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Financiera de Desarrollo Territorial S.A. -FINDETER
Financial Results 2Q-2018
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
María Paz Uribe, Head of International Banking
Carolina Farfán, Treasurer
Daniel Plazas, Financial Strategy Director
Andrés Felipe Sánchez, Investor Relations

I now give the floor to our CFO, Richard Martinez

Dear Investors and market analysts,

Welcome to Findeter's financial results presentation, where we will present the financial and commercial results of the second quarter of 2018 (two thousand eighteen). Additionally we will provide information about our next issuance of sustainable bonds

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FINANCIAL MANAGEMENT

We start now with the financial information of the company

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DEVELOPMENT BANKS STRUCTURE

Findeter continues as the leading national development bank. This can be evidenced by the evolution of the total assets of the entity during the current decade, which has increased from 4.8 (four point eight) billion to 9.5 (nine point five) billion pesos. This growth has been principally driven by the increase

in the gross portfolio, which has grown on average 10.2% (ten point two per cent) in the last eight years. Looking at the period between June 2017 (two thousand seventeen) and June 2018 (two thousand eighteen), the growth of the portfolio was 4.6% (four point six per cent), reaching 8.4 (eight point four) billion pesos.

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DEVELOPMENT BANKS STRUCTURE

To the period of June 30, 2018, the total portfolio of the financial system amounts to 473 billion pesos, of this figure 56% corresponds to commercial loans, equivalent to COP 243 billion pesos. On the other hand, the on-loan portfolio corresponds to 8.7% of the commercial portfolio, which translates into COP 22 billion.

FINDETER has more than COP 8.4 billion in its portfolio, a figure that is equivalent to 38% of the on-loan commercial portfolio, which positions it as one of the leaders in the market. This position is the result of work leveraged in the strategic axes of the entity, which are planning, financing and execution, that allow it to continue being the leading development bank that transforms the regions into sustainable territories

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FINDETER FINANCIAL RESULTS

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

When analyzing the behavior of FINDETER's assets during the first semester of 2018, a positive trend can be observed in its main accounts with respect to December 2017. The portfolio has shown a 1.4% growth as of June 2018, which can be considered positive if compared to the growth of the commercial portfolio of the Colombian Financial System.

The capital structure of FINDETER is composed of 88.2% liabilities and 11.8% equity. Within the liabilities, the most important item corresponds to deposits and current liabilities with a participation of 65.4% (5.14 billion pesos), followed by loans from banks and other obligations which represent 22.8% (1.8 billion pesos) of the total liabilities.

With our next issuance of sustainable bonds whose authorization has a maximum amount of 400,000 (four hundred thousand) million pesos, the participation of the bonds in the structure of the liabilities can increase from 12% to 16%.

As of June 2018, equity has grown by 5.29% with respect to the same month of 2017, a variation that was mainly due to the capitalization of the profits of the previous year 52,146 (fifty two thousand one hundred forty six) million pesos, the highest in the history of the entity). Additionally, we want to remark the positive performance of the profits during the first semester of the year, reaching 38,271 (thirty eight thousand two hundred seventy one million pesos).

To the second quarter of 2018, the gross financial margin increased 13% compared to the same period of 2017. This behavior is mainly attributed to the favorable impact generated by the exchange adjustment and the increase in provisions resulting from recoveries and the growth of the portfolio. This behavior offset the decrease in interest income derived from the decrease in the REPO reference rate, which fell 200 basis points as a result of the expansionary monetary policy of the Central Bank.

Taking into account the variations presented in the accounts associated with derivatives and changes in foreign currency, the net effect on the income statement was reduced by 81%. This trend shows that the behavior of the forward devaluations in the first semester have presented a decrease of 280 PB (Basis points).

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FINANCIAL MANAGEMENT INDICATORS

Moving now to the financial indicators, R.O.E after taxes (6.83%) recorded an increase of 123 basic points to June 2018, with respect to the same period of 2017. This trend can be attributed to the increase in profits during the current period by 29% compared to 5% in what corresponds to Equity.

The efficiency indicators do not show relevant variations during the analyzed period, which shows an adequate policy of control of expenses.

Findeter's portfolio quality indicator shows a remarkable behavior, since its levels are located around 0.15% while the financial system has shown an upward trend in this indicator so far this year, reaching 4.95% to June 2018. In that regard, Findeter continues to have one of the best credit risk indicators in the Colombian financial system

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SOLVENCY RATIO

A key point to take into account regarding the solvency ratio is the Decree 1333 issued on August 10, 2017 by the Ministry of Finance and Public Credit, which, based on the recommendations made by the Basel III agreements, modifies the calculation method of the solvency ratios which weights assets according to risk level.

Said decree establishes that credit risk associated to on-loans made by entities such as Findeter shall be weighted to 50% of their value, as long as they are celebrated through entities supervised by the Financial Superintendence of Colombia, modifying the previous value of 100%.

Therefore, under this new regulation, the solvency ratio of Findeter for the month of June is 23.4%.

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FUNDING SOURCES

FINDETER funding sources amount to 8.3 billion pesos, including bonds, loans with banks and other obligations and deposits and current liabilities.

The Entity has contracted loans with multilateral banks and cooperation institutions such as the IADB, KFW, AFD and Central American Bank for Economic Integration. We also have loans from commercial banks such as the BANK OF TOKYO and CITIBANK, which amounted \$366.350 (three hundred sixty six thousand three hundred fifty million pesos) to the second quarter of 2018.

Other important items within the funding structure correspond to outstanding investment securities (14.3%), which includes the international bonds issued in 2014 and the subordinated bonds issued in 2017. As we mentioned before, with the issuance of the Sustainable bonds, the participation of the bonds in the structure of the liabilities can increase from 12% to 16%.

Regarding Certificate of Deposits, we have issued during the first semester of 2018, 1.34 billion pesos.

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COMMERCIAL MANAGEMENT

We now turn to the presentation of the commercial aspects of the company.

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DISBURSEMENTS

During the first six months of 2018 (two thousand eighteen), we managed on-loan operations for 1.35 billion pesos. The main sectors of the disbursements were transportation, health and the education projects.

From January 1 to June 30, 2018, we managed to reach 20 departments and 54 municipalities in all the regions, where we carried out 127 (one hundred twenty seven) projects. This figures included disbursements for investments equivalent to 89.9% of the total; followed by working capital with disbursements representing 9% of the total, and debt substitution disbursements equivalent to 18% of the total amount.

In this regard, we want to highlight that at the end of the second semester we disbursed 71% of the projected annual goal for 2018. This management highlights the commitment and responsibility of the human talent of the organization to the fulfillment of its objectives.

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ON-LOAN CREDIT DISBURSEMENTS

As for intermediaries, to June 30, 2018, banks accounted for 99% (ninety nine percent) of on-loan credit operations. Other intermediaries accounted for the remaining 1%.

By segment, we disbursed \$714.000 million (seven hundred fourteen thousand million pesos) for private sector beneficiaries, representing 53% (fifty three percent) of the operations, and \$586.7 million (five hundred eighty six thousand point seven million) for public sector beneficiaries representing the remaining 47%.

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 95% of the total placement, while short-term loans of less than 5 years accounted for the remaining 5%.

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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FIRST ISSUANCE OF SUSTAINABLE BONDS

I now give the floor to Maria Paz Uribe, who will give you information about our next issuance of sustainable bonds, which will be the first of this kind in Colombia.

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FIRST ISSUANCE OF SUSTAINABLE BONDS

First, we want to highlight that for this issuance FINDETER received support from the IDB through a technical assistance program financed by the Agency for Economic Cooperation and Development of Switzerland.

The objective of this cooperation is to support National Development Banks raise private funds under acceptable terms in the capital markets through the issuance of green, social or sustainable bonds, to strengthen the capacity of the institutions, diversify their sources of funding; promote low carbon

activities in the country and to develop capital markets with innovative products.

Considering the vision of FINDETER, to be the leading development bank that transforms regions into sustainable territories, we decided to issue a sustainable bond for the first time in the country for up to 400.000 million pesos in the local market.

Sustainable Bonds are a debt instrument by which FINDETER obtains resources to finance projects that mitigate climate change and that have a positive social impact, promoting a more sustainable economic growth, as well as diversifying our funding sources.

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INTERNATIONAL STANDARDS

As a result, for this issuance we have aligned ourselves to the highest international standards for these types of placements, which are the guidelines of the International Capital Market Association.

This Organization is an alliance between 540 institutions of issuers and investors in 60 countries whose mission is to promote resilient well-functioning international and globally coherent cross-border debt securities markets, which are essential to fund sustainable economic growth and development.

With that objective, the International Capital Market Association developed the Green Bond Principles and Social Bond Principles, designed to increase the allocation of capital to projects that generate a positive impact on different sectors, that from the green perspective cover the following: Renewable Energies; Energy efficiency; Pollution control and prevention; Sustainable water and wastewater management; Clean Transportation; Adaptation to climate change and ecological infrastructure. From a social perspective seeks to allocate funds for: Access to essential services in health, education and health care, as well as basic infrastructure in potable water, sewage, sanitation and transport, among others.

The funds from Sustainable bonds are intended exclusively to finance or refinance green or social projects, or a combination thereof.

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FRAMEWORK

The characteristics of the sustainable bond are governed by four core components of the green and social bond principles. First, the USE OF PROCEEDS by which it is established that eligible projects must meet at least one of the criteria of the categories mentioned in the previous slide. Specifically, in FINDETER we have already identified a pipeline of projects to allocate resources from the sustainable bonds in the following sectors: Natural Assets, Water, Green Construction, Integral Management and Waste Control and Recycling, Education, Sports and Culture, Renewable Energy, Health, Mass Transportation and Social Housing.

The second component is the PROCESS FOR PROJECT EVALUATION AND SELECTION. For the development of this guideline a Sustainability Bond Committee was established, which will aim to evaluate that the operations to be financed with the resources from the issuance are aligned to the ICMA principles.

The third Component is the MANAGEMENT OF PROCEEDS. At this point it is established that the outstanding disbursement resources will be invested in liquid instruments within Findeter's portfolio, in accordance to the principles of transparency, honesty and prudence that are also part of Findeter's internal policy. The use of the resources will also be certified by an external audit.

Finally, the fourth component is REPORTING. FINDETER is committed to annually reporting the use of proceeds, indicating number of beneficiaries, average value of disbursements by category and regional distribution through our annual management and sustainability report which will be published on our website.

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SUSTAINABILITY IMPACT

In accordance to the highest standards for this type of issuances, we have an external assessor which has reviewed and confirmed the alignment of the bonds with the four core components defined above.

This task was performed by Vigeo Eiris, an independent global provider of research and ESG services for investors, public and private organizations, and NGOs. The agency evaluates the level of integration of sustainability factors in the strategy and the operations of the issuer and conducts an evaluation of risks to help investors and companies in their decision-making process.

In this sense, Vigeo Eiris has provided an independent opinion on the sustainability credentials and responsible management for the issuance of the Sustainable Bonds, stating its highest level of guarantee on the commitments of FINDETER as an issuer and the bond's contribution to Sustainability.

The opinion of Vigeo is backed by its experience spanning more than 90 issuances by more than 50 issuers in different parts of the world.

Within its independent opinion, it highlights the contribution of Findeter's sustainable Bonds issuance to 10 of the 17 United Nations sustainable Development Goals, particularly in the areas of: eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and women's autonomy, reducing child mortality, ensuring the sustainability of the environment and promoting a global partnership for development.

Due to the above-mentioned we are convinced that FINDETER's sustainable bond issuance will positively impact the development of Colombia, confirming our mission to be the strategic partner for the regions that generates welfare for their people.

Now Carolina our Treasurer will give the financial information of the Bond.

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ISSUANCE INFORMATION

Thank you, Maria Paz. Regarding the financial characteristics of the issue, the type of the sustainable bond is a senior note. The amount for the issue will be up to 400 thousand million pesos (approximately 133 million US dollars). The bonds were rated AAA by BRC Investor Services - Standard & Poor's. The payment of capital will be on the maturity date, which will be between 5 and 10 years. The reference rate, still to be determined, will be CPI, IBR or Fixed rate.

The bonds will be registered in the National Register of Securities and Issuers and the Stock Market of Colombia, the placement mechanism used will be through Dutch auction.

The issuance will take place in the following months before the end of the year. Once we have a confirmed date you will be informed through the Investor Relations office and our different channels of communication.

The Sustainable bonds issue is currently under process of approval by the Financial Superintendence of Colombia (ii) the presentation and the preliminary public-offer prospectus do not constitute a binding public offering, therefore, both the presentation and the preliminary prospectus can be modified or corrected, and (iii) negotiations can not be conducted until the public offering is authorized and officially communicated to its recipients.

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

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