

December 13th, 2017

Financiera de Desarrollo Territorial S.A. -FINDETER

Financial Results 3-2017

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

María Paz Uribe, Head of International Banking

Carolina Farfán, Treasurer

Andrés Felipe Sánchez, Investor Relations

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

Dear Investors and market analysts,

Welcome to Findeter's financial results presentation, where we will present the financial, commercial and technical results of the third trimester of 2017 (two thousand seventeen).

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WHO WE ARE

We want to start this presentation by sharing the news of the appointment of our new President of FINDETER, Mr. Rodolfo Zea Navarro. The Board of Directors of the entity have selected him to continue FINDETER's work as the leading development bank in Colombia.

Mr. Rodolfo Zea is an Economist from the Universidad de los Andes, with an MBA from the INALDE business school. He has a specialization in International Finance from the Universidad de la Sabana, and further studies in the stock market, budgeting and portfolio management.

He has more than 20 years of experience in senior management positions in financial areas and is certified as a director in the management modality by the Self-Regulator of the Colombian Securities Market.

Mr. Zea has previously lead the following teams at Findeter: Treasury, Financial Strategy, Accounting, Budget and International Banking.

Thanks to this experience we are confident that under the leadership of Mr. Zea, we will continue progressing with our objective of building a sustainable country with high levels of economic and social growth.

That said, we move now to a brief presentation on the national and international economic context.

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WORLD ECONOMIC ENVIRONMENT

Oil prices have been recovering to levels close to US \$ 60 (sixty) dollars as a result of a significant adjustment of imbalances in the world market. On the supply side, 2017 (two thousand seventeen) has been characterized by modest growth due to the cuts in production agreed by the members of OPEC, in force until December 2018. OPEC has seen its impact reduced due to growing production in USA; while on the demand side growth was 19% (nineteen percent) lower than in 2016 (two thousand sixteen).

With respect to the price of the dollar, it has maintained a trading range of between 2850 (two thousand eight hundred fifty) and 3100 (three thousand one hundred) Colombian pesos thru the year, showing stability. The drivers have been oil prices and the Fed monetary policy expectations; during part of September and October, the correlation of the Colombian currency against oil was reduced and the 10-year treasury bonds gained significance.

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ECONOMIC ENVIRONMENT IN COLOMBIA

During the third quarter of the year, Colombia recorded economic growth of 2% (two percent), a higher level than that recorded for same period last year

of 1.2% (one point two percent); six of the nine economic activities reported growth, with the agricultural sector being the most important, followed by financial services and social services. In mining and industry an improvement can be seen towards positive terrain, reflecting better prospects due to internal and external demand.

Both the market and the Central Bank forecast growth of 1.6% (one point six percent) for 2017 (two thousand seventeen). The expectation for 2018 (two thousand eighteen) is a growth of between 2.3% (two point three percent) and 2.8% (two point eight percent).

Inflation has continued to fall during the third quarter mainly due to the reversal of the shocks that diverted inflation from the central bank's target level, combined with the descending inflationary trend in the food sector. Market expectations have been correcting downwards towards the year-end, at 3.98% (three point ninety eight percent) for the end of September, slightly below the target range; this has allowed the cuts in the reference rate to continue, and boost the weak economic growth. The Intervention rates of the Colombian Central Bank by the end of the year are expected to be 4.75% (four point seventy five) and next year 4.25% (four point twenty five percent), bringing the rate back to expansionist levels.

The unemployment rate was 9.22% (nine point twenty two) in September, completing 3 (three) consecutive periods with increases in the metropolitan areas; while rural areas continue to report job creation, in line with growth data from the agricultural sector.

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FINANCIAL MANAGEMENT

I now give the floor to Andrés who will present FINDETER's financial results for the third semester of 2017 (two thousand seventeen).

Thank you Richard

*Slide #7***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 Colombian pesos at the representative market rate (TRM) of September 30 (thirty), 2017 published by the Financial Superintendence of Colombia, corresponding to \$ **2,936.67** (two thousand nine hundred thirty six pesos) per dollar.

Now in this regard, Findeter has established itself as a leading national development bank. This can be 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, reaching the 8 billion pesos mark as of September 2017. This, despite the slow-down of the infrastructure projects in Colombian and the region caused by external factors.

*Slide #8***DEVELOPMENT BANKS STRUCTURE**

Development banks hold 9% of the commercial portfolio of the financial system, which translates into \$ 7.5 (seven point five) billion dollars.

In this sense, Findeter is a leader in this segment with a loan portfolio of more than \$ 2.7 (two point six) billion dollars, which represents the 36% (thirty six percent) 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 evidenced in the **Financial Results of our company**.

During the first three quarters of 2017 the main balance sheet accounts of FINDETER grew. Assets, for example, have displayed a variation of 0.50% so far this year. Liabilities have shown minimal growth equal to 0.01%, and equity has increased by 4.28%.

In the case of assets, although some variations in its composition have occurred, in general the most important items have remained stable. Therefore, at the end of September 2017, the portfolio continues to occupy the largest share in assets (88%), followed by available assets (5%), other assets (4%) and investments (5%). The portfolio has grown by 2% so far this year, a variation that is explained by the value of the disbursed resources, at COP 1.3 billion pesos. The level of prepayments received during 2017 has not been as high as in other years, and as of September 2017, COP 409,000 million (four hundred nine thousand million) has been recorded for cancellations and advances.

Regarding the capital structure, liabilities represent 88% and Equity 12%. Within the liabilities the most important item is that of deposits and current liabilities with a 59% share equivalent to (COP 4.7 billion pesos), followed by loans from banks and other obligations which represent 24% equivalent to (COP 1.9 billion pesos) of the total liabilities. The loan provisions of the Entity have been contracted with multilateral banks and cooperation institutions including the IDB, KFW, AFD and BCIE. FINDETER also has loans from commercial banks such as the BANK OF TOKYO and CITIBANK. Other important items in the liabilities correspond to outstanding investment securities (14%), among which are the international bonds issued in 2014 equivalent to COP 946,175 million pesos (nine hundred forty six thousand one hundred seventy five millions pesos) and the subordinated bonds for 203,680 million (two hundred three thousand six hundred eighty million) issued in 2017.

Equity has grown by 4.28% equivalent to 44,109 million (forty four thousand one hundred nine million pesos) as of September 2017. This variation is due to

the capitalization of the profits of the previous period and the increase thereof in the current period.

Regarding the statement of income: the Operating income of the Entity as of September 2017 decreased 24% compared to the same period for 2016. This behavior was attributed mainly to the lower income caused by the valuation of derivatives, exchange adjustments and the recovery of debt provisions.

Operating expenses decreased by 26% over the last twelve months. These decreases are mainly explained by lower taxes in items such as the valuation of derivatives and exchange adjustments. The item with the highest impact corresponds to the loss in valuation derivatives, which decreased COP 339,780 million pesos (three thousand thirty nine thousand seventy eight million pesos), equivalent to a negative variation of 49% when compared to September 2016.

Despite the variations presented in the accounts associated with derivatives and foreign currency exchanges, the net effect on the income statement decreased by 11% this year compared to 2016. This is partly explained by the devaluations.

Both the net interest margin and the gross financial margin increased in September 2017 compared to the same period of 2016. Despite this, the operating profit decreased by 1% to COP 70,898 million (seventy thousand eight hundred ninety eight million pesos). This is due to the increase in administrative costs and deterioration, which increased 6% and 32%, respectively, from one period to the other.

Now, María Paz will continue with the financial review and the international banking matters.

*Slide #10***FINANCIAL MANAGEMENT INDICATORS**

I will start my presentation with an overview of the financial ratios. Profitability indicators, ROE after taxes (5.3%) recorded an increase of 87 basic points to September 2017 with respect to the same period of 2016. This is because the profit recorded in September 2017 equivalent to COP 42,259 million (forty two thousand two hundred fifty nine million pesos) increased by 26% compared to the previous year, while asset growth was not as high (4%).

The efficiency indicators show a decrease of 6.37% in the indicator of operating expenses on total assets, at 15.4%, and a reduction of 1.53% in the operating expenses indicator on operating income (93.5%), which shows an improvement in the efficiency of the Entity when managing the resources it has for its operation.

For adequate net worth the Total Solvency Indicator increased by 1.67% to 13.44% compared to same period of 2016. This is explained, mainly, due to the issuance of subordinated bonds by the entity in April 2017, as well as the capitalization of the previous year's profits in May. Similarly, a factor that has contributed to the solvency ratio remaining at levels close to 13% during the third quarter of the year is the moderate growth of the portfolio of the entity. Findeter maintains solvency levels higher than those required by the regulator of the Colombian financial system, thus complying with the required standards, which indicate that the total solvency must be higher than 9%.

*Diapositiva #11***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 September will increase from 13.4% (old scheme) to 24.4% (Decree 1333).

Diapositiva #12

PORTFOLIO

In terms of portfolio quality, the financial system has shown an upward trend in this indicator so far this year, to 4.41% in August 2017. In the third quarter of 2017 the portfolio quality of Findeter was 0.20% and continues to have one of the best credit risk indicators in the Colombian financial system.

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FUNDING SOURCES

We approach now to the 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 September 2017, loans with banks amounted to \$ 1.9 billion (one point nine billion pesos), while deposits and liabilities were \$ 4.7 billion (four point eight billion pesos).

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FUNDING SOURCES

During the third quarter of 2017 we received, through CDs, the equivalent of USD 727 million, a slightly lower figure compared to the USD 761 million of the same period in 2016. The resources during this period were tied to the interbank rate in accordance with the local monetary policy.

Regarding funding through international banking, disbursements were received from the IADB, within the framework of the loan agreement signed with that entity, to develop different projects in the city of Barranquilla,

Monteria and Pereira. As of the third quarter USD \$ 36 million dollars have been disbursed

Findeter is under continuous analysis and evaluation by the Risk Ratings agencies, which seek to assess the sustainability of the Finance company in the short and medium term. Thanks to the financial consolidation of Findeter over recent years, the confidence of our investors and stakeholders has been reflected in the recent ratification of the Triple A level local rating and Triple B international rating with stable outlook - at the same level as our sovereign debt - which allows us to have access to local and international transactions on favorable terms.

Likewise, for the third consecutive year we have been granted the "Investor Relations Issuer IR" certification by the *Bolsa de Valores de Colombia BVC* ("Colombian Stock Exchange") demonstrating that Findeter maintains its leadership as the only public bank with this recognition, thanks to its practices in the disclosure of information to the market and the relationship with its investors. We were also recognized by the Stock Exchange as one of the five companies with the IR seal that has made the most progress in complying with the standards for disclosing information to the market.

Diapositiva #15

INTERNATIONAL BANKING

In the International Banking affairs, it is important to note that the President of Findeter was appointed as a member of the Board of Directors of The Latin American Association of Development Financing Institutions (ALIDE). Findeter was also chosen as representative of Latin America in the Banking Committee of UNEP FI- the global partnership between the United Nations Environment Program and the financial sector. In addition we also subscribed a separate agreement with KfW for the implementation of the NAMA TOD.

We are negotiating new loans, with the objective that these resources are complemented by non-reimbursable international cooperation resources.

We are continually working for the development of Colombia together with Findeter's international partners who support our mission of building 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 Carolina Farfán.

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HOW WE FINANCE

Greetings to all the attendees. We start the presentation of the commercial area highlighting that FINDETER carries out all its credit operations 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 execute development projects throughout Colombia.

We finance up to 100% of the value of the project, this includes a term of up to 15 years and a 3-year grace period.

Loans can include both dollars and pesos. We have several lines of financing in place that offer special conditions for development projects in the regions or projects with public impact.

Partial disbursements can be performed, which means that the total loan is segmented and on stipulated dates it is disbursed until the total is reached.

It is also important to note that all the loans can be made in all the reference rates in the Colombian market: IPC, DTF and IBR. Likewise, the loans or businesses are subject to the use described in our loan discount manual: investment, working capital and debt substitution.

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DISBURSEMENTS 3Q-17

During the first the first nine months of 2017 (two thousand seventeen), we managed on-loan operations for US \$ 442 million (four hundred and forty two

million) dollars, highlighting the results in the sectors of transportation, health, education and water.

From January 1 to September 30, 2017, we managed to reach 21 departments and 54 municipalities in all the regions, where we carried out 138 (one hundred thirty eight) projects. This included disbursements for investments for USD \$ 315 million (three hundred fifteen million dollars), equivalent to 72% (seventy two percent) of the total; followed by debt substitution disbursements for USD\$79 (seventy nine million dollars) equivalent to 18% (eighteen percent) of the total and working capital with disbursements for USD \$ 41 million (forty one million dollars), equivalent to 9% (nine percent).

Businesses stand out in the following fields: construction of health centers, medical complexes, provision and acquisition of equipment and instruments for clinics and hospitals, remodeling of educational facilities, investments in the road sector, water and sewage master plans, infrastructure for public lightening, 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, during the first three quarters of 2017, on-loan credit operations were executed for USD \$ 442 million (four hundred and forty two million dollars), with a target to disburse a total of USD \$ 647 (six hundred forty seven) million dollars for the placement of on-loan credits in 2017. The above shows that to the 3Q period we have executed 67% (sixty seven percent) of the annual budget, with USD \$ 5.7 billion (five point seven billion dollars) disbursed from August 2010 to September 30, 2017.

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ON-LOAN CREDIT DISBURSEMENTS

As for intermediaries, to September 30, 2017, banks accounted for 98% (ninety eight percent) of on-loan credit operations with disbursements for USD \$ 425 million (four hundred twenty five million dollars). Other intermediaries accounted for the remaining 2% with USD \$ 7 million (seven million dollars).

By segment, we disbursed USD \$ 316 million (three hundred sixteen million dollars) for private sector beneficiaries, representing 73% (seventy-three percent) of the operations, and USD \$ 119 million (one hundred nineteen million dollars) for public sector beneficiaries representing the remaining 27%.

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 placement equivalent to USD \$ 408 million (four hundred eight million dollars) while short-term loans of less than 5 years accounted for 5%, equivalent to USD \$ 22 (twenty two) million dollars.

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

Thank you Carolina

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 (one hundred sixty) projects executed in 2011 to 775 (seven hundred seventy five) projects executed as of September 30, 2017, with growth of 5% between 2016 and the first nine 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 775 projects in 291 municipalities in Colombia, generating 54,000 jobs.

Of the US \$ 2.8 billion (two point eight billion dollars) in resources, US \$ 705 million (seven hundred five million dollars) correspond to 260 (two hundred sixty) drinking water and basic sanitation programs; US \$ 284 million (two hundred eighty four million dollars) correspond to 273 (two hundred and seventy three) social infrastructure projects and US \$ 1.85 billion (one point eighty five billion) correspond to 242 (two hundred and forty two) housing projects.

Thanks to our expert service and reputation, we have become a stronger and 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

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RELEVANT INFORMATION

Finally, it is important to inform that there have been two recent changes in our management team. Mr. Fabian Paternina has been designated as Secretary General and Mrs. Laura Roman has been appointed as Commercial Vicepresident of Findeter.

Mrs. Roman has a degree in Industrial Engineering from Universidad de los Andes in Colombia, and a post-graduate degree in Finance from EAFIT University. She has more than 23 years of experience in the financial sector.

Mr. Paternina is an attorney from Universidad Externado de Colombia, with post-graduate studies in public law and political sociology. He has wide experience in legal and administrative areas.

They both currently are under the appointment process of the Financial Superintendence of Colombia.

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

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