



**September 5, 2017**

**Financiera de Desarrollo Territorial S.A. -FINDETER  
Financial Results Q2-2017  
Event Transcript**

Good morning everyone. My name is Andrés Sánchez; I am the head of the Investor Relations Office at Findeter. The following people will join us today:

**Hosts:**

Richard Martinez, Financial Vice President  
Ana Patricia Cañón, Commercial Vice President  
Carolina Farfán, Treasurer  
Andrés Felipe Sánchez, Investor Relations

I now give the floor to our CFO, Richard Martinez, who will give you an overview of the bank, and the international and domestic economic prospects

***Slide # 2***

**WHO WE ARE**

Dear Investors and market analysts,

Welcome to Findeter's financial results presentation, where we will present the financial, commercial and technical results of the first half of 2017.

FINDETER continues to be the leading development bank in Colombia, offering comprehensive solutions to build sustainable territories through the planning, structuring, financing and technical assistance of infrastructure projects, through a set of financial products - including on-loan credits, sureties and guarantees, and the administration of public and non-financial resources such as technical assistance and project structuring, with the objective of building a sustainable country with high economic and social growth.

Now, before we explain the financial, commercial and technical behavior of Findeter, we will carry out a brief presentation on the national and international economic context.



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#### **WORLD ECONOMIC ENVIRONMENT**

The WTI price reached its year to date low in June, of \$42.05 (forty two dollars five cents) per barrel; however, from that moment, thanks to the reduction in inventories and the cut in production agreed by the members of OPEC, it recovered to approximately \$50 (fifty dollars) per barrel.

However, due to the changing structure of the market, where United States "shale oil" producers have a growing market share, the risk is that we will see a downward pressure on prices as exploration evolves to the production stage.

The United States dollar has maintained a trading range of between 2850 (two thousand eight hundred fifty) and 3100 (three thousand one hundred) Colombian pesos throughout the year, showing stability, and although it appears to have been tracking the major currencies and oil prices it has not yet fully participated in the global revaluation presented in August showing a lag of approximately 80 pesos.

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#### **ECONOMIC ENVIRONMENT IN COLOMBIA**

During the second quarter of the year, Colombia recorded economic growth of 1.3%, marginally higher than that reported in the first quarter, with the Agriculture and Financial sectors reporting the best performances. It should be noted that the figure for the first quarter was revised upwards from 1.1% to 1.2%

Inflation has continued to decline throughout the second quarter mainly due to the reversal of shocks that diverted inflation from the central bank's target level. As expected by the market, inflation will record its lowest figure in July (3.4%), and later close the year at levels near to 4%. Following the natural behavior of this indicator the end of the year will see inflation within the target range projected by the Central Bank. For its part, the Colombian Central Bank has continued with the cuts in the reference rate in response to the convergence of inflation to the target range and weaker economic growth. It is expected that the intervention rates of the Central Bank at the end of the year are around 5.00% - 5.25% approaching neutral levels.

In terms of unemployment, the last reported rate (in June) was 8.7%, completing 5 consecutive periods with single digit unemployment. The best performance is concentrated in rural areas where the unemployment rate is the lowest reported since 2001 (two thousand one); while in metropolitan areas it has started to show an increase.



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**FINANCIAL MANAGEMENT**

I now give the floor to Andrés who will present FINDETER's financial results for the first half of 2017.

Thank you Richard

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**DEVELOPMENT BANKS STRUCTURE**

Before we start getting into the subject matter, as a general note, please bear in mind that during the presentation, data expressed in dollars are approximations that are the result of converting the original figures into pesos at the representative market rate (TRM) of June 30, 2017 published by the Financial Superintendence of Colombia, corresponding to \$ 3,038.26 (three thousand and thirty eight pesos twenty six cents) per dollar.

Now in this regard, Findeter has established itself as the leading national development bank. This is evidenced by the evolution of the total assets of the entity during the current decade. This growth has been principally driven by the increase in the gross portfolio, which is currently the most important in the second-tier banking sector, up to nearly 8 billion pesos as of June 2017.

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**DEVELOPMENT BANKS STRUCTURE**

Development banks hold 5% of the commercial portfolio of the financial system, which translates into \$ 7.3 (seven point three) billion dollars.

In this sense, Findeter is the leader in this segment with a loan portfolio of more than \$ 2.6 (two point six) billion dollars, which represents the 37% (thirty seven) of the commercial on-loan portfolio. Findeter's positioning within this niche market is the result of its efforts to be the leading development bank in the country, which transforms regions into sustainable territories.



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## FINDETER FINANCIAL RESULTS

This positioning is evident in the **Financial Results of our company**.

Regarding the analysis of the balance sheet, during the first half of 2017 the Bank's balance sheet structure shows a growth of 2% in both assets and liabilities compared to December 2016. Equity increased by 3% compared 2016.

Regarding assets, the loan portfolio continues to be the main item, with a participation of 88% (eighty eight percent) which is equivalent to a figure close to \$ 8 billion pesos. In particular, this item increased by \$ 252,000 million (two hundred and fifty two thousand million pesos) compared to December 2016, equivalent to a positive variation of 3%. This increase in the loan portfolio was mainly due to the dynamism in the placement of on-loan credits. Another factor that influenced this behavior was the low level of prepayments made to the entity during the first half of 2017, which amounted to \$ 157,000 million (one hundred and fifty seven thousand million pesos), which is less than 2% of the loan portfolio.

As for liabilities, in general there were no major differences in its composition. Deposits and current liabilities continue to have the largest share with 59% (fifty nine percent), equivalente to \$ 4.8 billion pesos; followed by loans with banks and other obligations with 24% twenty four percent, equivalent to \$ 1.9 billion pesos. Findeter has loans contracted with the following international and multilateral banks: IDB, KFW, AFD, BCIE, BANK OF TOKIO and CITIBANK.

Finally, equity increased by 3% compared to December 2016, which represents a variation of \$ 34,000 million (thirty four thousand million pesos), mainly due to account movements derived from the profits of the previous period and the increase of those of the current period.

As for the income statement: The Bank's operating income, with a cut off as of June 2017, decreased by 19% compared to the same period of 2016, which was mainly attributable to the lower income due to derivative valuation, exchange adjustments and the recovery of provisions.

In terms of operational disbursements, these were reduced by 21% over the last twelve months. These decreases are largely explained by lesser causation in items such as the valuation of derivatives, portfolio provision and other taxes. The item with the greatest impact corresponds to the loss in derivative valuations, which decreased in COP 252,000MM (two hundred and fifty two thousand million Colombian pesos) equivalent to 49%, compared to the first half of 2016.

As outflows declined in a larger proportion to revenues, operating income showed a positive change of 6% compared to June 2016.

Despite this, operating income increased 25% (twenty five percent) from COP \$ 26,611 million (twenty six thousand six hundred and eleven million Colombian pesos) to COP \$ 32,064 million (thirty two thousand and sixty four million Colombian pesos).



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## **FINANCIAL MANAGEMENT INDICATORS**

With respect to profitability indicators, after-tax ROE showed an increase of 90 Basic Points as of June 2017 compared to the same period in 2016.

Efficiency indicators show a 6.1% decrease in the indicator of operational expenditures on average total assets and 1.71% in the indicator of operational expenditures on operational revenues, which demonstrates an improvement in the efficiency of the Entity with respect to the administration of its operating resources.

For the capital adequacy, the Total Solvency Indicator stood at 13.35%, an increase of 1.46% compared to the same period in 2016. This is mainly explained by the issuance of subordinated bonds by the entity in April 2017 for a value of 203,680 Million (two hundred and three thousand six hundred and eighty million pesos), as well as being due to the capitalization of the profits of the previous fiscal year carried out in the month of May. We will further explain the subordinated bonds later on during the presentation.

The entity maintains solvency levels higher than those required by the regulatory body of the Colombian financial system, thus complying with the required standards, which indicate that total solvency must be greater than 9%.

With respect to the portfolio Findeter has recorded very important growth over recent years. Since 2011 its growth has been 44% and in the last semester its growth was 4%. The average annual growth of the loan portfolio since 2011 has been 7.19%.

In terms of loan portfolio quality, over the year the financial system has shown an increasing trend in this indicator to 4.24% in June 2017. In the second quarter of 2017 Findeter recorded 0.33% and continues to have one of the best credit risk indicators within the Colombian financial system.

Now Carolina will address the issues of funding and international cooperation-

Thank you Andres

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## **FUNDING SOURCES**

Findeter maintains a diversification of its funding sources, a process that began in 2014 through the issuance of bonds in international markets. Among its sources of funding, the most important correspond to cooperation loans with multilateral banking, and the issuance of Certificates of Deposit in the local fixed income market. By June 2017, loans with banks amounted to \$ 1.9 billion (one point nine billion pesos), while deposits and liabilities were \$ 4.8 billion (four point eight billion pesos).



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**FUNDING SOURCES**

During the first half of 2017, we raised the equivalent of USD 570 million (five hundred and seventy million dollars) in the modalities of primary issuance and renewal of CDs, as well as the issuance of subordinated bonds in the public securities market. Compared to the same period of the previous year this represents an increase of approximately 15%.

With respect to funding through international banks, IDB disbursements were received, under the loan agreement signed with said entity, to develop different projects in the city of Barranquilla.

We are also negotiating new loans. It is hoped that these resources be accompanied by non-reimbursable international cooperation resources.

At Findeter, we are under constant analysis and evaluation by Risk Rating agencies, which seek to evaluate the sustainability of the Finance company in the short and medium term thanks to our financial consolidation over recent years. The confidence of our investors and stakeholders have been reflected in the ratification of the local AAA (triple A) risk rating and Triple B international rating - at the same level as the sovereign debt- which allows us access to local and international transactions under favorable conditions.

Likewise, we have maintained the "Issuer Investor Relations IR" certificate, granted by the Colombian Stock Exchange BVC, which shows that Findeter maintains its leadership as a public financial institution, due to its practices in the disclosure of information to the market and the relationship with its investors.

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**SUBORDINATED BONDS ISSUE**

One of the most important aspects of this period was the first issue of local old-style subordinated bonds by FINDETER in April 2017, where funds were raised for \$ 203,680 million (two hundred and three thousand six hundred and eighty million) pesos, approximately USD \$ 67 million (sixty seven million) dollars. With this operation it was possible to take advantage of the associated benefit in order to improve the solvency margin through this instrument, which got increased in 180 (one hundred eighty basic points, moving to levels of 12.5%; in addition, it allowed the sources of financing to be diversified and to lengthen the duration of the liabilities.

The Financial Superintendence of Colombia highlighted the structuring process, as it did not have any explanatory notes in its issuing prospectus. The process was performed by Findeter's Financial Vice-Presidency; it counted on the advice and participation of several market agents such as the firm Mosquera Abogados, Itaú Comisionista de Bolsa (stockbrokers) as the legal representative of the bonds, the Colombian Stock Exchange as administrator of the Dutch auction and brokerage companies as placement agents.



The long-term rating granted by Fitch Ratings to the issue was AA +. The difference with the highest rating (AAA) is due to its nature as subordinated debt, which in case of default by the issuer, the potential of recovery with respect to senior liabilities is lower. The study highlighted the adequate level of capital maintained by Findeter.

The issue bid to cover was 2.4 times, with a demand of approximately COP 492 billion (four hundred and ninety two billion pesos) demonstrating the trust that the public securities market has in Findeter as an issuer.

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### **INTERNATIONAL COOPERATION**

In the field of non-reimbursable international cooperation, non-reimbursable financial cooperation resources were obtained from the Japanese Embassy; as well as non-reimbursable technical cooperation resources from the German Development Bank (KFW).

Likewise, during the first half of 2017, more than USD \$ 5 million has been executed in different projects, from resources such as the French Development Agency, NAMA TOD and the Inter-American Development Bank.

We are continually working for the development of Colombia, together with the international partners of Findeter who support our mission to build sustainable territories that improve the quality of life of Colombians.

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### **COMMERCIAL MANAGEMENT**

We now turn to the presentation of the commercial and technical issues, which will be presented by our Commercial Vice-President, Ana Cañón.

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### **DISBURSEMENTS Q2-17**

Thank you Carolina

Greetings to all attendees, I begin my presentation by reminding everyone that in Findeter all credit operations are carried out through the on-loan system. This means that we disburse loans to credit institutions, mainly to commercial banks (as we will see later) and these, in turn, lend them to public or private companies that carry out infrastructure projects throughout Colombia.

In that sense, during the first half of 2017, we managed on-loan operations for US \$ 270 million (two hundred and seventy million) dollars, highlighting the results in the sectors of Health, Energy, Urban Development and Housing.



From January 1 to June 30, 2017, we managed to reach 20 departments and 42 municipalities in all the regions, where we carried out 111 (one hundred and eleven) projects that included investments with disbursements of USD \$ 180 million (one hundred and eighty million dollars), equivalent to 66.5% (sixty six point five percent) of the total; working capital with disbursements of USD \$ 37.5 million (thirty seven point five million dollars), equivalent to 13.9% (thirteen point nine percent); and debt replacement with disbursements of USD \$ 53 million (fifty three million dollars), equivalent to 19.6% (nineteen point six percent).

Businesses stand out in the following fields: the construction of health centers, medical complexes, the provision and acquisition of equipment and instruments for clinics and hospitals, the remodeling of educational facilities, the construction of sports centers, investments in the road sector, water and sewage master plans, in addition to others.

This management highlights the commitment and responsibility of the human talent of the organization for the accomplishment of the objectives.

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#### **ON-LOAN CREDIT DISBURSEMENTS**

As mentioned, in the second quarter of 2017, on-loan credit operations were executed for USD \$ 270 million (two hundred and seventy million dollars), with a target to disburse a total of USD \$ 626 million for the placement of on-loan credits in 2017. The above shows that to date we have executed 43% of the annual budget, with USD \$ 5.4 billion (five point four billion dollars) disbursed from August 2010 to June 30, 2017.

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#### **ON-LOAN CREDIT DISBURSEMENTS**

As for intermediaries, during the first half of 2017, banks accounted for 97% (ninety seven percent) of on-loan credit operations with disbursements for USD \$ 263 million (two hundred and sixty three million dollars). Other intermediaries accounted for the remaining 3% with USD \$ 6.9 million (six point nine million dollars).

By segment, we disbursed USD \$ 207.5 million (two hundred and seven point five million) for private sector beneficiaries, representing 77% (seventy seven percent) of the operations, and USD \$ 60 million (sixty million dollars) for public sector beneficiaries representing the remaining 23%.

Regarding the term of the disbursements, as a development bank, we focus on long-term loans. Loans with terms equal to or greater than 5 years accounted for 93% of the placement equivalent to USD \$ 250 million (two hundred and fifty million dollars) while short-term loans of less than 5 years accounted for 7%, equivalent to USD \$ 20 million.





As a leading bank we seek to transform the regions into sustainable territories through infrastructure projects that generate well-being in the regions and improve the quality of life of its inhabitants.

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#### **TECHNICAL MANAGEMENT**

We now continue with the topics of the technical area of the entity, corresponding to Findeter's non-financial products.

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#### **EVOLUTION OF THE TECHNICAL ASSISTANCE PRODUCT**

The Technical Assistance service is Findeter's main nonfinancial product, through which we support the National Government and other governmental entities, carrying out pre-contractual and contractual processes and monitoring and supervising the execution of water and basic sanitation programs, social infrastructure and housing, among others.

Through technical assistance, Findeter has established itself as the vehicle for implementing the programs and policies of the National Government in the regions of Colombia. Proof of this is the exponential evolution of the product, increasing from 160 projects executed in 2011 to 789 projects executed as of June 30, 2017, with growth of 5.3% between 2016 and the first six months of this year.

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#### **TECHNICAL ASSISTANCE**

With the technical assistance product we are executing USD \$ 2.8 billion (two point eight billion dollars) in 779 projects in 290 municipalities in Colombia, generating 54,000 jobs. Of the US \$ 2.8 billion (two point eight billion dollars) in resources, US \$ 692 million (six hundred and ninety two million) correspond to 257 (two hundred and fifty seven) drinking water and basic sanitation programs; approximately US \$ 275 million (two hundred and seventy five million dollars) in 278 (two hundred and seventy eight) social infrastructure projects and US \$ 1.8 billion (one point eight billion) in 242 (two hundred and forty two) housing projects.

Thanks to our expert service and reputation, we have strengthened ourselves as an effective instrument in the implementation of priority programs of social inclusion, managing to articulate public policies with the needs and requirements of the regions.

Now Richard will close our presentation with some relevant information

Thank you for your attention

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## RELEVANT INFORMATION

To finish our presentation, we wanted communicate that on the last meeting of the Board of Directors, on August 29th, 2017, it was accepted the resignation presented by **Mr. Luis Fernando Arboleda González**, as President of FINDETER, after seven years of service.

The Board of Directors acknowledged and recognized the management carried out by Luis Fernando, for exceeding the goals set by the organization, with an irrefutable policy of transparency and efficiency.

Luis Fernando Arboleda led the organization into the transformation from a second-tier bank to a Development Bank.

In that regard Mr. Rodolfo Zea Navarro, who has been working in Findeter for more than 20 years and who was acting as General Secretary, has been appointed as interim President of the entity, and will continue with the objective of building a sustainable country with high economic and social growth.

This marks the end of our presentation, thank you all for your attention.

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