

# **Report by the Board of Directors and the President to the General Shareholders Meeting 2010**

**January 2011**

## Report from the Board of Directors and the President to the General Shareholders Meeting

### Introduction

The framework of year 2010 was a period of economic recovery and transition. Throughout the year, the macroeconomic and financial fundamentals showed a better performance, after having been slightly stricken by the global crisis. This good behavior was attributed to a better dynamics of internal demand, of investment and of the external sector, product of the recovery of confidence and important advances in the bilateral relations with the main commercial partners of the country. The foregoing, along with a reduction of interest rates, was reflected in the reactivation of the Colombian financial system. Likewise the government intervention implementing counter-cyclic measures was of great help to stimulate country growth.

On the other hand, the electoral process developed during the first semester, leading to the election of a new president of Colombia for the period 2010-2014 defined an important transition at all government levels. For official entities, such process implied, among other things, to comply with the provisions set forth under the Law of Electoral Guarantees<sup>1</sup>, which foresees restrictions to public contracting almost for all entities of the State.

During 2010, Bancoldex strengthened its role as a National Government tool; the Bank provided financial support to those companies affected by adverse circumstances faced by the economic activity throughout the year. In this order of ideas, the creation of special credit lines, both in pesos as in dollars, allowed mitigating adverse impacts and aiding companies affected by the drop and slow reactivation of internal consumption, and export companies affected by less income due to revaluation of the peso and wear of demand in their target markets. Likewise, companies affected by a decrease in trade in border zones received aid as well as those racing difficulties in their payments from their exports to Venezuela.

In addition of complying with its counter-cyclic function, the Bank fulfilled its strategic objectives focused on medium and long term financing, its contribution to modernization the productive apparatus based on Micro, Small and Medium Enterprises (SMEs), internationalization of the entrepreneurial sector and regional coverage. With respect to the latter, the entity strengthened the support to the regions and attained the greatest coverage of municipalities during the past years. Additionally, it entered into special agreements jointly with the Departments and Municipalities that allowed the irrigation of significant credit resources for the benefit of entrepreneurs in different regions of the country. The results obtained in the entrepreneurial formation programs led by the Bank exceeded the expectations, for which the broadening of institutional support networks and academic cycles were decisive. On its part, Bancoldex commitment with the micro entrepreneurial Colombian segment was reflected on the excellent results of the program Futorex Microinsurance – LIFE and DAMAGES, attained thanks to the active participation of the micro financial entities network and the dynamics of its operations, among other things.

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<sup>1</sup> The restrictions of articles 32 and 33 of Law 996 of 2005 refer explicitly to its application “During the four (4) months prior to the presidential election and until the completion of the election in second round”.

On the other hand, Bancoldex continued participating in the initiatives set forth under the Sectorial Strategic Plan of the Ministry of Commerce, Industry and Tourism focused towards the promotion of the productive transformation of Colombian enterprises. Within this context, it consolidated the investment program in private equity funds – Bancoldex Capital and fulfilled investment commitments in four funds. With regards to the non-financial support program for this industry, during 2010 several awareness workshops were carried out for entrepreneurs, agents and investors regarding the private equity funds industry.

With regards to the Program “Banca de las Oportunidades”, initiative also considered under the Sectorial Strategic Plan, the work achieved during 2010 was translated into an important fulfillment of the goal with respect to population with no banking products in the country and the number of municipalities with presence of financial services.

Internally, Bancoldex focused in strengthening the organizational efficiency. In 2010, it accomplished the certification corresponding to the new NTC GP 1000:2009 version as well as the ISO 9001:2008. In addition, several advances were made regarding the implementation of the new technological platform (ORION Project), the contribution to the growth of human capital and the internal control system. All the aforementioned elements have allowed Bancoldex to become a more competitive organization and better prepared with human capital committed to assume the future challenges necessary for fulfilling its mission.

Following, a complete report of the Bank’s performance during 2010 is submitted including the corresponding regulating mandates, aspects relating to risk management, quality management, internal control system, legal situation, corporate government, transactions with parties related to capital, subordinates, intellectual property and copyrights.

## Behavior of the economy during 2010

During 2010 the world economy showed signs of recovery, after the strong drop of the previous year. Nevertheless, this behavior was not uniform in all regions. While the United States and European countries showed a slower dynamism, Asia and Latin America registered a fast reactivation<sup>2</sup>. Although, the U.S. economy showed a better performance, the unemployment rate continued to be high, above 9%. On their part, performance of the Euro Zone members was different and it was characterized by the crisis in Greece and Ireland and the necessity of implementing important reforms in some countries in order to decrease the fiscal deficit.<sup>3</sup> All of the foregoing translated into an investors loss of confidence, lower risk ratings and weakening of the Euro compared to the Dollar. Notwithstanding the foregoing, international financial markets recovered thanks to high liquidity and low interest rates<sup>4</sup>.

During 2010, Colombian economy continued to recover and the growth rate exceeded the forecasts of some analysts, as a result of a better dynamism of consumption, investment and external sector, as well as the application of counter cyclic measures by the Government to stimulate growth. Industrial production behavior was positive and the retail sales maintained a

<sup>2</sup> During the third quarter of 2010, the GDP of the USA grew 2,6% (annual variation), the GDP of the Euro Zone grew 1,9% while the GDP of China, India and Brazil showed growths of 9,6%, 8,2% and 6,7%, respectively.

<sup>3</sup> The most popular reforms were: tax increase, decrease of the public workforce mass and increase of the retirement age.

<sup>4</sup> In U.S.A. the S&P 500 index grew 12.8% in 2010, the S&P Europe 350 index grew 7.2% and the Bovespa index grew 1.0%.

good dynamism throughout the year.<sup>5</sup> Gross Domestic Product -GDP- growth was led by the exploitation of mines and quarries, sector that has shown a good dynamism during past years and has consolidated as one of the main receptors of foreign investment. During the third quarter of 2010, the growth of this sector was 10,3%, followed by transport, storage and communications. Construction, after having shown an outstanding performance in 2009, showed a drop of 10,5%. Finally the agricultural and livestock sector slowed down and could become affected additionally by the impact of the rainy season in the rural areas.

Country exports grew significantly (21,4%)<sup>6</sup>, thanks to the exceptional dynamism of sales of traditional products (43,7%). On the contrary, non traditional exports fell 4,3% due to the slow recovery of the main commercial partners (U.S.A and the European Union<sup>7</sup>) and due to the important reduction of trade with Venezuela. The increase in internal demand and the appreciation of the exchange rate favored an upturn of imports.

As of the closing of 2010, inflation reached 3.1%, within the range fixed as a goal by the Central Bank (Banco de la República) (2%-4%). The price variation continued under 2.5% during a large portion of the year, although in November and December. It showed an unexpected increase due to the effect of the rainy season over the price of food products. On the other hand, low inflation allowed the Central Bank to maintain interest rates at low levels, which was reflected in a decrease of commercial interest rates.

A strengthening of the Colombian peso (COP) was observed during the year and an average appreciation of 12% of the Exchange Rate Representative of the Market<sup>8</sup>. The fast recovery of some emerging economies of Asia and Latin America promoted an increase in confidence, larger capital inflows for direct foreign investment (DFI) and the consequent appreciation of currencies added to the weakening of the dollar *vis a vis* other currencies<sup>9</sup>. The COP appreciation affected the profitability of the Colombian export sector, which led the Government to adopt measures to contain such revaluation<sup>10</sup>.

With regards to fiscal matters, despite observing a better control in public spending and a slight increase in collections, the estimate is that 2010 ended with an increase in public sector deficit. This due in part, to the implementation of counter cyclic measures to compensate the effects of the crisis of 2009<sup>11</sup>. Thus, the NCG<sup>12</sup> deficit could increase from 4,2% to 4,4%, while the NFPS and CPS deficit would reach 3.6% and 3.2% of the GDP respectively. It is worth highlighting the efforts of the Government announcing the application of the "Fiscal Rule", which shall seek a greater fiscal discipline to assure sustainability of the public debt; factors which are also important to improve the credit rating of the country.

The economic recovery of the country is expected to become consolidated in 2011<sup>13</sup>, thanks to a positive dynamism of a good portion of economic sectors, investment and foreign trade; among

<sup>5</sup> In October, industrial production registered an annual variation of 2.7%, while the retail sales grew 15.0%.

<sup>6</sup> As of the closing in October total exports reached USD 32.547 billion.

<sup>7</sup> The Andean Community of nations is excluded from this group since these countries showed an important recovery during 2010.

<sup>8</sup> Variation Exchange Rate Representative of the Market (TRM) average for year 2009 v average year 2010. Calculation: Bancoldex.

<sup>9</sup> A lower GDP growth expectation of the U.S. for 2010 by analysts, as well as the liquidity injections carried out by the Federal Reserve to stimulate the economy were factors affecting the depreciation of the US Dollar.

<sup>10</sup> In October 2010 the TRM recorded a minimum of COP 1,786 for 2010

<sup>11</sup> The objective of the counter cyclic policy was to prioritize the public spending in infrastructure, guarantee external financing, facilitate internal financing of the productive activity and protect employment.

<sup>12</sup> NCG: national central government; NFPS: non financial public sector; CPS: consolidated public sector.

<sup>13</sup> The IMF estimates that in 2011 the GDP would grow nearly 4.6%. World Economic Outlook. October 2010

other aspects. The foregoing would occur in an environment of low inflation and interest rates, despite possible uprising corrections due to the effect of monetary policy and the effects of the rainy season.

## Financial Sector<sup>14</sup>

During 2010, the Colombian financial system showed a positive behavior. The soundness of the national banking system and a low dependence of international financial markets were factors that prevented a negative performance of the sector. Thus, as of November 2010 credit establishments accumulated profits for COP 5.4 trillion, slightly over the profits reported for 2009.

A reactivation of credit was observed throughout the year, especially during the second semester. The greater dynamics was due to a better economic behavior along with low interest rates. As of November, the balance of the credit portfolio was COP 174.3 trillion and it showed an annual growth of 16,4%<sup>15</sup>. By type, the housing credit portfolio recorded the greatest expansion showing an annual variation of 20.4% as a result of the incentives established by the Government to reactivate demand of this type of credit. The commercial and consumption credit portfolios also recorded significant growths (16.9% and 14.7%, respectively), while the growth of the micro credits portfolio was positive (11.2%) although less than the one recorded the previous year.<sup>16</sup> The greater dynamics of the portfolio was accompanied with a better quality, product of economic recovery and the strengthening of the processes of placement and collection. Overdue portfolio that had registered a 3.3% growth during 2009 recorded a decrease of 18.4% in 2010, which was reflected in the default payment index and coverage with provisions<sup>17</sup> that showed good performance. In November 2010, overdue portfolio represented 3,3% of the total portfolio and the level of provisions recorded a growing trend, as a response from the entities to face potential default problems<sup>18</sup>.

Although investments decreased slightly, continued to record an important participation in assets (22%) and contributed with profits. Included in the investments, public debt securities had a participation of 69%<sup>19</sup> and recorded appreciations that, being less than those of the previous year, contributed with 21% of the total income<sup>20</sup>.

The capitalization level continued to be one of the strengths of the financial system entities. Average solvency of these entities was 16.6% and exceeded in 7.6 per cent points the minimum required. In addition, between 2009 and 2010, capital plus reserves grew 17% since several entities adopted capitalization of a great part of the profits obtained during 2009 as a policy.

In general, the profitability indicators<sup>21</sup> remained stable and at adequate levels and the profits were generated mainly by greater portfolio income, lower financial costs, income due to investments and the significant dynamism of recoveries.

<sup>14</sup> Only includes credit establishments

<sup>15</sup> In 2009, during this same period the growth was 1.3%

<sup>16</sup> During 2009, the microcredits portfolio grew 24% partially as a result of the reclassification of these credits, deriving from the application of Decree 1098 of 2009 Ministry of Finance and Public Credit.

<sup>17</sup> Quality indicator overdue is equal to the credit portfolio over the gross portfolio. The coverage indicator is equal to the provisions over the overdue portfolio.

<sup>18</sup> As of December 2009, the quality indicator was 4.2% and the coverage indicator was 133.7%

<sup>19</sup> Calculations by Bancoldex.

<sup>20</sup> Considering the most liquid market reference: the TES with maturity on July 24, 2020, it is observed that in 2010 these securities recorded an aggregate drop of 81 basic points, which was reflected in a greater appreciation of such securities. In 2009, these securities recorded a drop of 216 basic points.

<sup>21</sup> In 2010, the system recorded an ROA of 2.1% compared to a ROA of 2.3% in 2009.

For 2011 the expectation is that credit will continue to show positive dynamics to the extent that the country's economy reaches a recovery. Notwithstanding the portfolio could record some deterioration as a result of the impact of the rainy season at the end of 2010. On the other hand, the profits of the system could become affected by greater financing costs and a lower investments yield since corrections are expected as higher interest rates. Finally, the solvency and liquidity levels are expected to remain in adequate levels and that competition will be greater due to new actors entering the financial system, especially financial entities specialized in determined market segments.

## Management and accomplishments 2010

In 2010, Bancoldex was the main tool of the National Government for providing financial support to enterprises affected by adverse economic circumstances:

- ? Companies affected by the downturn and slow recovery of internal consumption.
- ? Lower income for Exporters due to the peso appreciation and deterioration of the demand in target markets.
- ? Trade decrease at border zones.
- ? Difficulties in payments of Colombian exports to Venezuela.

Under these conditions, throughout the year, Bancoldex offered several special credit lines, both in pesos as in dollars, addressed to mitigate the adverse circumstances with the offering of the liquidity necessary for the normal operation of the companies. During the year, COP 1.5 trillion were delivered through these credit lines, from which COP 97 billion were granted to companies with productive activity in border zones and COP 332 billion to companies with exports to Venezuela. The rest was placed through counter-cyclic lines.

In addition to compliance of its counter-cyclic function, the Bank fulfilled its strategic objectives in the medium and long terms, which may be summarized as follows:

- ? **Entrepreneurial modernization:** COP 880 billion in financing modernization of the productive apparatus, including disbursements for COP 640 billion of the program "aProgresar" whose objective is the productive improvement of Micro, Small and Medium Enterprises (MSMEs).
- ? **Short and long term financing:** 48% of the total disbursements were placed with greater terms, attaining the objective proposed of term transformation.
- ? **MSMEs approach:** 51% of the total disbursements were directed to this segment.
- ? **Support to economy's internationalization**, foreign trade:
  1. Financing: USD 149 million.
  2. International Banking Operation (IBO): USD 108 million.
- ? **Regional coverage:** the Bank reached the largest number of municipalities of any year in its history, delivering resources to 757 municipalities in Colombia.
- ? Likewise, the Bank maintained its goal of deepening its role as a multibank for development. Thus, it carried out efforts for strengthening the products created during recent years, such as *Liquidex*. Similarly, it supported the development of the factoring industry, the structuring and consolidation of the *microinsurance* program, and the development and implementation of several credit lines or special quotas, among others.

The steps taken by the Bank to fulfill these objectives were oriented towards the following areas:

### 1) Products Consolidation

## Credit Lines and Special Quotas

In 2010, Bancoldex strengthened its portfolio of regional special quotas. Thus, during the year 21 credit lines were created or reactivated in agreement with municipal and departmental entities to attend enterprises in the regions with preferential conditions and to promote credit dynamism.

### Microinsurances

During 2010 several renowned microfinancing entities were linked to the Futurex Damages Program, including the Foundation for Women, formerly known as Bucaramanga's Woman World Foundation and the Mario Santodomingo Foundation. This program showed an important growth of the number of insured, growing from 192 insured in 2009 to 19,562 as of November 30, 2010, with an insured amount of COP 94.5 billion. Currently the Futurex Damages Program counts with 12 related entities.

With respect to the Program Futurex Life, there are 12 related entities and the number of insured showed a growth of 13% compared to 2009, growing from 60,581 to 69,709 insured. The amount insured for 2010 reached COP 249.8 billion.

### Financing Micro and SMEs and development of the factoring industry in 2010

Conpes Document 3527 established the national policy on productivity, competitiveness, and with this basis, Bancoldex committed itself to develop several tasks in order to offer MSMEs the possibility of discounting its accounts receivable portfolio and to use this asset in a more efficient way.

Thus, Bancoldex, besides offering discount services for invoices without recourse, available through the product "traditional liquidex" and "liquidex productive chains", successfully launched a credit line to facilitate the resources in order to develop the factoring market subject to surveillance of the Financial Superintendence. In 2010, these mechanisms disbursed COP 217.8 billion. Different possibilities of support for developing the industry at attractive rates meant disbursements of COP 299.374 billion. The foregoing allowed compliance of the goal of 2010 in a 157.5 % and put even more pressure upon the banking and extra-banking markets to reduce discount rates used for factoring.

Finally, during the four year period 2007-2010, the placement goals for these products (COP 500 billion) were met satisfactorily. Placement of resources for COP 704.406 billion meant fulfillment of Bancoldex commitments with Conpes 3527 of 140.9%.

On its part, Bancoldex traditional factoring products without recourse shall continue to reducing its participation, to the extent that the insurance companies continue to decrease their risk quotas. The foregoing due to the high casualty loss rate resulting from a reduction in economic growth and the aversion to credit risk with payers.

## 2) Strengthening the Bank's regional presence.

Deepening of MSMEs attention was achieved through strategic alliances carried out with labor guilds, chambers of commerce and universities. This allowed the coordination of disclosure activities for the product portfolio, training, participation in fairs and advisory for its affiliates. On its part, the Bank's presence in Villavicencio, Pereira, Bucaramanga, Pasto, Neiva and Ibaguè was strengthened thanks to the Junior Executives Program.

These activities generated in 2010 the greatest coverage of municipalities throughout Bancoldex history since resources were delivered in 757 municipalities of Colombia, compared to 633 in 2009 and activities of the program entrepreneurial formation were developed in 48 municipalities.

**3) Provide a tool to support sectors with specific problems.**

During 2010, several alliances took place with the National Government and the Ministry of Commerce, Industry and Tourism to generate packages of credit lines addressed towards the attention of circumstantial problems such as the lack of liquidity derived from a lower internal consumption, which was attended through the package of counter-cyclic lines directed mainly towards generating liquidity for enterprises, which in 2010 delivered resources for COP 896 billion.

In addition, special credit lines were created for providing support to enterprises exporting to Venezuela and to promote productive development at border zones. In 2010 these placements were destined both for liquidity as well as for investment and financed 23,978 credit operations for a total of COP 429 billion.

Regarding the support to export companies, credit lines were developed both in pesos and in dollars, which represented placements for COP 527 billion in 2010. These lines aimed generation of liquidity for export enterprises to compensate the lower income derived from the appreciation of the peso at different times of the year.

On the other hand, during 2010 eight agreements were made with territorial and other entities, such as the Major's Offices of Copacabana (Antioquia), Florencia (Caquetá) and Cartagena (Bolívar); the Chamber of Commerce of Cucuta and the Governor's Offices of Cundinamarca and Risaralda. Likewise Bancoldex executed agreements with the Rotatory Fund of the Ministry of Foreign Affairs in order to support the entrepreneurial initiatives of entrepreneurs and micro-entrepreneurs linked to the Positive Return Plan – PRP of the Ministry of Foreign Affairs. On its part, the agreement entered into with the National Fund of Disasters had the purpose of establishing a credit line in order to resettle the micro and small enterprises located within the Volcanic High Threat Zone of the Galeras Volcano -VHTZ.- in the municipalities of Pasto, Nariño and Florida in the Department of Nariño.

**4) Promote and encourage entrepreneurial productive transformation through entrepreneurial modernization and reconversion.**

Although the Bank focused great part of its resources for supporting sectors with liquidity problems, disbursements for entrepreneurial modernization maintained a good dynamism. Between January and December 2010, these reached COP 880 billion, which represented 25% of the total disbursements of the Bank in a complex year for this type of financing.

In this sense, the *aProgresar* program boosted financing of investment plans to improve entrepreneurial productivity and competitiveness. From its start, this program has disbursed resources for more than COP 3.2 trillion. In 2010, disbursements under this modality reached

the sum of COP 645 billion. Other disbursements (different than those of the aProgresar Program) destined for entrepreneurial modernization reached COP 242 billion.

**5) Expand and strengthen the financial resources distribution network.**

In 2010, Bancoldex included 10 new entities oriented towards micro-entrepreneurial credit as financial intermediaries with credit line allocation, located in the municipalities of Bello (Antioquia), La Paz (Santander), Yopal, Mogotes (Santander), Neiva, Bogota, Aipe (Huila), Cali and Barranquilla. The network formed by financial entities allies of Bancoldex allowed the bank to have coverage in 29 departments in the country throughout the year.

The Institutional Strengthening Program was completed during the year, led by the Banca de las Oportunidades. Nine worker's cooperative associations participated, from which 7 have credit allocations with Bancoldex (Coocrefam, Cofisam, Coofincafe, Cooperativa La Rosa, Comerciacoop, Cootregua and Coopesagua) and 6 NGOs, of which 2 have credit allocation with Bancoldex (Actuar Quindío and Fundemicromag).

In addition, Bancoldex offered training and updating both for existing intermediaries as well as for those recently engaged, all of which concentrated in the promotion of the utilization of credit lines of the counter-cyclic package. Several updating and promotion campaigns were carried out with those financial entities which covered the offices in the most affected regions, supplementing campaigns for generating business with companies. Likewise, a help tool called "Bancoldex Virtual Advisor" was updated directly at the intermediaries' *intranets* with the purpose of facilitating the executives of financial entities the selection of the best option of credit line to be utilized.

**6) Technological Innovation: Electronic Rediscount**

The *Electronic Bank* tool implementation innovated the way to access the Bank's resources. This mechanism allowed to improve the efficiency of the credit disbursement by the financial system and, significantly decreased the response time during the disbursement process. 90% of the financial intermediaries under the surveillance of the Financial Superintendence used during 2010.

**7) Support the purchase of Colombian products and services**

Bancoldex, through continuous work with its correspondents abroad, concentrated in promoting the purchase of Colombian products and services, mainly in those countries where this trade is important and where customer diversification opportunities are found, promoting the utilization of instruments such as purchaser credit, supplier post-shipping, documents discount, liquidex dollars and international banking operation services. The foregoing contributed to and promoted Colombian foreign trade.

In this sense, during 2010 disbursements of USD 149,9 million were reached in the item Financing abroad, and International banking operation (IOB) business were attended for USD 108,3 million.

**8) To impulse entrepreneurial strengthening through offering “aProgresar – Entrepreneurial Management” programs to form entrepreneurs”.**

The Bank carried out the formation, training and updating management program “aProgresar Entrepreneurial Management”, through which it developed on site and virtual training activities, publications and entrepreneurial support. During 2010 this program focused on micro and small enterprises of the country. Within the framework of this program, several courses were carried out such as “aProgresar with my enterprise” directed towards micro-entrepreneurs, “Management Development for Micro and Small Enterprises” and “Management Formation for SMEs linked to tourism”. These courses include the on site training characteristics (continued education) and developed the most relevant topics that contribute to improve entrepreneurial management.

In addition, workshops were carried out about basic financial aspects, environmental management and entrepreneurial social responsibility, management of human resources, exchange coverage and international negotiation, and supplementary conferences took place. Entrepreneurs had availability of virtual multimedia courses on “Management Advisory in International Negotiation” and “Management Aspects of Access to Credit” as well as of support publications in the web site. Also, the first videoconference was carried out successfully using the tool Adobe Connect and the “Government Program in Small and Medium Family Enterprises” was completed, activity developed with international cooperation resources of the CII.

In conclusion, during 2011 on site activities were carried out in 48 cities and municipalities of the country, with the participation of 12,871 entrepreneurs. The program has contributed to strengthen the academic relationship of the entrepreneurial real sector, private actors and workers guilds, associations and chambers of commerce and the public sector, with the main purpose of strengthening the managerial skills of the country’s entrepreneurs.

**9) Support for entrepreneurial capitalization**

**Financial Support**

During 2010 the equity fund investment Program – “Bancoldex Capital” was consolidated. This year two new investments were approved and the corresponding investment commitments were entered into for a value of COP 41.409 billion. As of the closing in December, the Bank’s investment commitments reached COP 66.409 billion in four funds. Bancoldex Capital has channeled investments through funds for 16 enterprises, nine of which are Colombian. Likewise, resources have been mobilized for entrepreneurial financing (equity) for USD 51 million approximately.

**Non financial support for the capital funds industry**

By the end of 2010, the Bank was carrying out the final negotiations of a non financial support program for the development of an industry of equity funds with a multilateral agency. This with the purpose of receiving technical assistance to facilitate the development of such industry in Colombia through joint work with investors, fund managers and entrepreneurs, among others. The estimated enforceability of the program is four years approximately.

## **10) Environmental Management**

Development Financial institutions, such as Bancoldex, have started to identify the role they may perform with respect to the environmental agenda of their countries as well as the synergies that may be established with multilateral banking, government entities and local actors. The foregoing, with the purpose of defining the intervention mechanism to solve market gaps from the view point of financial intermediaries and the entrepreneurial sector.

The experience in the environmental issue of multilateral banking has allowed Bancoldex to take advantage of the synergies through alliances, which was reflected in the development of two technical cooperation projects agreed with the Inter American Development Bank –IDB-, which seek to generate and develop the capacity inside the Bank and to establish the intervention mechanisms.

The first technical cooperation is oriented towards the design and implementation of the environmental and social management system for Bancoldex, which initiated in July 2010. The total cost estimated of the program will be one hundred and eighty thousand dollars (US 180,000). The objective of the management system is to provide an efficient administration of cash flow risks, guarantee and reputation risks including the environmental variable within the credit operations analysis.

The second technical cooperation project derives from the climate change unit of the IDB, through the SEECI program, that seeks to integrate Bancoldex within the framework of the public policy of actions against climate change and to support it within the design of financial and non financial support instruments and mechanisms. The total cost of the program shall be one hundred and eighty seven thousand five hundred dollars (US 187,500)

## **11) Financial Management**

Year 2010 was characterized by market liquidity which allowed Bancoldex to take advantage of the decreases in deposits rates and to attain part of the pre-financing of the year 2011 in pesos under good conditions, using both Fixed Term Deposits (CDTs) as well as bonds, in local market issues.

Likewise, during this year a landmark was set with the launching of a new fund raising instrument for the Bank and for the market. It is the securitization of second tier credit portfolio (namely of credit establishments). In effect, by the end of the year Bancoldex carried out the first issue of securities under the Global Securitization Portfolio Program for an amount of COP 346 billion, distributed in several series.

Similarly, by the end of the year, over the long term IDB credit facility of USD 200 million dollars, USD 70 million were disbursed to reach a total utilization of 130 million. These credits, accompanied with the important use of credits of the correspondent banks allowed attending the growing demand of working capital in said currency that occurred during the last months of the year.

## **12) Technological Modernization Project –Orion**

During 2010, the Bank continued with the development of the Technological Modernization Project – ORION- focused in providing the institution with cutting-edge technology to allow efficiency improvement to attend the fundamental elements of the business, such as the customers, information management, change in processes, cost reduction, within a modern standardized architecture to facilitate development at all levels.

A development process of the three phases planned was maintained throughout the year in a simultaneous manner, which allowed progress in Phases II and III and the completion of Phase I. The foregoing allowed the migration of Phase I into production with optimum results and parallel work was carried out by the end of the year to verify the functionality and stability of the modules in T24 and the adaptation to the current Bank's system.

The modules that were placed in production were the following:

Core , clients, accounts and limits, transfers, payments (FT), foreign trade and guarantees.

## Fulfillment of the SIGOB<sup>22</sup> goals for 2009 (Period from August 2006 - July 2010)

Within the National Development Plan 2006-2010 strategies, Bancoldex participates in the objective of "High and Sustained Growth: a Condition for an Equitable Development", included in the productive development strategy with 5 goals:

- a. Bancoldex attention to the entrepreneurial sector. Bancoldex financing goal for the period August 2006 – August 2010 was COP 11.8 trillion. Up to August 2010 resources had been delivered for COP 13.98 trillion, with which the goal was complied in a 118.1%.
- b. Credits assigned by Bancoldex to micro entrepreneurs. For the period 2006-2010, the financing goals for micro enterprises in amount and operations were COP 1.62 trillion and 391,000 credits respectively. At the closing of August 2010, Bancoldex had delivered COP 1.99 trillion to this segment through 506,559 operations. The foregoing allowed a fulfillment of 123% and 129% respectively over the goals for the period.

The 2010 goal for these indicators was COP 500 billion in 110,000 operations. Resources were delivered during the year for COP 554 billion through de 136,604 operations. Thus, the annual goals were fulfilled in 110% and 124% respectively.

- c. Credits assigned by Bancoldex to SMEs. For the period 2006-2010, financing goals for SMEs<sup>23</sup>, in amount and operations were COP 4.6 trillion through 42,400 credits. Up to August 2010, Bancoldex delivered this segment COP 6 trillion in 48,413 operations, which represented a fulfillment of 130% and 114% respectively over the goals for the period.

<sup>22</sup> System for Governorship Management. Allows the Government and citizens to monitor in detail the social and economic policies, within the framework of the National Development Plan.

<sup>23</sup> Understood for Bancoldex as the productive units with assets greater than 500 Minimum Monthly Legal Salaries in Force (MMLSIF) and less than 30,000 MMLSIF at the time of the credit. For 2010 the MMLSIF was COP 515,000, equivalent to USD269.69 with an exchange rate of 1907.69 COP /USD)

The 2010 goal for these indicators was COP 1.25 trillion in 12,000 operations. During the year, resources were delivered for COP 1.26 trillion in 14,649 operations, with which the fulfillment of annual goals was 101% and 122% respectively.

- d. For the four-year period 2006-2010 the goal "Credits assigned by Bancoldex for Entrepreneurial Modernization of Micro and SMEs" was created. This indicator measures the amount delivered by Bancoldex through the line *aProgresar*, especially developed to finance in the long term, projects of productive and competitiveness improvement of enterprises, implemented through the acquisition or adjustment of fixed and differed assets.

The goal of disbursements to Micro and SMEs through this special line for the period 2006-2010 was COP 1.8 trillion. The result attained until August 2010 recorded resources delivered for COP 2.95 trillion, for a fulfillment of the goal of 163%.

In 2010, the special allocation to support productivity and competitiveness in the *aProgresar* program should deliver resources for COP 1.01 trillion. The result reached during the year was COP 645 billion, which allowed a fulfillment of 63.9% of the goal. This result was attributed to the fact that the amount to be delivered of this credit line was limited during 2010, due to its condition of exhaustible allocation and the excellent behavior of previous periods which had accumulated disbursements with more dynamism than those projected.

- e. Likewise, for this four-year period, the scheme for knowledge transfer was created known as: "Bancoldex Entrepreneurial Formation", through which Bancoldex supplements its credit activity with knowledge for the entrepreneurial sector through talks, training modules and conferences developed by Bancoldex or by expert allies such as universities, formation centers, chambers of commerce, and Proexport among others.

The goal of trained entrepreneurs for the four-year period was 28,000. The result reached between January 2007 and August 2010 was 39,047, which allowed a fulfillment of the goal in 139%. Similarly, during 2010, the program proposed to train 7,000 entrepreneurs, and attained a fulfillment of this goal of 184% training 12,871 entrepreneurs during this period.

## Index given by the Corporation Transparency for Colombia

In 2010, the Corporation Transparency for Colombia rated Bancoldex with a Transparency Index of 85.76 points over 100 granting it the second place after Ecopetrol among 21 entities with a special nature, which form part of the 158 entities assessed during the 2008 -2009 term. The Bank's management was highlighted in the three last editions of the index, in which it has been in the first places, particularly in aspects such as information access by the citizen, the selection of its officers based on merits and the performance assessment system, among others.

## Investment Program "Banca de las Oportunidades"

The investment program of "Banca de las Oportunidades" (IPBO) was created by the Decree 3078 of September the 8<sup>th</sup> of 2006, incorporated in Decree 2555 of 2010. This initiative emerged as a long term policy from the National Government and is oriented to promote access to financial services for the population, with emphasis in low income families, aiming to promote

the country's development and looking for social equity. By mandate of the Ministry of Finance and Public Credit, the program is administered by the Colombian Foreign Trade Bank S.A. - Bancoldex.

Likewise, the goal is to increase the level of banking expansion and coverage of all municipalities, with products and financial services adequate for all segments of Colombia's population.

The Banca de las Oportunidades network is comprised by Banks, Credit Unions, Microcredit NGO entities, Family Allowance Funds, Commercial Financing Companies, and existing insurance companies which are used as mechanisms to attend and expand the program.

Thanks to the work of the Banca de las Oportunidades, from the 1102 municipalities in Colombia, as of December 2009 only 60 municipalities were left without presence of banking establishments. With the second invitation for the extension of financial coverage with Non-Banking Correspondents (NBC), granted to the Banco Agrario by the Banca de las Oportunidades, during 2010 a total coverage of 1098 municipalities was reached, leaving only 4 municipalities pending coverage.

With the coordination of the Bank of Opportunities at the Joint Network Bank Expansion Table, the implementation of a new savings and credit methodology in Colombia was created, commonly known as Local Savings and Credit Groups. During 2010 the pilot project of this technical assistance was completed with important results regarding the creation of these savings and credit groups, in 34 municipalities of 7 departments prioritized.

With closing date December 31, 2010, the Program assets closed at COP 141.936 billion with an increase compared to the previous year, where the assets reached COP 141.934 billion. On its part, liabilities reached COP 115 million compared to COP 68 million of the previous year. With respect to equity, it reached COP 141.822 billion compared to COP 141.866 billion of the previous year. Regarding profits, during 2010 a loss of COP 572 million was recorded compared to the profits of 4.017 billion of 2009, mainly due to the change in contractual obligations of the investment sub-programs, which reached COP 7.205 billion, the same as a slight decrease of profitability in the savings accounts and portfolio of the Program.

Most assets are represented in the investments portfolio which reaches COP 119.488 billion, Other Assets (including the FNG<sup>24</sup> Agreement and Deferred charges) for an amount of COP 12.779 billion, Availabilities for COP 9.566 billion, Accounts Receivable (Payments in advance to suppliers) for COP 29 billion, net Fixed Assets for COP 74 million.

Regarding liabilities, the total amortization to capital is highlighted for an amount of COP 13 million, and the value of the purchase option for COP 4 million of a financial leasing; accounts payable (taxes, travel expenses, personnel expenses, etc) to Bancoldex for COP 83 million and provisions for miscellaneous expenses for COP 32 million.

## Financial Results

### Credits Portfolio

The disbursements performed during the year exceeded the goals initially budgeted in 112%. This result was a consequence of the credit reactivation in the financial sector, explained by an

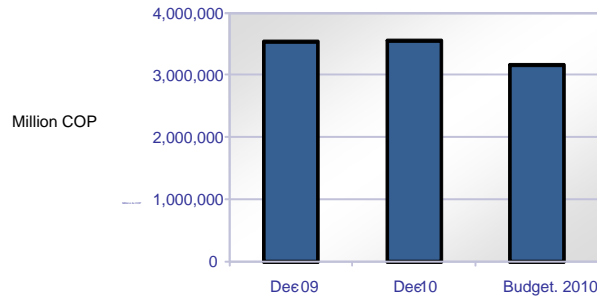
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<sup>24</sup> National Guarantees Fund

increase in the demand by enterprises due to lower interest rates and growth expectations over the economy's behavior as well as employment. The foregoing made the financial entities seek alternate financing sources to cover a greater demand of credits.

In addition, Bancoldex created lines with preferential rates both in pesos and in dollars, such as *Liquidez* for financial intermediaries, Colombia Exporta, Promoción del Comercio Exterior and Crédito Microfinanzas, whose disbursements reached the sum of COP 1.2 trillion.

#### Portfolio credit disbursements



#### Balance Accounts

##### Assets

During 2010 the short term operations in dollars disbursed during 2009 and the beginning of 2010 were due. Likewise, in October the portfolio securitization in pesos was carried out, generating a decrease in the balance. Counteracting the foregoing, a portfolio of liquidity securities was constituted, which would be useful to cover the maturities of liabilities in 2011. As a result of the foregoing, the assets of the Bank reached COP 5.5 trillion, COP 103 billion less than the previous year.

##### Liabilities

2010 was characterized by exceptional liquidity conditions offered by the market mainly in local currency, which allowed to fund the growth of the special credit lines in pesos. The greatest necessities of resources to cover liabilities maturities and to comply with the portfolio disbursements were reflected in the collection of funds via Fixed Term Deposit Certificates and bonds in favorable conditions, which reached an approximate sum of COP 1 trillion. On the other hand, the short and medium term needs of resources in dollars were reflected in the growth of utilization of quotas with correspondents and multilaterals. Nevertheless, reflecting the behavior of the portfolio business, the liabilities reached COP 4.2 trillion, COP 149 billion less than the previous year.

By the end of 2010, within the joint program IDB – Bancoldex to irrigate productive credit to the micro, small and medium enterprise, a disbursement was carried out by the IDB for an amount of USD 70 million.

## Equity

As of December 2010, the equity reached an amount of COP 1.4 trillion, COP 46 billion higher than the one of December 2009, as a result of higher statutory reserves for SMEs capitalization (COP 20 billion) and the profits of the annual period (COP 98.8 billion).

## Statement of Results

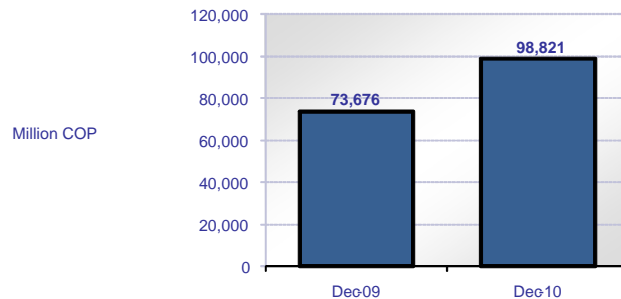
### Financial margin

During 2010 a decrease of the gross financial margin of the portfolio in pesos and dollars was recorded mainly as a result of a decrease of approximately 250 basic points of the average DTF in 2010. From an average rate of 6.14% in 2009 it changed to 3.66% for the year that ends. Another factor that affected the financial margin was the decrease of placement rates of the credit lines in dollars. Likewise, there was a lower reduction of the of the curve of TES rates of 2010 compared to 2009, which generated a decrease of revenue of the investment portfolio. The foregoing explained the decrease of the gross financial margin in COP 46 billion compared to the previous year.

### Profit

The good result showed during the year is explained by the behavior of the business and the investments portfolio, as well as by the contribution for the reimbursement of the provisions due to the reduction of the credit portfolio balance as a consequence of the maturity of the special credit lines throughout the year. As a result of the foregoing, the profits reached COP 98.8 billion, a figure greater in COP 25 billion than the one of the previous year.

### Aggregate profit



## Risk Ratings

In 2010, the Bank maintained the local long-term AAA rating for long term, granted by *Fitch de Colombia S.A* and *BRC Investor Services*. With respect to foreign currency ratings, the Bank obtained a better rating of the sovereign risk BB+/ changing the outlook from Stable to Positive, by the international rating agency *Standard & Poor's* based on the improvement of the sovereign rating of the Republic of Colombia.

## Risk Management

In 2010, the integral risk management continued its consolidation as a strategic project of BancolDEX to contribute to sustainability and fulfillment of the Bank's goals in its role as a development entity. The efforts of the Bank focused on strengthening the management systems of market, liquidity, credit, operational, information security and business continuity risks, as well as the prevention of money laundering and terrorism financing.

### Operational Risk Management System (ORMS)

During 2010, the Bank continued with the development of initiatives tending to strengthen the ORMS. Among the actions carried out, the implementation of the new methodology to set up risk matrixes, the optimization of the procedure to record events, the management of operational risk events and the tests carried out to the continuity plan of the business, as well as training activities and deepening of the Bank's operational risk culture.

### Market Risk Management System (MRMS)

With the objective of improving the MRMS, during 2010 the Bank carried out an assessment and updating of the market risk policies and modified some limits to control the exposure to such risks. In addition, actions were taken to adjust to the regulation requirements with regards to derivatives.

### Credit Risk Management System (CRMS)

In 2010, the CRMS accompanied the development of the Bank's strategic plan in an environment characterized by the International financial crisis; through strengthening the processes of granting and follow-up of debtors and counterparts. On the other hand, the Bank continued to expand the network of entities oriented towards micro entrepreneurial credit. Nevertheless, the engagement of such entities was conditioned to the methodological demands with which BancolDEX counts, and in some cases, to the development of institutional strengthening programs.

### Liquidity Risk Management System (LRMS)

As a response to the enforceability of External Circular Letter No. 042 of 2009 by the Colombian Financial Superintendence, BancolDEX strengthened the LRMS. In this sense, policies, limits, early alert signals, procedures, reports and a contingency plan were defined for those case in which the Bank's liquidity risk becomes materialized. Likewise, within the LRMS roles were defined, as well as powers and functions of the different instances responsible for the management of the liquidity risk. On the other hand, the standard methodology of the Financial Superintendence of Colombia was adopted and an internal model was developed as a supplement to measure and control the Bank's exposure to the liquidity risk generated by its operations.

## Information Security and Business Continuity (ISBC)

The activities regarding the ISBC during 2010 focused in attending the requirements of external circular letters Nos. 052 of 2007 and 014 of 2009 by the Financial Superintendence. Likewise, the Bank continued with the developments of the ISBC to be implemented in the new technological platform under way, which will not only embrace the regulatory requirements, but also the best international practices regarding such matter.

## Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF)

During 2010, Bancoldex oriented its efforts towards strengthening different aspects of the AML/CTF. Mainly, the adjustment of the transactional monitoring model for direct customers of the Bank, and its implementation with alert signals that allow identifying unusual operations and asset laundering risks and terrorism financing (AML/CTF). Such model facilitated the focusing and follow-up of the customer's information updating whose management campaigns were reinforced with the different areas that carry out the commercial and risk management.

Likewise, policies and procedures were incorporated and adjusted for the knowledge and engagement of national and foreign customers, for particular aspects of certain products and/or customers, as well as other counterparts of the Bank (suppliers, officers and shareholders). Similarly, the AML/CTF risk assessment model was adjusted by international jurisdiction and the risk level was adjusted by countries.

In addition, the monitoring of the Bank's inherent and residual risk level was carried out, maintaining itself within the low level approved by the Board of Directors. The risk maps of mission processes were updated also, and a follow-up was carried out for the consolidated risk level due to the different factors generating it.

Likewise, the socialization of the culture of preventing and controlling the AML/CTF risks continued in all the Bank's operations through training sessions for the officers, about an adequate knowledge of the customers and counterparts, different stages, elements and controls of the AML/CTF and the updating of the manual of policies and procedures. Similarly, the resources required were supplied for an adequate functioning of the system.

Finally, different external and internal reports were produced timely, as well as the attention of requirements about the AML/CTF from different competent authorities.

## MECI<sup>25</sup> – Quality Management System

The Bank has complied with what was established in Decree 2913 of July 31, 2007, and has implemented the Internal Control Standard Model and the Quality Management System (in those entities obliged by Law 872 of 2003) and currently it counts with an Internal Control Standard Model and a Quality Management System duly harmonized. The system is under permanent follow-up and assessment, complying with what has been set forth on Circular Letter 06 of June 27, 2005 of the DAFP<sup>26</sup> and Decree No. 4110 of December 9, 2004 of the Presidency of the Republic.

<sup>25</sup> MECI- Internal Control Standard Model (ICSM)

<sup>26</sup> DAFP- Administrative Department of the Public Affairs

During the month of January 2010 the DAFP survey was answered within the terms foreseen for such purpose, obtaining the following rating: progress of the ICSM 94.07% and Quality progress 100%. Such ratings place the Bank's management at the highest level of the rating matrix.

In May 2010, the rating entity Bureau Veritas Ltda. carried out a follow-up visit to determine the certification corresponding to the new version NTC GP 1000:2009 and ISO 9001:2008. For August 2010, the rating entity granted the new certification without any unconformities of the system.

Complying with the purpose of the Quality Management System, Bancoldex has reached high standards in its work with regards to customer's needs satisfaction (entrepreneurs). The system counts with a systemic approach in which all officers of Bancoldex should work towards improvement of processes, aiming at compliance of the quality policy in the every day activities and to reach the objectives of quality, defined for this system.

The Quality Management System and the harmonization with the MECI have been the basis to consolidate a management model and a structure based on processes, thus attaining a better response to the satisfaction of the customers needs. Likewise, a permanent progress has been attained regarding efficiency, efficaciousness and organizational effectiveness. The foregoing, because it allows an integral understanding of its operations and represents a structure supported in those differentiating pillars that provide the identity of the purpose of the business.

## Internal Control System

In 2009, the Colombian Financial Superintendence issued the External Circular Letter No. 014 modified by External Circular Letter No. 038, seeking to structure, implement, maintain and adjust an Internal Control System in the entities under surveillance. In such a manner that system will contribute to the fulfillment of objectives and strengthen the adequate management of the risks to which they are exposed during the performance of their activity, carrying it out under conditions of security, transparency and efficiency.

In accordance with the aforementioned Circular Letters for the follow-up of the evolution of the Internal Control System (ICS) of the entities subject to inspection and surveillance, the Financial Superintendence of Colombia requested the certifications signed by the Chairman of the Board of Directors or equivalent body and the legal representative of each entity, with regards to the structuring and application of the fundamental components of the elements of the system, requirements that were duly attended by Bancoldex.

The strengths observed in the ICS through the annual evaluations carried out under the methodology defined by the Advisor Council of the National Government in terms of the Internal Control, and the Administrative Department of Public Affairs has been reflected in favorable, external, independent opinions. As one of the significant results, it is important to highlight the report "Evaluation of Public Management – Auditing Process for the fiscal period 2008" published by General Comptroller's Office of the Republic.

Of 220 entities audited, 114 correspond to strategic entities directly related to the national government, equivalent to a 51.82%. Among the 114 entities subject to evaluation regarding their management, in accordance with the ranking of strategic entities ranking and directly related with the National Government, Bancoldex was rated as eighth. On the other hand, in accordance with the report, one hundred and five (105) obtained the extinction of account for the three year period between 2006-2008, from which twenty (20) entities were deemed as "exemplary" because they received the maximum rating during the overall period; among these there are nine (9) strategic entities directly related to the National Government, including Bancoldex.

Specifically, in accordance with the last audit final report by the National Comptroller's Office for 2009, Bancoldex Internal Control System (ICS) obtained a rating of "Adequate" in the conceptual evaluation, which means that according to the parameters established, the general controls of the entity exist and are applied. In terms of operation, a rating of (1.09) "Efficient" was obtained, due to the fact that specific controls of the lines or administrative areas mitigate the risks for which they were established.

On the other hand, according to such report, the Accounting Internal Control System of Bancoldex obtained a rating of zero (0), being efficient, rating that means that the accounting ICS is reliable for the organization regarding the management of resources and compliance of its objectives and goals.

## Perspectives and Management 2011

In 2011, Bancoldex shall continue with the commitment of the initiatives set forth in the Sectorial Strategic Plan led by the Ministry of Commerce, Industry and Tourism within the Framework of the National Development Plan "Prosperity for all".

Within this environment, Bancoldex shall assume, as an Integral Development Bank, the leadership of the strategy focused in "developing an integral management model of funds oriented towards productive initiatives in the regions". For the foregoing the Bank shall structure and implement a Development Unit with an integral management program of funds for financing projects with high regional or national impact. Likewise the Bank shall act as a tool of the State through the creation of special credit lines focused on the modernization on the MSMEs and for the destinations determined by the Government. The foregoing contemplates the placement of special lines in order to contribute to the relief of the country's enterprises affected by the rainy season.

In addition, during 2011 the Bank will continue its transformation in an "Integral Development Bank Model" adding to its traditional credit activity, the access to financial services, functions of a development agency and of support of matters of private equity funds and entrepreneurial equity funds. On the other hand, it shall focus on offering credit supplementary activities. All the foregoing, supported in a cooperation scheme that will allow the Bank to count with non-reimbursable external resources (national and international) for developing its function.

The foregoing assumes the focusing in seven areas of strategic action established in the Plan:

- ? Access to Banking Services, social inclusion and entrepreneurial formalization
- ? Productive transformation and entrepreneurial development
- ? Internationalization of the economy
- ? Environmental management and social responsibility
- ? Cooperation
- ? Guarantee the Bank's financial sustainability
- ? Organizational effectiveness

Within the environmental management area, Bancoldex shall develop, with the German Cooperation Agency KfW, the pertinent actions to draft a feasibility study about the promotion of measures for energy efficiency and renewable energies in Colombia through financial

institutions. The results of this study will constitute an input to develop the technical cooperation regarding this matter.

On the other hand, as from 2011 Bancoldex will count with two new environmental credit lines in its product portfolio. The first one is the result of the alliance with the Chamber of Commerce of Bogotá to attend investment needs in fixed assets of the companies that form part of the project "Market Opportunities for Clean Energies and Energy Efficiency –OPEN. The second credit line derives from the synergies generated with the Development District Secretariat to benefit entrepreneurs of the city of Bogota who develop positive environmental impact projects and obtain a favorable concept by the Environment Secretariat.

With respect to the financial management in 2011, it shall focus on the availability of the liquidity necessary to attend the credit demand, as well as the maturities of liabilities. In compliance with the Bank's mission, its strategies shall focus on supporting the financial sustainability of the entity. In this sense, the Bank shall reinforce its analysis mechanisms for the management of assets and liabilities, broadening its funding sources in legal and foreign currency and shall work in the perfection of a management system for income, expenses and costs.

## Bancoldex's legal situation

At the closing of the economic period 2010, Bancoldex maintains its legal regime as a mixed economy corporation of the national order, ascribed to the Ministry of Commerce, Industry and Tourism, and organized as a credit-banking establishment not subject to the regime for state industrial and commercial enterprises, independently from the state interest in its capital. Due to this characterization, notwithstanding its nature as a public entity, Bancoldex maintains a legal regime of Private Law with respect to its acts and contracts, pursuant to the legal provisions and regulations that govern the matter, which enables its competitiveness with regards to financial support activities for entrepreneurs.

Notwithstanding Law 1328 of 2009 had deemed that the deposits attained by Bancoldex, under the conditions set forth for such purpose by the National Government would be exempt from the float reserve regime, Decree 1178 of 2010 was issued, establishing that all deposits carried out by the Colombian Foreign Trade Bank S.A. –BANCOLDEX having identical conditions with respect to deposits and callabilities defined generally as subject of float deposits for credit establishments by the Board of Directors of the Central Bank would be subject to the float reserve regime fixed and regulated by such Board of Directors of the Central Bank.

Likewise, it is necessary to inform that the National Government submitted the guidelines of the National Development Plan, which shall be subject to consideration by the Congress of the Republic in 2011, which foresees the conveyance of the Management of the COLOMBIAN FUND FOR THE MODERNIZATION AND TECHNOLOGICAL DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES – FMSMEs- to Bancoldex, as well as the migration of the Bank to an Integral Development Bank model incorporating development agency functions and offering guarantees, services and activities supplementary to credit. In this regard, it is foreseen that this model shall be implemented within the framework of the current powers of the entity, maintaining its financial sustainability, under risk management criteria and under the applicable legal and statutory regimes. The entity shall continue exercising its financial function with its own resources, with the budget items defined by the National Government or the Territorial Entities through the entering into agreements.

Bancoldex shall adjust its structure in order to adopt two lines of action. It shall continue developing activities tending to reduce the market gaps in the financial sector, in view of

promoting the development of products and services and to act in an anti-cyclic manner having open lines in the event of illiquidity in the economy.

In second place, it shall promote a Development Unit which (1) shall implement projects relating to facilitating access to financial services, entrepreneurial formation, private capital funds, international cooperation and public resources administration among others; (2) administer the Colombian Fund for the Modernization and Technological Development of Micro, Small And Medium Enterprises (FMSMEs)

Additionally, based in coordinated actions with the Regional Commissions of Competitiveness, Bancoldex Development Unit shall develop a program for credit and integral management of public rediscount resources oriented towards promoting the productive transformation based in innovation with a regional focus. This with the purpose of improving the destination of resources to those areas with a high innovation potential."

On the other hand, the National Government issued Decree 4611 of 2010 extending the authorization to Bancoldex and other rediscount banks to carry out rediscount operations with leasing agreements with banking establishments, taking into account that Law 1328 of 2009 allowed the banks to enter into leasing agreements.

Additionally, as of the date of the report, Bancoldex, along with Fiducoldex, the Central Bank (Banco de la Republica) and the Ministry of Foreign Affairs, has been included in four ordinary labor proceedings carried out by *Attachés*, Staff Members and Managers of commercial offices of Colombia abroad, who had rendered their services between 1967 and 1992. The cited proceedings claim the acknowledgement of pension contributions. None of the proceedings currently under way have shown a final decision, since the decisions issued have been produced in diverse senses.

## Corporate Governance

As of 2001, Bancoldex operates under a Code of Corporate Governance, containing the policies and procedures of Corporate Governance oriented towards the protection of its shareholders and the general public.

During 2010, Bancoldex made progress in the revision of its corporate governance system. With regards to this matter, in compliance of the provisions set forth under Circular Letters 014 and 038 of 2009 of the Financial Superintendence of Colombia, it updated the regulations of the Audit Committee. Thus, in March 2010 the regulations for the operation of the General Shareholders Meeting and of the Board of Directors were approved, as well as the disclosure of the document containing the rights and obligations of the Bank's shareholders. In October 2010 the Board of Directors approved the creation of the Corporate Governance Committee, oriented to support the Board of Directors in its function of assuring compliance of the Corporate Governance practices adopted by the Bank and the provisions contained in its Code of Corporate Governance, as well as to provide the advisory for the implementation of good corporate practices. Likewise, a new scheme of a management self-evaluation report was approved, which pretends to adopt a measuring system based on the forthcoming performance through the assessment of the potential evaluated or the establishment of performance objectives.

The Board of Directors met in an ordinary session, in twelve occasions and the matters considered, as well as the decisions adopted are attested to in the respective minutes drafted for such purpose, which are kept under the custody of the Juridical Vice-Presidency – General

Secretariat. Finally, a training plan was initiated for the members of the Board of Directors in specific subjects, through their participation in a forum organized by, denominated "Effective Audit Committees", which took place on November 29, 2010.

## Transactions with Related Parties

As of the date of this report, the Bank maintains its operations duly instrumented and complies with the governing regulations.

The operations performed by the Bank with its Partners and administrators are adjusted to the general policies of the entity. Such operations are duly specified in note number 28 (transactions with related parties) of the financial statements. The Bank did not carry out any transactions or operations with partners or administrators whose characteristics differed from those carried with third parties, neither did it supply gratuitous or compensated services, or loans without interests or any consideration whatsoever, except for those having a labor character regulated by articles 152 and 153 of the Substantive Labor Code.

## Subordinates

Bancoldex configures a control situation with the Fiduciaria Colombiana de Comercio Exterior S.A., FIDUCOLDEX, with an interest of 89.11%, an indirect mixed economy corporation by shares of the national order, organized as from October 31, 1992, as well as with Leasing Bancoldex S.A., with a share of 86.55%, a mixed economy corporation organized indirectly, not ascribed or related to any ministry, and subject to the regime governing industrial and commercial state enterprises.

Throughout 2010, the Bank performed directly with Fiducoldex some administrative operations such as leasing and contracting of the global banking policy. In addition, dividends were received from the Trust entity.

On the other hand, it carried out credit portfolio, treasury and administration operations with Leasing Bancoldex, relating to the Bank's global banking and leasing policy.

In this order of ideas, Bancoldex has entered into a macro agreement of shared services with Fiducoldex and with Leasing Bancoldex, with which it intends to take advantage of the synergies of the entities that belong to the "Bancoldex Group", provided that the same does not imply in any case a delegation of professional standards.

It is important to point out that the independence in the businesses and decision making, constitutes a premise of its relationship, which is limited by the benefit that may be obtained by the client, from the products and services offered by each entity.

## Other Capital investments

In 2010 Segurexpo was capitalized with the purpose of complying with the capital requirements of the Financial Superintendence of Colombia, in such a manner that as of the closing in December 2010, Bancoldex maintained investments in the "Aseguradora de Comercio Exterior" -SEGUREXPO - (49.57%), in the "Banco Latinoamericano de Exportaciones" -BLADEX (1.34%) and in the National Fund of Guarantees (30.21%).

## Intellectual Property and Copyrights

Bancoldex acts pursuant to Law, through policies defined with respect to the acquisition of technology and the use of licensed software. Likewise, it counts with internal control procedures that seek to ensure due compliance of said regulations.

## Performance of the Disclosure and Control Systems

In order to comply with the provisions set forth under articles 46 and 47 of Law 964 of 2005 – the Colombian Foreign Trade Bank S.A. – Bancoldex, certifies that the financial statements and other reports relevant for the public do not contain any vices, inaccuracies or errors which may hamper the knowledge about the true equity situation or about the operations carried out. Additionally, the disclosure and control systems used by the entity to include information contained in said financial statements and reports relevant for the public are adequate, based on truthful information, and subjected to audits practiced by the Internal Control Office of the Bank and by the Statutory Auditor, under the supervision of the Audit Committee.

## Subsequent events

The Management is not aware of any important event that may have occurred between the date of closing of the economic period 2010 and the date in which this report is submitted, that could affect its scope or interpretation.

Santiago Rojas Arroyo  
President