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Financiera de Desarrollo Territorial S.A. -FINDETER
Annual Financial Results 2020 & 1Q2021
Event Transcription

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Welcome to Findeter's financial results presentation, where we will be sharing the company's financial and corporate results for 2020 and the first quarter of 2021. Today will be joining us, Richard Martinez, CFO and Juan Galvan, Treasurer.

We started off 2020 with very high expectations, as we were coming from a year of record figures for our Company; however, Covid -19 changed our short-term priorities and brought a major challenge of having to work as a team with the territories to mitigate the effects of the pandemic and provide resources so that territorial entities and the private sector could continue to operate and provide their services to the Colombian population, especially the communities most in need.

In that sense, we concentrated all our efforts on being an effective vehicle to execute public policies aimed at facing the crisis and being the best ally to bring solutions to the territories. We created different lines of credit to meet the needs derived from the pandemic, which allowed the public and private sectors to finance projects in key sectors of the economy and provide resources for working capital and investment. In total, Findeter mobilized resources for COP \$6.88 trillion pesos in 2020, of which COP \$5.18 trillion pesos were used to mitigate the economic effects of the pandemic and COP \$1.70 trillion pesos to other on-loan lines.

For 2021, we hope to continue supporting the development and sustainable transformation of territorial entities, with projects of economic and social impact.

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Let me start first by emphasizing that, to avoid any confusion in the translation of figures, where applicable, in this presentation we refer to One thousand million (1,000,000,000) as billions of pesos, and one billion (1,000,000,000,000) as trillions of pesos.

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In financial terms, the main balance sheet accounts increased compared to 2019. The Company's **total assets** amounted to COP \$11.7 trillion, a 15.4% YoY increase. **Liabilities** increased YoY by 17.49%, closing the year at COP \$10.5 trillion and equity increased by 0.03%, amounting to COP \$1.22 trillion. Findeter's **gross portfolio** increased by 12.9% in the last year, reaching COP \$10 trillion pesos as of December, a record high in the last 10 years, which is why we became a key partner of the National Government in promoting the recovery of the different sectors of the economy hit by the pandemic.

One of our greatest financial achievements is the growth of the **loan portfolio**, which increased above the Colombian financial system, despite the situation evidenced nationally and abroad as a result of Covid-19. The growth of the loan portfolio was driven by the high volume of disbursements to the different sectors of the economy to support the country's economic growth. We reached a record COP \$3.04 trillion pesos in on-loans, thus exceeding the goal of COP \$2.82 trillion pesos.

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According to the trend of revenue and expenses in 2020, earnings before taxes totaled COP \$30.5 billion and net income COP \$7.6 billion. It is worthwhile to mention that our efforts amid the pandemic focused on providing relief in active loans and offering a greater number of credit lines with favorable rate conditions, prioritizing attention to the different economic sectors.

Profitability ratios were positive, although lower than previous years. “**ROE**” was 0.62% and **EBITDA** totaled COP \$55.871 billion, influenced by the financial margin performance, which was impacted YoY by the higher level of provisioning assumed by the start-up of direct lines of credit. Another factor that influenced the result was the lower execution of income from commissions and fees, as all the execution schedules of the technical assistance programs were affected by the situation caused by Covid-19.

The results of the efficiency indicators were consistent with the evolution of the business throughout the term. The **Operational Efficiency** indicator was 1.42%, presenting a YoY reduction of 2 basis points, mainly explained by efficient expense management, which showed a slight growth YoY (excluding the effect of litigation expenses), thus evidencing a successful policy by Senior Management regarding the management and control of expenditures amid the crisis faced nationally and abroad.

The solvency ratio presented a YoY reduction of 9.46% as of December 2020, attributed to a 13.14% increase in risk-weighted assets, as a result of the higher value of the ordinary portfolio and also of the impact of the direct loan portfolio.

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As a territorial development bank, we at Findeter seek to overcome market failures and the obstacles traditionally faced by territories in 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, thus seeking an efficient and appropriate allocation of economic and technical resources nationwide and further contributing the United Nations Sustainable Development Goals.

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In **Territorial Planning**, we continue to identify the key strengths and opportunities in partnership with the territorial players to build a vision from the territory and design a roadmap with short, medium, and long-term projects. In 2020 we executed and delivered 16 cultural and creative

mappings and an Action Plan belonging to the Territory of Opportunities program. The investment in these projects totaled COP \$ 1.968 billion, executed in 19 municipalities of 18 departments.

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During 2020, we **disbursed** an all-time high of COP \$ 3.45 trillion nationwide, of which COP \$ 3.04 trillion were through on-loans and COP \$409 billion through direct loans. This way, we were able to finance 626 projects in 104 municipalities in 26 departments. The most dynamic sectors in terms of on-loans were: health with COP \$645.523 billion; housing with COP \$633.677 billion; energy with COP \$616.922 billion; education with COP \$455.419 billion; and sports, recreation, and culture with COP \$223.156 billion.

Regarding direct loans, we carried out 158 operations, of which 156 corresponded to the Public Service Providers line, with a total disbursement of COP \$280.877 billion. We also made the first disbursement of the Reactivation Commitment Tranche II line for COP \$90 billion and the Massive transportation systems line for COP \$38.125 billion.

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In Project Structuring, we have continued working on developing studies and of previously formulated projects in order to have the necessary technical, legal, and financial aspects ready for their award, financing, and subsequent implementation. Therefore, in 2020 we structured 12 projects for a value of COP \$54.078 billion, executed in 34 municipalities of 19 departments. Of the 10 projects that were in execution in 2020, the structuring of the North Regiotram for COP \$15.8289 billion stands out, an initiative that seeks to improve the passenger transport service at the north exit of Bogota and the municipalities of Chia, Cajica, and Zipaquirá.

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In **Technical Assistance**, we have gained the position as an efficient executor, offering high standards on sensitive issues such as cost, time, quality, and compliance with project budgets. In 2020, we executed 263 projects worth COP \$2.31 billion, of which 136 correspond to social infrastructure, 69 to the water sector, and 58 to housing. During this term, we completed 99 projects for COP \$593.8 billion. Most of the technical assistance projects had to be suspended during the mandatory lockdown. Still, we were quickly able to reactivate thanks to the swift adoption of biosafety protocols and the commitment of our workers, contractors, and the communities in which the works have an impact.

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In 2020 we received the ratification of the “AAA” credit risk rating for Long-Term debt and “F1 +” for Short-Term debt, granted by Fitch Ratings Colombia S.A., ranking as one of the State-owned institutions with the highest levels of reliability in the financial system. In addition, in 2020, Standard & Poor’s confirmed Findeter’s international credit rating at “BBB-” with a negative outlook, and updated it in 2021 to BB+, which is tied to the sovereign credit rating, that was downgraded in the recent weeks.

Additionally, we were recognized by the Great Place To Work organization in the top 5 of the best places to work in Colombia and Top 13 in Latin America.

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As part of the group of 32 issuers of securities with the Investor Relations Recognition of the Colombian Stock Exchange, we classified in its three rankings: Top 5 in Issuers with the best content standards; Top 5 in IR Issuers with the highest standards in Corporate Governance; and Top 2 in IR Issuers with the greatest evolution in meeting the standards and best practices for disclosure of information for the period 2016 - 2020.

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I give the floor now to Juan Camilo Galvan who will continue with the financial results of the first quarter of 2021.

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Findeter continues to be the benchmark among development banks in Colombia, promoting sustainable projects that transform territories across the country. This is evidenced in the growth of the company's total assets during the last 10 years, from COP \$5.97 to \$11.66 trillion pesos. This behavior has been driven mainly by the increase in the gross portfolio over said period, with an average of 8.51% per annum. As of December 2020, the portfolio amounted to COP \$10 trillion, and by February 2021 it stands at COP \$10.28 trillion, thus continuing the upward trend.

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As of this period, the total portfolio of the financial system amounts to COP \$556 trillion pesos, which is equivalent to an increase of COP \$19 trillion YoY. This growth is driven by consumer and commercial loans. Of the total portfolio, 53.7% corresponds to the commercial portfolio, which is equivalent to COP \$299 trillion, COP \$14 trillion more than in February 2020.

As for special official institutions, the portfolio totals COP \$32 trillion, where Findeter has a 32% stake, making the company the second development bank in the country when comparing its marketing share with the competition.

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When analyzing the behavior of Findeter's assets during the first quarter of 2021, an upward trend can be observed in its main accounts.

Compared with March 2020, in the first quarter of 2021 the portfolio showed an increase of 9.23%, closing at COP \$10.16 trillion. Additionally, investments showed a growth of 14% thanks to the increase in the portfolio corresponding to TES, securities that as of March 2021 reached COP \$485 billion.

Moreover, available cash increased to cover liquidity needs both for debt repayment and for disbursement of new loans, according to the portfolio improvement during the year. Overall, available cash has grown in the last year by COP \$344 billion.

Findeter's capital structure consists of 89.7% liabilities and 10.3% equity. In this total structure, the most representative item corresponds to deposits and receivables, with a share of 55.8% (COP \$6.75

trillion), followed by multilateral bank loans with 18.1% (COP \$2.14 trillion), international bonds, subordinated bonds and sustainable bonds with 12.9%, and finally other liabilities with 1.9%.

As for Equity, as of March 2021, it shows a growth of 0.81% YoY, as a result of the generation of profits from the previous year (COP \$7.630 billion).

Finally, regarding the income statement, as of March 2021 Findeter has gained profits of COP \$2.933 billion, leveraged mainly by a lower expense for interest on Certificates of Deposit, where the decrease in the REPO rate and its subsequent effect on base rates has been reflected. Additionally, the balance of deposits have increased, from COP \$5.2 to COP \$6.7 billion during the last year, as a result of the higher level of the company's portfolio.

Moreover, financial obligations were positively affected by the decrease in the LIBOR rate, which on average decreased by 110 BPS in the year, and finally, bonds, of which 39% are indexed to the CPI (COP \$34.227 billion less of accrual compared to March 2020).

The behavior of income when comparing March 2020 and 2021 is due to the decrease in portfolio interest, which have been affected by the constant reduction of the REPO rate during the period (-250 BPS) and the downward trend of the CPI and DTF indices.

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As of March 2021, Findeter's funding sources, excluding equity, amounted to COP \$10.4 trillion, which include deposits and receivables, bonds, and loans with multilateral banks.

The Company's current loans have been granted by multilateral banks such as IDB, KFW, AFD and CABEL, and as of March 2021 amount to COP \$2.14 trillion. From March 2019 to March 2020, the exchange rate has decreased by COP \$327.90, affecting all balances of current loans.

Other important items within the funding structure correspond to outstanding investment securities (14.9%), which include international bonds issued in 2014 (\$946.175 billion), subordinated bonds issued in 2017 (\$203.680 billion) and sustainable bonds issued in June 2019 (\$400 billion).

As of March 2021, issues and renewals of certificates of deposit amount to COP \$1.15 trillion, evidencing a 82% YoY growth. This is proof of Findeter's financial soundness, recognized by institutional investors who continue to demand the securities issued by the Company.

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Profitability ratios as of March 2021 showed positive YoY variations in the first quarter. ROE was 0.95% thanks to profit results in the period. On the other hand, ROA also showed an upward trend compared to March 2020, standing at 0.10%, which has also been caused by the positive net margin in the period.

The operating efficiency indicator increased YoY in the first quarter, currently at 1.49%, with a variation of 13 basis points compared to 2020.

The portfolio quality indicator shows a positive trend, since it is at levels of 0.06% while the equivalent of the Colombian financial system rises to 5.05%, thus reflecting the lower portfolio risk assumed by Findeter from on-loans

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In terms of **EBITDA**, the interest margin had a 19% YoY decrease in the first quarter, as a consequence of the decrease in income from portfolio interest. On the other hand, a rebound in the gross financial margin was evidenced, which increased YoY by 2% in the first quarter due to a lower impact of derivative valuations from the effect of the exchange rate during the course of this year. As a result, and given a volume of spending below the budget, the entity remains in positive figures and reached an EBITDA level of COP \$12 billion for the first quarter.

ROE as of March 2021 is 0.95%. Despite the economic impacts of 2020, Findeter has managed to show positive results, especially with respect to the interest and gross margins, which have been maintained thanks to the growth of the company's portfolio and the reduction of the impact of derivative valuations. Another aspect worth mentioning is the decrease in interest corresponding to funding thanks to the decrease in base rates in dollars and pesos that affected the accrual of interest from certificates of deposit, multilateral banks and bonds. These positive impacts on P&L have allowed the Company's net income to reach COP \$2.933 billion.

Finally, compared to operating efficiency, which as of March 2021 was 1.49%, it evidences the impact of the increase in administrative costs in the accounts corresponding to taxes and fees (+ 14%) according to the tax on financial movements associated with the issuance and renewal of certificates of deposit. Additionally, the growth of the maintenance item (+ 127%) also stands out, which includes software acquisitions and updates to leverage the telework tasks that have enabled the normal operation of the company during the pandemic. This caused a variation of 13 basis points in the indicator compared to 2020.

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The solvency ratio went from 20.0% in March 2020 to 30.19% in March 2021. This behavior is mainly due to the application of the Basel III methodology in 2021.

In the case of Findeter, there are two main impacts from the application of the methodology. First, the weighting percentages applied to the portfolio depend on the rating of the intermediary and/or beneficiary: the better the rating, the lower the weighting; thus, in comparing December 2020 with March 2021, there is a variation in risk-weighted assets equivalent to -42.1% or COP \$-2.38 billion, which generates an immediate increase in the company's solvency margin. Second, the methodology indicates that a module must be created where the impacts of operational risk are estimated, which is added to the market risk. The entry of the new module represents a net of COP \$29.484 billion. A small variation compared to risk-weighted assets.

Therefore, compared to the first quarter of 2020, the new portfolio weighting generated an increase of 1019 BPS in the calculation of solvency, which for March 2021 stands at 30.19%.

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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 bands 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.

Thank you

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Let's now move on to commercial results for the first quarter.

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From January to March 2021, we processed on-loan operations worth COP \$362.828 billion, where we highlight the results in the energy, transportation, urban infrastructure and housing, education and health sectors.

Additionally, in this first quarter of 2021, we processed direct loan operations worth \$224.963 billion, for companies that provide residential public services and for territorial entities.

During this time, we managed to reach 25 departments and 63 municipalities in all regions, being involved in 154 projects.

We highlight transactions for the construction of road interconnections, construction of Small Hydroelectric Power Plants, working capital to finance needs caused by the pandemic, financing of public lighting systems, and maintenance and provision of health centers. Also, in this period, through the direct credit line for Residential Public Utility Companies, it was possible to impact companies engaged in electric power, cleaning, fuel gas through networks and aqueduct and sewerage, thus helping to ensure the provision of services for low income population during the Emergency.

As of March, we have reached the 73% of the annual disbursement goal for 2021.

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From January 1 to March 30, 2021, of the total disbursements, banks represented 61% of operations, while 38% were placed directly and other intermediaries represented only the remaining 2%.

By segment, we disbursed COP \$321.417 billion for private sector beneficiaries, which represented 55% of operations, and COP \$266.372 billion for public sector beneficiaries, which represented the remaining 45%.



Regarding the disbursement term, as a development bank, we focused on long-term loans. Loans with terms equal to or greater than 5 years represented 43% of the placement.

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Finally, continuing with the launch of special lines to face the current situation caused by the COVID-19 pandemic, in 2021 we have made two additional special lines of credit available.

The first is the *Multisectoral Reactivation Commitment*, with an amount of COP \$573 billion, to support Territorial Entities and Public and Private Sector companies within the eligible sectors of Findeter, in order to overcome the adverse effects of the health crisis caused by COVID-19.

The other line is the *Reactivation Commitment Tranche IV*, with a total amount of COP 200 billion. With this new on-loan credit line, Findeter is supporting companies in the public and private sectors in order to meet the current demand for resources to protect employment, maintain the companies' operations and reactivate the national business companies.

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.