

REPORT OF THE BOARD OF DIRECTORS
AND THE PRESIDENT **TO THE GENERAL
SHAREHOLDER'S MEETING 2021**

BANCOLDEx 

30



El futuro
es de todos

Gobierno
de Colombia

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INTRO DUCTION

In 2021 Bancóldex celebrated its 30th anniversary, and it positioned itself as an instrument to support the growth and internationalization of the Colombian business sector. Bancóldex is nowadays a relevant lever for the productivity and strengthening of companies. Throughout these three decades, the Bank has granted more than \$83 trillion in loans to more than 1.6 million entrepreneurs, mostly MSMEs.

Bancóldex continued to exercise its role in supporting economic recovery by **disbursing \$5.1 trillion to more than 120,000 companies, out of which 93 % are microenterprises** from 1,032 municipalities in the 32 Colombian departments. Of these disbursements, more than **\$700 billion served SMEs** through direct credit, leasing, and factoring products, benefiting more than 1,300 companies.

The above figures confirm that Bancóldex has turned into a bank closer to businesspeople. It completed the absorption of its affiliate Arco in 2021 to complement the services offered to SMEs with direct products such as leasing and credit. The absorption of Arco made it possible to prioritize the provisions of Decree 468/2020, which sought to have a one-stop shop to serve SMEs affected by the COVID-19 pandemic. In 2021, the Direct Support to SMEs credit line was launched, granting **loans for more than \$417 billion to 943 SMEs** in 21 departments of the country.

As a public policy instrument, Bancóldex became a strong partner of companies in tackling the pandemic crisis. Together with the National Government, ministries, governor's offices, and mayor's offices, it continued prioritizing entrepreneurs' liquidity needs by placing the so-called "Responde" portfolio, made up of 38 credit lines, which reached more than \$382 billion in disbursements in 9,501 transactions in 2021.

Additionally, to revive productivity, Bancóldex launched the **"Adelante"** program in partnership with the National Government, territorial agencies, and chambers of commerce, amongst others. Nineteen credit lines were designed with better tenors and grace periods. They included the financing of

modernization to recover companies' installed capacity and consolidate debt. This program's disbursements reached over **\$832 billion and benefited more than 31,700 companies**, of which 62 % are micro- and small-sized enterprises.

The impacts of the Bank's interventions with the **50+ Program**, which collected the emergency lines and economic recovery, include \$2 trillion disbursements with the support of more than 50 strategic partners, such as the National Government, governor's offices, municipalities, and chambers of commerce. These resources reached more than 100,000 companies, of which 99 % are MSMEs in all departments.

As a fundamental player in the business fabric, Bancóldex continued financing microenterprises. In 2021, **it served more than 116,000 microenterprises with more than \$1 trillion loans**; \$260 billion benefited over 35,000 women entrepreneurs. Direct and rediscount resources were disbursed for more than \$2.1 trillion to support more than **6,700 small and medium-sized enterprises**. Boosting productivity in the MSME segment has been the Bank's strategic focus aligned with the National Government's policies.

Moreover, **financing green growth and the creative and cultural economy** remained a strategic front. In 2021, the Bank disbursed more than \$133 billion to finance 1,159 projects with environmental benefits, reflecting a rebound in sustainable investments reduced by the pandemic crisis. **Over 19,000 creative and cultural economy companies received resources for nearly \$700 billion.**

Regarding **the internationalization strategic front**, the entity disbursed **about \$800 billion to exporting companies**, added to the strategies aimed at positioning the Bank as entrepreneurs' partner in their internationalization processes.

As a result, Bancóldex ended the year with a \$7.15-trillion portfolio, of which 12 % corresponds to the direct SME portfolio; the Bank's assets closed at \$10.3 trillion. Net profit reached over \$55 billion, which represents a

budget execution of 104%. In June, **the sale of the investment in the affiliate Segurexpo** was completed, a transaction that had been underway since the previous year and had a positive effect on the net profit of \$8.4 billion.

To leverage the credits allocated to the economic recovery of companies, Bancóldex placed \$500 billion in the first “**Recovery Bonds**” auction in the Colombian capital market in May, 2021. Investors demanded 3.1 times the value offered.

Within the Bank's innovation strategy, it designed and developed five products in 2021 to meet entrepreneurs' needs and the strategic fronts it serves. These products are Neocrédito, Programa Trasciende, Aliado Exportador, Finbi, and Innovalía.

As part of the Bicentennial Group, the Bank participated in the sector strategic plan and the activities required by said group, led by the Ministry of Finance and Public Credit.

In September 2021, the Bank's Management, with the support of its Board of Directors, designed the **2022-2026 Strategic Plan**. The commitment of the Bank's Board of Directors to this plan will be the roadmap to achieve more impact with its interventions, expand coverage in the regions, and transform its portfolio with **direct credits for SMEs**, and innovative **digital** products that will contribute to the country's productive transformation.

To achieve such goal, the Bank will form disruptive **partnerships**, have more operations in the **regions**, transform **digitally**, develop financial and **non-financial** products that anticipate customer needs, and strengthen its **human talent** in the coming years. All this will be backed by a robust corporate governance that promotes the creation of economic and social value.

Finally, for the second year in a row, Bancóldex received the Great Place to Work recognition, making it one of the country's most attractive employers.

The Bank's 2021 management report is presented below.

1.

ECONOMIC
BEHAVIOR IN 2021



A decrease in COVID-19 cases framed global economic activity in 2021 amid countries' efforts to vaccinate the population. Thus, the world economy began to show signs of recovery a little faster than expected at the end of 2020. Household spending, which started to rebound strongly in the middle of the year, was accompanied by new tax packages, especially in the United States, where the fiscal effort program took shape.

The second half of the year was characterized by upward surprises in growth and high prices of raw materials, which resulted in unexpected inflationary pressures around the world.

According to IMF forecasts, the world economy grew 5.9 % in 2021, compared to the -3.1 % decline recorded in 2020 due to the pandemic. Besides, the United States economy grew 6.0 % in 2021 due to the global economic recovery. In the Euro Zone, economic activity expanded, recovering from the contraction reported in 2020. It went from a drop in annual growth of -6.3 % in 2020 to an expansion of 5.0 % in the 2021 forecast by the IMF.

The Latin American economies recovered faster than expected. The behavior is mainly explained by an increase in household consumption and the savings built up during lockdown. According to the IMF, the region's growth was 6.8 % in 2021.

Colombia's economy and the economies of other Latin American countries had a dramatic recovery. They showed a boost in household spending, improved terms of trade due to an oil boom, better investment performance, and higher-than-expected growth in sectors hit hard by the pandemic (commerce, entertainment, industry, among others). The incentive provided by a still expansive monetary policy, together with the advances in the vaccination program and the absence of new closures were fundamental for the growth of economic activity to be higher than expected.

Bancóldex estimates that Colombia's Gross Domestic Product (GDP) will grow by 9.7 % in 2021, compared to the 6.8 % contraction registered in 2020. This forecast is in line with that of the Ministry of Finance and Public Credit and it is very close to the forecast published by the Central Bank at

9.8%. At the end of the year, GDP growth in Colombia was 10.6 %.

In the external sector, exports showed an increase of 44.7 % in December compared to the same period in 2020, driven upward by higher foreign sales of oil and products from extractive industries. In 2021, Colombian exports grew by 32.7%. Meanwhile, imports had significant increases in 2021. As of December, they grew 40.5 % due to external purchases of fuels (62.1 %) and manufactures (40.1 %). The trade deficit widened; therefore, the Current Account deficit closed at 5.5 % of GDP as of September, well above the 3.1 % GDP deficit reported for the same period in 2020.

The Colombian labor market, along with the economic recovery, reported a much more significant improvement than forecasted. The unemployment rate closed at 11 % in December 2021, which represents a 2.4 % reduction when compared to the same month in 2020 (13.4 %). As of December 2021, there were 185,000 more jobs than those recorded in 2020. However, the market has about 1.16 million jobs to recover.

Inflation closed the year at 5.62 %, moving away from the upper target range of the Central Bank (4 %) and reaching its highest level since January, 2017. Amid a high inflation environment, added to the global increase in the prices of raw material, among other local factors, the Central Bank increased the intervention rate by 125 basis points to 3 % as of September, 2021.

Despite a fiscally-complex year after the loss of the investment grade and the suspension of the fiscal rule for two years, the Ministry of Finance and Public Credit reduced the fiscal deficit goal of the Central National Government for 2021 from 7.6 % to 7.1 % GDP, a figure lower than the 7.8 % GDP deficit reported in 2020.

Finally, the exchange rate reported depreciation of 16 % (TRM), closing 2021 at \$3,981, compared to the devaluation of 4.73 % in 2020.

2. FINANCIAL SECTOR¹



Throughout 2021, Colombia's financial institutions maintained some action plans that had been implemented during 2020 to better manage risks in the context of the COVID-19 crisis and the lower-than-expected growth in the first half of the year.

Regarding credit risk, the Financial Superintendence of Colombia decided to extend the Debtor Support Program (PAD, for its acronym in Spanish) until August, 2021 to support debtors' recovery, allowing financial institutions to relieve credit conditions according to each debtor's financial position. At the end of November, 2021, 5.3 % of the system's total portfolio had some sort of relief. The main segments subject to PAD were unrestricted loans, credit cards, and SMEs. The measures the National Government took to encourage credit placements and low-interest rates brought about a recovery in portfolio dynamics that sped up in the second half of 2021.

Vis-à-vis market risk, especially in the first half of the year, the institutions were impacted by the high volatility of different rates and variables, which notably increased market risk and significantly affected the profitability of their portfolios. Some factors with the most profound impact on the local market's volatility were the outflow of foreign investment as a result of the FED's monetary policy announcements, the increased yield on Treasury securities, the national strike, and the low sovereign risk rating.

While some financial indicators were pushed during the year, the measures taken by the National Government, the Financial Superintendence of Colombia, and the financial institutions minimized most risks and contained the crisis's adverse effects. Consequently, portfolio quality remained at moderate levels, profitability returned to pre-pandemic levels, and liquidity and

solvency remained adequate, all reflecting the strength of Colombian banking.

To stimulate banks' risk appetite and the flow of credit for SMEs in economic sectors affected by the financial crisis caused by the spread of COVID-19, the National Guarantee Fund structured a unique program called "Unidos por Colombia." The program allowed companies to access the financing required to make up for the lack of income and granted credits for \$25.1 trillion through its various lines.

The figures of the Colombian financial system as of November, 2021 reflect positive dynamics. Assets grew 10.3 % annually, mainly explained by the increase in the loan portfolio (8.8 % annually). The housing and consumer portfolios recorded the highest growth (13.9 %, and 11.6 %), while microcredit and business credit had annual increases of 9 % and 5.8 %, respectively. The share of the different segments in the total portfolio remained stable, with the business and consumer portfolio being the most representative one (50.8 % and 31.8 %).

Even when a substantial deterioration was expected, the financial sector's credit risk remained moderate, reflected in the quality indicators for delinquency and risk profile² (4.2 % and 9.5 %, respectively³), partly because of the relief extension. In November, 2021, the financial system's provisioning effort continued with a default coverage indicator that stood at 159 %, thus reflecting a conservative stance.

Furthermore, as of November 2021, there was a significant rebound in the profits of credit institutions, which reached \$13.8 trillion. It represents an annual growth of 138 %, mainly due to the higher reimbursement of provisions.

Credit institutions maintained total and basic solvency margins at 21.7 % and 7.1 %, respectively, thus far exceeding the minimum regulatory levels of 9 % and 4.5 %. These margins were impacted by the new solvency standard and the high capitalization of institutions' profits reported in 2021. The IRL (liquidity risk ratio) of credit institutions was above the regulatory minimum (189.2 %),

¹ Includes only credit institutions.

² Portfolio rated B, C, D, and E / Total portfolio

³ 5.2% for delinquency and 10.7% for risk profile at the end of November, 2020.



highlighting the increase in public deposits of 7.9 % annually, which shows an adequate liquidity situation.

2022 anticipates good credit dynamics, led by the housing and consumer segments. Regarding the portfolio quality, default indicators are expected to remain at moderate levels. Solvency and liquidity indicators are expected to stay at low-risk levels. Some risks that will remain during 2022 include additional COVID-19 spikes, which may slow the pace of economic recovery, inflationary pressures, international market volatility, and political uncertainty due to the 2022 elections.

3.

BANCÓLDEX AS A DEVELOPMENT BANK



3.1. 2021 achievements

Following the Bank's strategy, objectives and guidelines were defined in 2021 to address strategic focuses and economic recovery, quarterly monitored by Management and the Board of Directors.

The major achievements and results of the Bank's Management are presented below.

Bancóldex as a public policy instrument: Addressing the COVID-19 crisis and economic recovery

The MSMEs' needs amid the COVID-19 situation remained throughout the year, particularly the working capital requirements to reactivate productive activity. The Bank constantly dialogued with the National Government, ministries, governors, and mayors' offices to learn about the requirements of the business fabric regionally. This dialogue allowed the placement of the "Responde" portfolio, comprising 38 credit lines. It achieved disbursements for an amount of \$382 billion in 9,501 transactions for 2021.

This program made it possible to cover entrepreneurs' liquidity needs with working capital financing and debt consolidation to improve their financing costs.

In 2021, Bancóldex launched the **"Adelante" program**, comprising 19 lines with better terms and conditions. It finances biosafety protocol initiatives in the pandemic and asset acquisition in the long term to recover or boost companies' installed capacity and insert them into the new production context.

The **"Adelante" program** closed 2021 with **disbursements worth \$832.6 billion** and reached more than 31,700 companies, of which 62 % are micro- and small-sized enterprises. The preferred fund allocation remained working capital with disbursements greater than \$687 billion.

Moreover, under the mandate of Decree 468/2020, the **Direct Support to SMEs** credit line was

launched, with which **943 SMEs received credits for \$417.2 billion** in 21 departments.

Thus, the Bank's commitment as a development entity to continue supporting the business fabric in complex economic situations is ratified.

MSME productivity

The year 2021 represented a significant upturn of MSME productivity by the Bank thanks to economic recovery and the business sector's openness to finance modernization investments.

In 2021, the Bank disbursed \$3.14 trillion to the MSME segment, of which \$1.04 trillion benefitted more than 116,000 microenterprises.

Of these resources, \$1.92 trillion met companies' liquidity needs, and the remaining \$1.22 trillion was for investment. The latter grew 90 % compared to 2020.

Green growth

In 2021, Bancóldex placed \$133.6 billion to finance 1,159 projects with environmental benefits: 335 through rediscounts, 63 direct credits to companies, and 761 under the microfinance scheme. Investment financing focused mainly on replacing the country's vehicles, circular economy, bioeconomy, energy efficiency, use of renewable energy for electricity generation, implementation of measures for climate change adaptation, and, generally, changing traditional equipment for brand-new energy-efficient equipment.

It is worth noting that during 2021, Bancóldex made the following program lines available to entrepreneurs: the vehicle replacement line, the **"Sostenible Adelante"** line for structured economic recovery in partnership with the Ministry of Trade, Industry, and Tourism, and the climate change adaptation line (Meba), supported by UNDP and the United Nations Multi-Donor Fund, a domestic refrigerator substitution program to promote the production of less polluting energy-efficient refrigerators, a structured scheme with GIZ, and the Nama Facility resources.

Besides, in 2021, the Bank included sustainable development as a lever in its 2022-2026 corporate strategy. This comprehensive initiative involves strengthening the following mainstays: corporate governance, environmental and social risk management, efficient internal management of ecological impacts, the promotion of human talent inclusion and diversity, and sustainable finances.

As part of the Assembly of the Inter-American Development Bank (IDB), Bancóldex launched the **"Productive Activities of People with Disabilities Line"** to finance companies that have partners or employees with disabilities. This financing alternative seeks to meet working capital and modernization needs and constitutes one of the first expressions of the social welfare commitment of the Bank's sustainability lever.

Creative and cultural economy

One of the main challenges facing the creative and cultural industries is access to financing. So, Bancóldex' strategy has sought to give prominence to this line of action. It strengthens the portfolio of financial products and tools, seeks strategic partners, and makes the financial system aware of this sector's potential and importance in employment creation, exports, and contribution to the national GDP.

In 2021, the Bank disbursed resources for the orange economy amounting to \$694.7 billion. These credits benefited 19,000 entrepreneurs from the creative and cultural industries.

The creative and cultural economy sector had seven lines with special and differential rediscount conditions: 2021 Version of the Orange Line (Bancóldex), TIC Reactivation (Ministry of ICT), 2021 Competitive SMEs (Ministry of Trade), Create, Bogotá Grows (Bogotá Mayor's Office), Line for the Creative and Cultural Sector of Medellín and Antioquia - Elpauer (N Route – Medellín), Popayán Responds – Orange Benefit (Popayán Mayor's Office and Cauca Chamber of Commerce), and Culture Ahead (Ministry of Culture).

Additionally, direct credit complemented the financing offering. The Direct Support to SMEs credit line of Decree 468 prioritized the 103

economic activities denominated as orange. This portfolio approached the Bank to entrepreneurs with an offer tailored to their needs, regions, and sectors, thus improving disbursement dynamism, even in the complex situation experienced by entrepreneurs during 2020 and 2021.

Support for business internationalization

Under the "Bancóldex Más Global" strategic front, strategies aimed at positioning the Bank as a partner of businesspeople in their internationalization processes were advanced. In 2021, the Bank disbursed \$787.2 billion to exporting companies, \$670.2 billion through the rediscount mechanism and \$117 billion through direct credit to SMEs.

The launch of two preferential credit solutions with contributions from the National Government stands out: i) *Export Quality*, aimed at financing quality management within the companies' internationalization plans, and ii) *Buenaventura Importers Ahead* to support importing companies affected by the closure of the Buenaventura Port during the national strike.

Throughout the year, efforts were made to implement the **Aliado Exportador** product, a short-term direct credit facility in US dollars to leverage the working capital needs of Colombian small- and medium-sized companies.

By 2022, it is expected that this product, together with the other strategies of Bancóldex Más Global, will position the Colombian exportable supply abroad and expand the internationalization of the business fabric.

Business modernization

At the end of 2021, Bancóldex had disbursed \$1.26 trillion for business modernization due to the recovery of productive investment, which began in the third quarter and continued until the end of 2021.

Most of these resources were disbursed through rediscount transactions (\$1.13 trillion), mainly through the *Competitive SMEs* line (\$0.48 trillion) in

partnership with the Ministry of Trade, Industry, and Tourism.

The demand for investment transactions was concentrated in 3- and 4-year terms due to the economic uncertainty for more extended periods and a shortage of large-scale projects that by their nature require terms longer than five years. Additionally, the activation of the demand for leasing operations was due to the leaseback; however, these transactions are aimed at satisfying working capital needs.

Regarding direct service to SMEs, 247 companies were financed in their modernization projects and long-term financing needs, with leasing for \$79 billion and long-term credits for \$42.9 billion, with an average tenor of eight years.

Bancóldex regionalization

As part of a regionalization strategy, the Bank has been taking steps since 2020 to be closer to entrepreneurs and offer them solutions that cater to their needs.

In 2021, the Bank increased its disbursements in historically less-dynamic departments such as Amazonas, Arauca, Caldas, Caquetá, Casanare, Cauca, Cesar, Córdoba, Guainía, Guajira, Guaviare, Huila, Magdalena, Putumayo, Quindío, San Andrés, Sucre, and Vichada. It is primarily due to the joint work with financial intermediaries, sales force's endeavors, campaigns, and arrangements with territorial entities to create regional recovery lines.

The 2021 management made it possible to bring Bancóldex' direct products to entrepreneurs from more departments. While in 2020, Bancóldex achieved coverage with direct products in 22 departments, this operation became effective with disbursements to entrepreneurs in 26 departments in 2021. Besides, the record of placements in the regions (allotments outside Bogotá and the central area) rose from 55% to 62%.

In 2021, the Bank approached the regions with the "Reginal Takes" program. In this face-to-face sessions, the Bank's team traveled to different

regions to offer rediscount and direct credit products to entrepreneurs.

With these efforts, the personal participation of more than 2,000 businesspeople was achieved in 17 departments: Antioquia, Atlántico, Bolívar, Boyacá, Caldas, Caquetá, Cauca, Cesar, Cundinamarca, Guainía, Magdalena, Putumayo, Quindío, Risaralda, San Andrés y Providencia, Santander, and Valle del Cauca. These events involved line launches, direct portfolio promotion, and business roundtables, facilitating meetings between entrepreneurs and financial partners.

The regionalization achievement results from the joint effort of the Bank's officials with the Chambers of Commerce of the regions and the institutions attached to the Ministry of Trade, Industry, and Tourism. The "Bancóldex in the Regions" conferences, which put the Bank's infrastructure at the service of entrepreneurs in their regions, contributed significantly to fulfilling this objective.

Non-financial services

In 2021, Bancóldex supported companies through strategic interventions and the transfer of specialized knowledge of tax benefits, pricing, online sales strategies, project assessment and structuring, among others. Virtual formats were used to expand the possibilities of access to knowledge of companies nationwide, reaching 266 municipalities.

A second version of the **Digital Connect** program was launched to continue improving the management and performance of the country's MSMEs. It aims to create training opportunities, direct technical assistance, and valuable connections between businesspeople and financial partners.

The two **Connect** programs involved entrepreneurs from 31 departments and 159 cities and municipalities. So, 1,360 companies took part in the training, there were 797 participants in the business and financial roundtables, and direct technical assistance was provided to 258 companies.

With the virtual campus, the Bank had operations in 266 municipalities, granting 1,425 certificates; 82% of the participants were micro- and small-sized enterprises.

In partnership with *Innpulsa* Colombia, the Bank continued the **Delta** program, assisting SMEs in the country in structuring projects to access tax benefits for research, technological development, and innovation investments. Sixteen projects were registered with the Ministry of Science, Technology, and Innovation with a total budget of over \$16.5 billion and a potential tax benefit of \$7 billion. Seven projects were approved to receive the tax benefit.

The project "Mobilizing Private investments to Implement Energy Efficiency Measures in Colombia's Industrial Sector" was completed, achieving the financial assessment of 30 business projects.

Bancóldex developed the *Sustainable Economy Ahead* support Program in partnership with the Ministry of Trade, Industry, and Tourism. Ninety-three companies participated in training sessions. This program selected 20 companies to access financial planning assistance for green investments.

Bancóldex Capital Fondo de Fondos Program

The **Bancóldex Capital Fondo de Fondos** program with its **Capital for Entrepreneurship** compartment, aims to invest in Colombian and regional venture capital funds investing in high-impact, scalable and cross-cutting undertakings in the commerce, industry, tourism, services, and creative sectors.

At the end of the year, this compartment pooled resources for \$120 billion. Bancóldex acts as an anchor investor with an amount of \$45 billion, with the participation of *innpulsa* Colombia, the Ministry of Science, a multilateral agency, a Japanese corporation, and a Colombian insurance company. The latter invested \$4 billion.

Concerning investments, five new funds were approved during 2021: four for entrepreneurial capital and one impact fund.

Moreover, the structuring of two additional compartments began:

- **Colombia SME Private Debt Compartment:**

This compartment was created as an alternative financing mechanism for SMEs in their post-COVID-19 recovery stage and to develop and promote a new asset in the local private debt fund industry.

The Compartment aims to invest in Private Debt Funds investing in SMEs with a history in the market through investment commitments and debt (senior, subordinated, mezzanine, with or without collateral, among others). It has resources of \$100 billion, where Bancóldex acts as the leading investor. The program estimates that a portfolio of underlying funds will be completed in two years.

- **Bancóldex Capital Compartment:** With the strategic objective of grouping all the Bank's investments in capital funds, the Bank's management decided to transfer these investments from the balance sheet to the Fondo de Fondos (Fund of Funds).

Bancóldex Capital Fondo de Fondos closed 2021 with three active compartments, totaling \$405.5 billion.

Impact

Bancóldex strengthened its impact measurement and achieved greater dissemination of the results obtained from the efforts to improve the collection of impact information.

On October 26, an offprint containing the impacts of the **"50+" program** was published in the newspaper *La República*, including the emergency lines and economic recovery. With the 50+ program, the Bank disbursed \$2 trillion, supported by more than 50 strategic partners such as the National Government, governor's offices, mayors' offices, and chambers of commerce. These funds reached more than 100,000 companies, of which 99% are MSMEs in all

departments. Fifty percent of the microenterprises served are run by women.

The entrepreneurs highlighted the conditions of credits, which were favorable for the economic situation and their business cycle. The average tenor of the 50+ program transactions was around three years, and the primary allocation of these credits was payroll and supplier compensation.

Bancóldex contributed to gender equality by supporting women's access to financing. In 2021, \$260 billion were disbursed to more than 35,000 women microentrepreneurs. Having four lines available with a specific sub-limit for this segment and preferential conditions for them undoubtedly added to this result.

In 2021, the Bank reaffirmed its commitment to assisting victims of the armed conflict, helping 11,275 microentrepreneurs with disbursements of over \$81 billion.

The first report on the impact of the Bancóldex Capital program's investments was completed. It contained information on 74 companies managed by 12 funds. It was found that 12 % of the companies provide technology services, followed by those in the electricity sector (9 %) and e-commerce (9 %). The main achievements include the increased share of female labor force, going from 33 % in 2019 to 35 % in 2020, when female unemployment grew due to the pandemic. Besides, in 2020, the companies consulted hired 189 Afro-descendants, 87 victims of the conflict, 37 Indigenous people, and 28 people with disabilities.

Innovation at Bancóldex

Bancóldex' innovation strategy includes listening to entrepreneurs, understanding their needs, making available a value offering that faces challenges, and transforming itself into a more innovative, dynamic, and flexible entity.

The Bank designed solutions that make it possible to bridge market gaps and challenge the traditional way of doing things. In 2021, Bancóldex worked on the design and implementation of the following products:

- **Neocrédito:** It is a digital platform managed by Bancóldex that connects microcredit supply and demand. Formal or informal microentrepreneurs may register, upload standard documentation, request a loan, compare, and choose the offer that best suits their needs among those made by financial partners (microcredit-oriented entities, fintech, and supervised banking entities) that serve this segment and have previously registered on the platform. For each credit granted through the platform, Bancóldex will receive a commission.

This platform seeks to make microentrepreneurs visible, offer them a new option for financing, standardize procedures, optimize response times, have multiple bidders, promote better financial conditions, and provide financial information and education.

During the year, the minimum viable product was developed, which will go live during the first quarter of 2022. The non-objection to the platform was obtained from the Financial Superintendence of Colombia (SFC) by meeting the requirements for a new channel.

- **Digital leasing:** It is a platform that allows SMEs to compare technical specifications, choose, simulate, or finance productive assets in a digital environment via leasing.

In line with market trends, this digital solution seeks to have better regional coverage, bring suppliers and entrepreneurs closer together, finance long-term assets, and contribute to Bancóldex' digital transformation.

- **Finbi:** It is a unit to provide investment banking services adjusted to the needs of SMEs. With this product, Bancóldex and a network of partners seeks to assist in redefining SMEs' debt and capital structures by drafting strategies for growth plans, diversification of financing sources, and fund-raising, if applicable.

At the end of the year, and after closing the call for a network of partners, a group of financial experts was selected to assist Bancóldex in democratizing this product, enabling it to provide investment banking services to an underserved segment.

- **Innovalía:** This solution intends to mobilize resources from the Science, Technology, and Innovation allocation of the General Royalties System (SGR, for its acronym in Spanish) to increase the regions' innovation levels through technical assistance and financing to companies.

It also seeks to stimulate intellectual property in the country, increase innovation levels in companies from different regions, increase knowledge and technological processes, improve competitiveness, and provide social benefits.

- **Pre-shipment – Exporter Ally**

In 2021, the US dollar direct credit product was designed and implemented to finance the working capital needs of small and medium-sized exporting companies. In December 2021, the Bank had a new product called Aliado Exportador. It aims to position the Bank as a partner of Colombian exporters, especially the smallest ones, by providing short-term financing in US dollars for working capital at competitive rates and conditions.

- **Rediscount Plus - Trasciende Program**

In October 2021, the “**Trasciende**” program was launched during the year of the Rediscount Plus project. This initiative seeks to reposition the rediscount as a comprehensive product that supports business development, particularly micro- and small-sized enterprises in the country. It complements the financial offer with knowledge tools such as courses, workshops, and content, and automatic guarantees from the National Guarantee Fund. These elements will be combined to better assist entrepreneurs in preparing for credit, the best financing conditions, and the best use of the funds obtained.

Bancóldex' international positioning

The international positioning strategy was approved for the Bank to be recognized in 2026 as a leading promoter of sustainable, relevant, and effective business development in Colombia and Latin America for the country's recovery and growth by making visible and validating our impact.

Bancóldex participated in relevant international events such as the Finance in Common Summit and COP26. Together with the Latin American Development Bank (CAF), it organized the regional workshop “Challenges of Development Banking in the Face of SME Recovery in Latin America” to share their experience in assisting the business fabric amid a pandemic and financing low-carbon and climate-resilient development.

Moreover, the Bank was appointed a member of the IDFC (International Development Finance Club) steering committee, taking part in the decision-making of one of the largest groups of development financiers globally and contributing to solving sustainable financing challenges.

Concessional financing and international non-reimbursable resources

One of the biggest concerns of the international community about the impacts of the COVID-19 crisis is related to advances in sustainable development. Therefore, the Bank's management of non-reimbursable concessional financial resources aimed to support the alignment with the Sustainable Development Goals, green recovery, transition to a more resilient and less polluting economy, gender equality, and support for creative and cultural industries. Innovation in products and services was promoted as an instrument of sustainability.

Bancóldex service through its channels

In 2021, Bancóldex strengthened its on-site and digital strategies to position the Bank both regionally and internationally. For on-site activity, it created the **Bancóldex in the Regions** program,

whose objective is for the Bancóldex team to have a more significant operation in the regions and offer entrepreneurs a robust portfolio of direct credit solutions.

This program achieved the face-to-face participation of more than 2,000 entrepreneurs in 17 departments.

The **digital strategy** integrated channels such as email, website, advertising in the media and social media. This integration increased by 60% the information on entrepreneurs in the database of prospects and clients and conducted nearly 700 campaigns to promote the portfolio, allowing entrepreneurs to learn about the Bank's product and service offerings.

These tools contributed to the placement of credit resources in more than 28,000 participating entrepreneurs.

Additionally, in 2021, Bancóldex' communication strategy in media and social media was analyzed. The main conclusions of this analysis reveal that the Bank was present in media and social media with a straightforward narrative of recovery and support for SMEs. In spontaneous mentions in the media and social media (not advertising), Bancóldex became established in the regions through its credit lines and products, with the support of valuable partners such as chambers of commerce and mayors' offices.

Strengthening human talent management

To strengthen human talent management, the Bank worked on the following fronts:

1. **Work environment:** The Bank ratified its Work Environment Index as "very outstanding," going from 84 points in 2020 to 85.1 points in 2021. Thus, it received for the second consecutive year, the Great Place to Work certification, making Bancóldex one of the most attractive employers in the country.
2. **"Building the Future" Model:** This model that integrates three fronts (career plans, succession plans, and salary structure) was

designed and approved. It will advance employees' professional development and growth, identify and train the next generation of leadership, and establish the conditions for salary increases within the Bank.

3. **COVID-19 management:** The main activities the Bank implemented are as follows:

- The Bank joined the "Entrepreneurs for Vaccination" initiative by purchasing 400 vaccines to immunize employees, contractors, temporary workers, Bancóldex group companies, family members, and stakeholders nationally.
- The hybrid work format was implemented at all levels of the Bank, following the protocols defined by local and national authorities.
- Two health prevention programs were developed: "Sanamente (Healthymind)," which focused on mental health and "Ser 360," aimed at people who are overweight or obese.

Strengthening operational, process, and technology management

The Bank continued its Strategic Plan for Information and Telecommunications Technology through the technological renovation of all the employees' desktops and laptops, the infrastructure of servers in the data center that support mission processes and Bank management, and the perimeter security control system for information assets.

During the year, a new information system was made available to improve the administration and management of the SME and Leasing direct portfolio. It unified and automated operations management by companies that received relief to help them in their post-pandemic recovery process. This solution was complemented by a new unified collection channel available to bank customers to make payments and download account statements for SME portfolio customers

using the secure online payment (PSE) button and the self-management transactional website.

The third phase contemplated within the Arco-Bancóldex merger process, integration, took place. Thirty-one operating procedures were designed and implemented in an integrated manner. The technological and technology services infrastructure was unified to create economies of scale and increase productivity and efficiencies.

The Bank maintained its ISO 9001:2015 quality certification for one more year, demonstrating the continuous improvement of processes and the quality of the products and services offered.

3.2. Fulfilling commitments in the 2018 Sectoral Strategic Plan (PES) of the Ministry of Trade, Industry, and Tourism

In 2021, Bancóldex participated in the financing strategy of the Sectoral Strategic Plan, led by the Ministry of Trade, Industry, and Tourism, with the following initiatives:

Line/objective: B. Productivity and innovation⁴: To increase companies' productivity for economic growth and business development.

Strategy/initiative: Providing companies with financial solutions and guarantees to invest in productivity improvement and modernization.

- **Deliverable:** Disbursements (credits) for \$993.4 billion to increase the productivity of microenterprises.

Progress: During 2021, Bancóldex disbursed credits for \$1.04 trillion, representing 112 % fulfillment.

- **Deliverable:** Disbursements for \$400 billion in direct credit for recovery.

Progress: At the end of 2021, through the "Direct Credit Line for SMEs," \$417.2 billion had been disbursed, benefiting 943 companies. This result represents 104 % fulfillment of the goal for the year.

- **Deliverable:** 8,000 small- and medium-sized enterprises benefiting from Bancóldex financial products.

Progress: In 2021, 6,741 SMEs benefited from disbursements through all the financial products in Bancóldex' portfolio, advancing 84 % in the goal.

- **Deliverable:** Disbursements for \$7.9 trillion⁵ mobilized through business credit.

Progress: In 2021, \$5.15 trillion were disbursed through all the financial products in Bancóldex' portfolio, reaching 65 % progress in the goal.

- **Deliverable:** 150,000 microenterprises benefiting from Bancóldex financial products.

Progress: At the end of 2021, 74,967 microenterprises benefited, representing an advance close to 50 % of the goal.

Regarding Bancóldex' commitments in 2021, some indicators were below 100 % due to the slow dynamics of economic recovery, the strikes and blockades in the second quarter, the low demand for credit in the face of the pandemic uncertainty, the high liquidity of financial intermediaries, including microfinance institutions, and

⁴According to the Sectoral Strategic Plan of the Ministry of Trade, Industry and Tourism.

⁵ The Bank's disbursement target was modified in August 2021 by \$5.2 trillion; however, it was not modified in the PES.

⁶ This number will increase upon receiving the information on the beneficiaries of the credits disbursed at the end of 2021 by

microfinance entities. These have 90 days to send this information to Bancóldex. It is estimated that the number of micro-enterprises served amounts to 116,948, with which the indicator would be 77% met.

the business sector's delay in reviving investment projects.

Line/objective: D. Entrepreneurship and formalization: To facilitate formalization, entrepreneurship, and scalability.

Strategy/initiative: facilitate the scaling of enterprises with high potential.

- **Deliverable:** Investment commitments in venture capital funds for \$227.5 billion.

Progress: In 2021, Bancóldex committed resources for \$338.2 billion in capital funds, fulfilling 149% of the established goal.

2026). Ten fundamental growth levers were proposed to meet the needs and challenges of the Colombian business sector.

These levers are:

1. NEW PORTFOLIO APPROACH
2. SERVICE TO MICROENTERPRISES
3. ESG – SUSTAINABLE DEVELOPMENT
4. REGIONALIZATION AND PARTNERSHIPS
5. POSITIONING
6. CORPORATE GOVERNANCE
7. HUMAN TALENT
8. CAPITAL FUNDS
9. DIGITAL TRANSFORMATION AND INNOVATION
10. TECHNICAL ASSISTANCE: NON-FINANCIAL SERVICES

The Bank's Management, interdisciplinary teams, and Board of Directors members actively participated in the strategic planning.

The entity's officials could contribute to the planning through participation activities such as surveys and videos in which they proposed aspects to consider.

The exercise had a diagnosis stage. Teams from all the vice-presidencies participated in the analysis and development of the defined strategic lines, assisted by Board of Directors members, who endorsed each topic.

After the diagnosis, the Bank's Management and Board of Directors met in Cartagena from September 26 to 28, 2021, to present the results and define the Bank's guidelines for the coming years.

At the Board of Directors meeting held on October 26, 2021, Management submitted for approval the 2022-2026 Bancóldex Strategic Planning document, containing the analyses and discussions of the exercise.

In the 2022-2026 Strategic Plan, the Bank ratified its purpose of contributing to improving companies' productivity, especially MSMEs, by supporting sustainable development and internationalization, acting as an instrument of public policy.

In the last four years, the Bank has met the financing needs of companies by offering a portfolio of financial and non-financial products,

3.3. Fulfilling the 2018 Sinergia⁷ goals

Small- and medium-sized enterprises benefiting from Bancóldex financial products: To benefit 8,000 SMEs with disbursements through all Bancóldex financial products.

By 2021, 6,741 SMEs were served, fulfilling the goal for the period by 84%.

Investment commitments in venture capital funds: For 2021, there was a goal of \$227.5 billion in investment commitments. At the end of the year, Bancóldex had committed \$338.2 billion in capital funds, fulfilling 149% of the goal set.

4. STRATEGIC PLAN 2022-2026

In the second half of 2021, Bancóldex completed the Strategic Planning for the next five years (2022-

⁷ Goal System of the Government of Colombia. It allows the government and all citizens to closely monitor social and economic policies within the National Development Plan.

strengthened by the absorption of its affiliate Arco with first-tier products that meet the needs of SMEs' productive transformation and modernization. In the coming years, Bancóldex will continue to become **closer and more relevant to entrepreneurs**, increasing its direct portfolio with innovative and digital products, without leaving aside rediscount credit. It is an appropriate public policy tool to access to credit, mainly for microenterprises in the country's most remote regions.

In its role as a development bank, Bancóldex' actions will be focused on making a **significant impact**, being closer to entrepreneurs, reaching **more regions**, supporting the development of new markets, and firming up business ecosystems. The Bank's Management has proposed consolidating its actions with disruptive **partnerships** and **digital transformation** to offer customers agile, relevant, and innovative products at the forefront of the market.

This strategic plan's challenges require formidable human talent in aspects such as digital transformation and **robust corporate governance**, creating economic and social value.

5. BANCÓLDEX AS MANAGER OF THE BANKING OPPORTUNITY PROGRAM



The investment program "Opportunity Banking" was created by Decree 3078 dated September 8, 2006, incorporated in Decree 2555/2010. Its objective is to promote access and use of financial services among low-income families, micro-, small- and medium-sized enterprises, and entrepreneurs. As provided in the Decree above, the program is managed by Bancóldex.

In 2021, *Opportunity Banking* worked on several important fronts: financial inclusion programs, territorial management, financial education, research, and follow-up and monitoring of the state of financial inclusion.

The program included projects such as promotion of inclusive insurance, collateral to facilitate access to credit for MSMEs, mobile and digital correspondents, technical assistance to promote financing for small businesses, digital financial education for MSMEs, the study of postal services, promotion of banking correspondents, and expansion of rural financial coverage through cooperatives with economic activity. The "Scale up your Fintech" program was launched to promote access to financial and transactional services for MSMEs or low-income populations.

6. RISK RATINGS



In October 2021, Fitch Ratings confirmed the long-term and short-term national ratings granted to Bancóldex: AAA (col) and F1+(col), respectively. The long-term rating outlook is stable. For its part, in November 2021, BRC Ratings confirmed the AAA rating for the long term and BRC 1+ for the short term.

Fitch Ratings Inc. confirmed Bancóldex' BB+ rating with a stable outlook regarding foreign currency, considering the actions taken by this agency in July 2021. The Republic of Colombia lost its investment grade, going from a BBB- to BB+ sovereign rating with a stable outlook.



7.

FINANCIAL
MANAGEMENT



The year 2021 became the year when the transformation toward the Bank's new strategic approach began.

In 2021, the immediate credit process for SMEs was consolidated, causing the Bank to transform its portfolio profile with a vocation for direct credit. By the end of 2021, the direct credit portfolio reached 21 %, and the rediscount portfolio gained 79 %, compared to 2020. Direct credit represented 15 % and the rediscount portfolio represented 85 % of the total portfolio.

Accordingly, disbursements during 2021 were of the order of \$5.1 trillion, of which \$3.7 trillion were made in Colombian pesos and \$1.4 trillion in US dollars. Of the operation in Colombian pesos, 24 % was disbursed under the direct credit mode. This increase was leveraged by TD collections oriented towards the short portion of the curve (taking advantage of the decrease in market spreads for these terms) for the term of the asset, seeking an optimal funding cost.

The expansion of the Institutional Savings Accounts product continued. This strategy was in effect until the third quarter of the year, allowing to expand the volume of demand resources with favorable rate conditions and improve the cost of the total mix in Colombian pesos for the Bank. This strategy was dismantled for the last quarter due to the successive increases in the intervention rate, which creating considerable uncertainty about the stability of this source of funds. It was decided to decrease the product volumes to have some unexpected impact on liquidity.

At the end of May, a **Recovery Bond Issuance** took place to have a liability that could leverage the credit operation in optimal conditions. This issuance awarded \$500 billion for terms of two and three years with a demand of more than \$1.2 trillion, resulting in a Bid-to-Cover ratio of 3.1 times. This issuance was implemented under very favorable rate conditions when Colombia has just lost its investment grade.

In June, **the sale of the investment in Segurexpo** was completed, a transaction arranged since 2020 and materialized in 2021. This transaction had a positive effect on net income of \$8.4 billion.

Moreover, a portion of the additional individual provision that the Bank maintained since 2015 was reversed, for an amount of \$22.8 billion. The Board of Directors authorized this release to the extent that provision expenses were incurred in the SME direct credit portfolio.

The events that stand out in 2021 include the sale and relocation of a restituted asset from the merger with Arco GB: some lots in Cartagena that had been in the balance sheets of the extinct Arco GB and entered the Bancóldex balance sheet. This transaction was recognized in the income statement for \$7.4 billion within the following items: reimbursement of BRDP provisions, profit on relocation, and proceeds from sale. This transaction showed the strength of the leasing product in the face of potential impairment.

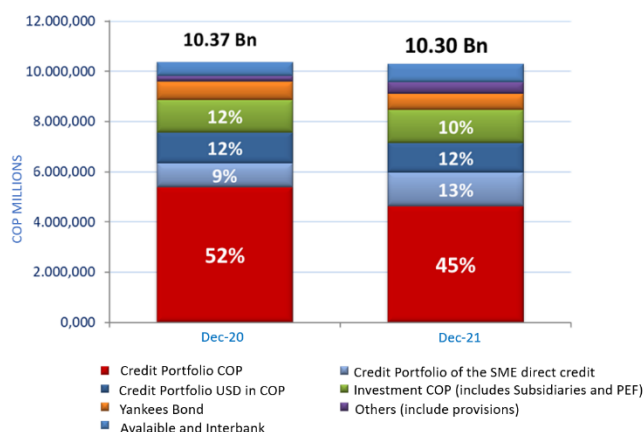
Consequently, the **net income for 2021 was \$55.3 billion, which corresponds to budget compliance of 104 %**. With these results, the ROAE profitability indicator was 4.01 %. Although lower than in recent years, this indicator demonstrates the Bank's remarkable resilience in a challenging economic environment.

The total portfolio contributed \$155.8 billion to the financial margin. It reached a margin of \$77.6 billion for the financial intermediary's Colombian peso portfolio, \$16.8 billion for the US dollar portfolio, and \$61.4 billion for the SME Direct Credit portfolio.

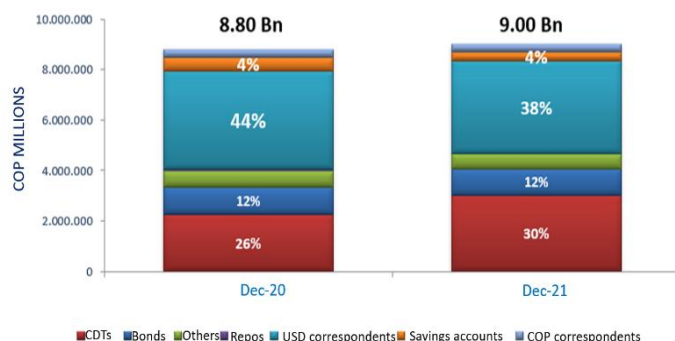
As for the investment portfolio, it contributed \$40.0 billion to the financial margin. This performance was greatly affected by high volatility due to the depreciation of portfolios throughout the year. It resulted in the dismantling of some positions, specifically in the liquidity portfolio.

The main financial results for 2021 compared to the previous year are presented below.

Assets



Compared to December 2020, the Bank's assets registered a decrease of \$65.8 billion. In this variation, a reduction in the net credit portfolio stood out, for a total of \$441.5 billion (-368.2 billion in COP, -62.8 billion in USD), while other items such as cash and interbanking increased by \$186.6 billion and derivatives by \$105.8 billion. In turn, investments decreased by \$53.8 billion. Lastly, the deferred tax account reported an increase of \$192.4 billion.



Liabilities

Compared to December 2020, the Bank's liabilities registered an increase of \$199.6 billion. Activity such as the increase in the collection of deposits and current liabilities for \$765.9 billion stand out, which contrasts with reduced volumes of other instruments, such as savings accounts (-\$198.7 billion), purchased interbank funds (-\$58.6 billion), bonds issued (-\$50 billion), and minor USD credits

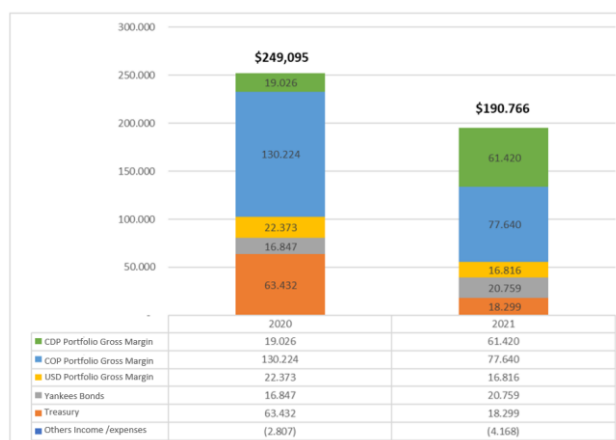
with banks (-\$231.6 billion). Finally, the derivatives account in liabilities was reduced by \$123 billion.

Equity

Equity registered a decrease of \$265.5 billion compared to the same period of 2020.

- Lower profit for the current year (-77.3 billion), resulting from the comparison between the best net profit or loss reported as of December 2020.
- Lower surplus of \$206.1 billion mainly due to a net impact of -\$278.6 billion in the valuation of instruments at fair value
- An increase in reserves for \$18 billion.

Accumulated financial margin



Compared to 2020, the Gross Financial Margin decreased by \$58.3 billion (-23%) due to a strong impact on the investment portfolio (-\$39.3 billion) in 2021, as well as the lower volume of the traditional portfolio in both Colombian pesos and US dollars (creating gaps of -\$52.5 billion and -\$5.5 billion, respectively). These effects were partially offset by the SME Direct Credit portfolio (+\$42.3 billion). In 2021, consolidated in 2021 within the Bank's Income Statement for all months, compared to only five months of consolidation in 2020.

Lastly, there was a lower profit or loss in forwards and exchanges, with a variation of -\$5.7 billion compared to the same period of 2020. Investments in Yankees had a better profit or loss of \$3.9 billion compared to the previous year.

Profit

The accumulated profit for 2021 (\$55.3 billion) reported a lower profit or loss of \$77.3 billion compared to the same period of 2020. In addition to the lower gross margin recorded (-\$58.3 billion), there were other effects on the annual variation, such as i) higher receivables provision expenses (+\$34.8 billion) mainly due to the growth effect of the SMEs Direct Credit portfolio; ii) higher administrative expenses (+\$15.3 billion) due to the incorporation of expenses of the Vice Presidency for SME Direct Credit (formerly ARCO) for the 12 months of this year compared to five months of 2020; iii) lower provisions for goods received in payment and returned for \$1 billion; iv) lower non-operating profit or loss (-\$26.9 billion) due to reduced dividends compared to 2021, and v) a lower income tax accrual of \$48.4 billion.

8. RISK MANAGEMENT



8.1. Risk appetite framework statement

In 2021, as part of the policy of the Board of Directors regarding the Risk Appetite Framework, the consolidated risk limits and indicators were updated for each type of risk using top-down and bottom-up approaches. The adjustments focused mainly on incorporating credit risk for the SME segment due to the absorption of Arco and the Bank's new strategic planning. The estimation of appetite, tolerance, and capacity limits

contemplated different stress scenarios and potential impacts on profitability, solvency, and liquidity.

8.2. Comprehensive Risk Management System (SIAR)

In September 2021, the Financial Superintendence of Colombia issued External Circular 018. It gave supervised institutions instructions to implement the Comprehensive Risk Management System (SIAR, for its acronym in Spanish) (new chapter of the CBCF⁸ - XXXI). The entities required to establish the SIAR had to submit a quarterly work plan by December 22, 2021, to guarantee its full implementation, operation, and application as of June 1, 2023, when the SIAR will come into force. The Bank analyzed all applicable types of risk and submitted the "Internal Implementation Plan" to the regulator to comply with the new regulation.

8.3. Credit Risk Management System (SARC)

In 2021, adjustments were made to the policies of direct transactions with companies following the Bank's strategic plan for the 2022-2026 period. It reflects a more significant interest in delving into SME financing, focusing on the leasing product without abandoning the traditional rediscount business.

Some policy adjustments were made regarding approval bodies and powers for direct transactions with companies, seeking to streamline decision-making and the continuous strengthening of risk management and governance.

Other reviews related to the processes and methodologies for granting and monitoring credit were performed. For the credit segment of local financial intermediaries, foreign financial intermediaries, and entities oriented to microenterprise credit, the forecast and scenario models and periodic follow-up reports were reinforced. In the SME segment, improvements were made to the templates used for decision-

⁸ Basic Accounting and Financial Circular



making. The Bank incorporated a particular model to make transactions within the Direct Credit Line (Decree 468/2020), backed by the National Guarantee Fund (FNG). A new portfolio rating model for the SME segment went live, which will contribute to better estimating customer credit risk and the efficiency of the portfolio rating process.

8.4. Market Risk Management System (SARM)

In 2021, the limits on credit exposure concentration for derivatives and maximum investment in Private Equity Funds were updated, while the limits and alert levels for treasury operation management and portfolio management were reviewed comprehensively. The preceding is in line with the needs of the business and responds to market conditions.

8.5. Liquidity Risk Management System (SARL)

In 2021, the prospects of liquidity risk were promoted, while optimizing the tools for creating scenarios. The IRL and CFEN estimates reports were formalized with rate and term assumptions on funding and placement and possible market movements.

In the context of the pandemic and its effects on market liquidity, liquidity indicators were monitored continuously and exhaustively. The necessary operating processes to calculate, monitor, and report the regulatory and internal liquidity indicators were bolstered.

8.6. Operational Risk Management System (SARO)

As a result of the COVID-19 situation, the Bank continued to face enormous challenges in 2021 from the perspective of operational risks. It was necessary to continue assisting the Bank in the operation under the occasional work from home format. However, no significant events were reported that altered the proper functioning of the Bank, and the contingency plans worked adequately. The Business Continuity Management

System based on the best practices of the international DRI, and ISO was also disseminated.

Furthermore, the Bank's regular activities to review operational risks, controls, treatments, and action plans were implemented, and all reported active risk events were managed.

The Bank's operational risk profile is still low-moderate, coming in the residual risk zone approved by the Board of Directors.

8.7. Strategic Risk Management System (SARE)

Together with the Strategic Management Department and the process leaders responsible for the corporate strategy, all the Bank's strategic risks, controls, treatments, and action plans were reviewed and updated. The Bank updated the strategic risk profile, which was within the residual risk zone approved by the Board of Directors. No strategic risks were identified in the "critical" residual zone during the reporting period.

8.8. Information Security and Business Continuity (ISMS)

The Information Security Management System was reinforced by identifying and assessing information security risks in the assets resulting from the merger with Arco. The culture of cybersecurity officials continued to be supported through awareness campaigns and training.

Regarding personal data protection, the flowcharts of the databases of officials, suppliers, and customers were generated. Through the data life cycle, the Bank identified the participants, technologies, and processed data of each of these bases. Update, QPR, and incident reports were submitted to the National Registry of Databases (RNBD, for its acronym in Spanish).

8.9. Environmental and Social Risk Management System (SARAS)

In 2021, an updated version of the Environmental and Social Risk Management System (SARAS, for its acronym in Spanish) was developed based on the best international standards. This critical effort was supported by international expert consultants and technical cooperation.

The new SARAS involved redefining policies, redesigning methodologies, incorporating the latest SME credit business and elements of training, dissemination, and continuous improvement, among others.

8.10. Money Laundering and Terrorism Financing Risk Management System (SARLAFT)

In 2021, Bancóldex updated and maintained the SARLAFT following the Financial Superintendence of Colombia requirements in its External Circular 027/2020, called SARLAFT 4.0. It implemented the new obligations focused on the effectiveness of the system, the adjustments to due diligence in customer data with a risk-based approach, and the strengthening of transaction monitoring and follow-up methods to prevent and control the risks of ML/TF in the Bank's business.

The Bank completed the transition to production of the monitoring of products received from the merger with Arco GB in the Bank's customer and transaction monitoring system ACRM (Advanced Compliance Risk Manager). The system was calibrated in the profiling methodologies, while strengthening alerting as requested by SARLAFT 4.0. The new electronic format for engaging and updating clients was developed.

Regarding transaction monitoring and follow-up, the Bank analyzed the operations analysis, managed alerts and unusual events, provided regulatory reports on the SARLAFT in a timely manner, and met the specific requirements of competent authorities.

Training was given to bank officials, mainly on the upgrade and changes to the system under the SARLAFT 4.0 regulatory framework, due diligence in customer and counterparty data, cases and unusual events, and alert management. The risk factor and ML/TF risk profile assessment was updated and monitored by risk factor, associated risk, and the Bank's consolidated risk, both inherent and residual, keeping the latter within the level approved by the Board of Directors.

System for compliance with FATCA (Foreign Account Tax Compliance Act) and CRS (Common Reporting Standard)

As provided in the FATCA and CRS, for 2021, the Bank transmitted the CRS report according to the regulations established for the TD products of customers from the absorbed entity. It also maintained its status as a participating Foreign Financial Institution (FFI) before the United States Internal Revenue Service (IRS). The update of the FATCA due diligence was arranged for the financial intermediaries and institutions with which the Bank had relations or transactions, meeting the requirements of other local and international financial entities on FATCA and the OECD's (Organization for Economic Cooperation and Development) CRS (Common Reporting Standard).

9. INTERNAL CONTROL SYSTEM



Bancóldex' Internal Control System adheres to the applicable international standards and current internal control practices (MECI in the MIPG⁹, CIC-Accounting Internal Control, and Internal Control Standard COSO® 2013). These frameworks are compatible with the "Internal Control System" requirements of the financial institutions supervised by the Financial Superintendence of Colombia in the Basic Legal Circular.¹⁰ These models are oriented towards the permanent improvement of the organization's governance, risk, and control, seeking to optimize or mature good control

⁹ MIPG: Integrated Planning and Management Model, Decree 1499/2017.

¹⁰Part I, Title I, Chapter IV.

practices in the processes, elements, and components of applicable management systems.

About the independent audit function, in 2021, the Bank's Internal Comptroller's Office, which manages the independent audit process, performed the Annual Audit Plan under risk-based priorities approved by the Audit Committee of the Board of Directors. Governance, control, and risk assessments were conducted by management system, process, and activity. Selective verifications of regulatory compliance regarding the entity's strategic and operational activities were conducted.

The Audit Committee of the Board of Directors was informed of the results, recommendations, and improvement opportunities derived from the internal audit management. It learned about each of them and was part of the follow-up of the actions in the relevant improvement plans, checking the adoption of these recommendations.

Regarding the assessment received from external control entities, on the one hand, under the method of the Accountant General's Office, Resolution 193/2016, Bancóldex' Accounting Internal Control System has been consistently receiving the highest efficiency rating. In the 2021 assessment, the Bank was rated 4.78 out of 5, which is in the "efficient" range.

On the other hand, during the first half of 2021, the Bank received a financial audit visit for the 2020 term by the Comptroller General's Office, which resulted in a favorable opinion on the Bank's financial statements, budget management, and alignment with the previous improvement plan, with the consequent expiration of the account for 2020. This audit provided some observations and an improvement plan that was fully addressed and closed during 2021. As of the date of this report, the Comptroller General's Office was conducting a Financial Audit for 2021.

The Bank managed and fulfilled the commitments derived from the improvement plans signed with other control entities, such as the General Archive of the Nation, which has been established and followed up by the appropriate bodies.

At the end of 2021, neither Management, nor the Bank's internal or external control bodies, nor the Audit Committee detected fraud, malicious errors, or manipulations in the financial information prepared and disclosed by the Bank, nor were significant weaknesses reported that could endanger the effectiveness of the entity's internal control system or strategic objectives.

10. BANCÓLDEX' LEGAL STATUS



At the end of fiscal year 2021, Bancóldex follows its legal regime as a national mixed economy company, attached to the Ministry of Finance and Public Credit. It is organized as a banking credit establishment, not assimilated to the regime of industrial and trading companies of the state, regardless of the state share in its capital. However, its nature as a public entity maintains a legal regime of private law regarding its acts and contracts, following legal and regulatory provisions on the matter, which allows its competitiveness in providing financial support to entrepreneurs.

The regulations issued in 2021 that are related to Bancóldex' activity include the following:

- i. Law 2117/2021: It establishes measures to strengthen and promote equality for women in employment and education in economic sectors where they have had low participation. Among other provisions, it sets forth that the Ministry of Trade, Industry, and Tourism must design and promote microcredit and credit programs. It will use rate incentives, capital incentives, grace periods, increased financial guarantees held by the state, and simplified procedures.
- ii. Law 2125/2021: It provides for incentives to create, formalize, and strengthen micro-, small-, and

medium-sized enterprises run by women. Direct reference is made to Bancóldex concerning financing and credit risk assessment methods.

- iii. Law 2144/2021: It sets out that the national government, through Bancóldex, will have a credit line with special conditions for investment in infrastructure and equipment for restaurants and outdoor spaces with the traditional Colombian gastronomy seal.
- iv. Law 2157/2021: It amends Law 1266/2008 about the reporting of financial, credit, business, and service information.
- v. Law 2169/2021: It promotes the country's low-carbon development by establishing goals and minimum measures for carbon neutrality and climate resilience.
- vi. Law 2177/2021: It encourages the Colombian mining sector to access the services of the financial system. The state may lend or issue bank guarantees through Findeter, Bancóldex, or FNG.
- vii. Decree 1510/2021: It sets rules for managing the Nation's property to create economic and social value, guarantees the efficient and adequate use of investment resources, and promotes best corporate governance practices.
- viii. External Circular 12/2021: Issued by the Financial Superintendence of Colombia, it extends the term of the Debtor Support Program (PAD) and the complementary measures regarding credit risk until August 31, 2021.
- ix. External Circular 23/2021: Issued by the Financial Superintendence of Colombia, it gives instructions related to the implementation of the Smart supervision technological

development and the Financial Consumer Service System (SAC, for its acronym in Spanish)

- x. External Circular 31/2021: Issued by the Financial Superintendence of Colombia, it gives instructions regarding disclosing information on social and environmental matters, including climate.

Furthermore, as of the date of this report, Bancóldex, together with Fiducoldex, the Central Bank, and the Ministry of Foreign Affairs, is a party to two ordinary labor proceedings initiated by attachés, deputies, and directors of the Colombian commercial offices abroad, who served between 1967 and 1992. Their claim is that the entities above pay pension contributions.

Finally, without prejudice to the requirements established in the Money Laundering and Terrorism Financing Prevention Management System, it is stated that Bancóldex managers did not hinder the free circulation of invoices issued by suppliers. This statement is made in the terms established in paragraph 2, Article 87 of Law 1676/2013, "Whereby access to credit is promoted, and rules on collaterals are issued," as added by Article 7 of Law 1231/2008, "Whereby the invoice as a security is unified as a financing mechanism for micro-, small-, and medium-sized entrepreneurs, and other provisions are issued."



The Bank's complete information on corporate governance can be found in the annual corporate governance report, which forms an integral part of this annual report and is available on the entity's website under "information of interest to shareholders and investors."

This report highlights the following activities in this regard during 2021:

- i) Analysis and discussion of structural adjustments to corporate governance, the definition of independence, terms of office and capacities of members;
- ii) Planning of objectives of the 2022-2026 corporate strategy for the growth lever "Corporate Governance";
- iii) Follow-up on the progress of the bill "whereby regulations related to the payment system and the capital market are issued," which includes an article on the formation of boards of directors for companies with capital of the Nation.
- iv) Monitoring of corporate indicators, measurement of senior management, and review of the Great Place to Work survey results.
- v) Two sessions were held for the annual update of the Board of Directors members of Bancóldex and its affiliate Fiducoldex. The Colombian Institute of Corporate Governance and the Center for Higher Management Studies organized these sessions. The issues to be updated were Strategy and Sustainability by Ricardo Laiseca, Director of the BBVA Sustainability Office in Spain; Conscious Capitalism by Thomas Ecksmindt, Co-founder of Conscious Capitalism, and Digital Transformation and Open Banking by Nuria Aliño, an expert in digital transformation for public and private entities and governments.

12.

**ENVIRONMENTAL AND
SOCIAL SUSTAINABILITY**



Bancóldex has a social and environmental risk management system (SARAS), approved by the Board of Directors. It aims to identify and assess the social and ecological risks of credit transactions and take measures to minimize possible losses derived from their occurrence. The information on this risk management system is in Section 8.9 of this report.

The Bank supports the growth of the Colombian business sector, ensuring the protection of the environment and the welfare of society in its present and future activities. It promotes the rational use of natural resources in its operations to produce the most negligible environmental impact and designs financial and non-financial products to mitigate and adapt to climate change and provide social benefits.

The Bank also integrates the initiative of the Trade, Industry, and Tourism sector on the implementation of the National Action Plan for Human Rights and Business, in coordination with the Presidential Council for Human Rights. It intends to contribute to the respect for human rights in business activities.

In 2021, Bancóldex made its 2020 sustainability report based on the GRI Standards. The history of reports has been available on the website since 2012.

Additionally, the Bank is part of the group of banks that participate in preparing the bank sustainability report in Colombia, which the Colombian Banking and Financial Institutions Association (Asobancaria) will publish at the next banking convention.

13. RELATED PARTY TRANSACTIONS



As of the date of this report, the Bank maintains its operations duly instrumented and complies with the applicable regulations. The transactions carried made the entity with its partners and managers conform to the institution's general

policies. These transactions are duly specified in Note 31 (related parties) to the financial statements.

The Bank did not make transactions with partners or managers whose characteristics differ from those made with third parties. It did not provide either free or compensated services or loans without interest or consideration, except for those of a labor nature regulated by Articles 152 and 153 of the Substantive Labor Code.

14. SUBORDINATES



Fiducoldex is a national indirect mixed economy corporation, incorporated on October 31, 1992, in which Bancóldex has an 89.32% stake. In 2021 Bancóldex received dividends from Fiducoldex for \$741,877,600 for 2020.

Bancóldex has a shared services framework agreement with Fiducoldex. It intends to take advantage of the synergies between the Bank and its affiliate, provided it will not imply, in any case, the delegation of its professionalism. In 2021, the Bank conducted management operations directly with Fiducoldex, such as taking out the global banking policy.

Lastly, it is noteworthy that independence in business management and decision-making is a premise of their relationship, which is limited by the customer's benefit from the products and services that each entity offers.

15. OTHER CAPITAL INVESTMENTS



As of December 2021, Bancóldex had investments in the Latin American Export Bank (Bladex) (1.34%) and the National Guarantee Fund (FNG) (4.19%). Until June 21, 2021, Bancóldex had a 49.93% stake in the Insurer of Credit and Foreign Trade (Segurexpo), awarded in a public hearing to the

Consortio Internacional de Aseguradores de Crédito, S.A. Sociedad Mercantil Estatal - CIAC (International Consortium of Credit Insurance Companies) after completing the disposal process regulated by Law 226/1995.

16. INTELLECTUAL PROPERTY AND COPYRIGHTS



Bancóldex acts under the law through defined policies on acquiring technology and using licensed software. It also has internal control procedures to ensure compliance with these regulations.

17. PERFORMANCE OF DISCLOSURE AND CONTROL SYSTEMS



As provided in Articles 46 and 47 of Law 964/2005, Banco de Comercio Exterior de Colombia S.A. Bancóldex certifies that the financial statements and other reports relevant to the public do not contain flaws, inaccuracies, or errors that prevent knowing the actual financial position or transactions made. Additionally, the disclosure and control systems used by the entity to incorporate the information contained in those financial statements and reports relevant to the public are adequate, based on reliable information, and subject to audits by the Bank's internal comptroller and the statutory auditor under the supervision of the Audit Committee.



18.

2022
PROSPECTS



Throughout 2022, the Bank will focus on implementing its new 2022-2026 corporate strategy, which will significantly impact its interventions, strengthen direct placement to SMEs, and offer new innovative digital products to expand its service in the regions. It will continue to support microentrepreneurs seeking to improve their financing conditions with innovative products such as the Neocrédito platform.

Sustainable development will be consolidated as a strategic focus of the entity with the financing of environmental and social projects and support for companies' internationalization. The Bank will continue to be a partner of businesspeople in the economic recovery and function as an instrument of public policy.

In 2022, the Bank's disbursement goal is \$6 trillion, of which 23 % will be allocated to serve SMEs (\$1.4 trillion) directly with products such as leasing and credit.

The Bank has set out to achieve these objectives through the following lines of action:

1. **MSME productivity:** In 2022, Bancóldex will seek to increase its direct portfolio for SMEs by placing products such as leasing, which will have a digital version. It will also increase the offer of financial and non-financial products to meet the needs of MSMEs and have a more significant impact.
2. **Sustainable development:** Bancóldex is committed to sustainable development. In 2022, it will seek to consolidate a green portfolio balance of \$500 billion, support the reduction/avoidance of 50,000 CO2 emissions with the green projects financed, and support more than 30,000 women microentrepreneurs.

The Bank will also work on identifying gender gaps to design new products and serve 12,000 companies in prioritized sectors in creative industries: tourism and industries 4.0.
3. **Support for companies' internationalization:** By 2022, the Bank's goal is to support the internationalization of 146 companies. This goal is part of the Bancóldex Más Global strategy, which will contribute to positioning the Colombian exportable offer abroad and develop the internationalization of the Colombian business fabric.
4. **Bancóldex as a public policy instrument:** To continue supporting economic recovery, the Bank has the goal of disbursing \$814 billion in 2022 with the special lines of the Adelante Program and the Active SME Credit Line.
5. **Regionalization:** Bancóldex will continue to implement its regionalization strategy, for which service to companies in municipalities where Bancóldex does not have headquarters will be expanded. The goal is to disburse more than \$1 trillion in these municipalities.

To achieve the proposed goals in 2022, the Bank will reinforce credit processes to make them more efficient and agile. Efforts will be made for the digital transformation of the Bank's human talent to meet the challenges of digital transformation.

Financial outlook

The year 2022 is projected under a testing scenario in line with the commercial challenges that contemplate a greater placement of direct credit and from the perspective of credit risk, with an expected impairment of receivables due to the country's economic situation.

Against this backdrop and to ensure financial sustainability and growth, the following strategic actions are proposed to guarantee profit generation and impact:

1. The increase in the Bank's financial margin will be based on an ambitious strategy of placing direct credit with a higher margin: around \$1.3 trillion for

the Colombian peso portfolio and USD 32 million for the US dollar portfolio in 2022.

2. Liability structure in Colombian pesos: To adapt the Colombian peso funding structure according to the placement expectations for 2022 regarding terms and rates, the collection activity will be concentrated in the short portion of the curve (up to 18 months), where greater efficiency in funding costs is found.
3. In supporting the funding strategy, the Bank expects to increase the share in the funding of the institutional savings account or other short-term instruments, thus improving the total mix of financing in Colombian pesos and its contribution to the financial margin.
4. To meet the planned disbursements and maintain the current balance, the Bank expects to have average funding in Colombian pesos of \$5.7 trillion, which is to be financed through TDs, bonds, and an institutional savings account.
5. Liability structure in US dollars: Bancóldex will continue to meet its funding needs in foreign currency through the negotiated limits it has with correspondent banks and multilateral organizations.
6. Expenditure efficiency: Bancóldex continues with its commitment and task of spending austerity. Therefore, including the funds requested for the entity's strategic projects and technological developments in 2022, operating expenses¹¹ are budgeted with an increase of 21 % compared to 2021, which is lower than the increase expected for the financial margin before provisions that is growing 42 %.

The entity's commitment to financial sustainability and profit generation is reaffirmed, with a budget in the efficiency indicator of 45.7 %, measured as a ratio of operating expenses to gross financial margin.

19. SUBSEQUENT EVENTS



Management is not aware of any significant event that may have occurred between the reporting date of the 2021 fiscal year and the date of submission of this report, which could affect its scope or interpretation.

Javier Díaz Fajardo
President

¹¹Not including tax

²⁵ Including the expenses of the SME Credit Unit throughout 2019.

