, a level that allows us to have a portfolio growth potential of up to COP \$15.3 trillion pesos, considering current applicable regulations and all other variables that affect its calculation being equal. Moreover, market risk decreased by 30.18%, given the increase of amounts and extension of maturities of hedges in dollars compared to 2018, thus affecting the interest rate of the value at risk.

Findeter has maintained excellent management **ratings**. In 2019 Fitch Ratings Colombia held our credit risk ratings “AAA” for Long-Term Debt and “F1 +” for Short-Term Debt, making us one of the governmental institutions with the highest levels of reliability in the financial system. Investor confidence was confirmed with the positive reception of our Sustainable Bonds issuance, the first of its kind in the country. The issuance for \$400 billion pesos had a demand of COP \$1 trillion, with an excess demand of 3.44 times the amount offered.

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As a territorial development bank, at Findeter, we seek to overcome market failures and the obstacles traditionally faced by territories, by identifying and structuring bankable and executable projects. Through our integrated management model, we offer planning, structuring, financing and technical assistance services for the execution of strategic infrastructure projects for the sustainable development of the regions, striving for an efficient and appropriate allocation of economic and technical resources nationwide while contributing to the United Nations Sustainable Development Goals.

With our integrated management model, we were able to close the year with an accumulated coverage of 626 municipalities throughout the country, reaching 32 territories that were not previously served by our entity.

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Regarding **Project Planning**, we assisted municipalities and local governments in structuring medium and long-term roadmaps towards achieving the regions and municipalities’ vision of becoming sustainable territories. This has allowed us to recognize strengths, opportunities and gaps to propose integrated solutions to improve the population’s quality of life in such municipalities and local governments. Accordingly, our entity has participated in national planning through 26 projects valued at a total of COP \$40 billion pesos.

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Financing results reached extraordinary positive levels in loan placements. We made disbursements for COP \$2.7 trillion pesos, COP \$342 billion pesos exceeding our projections, achieving 114% of the annual goal. With these funds, we financed 318 infrastructure projects in 93 municipalities across the country. This way, and by providing support within territorial dynamics, Findeter participated in the execution of National Government initiatives that led to significant economic growth as of year-end and an important progress in the fulfillment of the objectives in the 2018-2022 Development Plan of the National Government.

The Projects that stand out are the 2016-2019 development plan *Barranquilla Capital de Vida* for \$337.7 billion pesos; the Toyo Tunnel in Antioquia for \$151.1 billion pesos;

Channeling of streams in Barranquilla for \$100 billion pesos; Ciudad Bolívar Aerial Lift in Bogota for \$50 billion pesos, among many others.

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The most dynamic sectors in terms of disbursements were transportation with (20%), drinking water and basic sanitation with (20%), urban infrastructure with (19%), healthcare with (15%), energy development with (13%) and education with (10%). The remaining three percent (3%) was allocated to tourism, technology, environment, sports and recreation and culture. Additionally, the top recipient departments were Antioquia (21%), Atlántico (18%), Capital District of Bogotá (12%), and Valle del Cauca (10%). The remaining resources, corresponding to 39%, were distributed among 20 other departments in the country.

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Through **Project Structuring**, we validated in 2019 four Public-Private Partnerships (PPPs) for Bogota, arranged high-impact projects such as complex hospitals and public lighting and signed an agreement with the Territorial Renewal Agency (ART) for the development of healthcare, education and energy projects in the territories, within the Territory-Focused Development Programs.

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With respect to **Technical Assistance** for project execution, as of year-end our entity had 354 projects in execution for a value of COP \$2.43 trillion pesos, 87 of which belonged to the Water and Basic Sanitation program, 178 to the Sustainable Infrastructure program, 80 to the Housing programs, 7 in San Andres and two IT projects. Thanks to our efficient management in project execution, we started 127 new projects, including housing programs, such as the execution of the Decent House Decent Life program, which seeks to reduce the country's qualitative housing deficit. In 2019, we also completed and delivered 193 infrastructure projects, which benefited more than 24,000 families and 1.5 million people through water and basic sanitation projects, and 8,000 people through housing projects.

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So, those were the results of 2019, which as you saw, were very positive and favorable for our institution and for the country.

We are now moving on to explaining the results for the first quarter of 2020 .

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Findeter continues to be the leading development bank that promotes sustainable projects that transform territories nationwide. This is evidenced in the growth of the entity's total assets during the last 10 years, from \$4.8 to \$10.7 trillion pesos. This trend is mainly the

result of the increase in the gross portfolio, which has grown an average of 8.28% per annum during such 10-year period. As of December 2019 the portfolio amounted to COP \$8.92 trillion pesos and as of March 2020 it increased to COP \$9.3 trillion pesos, thus continuing the upward trend.

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As of March 2020, the total portfolio of the financial system amounts to COP \$555 trillion pesos, equivalent to an increase of \$59 trillion pesos over the previous year. This growth is driven by consumer and commercial loans. 54% of the total portfolio corresponds to the commercial portfolio, equivalent to COP \$303 trillion pesos, COP \$30 trillion pesos over March 2019.

As for the special official institutions, the total on-loan portfolio corresponds to \$28 trillion pesos, in which Findeter has a share of 34%, positioning the entity as the country's top development bank given its higher share compared to the rest.

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The recognition of Findeter's leadership is reflected in the entity's financial results.

Upon analyzing the behavior of Findeter's assets during the first quarter of 2020, an upward trend is evidenced in its main accounts.

The portfolio increased by 4.33% during this period as a result of the level of disbursements made, which amounted to COP \$662 billion pesos. In addition, fewer prepayments were made, which had a positive impact on this behavior. As a result, Findeter's portfolio closed at COP \$9.30 trillion pesos. Additionally, investments showed a positive variation as a result of derivative valuations, which increased as due to the exchange rate variation, thus causing the fair exchange price to rise to COP \$319 trillion pesos.

Moreover, available cash decreased as a result of less liquidity in the national and international market caused by a higher risk aversion of investors.

Findeter's capital structure consists of 88.5% liabilities and 11.5% equity. In this total structure, the most representative item corresponds to deposits and receivables, with a share of 49.1% equivalent, followed by multilateral bank loans with 21.1%, international bonds, subordinated bonds and sustainable bonds with 14.4%, and finally other liabilities with 3.4%.

As for Equity, as of March 2020 it shows a growth of 4.40% compared to the same month in 2019, as a result of the generation of profits from the previous year COP \$73.9 billion pesos, the entity's all-time high.

Finally, regarding the income statement, despite the current economic situation, Findeter has managed to generate operating profits of COP \$19 billion pesos.

The increase in revenue when comparing March 2019 and March 2020 is mainly due to the valuation of derivatives, as a result of an increase of 27.71% in the exchange rate. In addition, portfolio interest revenue has increased by 10.52% thanks to the disbursement level in this first quarter and fewer prepayments.

In line with the revenue trend, expenses have also increased as a result of the exchange rate variation, causing higher expenses in derivatives and exchange difference. It is worthwhile to mention that due to the 115 basis point decrease of LIBOR rates, interest rates corresponding to loans with multilateral banks have decreased by 19% compared to the same quarter last year.

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As of March 2020, Findeter's funding sources, excluding equity, amounted to COP \$9.1 trillion pesos, which includes bonds, loans with multilateral banks, as well as deposits and receivables.

The Entity's current loans have been granted by multilateral banks such as IDB, KFW, AFD and CABEI, and as of March 2020 amount to COP \$2.24 trillion pesos. From March 2019 to March 2020, the exchange rate has increased by COP \$879.75 pesos, affecting all the balances of the current loans.

Other important items within the funding structure correspond to outstanding investment securities (18.6%), which include international bonds issued in 2014, subordinated bonds issued in and sustainable bonds issued in June 2019.

From January to March 2020, we have issued certificates of deposit for a value of COP \$633 billion pesos. These issues have been affected during this first quarter by the general shortage of liquidity in the market and the prepayment levels that are below expected.

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Financial Ratios

The profitability indicators as of March 2020 showed variations compared to what was registered last year. The ROE was -1.91%, generated by the losses registered for said month caused by the tax impact of the liquidations of derivatives. On the other hand, the ROA also presented a downward behavior, reaching -0.22%, which was affected by the losses for the year and the growth of the asset that was mostly generated by the portfolio.

The operating efficiency indicators showed positive results since the indicator as of March 2020 stood at 1.36%, presenting an improvement of 9 basis points compared to 2019, mainly explained by the efficient administration of spending, which only showed an increase equivalent to 3.96% from one year to the next, which reflects a sound policy of our senior directors regarding the management and control of expenses.

The portfolio quality indicator shows a favorable performance, since it is at levels below 1% while the equivalent of the Colombian financial system amounts to 4.3%, thus reflecting the lower portfolio risk assumed by Findeter on account rediscount

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In turn, **EBITDA** decreased by COP \$10.3 billion pesos compared to 2019, mainly as a result of the 11% decrease in the gross financial margin caused by the impacts of the valuations of derivatives due to the increase in the exchange rate during the first quarter of the year. Despite the EBITDA's negative variation, the interest margin increased by 16% compared to March last year, due to the 4.33% increase in the entity's portfolio as of the first quarter of the year, equivalent to an increase of COP \$20.3 billion pesos.

ROE as of March 2020 is -1.91%, due to the losses registered for that month. This result can be explained by the tax impact caused by the cash inflow of the liquidation of derivatives. This is because, according to the provisions of the Colombian Tax Code, these revenues are taxable, thus affecting the year's final result.

The effective management of expenses and the increase in productive assets, mainly due to the portfolio during the first quarter of 2020, allowed our operational efficiency to be at 1.36%, which represents an improvement of 9 basis points compared to 2019.

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SOLVENCY RATIO

The solvency ratio went from 21.6% in December 2019 to 20.0% in March 2020. This behavior is explained by the variation in assets, which so far this year have increased by 4.09%, equivalent to COP \$ 418 billion.

Accordingly, the increase in risk-weighted assets, equivalent to 7.69%, is derived from the increase in the value of the entity's portfolio, which has grown by 4.33% so far in 2020, causing the solvency ratio to decrease.

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LRI

FINDETER measures its exposure to liquidity risk through the liquidity risk indicator (LRI), which, according to the requirements of the supervisor agency (Financial Superintendence of Colombia), must be calculated for time periods of 1 to 7 days and 1 to 30 days.

The LRI can be interpreted as the availability of cash after the entity fulfills its contractual obligations, both lending and borrowing, within a certain period of time.

This chart details the ratio of assets and liabilities involved in the construction of the net requirement, showing that throughout the year FINDETER maintained sufficient resources to meet its contractual liquidity needs in the time bands of 7 and 30 days.

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We now move on to commercial results for the first quarter of the year.

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In the first quarter of 2020, we processed on-loan operations worth COP \$663 billion pesos, where we highlight the results in the infrastructure and transportation sectors, as well as healthcare and education.

In this quarter, we managed to reach 17 departments and 30 municipalities in all regions, being involved in 61 projects. Disbursements were mainly for investments, equivalent to 84% of the total, followed by working capital with 11% and debt substitution with 5.3%.

Undertakings for the construction of metropolitan parks and sports centers, as well as buildings for universities, affordable housing projects and financing of public lighting systems stand out.

At the end of the first quarter, we recorded an 86% compliance with the proposed annual disbursement goal for 2020.

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From January 1 to March 31, 2020, banks represented 99% of intermediaries in on-loan operations. Other intermediaries represented the remaining 1%.

By segment, we disbursed COP \$353 billion pesos for beneficiaries in the private sector, which represented 53% of operations, and COP \$310 billion pesos for beneficiaries in the public sector, which represented the remaining 47%.

Regarding the disbursement term, as a development bank, we focus on long-term loans. Loans with terms equal to or greater than 8 years represented 83% of the placement.

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That's the information for the first quarter of 2020, Andres will continue with some Relevant information.

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We would like to end our presentation by providing relevant information regarding the measures taken in Findeter to face the current situation caused by the COVID-19 pandemic.

First, on March 17, 2020, the National Government declared an Economic, Social and Ecological State of Emergency through Decree 417 of 2020, as a consequence of the Coronavirus. This decree specified the need to adopt extraordinary measures to alleviate the tax and financial obligations that could be affected by the crisis.

Accordingly, on March 23, 2020, the National Government issued the Legislative Decree 468, whereby Findeter was enabled to grant direct loans with a compensated rate aimed at financing projects and activities in the sectors eligible to ward off the crisis or prevent the extension of its effects on national territory.

In addition, on April 15, the Legislative Decree 581 was issued, whereby Findeter was authorized to grant direct loans to residential public utilities companies, in order to provide them with liquidity or working capital, to implement the measures to combat the effects of the State of Emergency.

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In that sense, despite the current situation caused by the COVID-19 pandemic, Findeter, as the leading development bank in Colombia, has continued operating to support the key sectors of development in the country. In this regard, and under decree 417 of 2020, through which the National government declared the Economic, Social and Ecological State of Emergency, Findeter has so far launched four special lines of credit.

The first is *Compromiso Territorio*, with an amount of \$500 billion pesos, aimed at the municipalities and departments of the country to support their territories and maintain their operational solvency so that they can face the adverse effects of the health crisis caused by COVID-19.

Second, we have *Compromiso Colombia*, with a total amount of \$713 billion pesos, divided into \$461 billion pesos for working capital and \$252 billion pesos for investment. This line is to support public and private sectors affected by Covid-19 that are included in the sectors and subsectors eligible for finance by Findeter.

We also launched the direct line of credit for Residential Public Utilities companies, by which the national government, through Findeter, seeks to support residential public utilities

companies that provide water, sewage, sanitary services, electrical energy and fuel gas to alleviate their cash flow and ensure the provision for low income users during the Economic, Social and Ecological Emergency. This line represents an important challenge for Findeter since the loans will be made directly to the final beneficiary, without a financial intermediary and with a 0% interest rate.

Finally, there is the Compromiso Colombia credit line, with a total amount of \$256 billion pesos, which aims to support entities in the healthcare sector to improve their working capital capacities and to face the challenges of Covid-19.

All the information related to these lines and how to access them can be found on Findeter's website.

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This is the end of today's presentation, if you have further questions or require additional information, please contact the Investor Relations office.

Thank you all.