



**June 14th, 2017**

**Financiera de Desarrollo Territorial S.A. -FINDETER  
Financial Results 2016 y 1Q17  
Event Transcription**

**Hosts:**

*Slide #1*

Good morning and afternoon to all the attendees, my name is Andrés Sánchez, I am the Investor Relations Manager of Findeter. On our side, we have:

**Richard Martinez, CFO**  
**Ana Patricia Cañón, Comercial Vicepresident**  
**María Paz Uribe, Chief of International Banking**

I give the word to Richard Martinez, who will give you an overview of our bank and the international and Colombian economic review.

*Slide #2*  
**ABOUT US**

Thank you Andrés

Dear Investors and market analysts,

Welcome to the presentation of Findeter's financial results, during which we will present the company's overall results in 2016 (two thousand sixteen) and the first quarter of 2017 (two thousand seventeen), as well as the most important achievements during these periods and the expectations for 2017(two thousand seventeen).



FINDETER is the leading development bank in Colombia and offers integrated solutions to build sustainable territories through the planning, structuring, financing and technical assistance of infrastructure projects, through a set of Financial products - including rediscount loans, 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 start presenting Findeter's financial, commercial and technical behavior, we will give a brief account of the national and international economic context.

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### **INTERNATIONAL ECONOMIC REVIEW**

During the first quarter of 2017 (two thousand seventeen), oil prices remain at levels higher than those seen during much of 2016 (two thousand sixteen). The WTI reference price has fluctuated at levels close to 50 (fifty) dollars per barrel thanks to agreements to reduce production by OPEC (*oupec*). Likewise, there have been structural changes in the market with the participation of shale oil and its supply dynamics.

The movements of oil prices continue to be critical for the exchange rate which has stabilized in the range of 2800 (two thousand eight hundred) to 3100 (three thousand one hundred) pesos during the year.

For the year 2017 (two thousand seventeen), the International Monetary Fund in its World Economic Outlook forecasts a growth rate of 2.3% (two point three per cent) for Colombia, compared to 0.6% (zero point six per cent) for South America and 1.1% (one point one per cent) for Latin America and the Caribbean; local analysts predict levels of around 1.9% (one point nine per cent).



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## **COLOMBIAN ECONOMIC REVIEW**

With respect to the economic environment in Colombia, during the first quarter of 2017 (two thousand seventeen), Colombian economy continued to decelerate, reporting a growth of 1.1% (one point one per cent), as expected by the market. In the same way, it is facing a downturn in terms of trade, displaying macroeconomic imbalances due to recent external shocks because of the fall in oil prices and the slowdown of the economy of trading partners.

On the Inflation and Monetary Policy fronts, at the close of the first quarter, twelve-month inflation reached 4.69% (four point sixty nine per cent), continuing rapidly with the convergence towards the target set by the Colombian Central Bank. The transitory effects of El Niño phenomenon, the truckers' strike and the devaluation of the prices of food and tradable products have continued to diminish. As a result, the Colombian Central Bank has decided to begin a expansion cycle in the benchmark Repo rate, a situation that has led to a drop in money market rates including the DTF and IBR, the Colombian reference rates. These measures are expected to provide additional stimulus to the economy and the inflation target should be achieved in 2018 (two thousand eighteen).

Finally, it is also predicted that the intervention rates of the Central Bank at the end of the year will be around 5.25% - 5.50%

Now Andrés will speak to you about the financial management of Findeter.

Thank you Richard

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## **FINANCIAL MAGEMENT**

We now present FINDETER's financial results in 2016 and the first quarter of 2017.



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## **STRUCTURE OF COLOMBIAN DEVELOPMENT BANKS**

We begin with the comparison of the financial structure of the Development Banks in Colombia, where it is evident that Findeter has established itself as the leading national development bank. Evidence of this is the evolution of the total assets of the entity during the course of the current decade. This growth was driven mainly by the increase in the gross portfolio, which is currently the most important in the second-tier banking sector, reaching 8 billion pesos as of March 2017.

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## **STRUCTURE OF COLOMBIAN DEVELOPMENT BANKS**

Development banks account for 9% of the commercial portfolio of the financial system, which represents 7.3 billion dollars. During the presentation, the data expressed in dollars are approximations that are the result of converting the original figures into pesos at the representative market exchange rate of March 31, 2017 published by the Financial Superintendence of Colombia, corresponding to 2880.24 (two thousand eight hundred eighty point twenty four) pesos per dollar.

Findeter is a leader in the Development Banking segment with a loan portfolio of 2.7 billion dollars, which represents the 38% of the commercial rediscount portfolio. Findeter's positioning within this niche market is the result of its efforts to be the leading development bank. A bank that transforms regions into sustainable territories.

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## **FINDETER'S FINANCIAL RESULTS**

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



The analysis of the balance sheet of the Entity structure during the first quarter of 2017 shows a 0.83% growth in assets compared to a 0.69% increase in liabilities.

Equity has increased 1.85% during the first three months of the year.

With respect to assets, it is important to highlight that the gross portfolio continues to be the main item, with a participation of 88.3%, which is equivalent to 8.0 billion pesos. This item increased by \$227.938.000.000 (two hundred and twenty seven thousand, nine hundred and thirty eight million) pesos in the period from December 31, 2016 to March 31, 2017, a growth of 2.94%. This increase in the loan portfolio was mainly due to the amount disbursed during the period which was 543,342 (five hundred forty three thousand three hundred forty two) million pesos. Another factor that influenced this increase was the low level of prepayments made to the entity during the quarter, which amounted to 79,582 (seventy nine thousand, five hundred eighty two) million pesos.

As for the liability, in general there were no major differences in its composition. Deposits and current liabilities continue to make up the largest share with 54.19% equivalent to (4.9 billion pesos), followed by loans with banks and other obligations with 20.74% equivalent to (1.9 billion pesos).

Equity increased by 1.85%, which represents a variation of nineteen thousand and eighty nine million pesos. Within the capital structure of the entity, equity accounted for 11.63%.

As for the income statement: The operating income of the Entity as of March 31, 2017 showed a decrease of 12% compared to the same period in 2016. Over the last twelve months operating expenses decreased by 15%. These decreases are largely explained by changes in the income and expenses of derivatives during the period. On the one hand, the reduction in Profit for the Valuation of Derivatives went from 199,537 (one hundred ninety nine thousand, five hundred thirty seven) million pesos to 111,187 (One Hundred Eleven Thousand, One Hundred Eighty Seven) million pesos, which



represents a fall of 44%. On the other hand, the Loss for the Valuation of Derivatives fell by 38%, a decrease of 96,450 (Ninety Six Thousand, Four Hundred Fifty) million pesos from 2016 to 2017.

Despite this, operating income increased 25% from 26,611 (Twenty Six Thousand, Six Hundred Eleven) million pesos to 32,064 (thirty two thousand sixty four) million pesos.

Thanks to the financial consolidation of Findeter over recent years, the confidence of our investors and our stakeholders has been reflected in the ratification of the local risk rating at Triple A and the international rating at Triple B - at the same level of our sovereign debt-, which allows us, access to local and international transactions under favorable conditions.

Also, the Colombian Stock Exchange renewed the "Investor Relations Issuer - IR" certification for the Entity, which means that Findeter maintains its leadership as a public financial institution, due to its practices in disclosing information to the market and the relationship with its investors.

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## **FINANCIAL RATIOS**

In terms of profitability indicators in the first quarter of the year compared to the same period last year, ROE decreased 0.20%, ending the period in 6.08%.

The efficiency indicators show an increase of 0.96% in the indicator of operating expenses over total assets and a decrease of 2.35% in the indicator of operating expenses on operating revenues, which shows an improvement in the efficiency of the Entity when administering its operating resources.

For capital adequacy, the Solvency Indicator (Tier 1) was 10.73%, a decrease of 1.41% with respect to the same period in 2016. This is mainly explained by the growth of the rediscount credit portfolio. Despite the reduction in this indicator, the entity remains at levels higher than those required by the regulatory body of the Colombian financial system, thus complying with the



required standards. Findeter also continues to work on different projects that will help increase its technical assets, and thus its solvency ratio. Among these projects the issuance of Subordinated Bonds in the local fixed income market stands out, which will allow the solvency of the institution to improve around by 150 basis points, allowing the company to continue to grow in a sustainable manner.

Finally, in terms of portfolio quality, the financial system has displayed an increasing trend in this indicator to 3.95% in March 2017. In the first quarter of 2017 Findeter's portfolio quality stood at 0.26%, and it continues to have one of the best indicators of credit risk in the Colombian financial system.

Now, María Paz will introduce you to the funding and international cooperation matters of our company.

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**FUNDING**

Hello to all the attendees.

I'll start pointing out that Findeter maintains a diversification in its sources of funding, a process that began in 2014 through the issuance of bonds in international markets. Among its sources of funding, the most important correspond to the subscription of credits of cooperation with multilateral banks, and the issuance of term deposit certificates in the local fixed income market. For the first quarter of 2017, loans with banks amounted to 625 million dollars, while deposits and liabilities were 1.7 billion dollars.

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**FUNDING**

During 2016, we raised the equivalent of 1.1 billion dollars in the modalities of primary issuance, renewal and auctioning in the public securities market. At the end of the first quarter of 2017, this figure reached the equivalent of 343



million dollars which when compared to the same period of the previous year represents a variation of approximately 12%.

Regarding the funding through international banks, 2016 was the year with the largest disbursements in international credits. Findeter maintained its international position by obtaining loans from Multilateral Banks such as the IDB, KFW, AFD and CABEL; and with international commercial banks such as the BANK OF TOKIO and CITIBANK for US \$ 325 million dollars.

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### **SEARCHING FOR PARTNERSHIPS TO BRING VISION INTO ACTION**

In the field of international cooperation, non-reimbursable resources with international funds were approved for approximately USD 35 million dollars, making 2016 the year with most approval of resources and signature of international cooperation agreements with the different international allies of Findeter that support our mission to build sustainable territories.

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### **COMMERCIAL MANAGEMENT**

Thank you Maria Paz, now we move on to discuss the commercial results, which include our two main products: disbursements of rediscount loans and technical assistance services, I give the floor to our Commercial Vicepresident Mrs. Ana Cañon.

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### **DISBURSMENTS 2016**

Greetings to all the attendees, I begin my intervention by pointing out that in Findeter, we perform all our credit operations through the rediscount system.





This means Findeter concedes loans to authorized financial intermediaries, composed of commercial banks and other financial institutions. In turn, financial intermediaries disburse loans to final beneficiaries, which are public entities or private companies that carry out infrastructure projects throughout Colombia. We call this type of operation Rediscount Loans.

Findeter's Rediscount Loans finance up to 100% of the total project cost, with maturity terms up to 15 years, and up to 3 years of grace period. These loans can be denominated in Colombian pesos or US dollars, with the possibility of total or partial disbursements.

Loans can be used for working capital, debt replacement or project investments, in construction, procurement of goods, and implementation of new technologies, in 11 sectors of the economy such as transportation, energy, health, education, water and sewerage, among others.

In 2016 (two thousand sixteen), Findeter managed rediscount operations that generated the disbursement of 800 (eight hundred) million dollars across different sectors. The target set for the placement of rediscount loans for 2016 was 628 (six hundred twenty eight) million dollars, thus exceeding the proposed target, achieving a 128% (One hundred twenty eight per cent) compliance level, and a 13.6% (thirteen point six per cent) growth in the gross portfolio compared to 2015 (two thousand fifteen). A total of 5.3 billion dollars have been disbursed since 2010 (two thousand ten).

This management highlights the commitment and responsibility of the human talent of the organization to fulfill the proposed objectives.

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## **REDISCOUNT LOANS DISBURSMENTS**

In the first quarter of 2017, we disbursed 188.6 million (one hundred eighty eight point six million) dollars in strategic sectors for Findeter and the National Government.



The sectors with the highest participation during 2017 were: Health, with disbursements for 102 (one hundred two) million dollars, Energy with 40.9 (forty point nine) million dollars and Transportation with 19.8 (nineteen point eight) million dollars. These three sectors accounted for 87% (eighty seven percent) of Findeter's disbursements in the first quarter of the year.

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### **REDISCOUNT LOANS -DISBURSEMENTS**

With respect to the disbursement intermediaries, during the first quarter of 2017, banks accounted for 99.6% (ninety nine point six per cent) of operations with 188 (one hundred eighty eight) million dollars. Other intermediaries such as the financing companies, family compensation funds and the Regional Development Institutions, in addition to others, accounted for the remaining 0.4% with 694,000 (six hundred ninety four thousand dollars.)

As for the Beneficiaries, between January, February and March 2017, Findeter disbursed 130.5 (one hundred thirty point five) million dollars for private sector beneficiaries, representing 69% (sixty nine percent) of disbursements, and 58 (fifty-eight) million dollars for the public sector beneficiaries, representing 31% (thirty one per cent) of disbursements.

Regarding the term of disbursements, as a development bank, we focus on long-term loans. Loans with maturities of more than 5 years accounted for 95% of the placement, while short-term loans, between 1 and 5 years, accounted for 5%.

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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 the pre-contractual and contractual processes and monitoring and supervising the execution of basic water and sanitation programs and those for social infrastructure and housing, in addition to 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 (two thousand eleven), to 740 (seven hundred forty) projects executed in 2016, with growth of 18% between 2015 and 2016.

This evolution is also reflected in the income generated by the technical assistance product. We went from 600,000 (six hundred thousand) dollars in 2011, to 23 (twenty-three) million dollars in 2016, exceeding the projected target every year, with a 22% (twenty two per cent) increase between 2015 and 2016. We have projected 21.7 (twenty one point seven) million dollars for 2017 which we are working to achieve.

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## **TECHNICAL ASSISTANCE**

With the technical assistance product, we are executing 2.9 billion dollars in 775 (seven hundred seventy five) projects around Colombia. Of this figure, 1.9 billion dollars in 237 (two hundred thirty seven) projects correspond to housing programs, 730 (seven hundred thirty) million dollars in 257 (two hundred fifty seven) projects to potable water and basic sanitation programs, and approximately 290 (two hundred ninety) million in 286 (two hundred eighty six) social infrastructure projects.

We have completed 368 (three hundred sixty eight) projects worth 1.5 billion dollars, and we are currently executing 291 (two hundred ninety one) projects worth 1.2 billion dollars.



Thanks to our professional service and reputation, we have strengthened our position as an effective instrument in the execution of priority programs of social inclusion, being able to articulate public policies with the needs and requirements of the regions.

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## **2017 EXPECTATIONS**

Finally, our expectations for the end of the year are in line with our strategic planning, as we will continue working for the sustainable development of the regions, through the financing of sustainable infrastructure projects and technical assistance.

Two thousand seventeen will be a crucial year in matters of international cooperation for Colombia due to the post-conflict situation. Findeter will actively seek and manage resources to leverage territorial development within the framework of peace.

For the year 2017, we aim to place USD \$ 660 (six hundred sixty) million dollars in investment projects nationwide.

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

Thank you for your attention.

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**Q&A**



Thank you Ana. Finally, we will move on to answer the questions that were submitted in advance to the event and through the chat during the presentation.

The first question is:

1. What is the duration GAP between Findeter's loan portfolio and its funding, and what strategies are carried out to control it.

Our CFO Richard Martínez will proceed to answer this question.

Currently the duration GAP of Findeter is 0.89 (zero point eighty-nine) years, considering that the average duration of the loan portfolio is 3.89 (three point eighty nine) years. Meanwhile, the GAP derived from deposits is 3 years.

One of the strategies to maintain this indicator lies in the diversification of sources of funding. By March 2017, 36% (thirty-six per cent) of these sources correspond to loans with multilateral banks and subordinated bonds, which have a much longer term than the one offered by a CD.

The second question is:

2. What were the reasons for the rise of Findeter's ROE from 2.83% in 2015 to 6.08% in March 2017?

The main reason was the increase of interests rates determined by the Colombian Central Bank, which started in the second half of 2015 and remained so until the third quarter of 2016. This behavior led to an increase in the Interest for Findeter since the repurchase rate of the loan portfolio is higher than that of the deposits.

The last question is:

3. What happens if a beneficiary of a loan goes into default and does not pay the obligation?



It is important to remember that Findeter is a second-tier bank. Therefore, it lends money to banks and not directly to the end customer. For that reason, the risk of the latter is assumed by the financial intermediary who will have a direct effect on its Income Statements by this situation. Therefore, the Bank responds directly to Findeter for the loan granted.

We have now finished our presentation, if you have further questions please send them to us. Thank you to all the attendees for your participation, we hope to have you for our next presentation.