

Report of the Board of Directors and the President to the General Shareholder's Meeting 2020



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Introduction

2020 will be remembered as one of the most difficult years for the national and international economy in recent history. The crisis generated by the Covid-19 pandemic led to a generalized closure of industry, domestic and foreign trade, and air and land transportation, and substantially deteriorated the confidence and the country's main macroeconomic indicators to levels never seen before.

Despite the difficult economic situation, 2020 became a milestone for Bancóldex as a business development bank and public policy instrument. Historic financing outcomes were achieved and credits worth over COP \$6.76 trillion were disbursed, thus benefiting over 172,000 companies throughout the country.

In order to address the Covid-19 crisis, the Bank implemented the portfolio called "*Responde*," which included 38 credit lines: 2 at the national level, 4 at the sectoral level and 32 at the regional level. It was implemented with the support of the National Government, ministries, governor's offices, mayor's offices and chambers of commerce, amongst others. This allowed disbursing COP \$1.45 trillion to benefit over 56,000 entrepreneurs, 99% of them from the MSME segment.

Additionally, Bancóldex disbursed credits worth over COP \$1.32 trillion to more than 162,000 micro-enterprises to meet the financing needs of this business segment. Similarly, to support small and medium-sized enterprises, the Bank disbursed resources worth over COP \$2.23 trillion for the benefit of nearly 9,500 SMEs. It is thus confirmed that one of the Bank's strategic approaches aims at boosting productivity of MSMEs. This is in turn aligned with the policies defined by the National Government.

The focus on Orange Economy companies continued to be a strategic approach, since the Bank disbursed COP \$1.2 trillion in 2020, benefiting over 44,000 companies in this sector. Over 72% of disbursements benefited the medium- and long-term operations of MSMEs.

As far as foreign trade support is concerned, the Bank disbursed COP \$1.5 trillion to 1,051 export companies, which confirms its effort to expand the support to the export sector and the internationalization of the Colombian economy.

As a result, Bancóldex increased its portfolio by 13.2% reaching COP \$7.6 trillion, and its assets by 21% reaching COP \$10.3 trillion. Profit was COP \$130,703 million, which is the highest profit in the Bank's history.

Bancóldex merged by absorption of its subsidiary Arco-Grupo Bancóldex in August 2020 in order to complement the services offered to SMEs with products such as leasing and direct

credit. Similarly, the absorption of Arco allowed Bancóldex to provide priority support as established in the provisions of Decree 468 of 2020, which sought to have a special direct credit window for SMEs impacted by the situation resulting from the Covid-19 emergency.

Conversely, the Bank reviewed innovative products and services implemented successfully by other development banks in order to strengthen Bancóldex' role as a business development bank, generate greater impact and be more relevant in the economic recovery stage. As a result of this research and considering the needs of entrepreneurs and the strategic approaches addressed by the bank, four (4) new financial products and one (1) non-financial product were defined, giving priority to the development and implementation of three (3) of them in 2021.

Bancóldex was awarded the 2020 *Great Place to Work* recognition as one of the best entities to work for in Colombia. This was achieved through the commitment of staff members, as well as the implementation of action plans to strengthen mid management and actions aimed at maintaining the health, well-being, and relationships of the Bank's staff.

The Bank continued to implement its strategic plan and decisively addressed the crisis caused by Covid-19, incorporating a portfolio of special credit lines aimed at supporting the liquidity needs of entrepreneurs impacted by the 2020 situation.

The Bank's 2020 management report is presented below.

1. Economic behavior in 2020

2020 global economy was strongly impacted by the crisis caused by the Covid-19 pandemic. This crisis was characterized by the imposition of severe restrictions on mobility, the total and partial closure of companies and the interruption of world trade, among other factors that led practically all countries to record levels of economic contraction unseen in recent history.

As per IMF forecasts, global economy fell by 3.5% in 2020 compared to the 2.8% growth recorded in 2019. According to the organization, US economy fell by 3.4% in 2020, evidencing an unprecedented crisis. Eurozone economic activity also contracted sharply, from a 1.3% annual growth in 2019 to a projected -7.2% growth in 2020. As far as China is concerned, economy adjusted a 2.3% growth in 2020, slowing down from 6.1% in 2019. China consolidated as one of the least affected nations in economic terms given its high capacity to contain the virus, after the first peak of contagion reported in the first months of the year.

Latin America was not immune to the deep economic impact of the Covid-19 pandemic, as it is a region with high unemployment and informality rates and a high dependence on contact-intensive activities such as tourism, trade, transportation, and storage. Accordingly, the IMF forecasts a 7.4% contraction in the region's GDP by 2020.

At the end of 2020, Colombia's GDP growth was -6.8%, when compared to 3.3% growth recorded in 2019. As far as supply is concerned, only four out of the 12 productive sectors registered positive growth during the year (agriculture, real estate activities, financial activities, and public administration). Construction, mining and wholesale and retail trade were the sectors most impacted by the crisis.

In the external sector, exports fell by 21.4% during the year to December 2020, due to lower external sales of fuels and products from the extractive industry.

Given the lack of domestic demand for international products and the interruption of trade chains, imports suffered significantly in 2020, declining by 17.5%. This was caused by lower external purchases of manufactured goods and transportation equipment, agricultural products, food and beverages, and fuels and extractive industry products, which all led to a reduction in the trade deficit and, consequently, a 3.1% GDP current account deficit during the year to September; far below the 4.4% GDP deficit reported in the same period of 2019.

The Colombian labor market was not immune to the deep economic effects of the Covid-19 pandemic. The total national unemployment rate was 15.9% in 2020, experiencing a significant increase in the first months of restrictions, which brought this indicator to 21.4% in May (historical maximum level).

Inflation, meanwhile, closed the year at 1.61%, far below the 2019 closing of 3.8% and the target range of the Bank of the Republic (between 2% and 4%). Amidst an environment of low inflation and recession, the Issuer reduced the intervention rate by 250 basis points to 1.75% throughout 2020 in order to boost economic recovery and ensure liquidity and credit flow in the economy. Finally, and after a complicated year in fiscal terms due to the increase in expenses associated with the pandemic and lower tax collection, the fiscal rule was suspended for two years, and the fiscal deficit of the Central National Government is expected to reach 8.9% of GDP in 2020.

Lastly, the exchange rate adjusted a 4.73% depreciation (TRM) closing 2020 at COP \$3,432, as compared to the 0.84% depreciation recorded in 2019.

2. Financial sector¹

The Colombian financial system faced huge challenges in 2020 due to the crisis caused by the Covid 19 pandemic. Thus, the entities had to implement and adjust swift actions to achieve better management and mitigation of the different risks.

As far as credit risk is concerned, the entities took measures to adopt Circular Letters 07, 14 and 22 (Debtors Accompaniment Program - PAD) issued by the Financial Superintendence of Colombia in 2020 in order to support the recovery of debtors. These measures allowed for the granting of relief to credit conditions, in accordance with the new economic situation of each debtor. At the end of 2020, 6% of the system's total portfolio had PAD relief. Similarly, Circular Letter 22 required institutions to make greater efforts in provisions for the credit portfolio to which they granted relief. Conversely, the measures taken by the National Government to promote credit placements, especially through the granting of greater guarantees, were reflected in a positive portfolio dynamic.

As far as market risk is concerned, the entities faced high volatilities of the different indexes and variables, especially at the beginning of the crisis caused by the pandemic, which notably increased the market risk and significantly affected the portfolio profitability. However, prices stabilized and portfolio profitability recovered in the second half of the year. Additionally, the reduction of rates by the Bank of the Republic, which was reflected in the movements of the TES rate, allowed several entities to obtain important yields in this type of portfolios. As far as liquidity risk is concerned, the system recorded high levels of available resources throughout the year.

Although some financial indicators deteriorated compared to the previous year, it was possible to mitigate most of the risks and contain the negative effects of the crisis with the measures taken by the National Government, the Financial Superintendence of Colombia and each of the financial institutions. Thus, portfolio quality remained at moderate levels; profitability remained at positive levels although it decreased mainly due to the effect of higher provisions; and liquidity and solvency remained at adequate levels. All this reflects the strength of Colombian banks.

Despite the crisis, the Colombian financial system recorded positive dynamics in its main figures as of November 2020. Assets grew 7.7% per annum, mainly explained by the increase in investments and derivative transactions (10.7% per annum). The higher increase in investments was due to the high liquidity registered by the entities, as a result of the higher growth dynamics of public deposits compared to a lower rate of credit placement. As far as credit is concerned, the highest dynamics was recorded by the housing

¹ It includes only credit institutions.

portfolio (5.3% annual growth), followed by the commercial portfolio (2.8% annual growth), while the consumer and microcredit portfolios remained stable.

In the last year, the credit risk of the financial sector maintained at a moderate level. This is evidenced in portfolio quality indicators (both delinquency and risk profile²). Although these indicators show deterioration, they are not so pronounced, partly as a result of the relief granted. By type of portfolio, the largest increase in the delinquency indicator was recorded in the consumer and microcredit portfolios, while the delinquency indicators for the commercial and housing portfolios remained stable. By November 2020, the financial system's provisions grew 21.8% per annum, as a result of higher provisions required for the relieved portfolio and the anticipation that some entities are making in this item to cover the possible negative effect that may be registered in 2021 with the end of the relief program. The past-due credit portfolio coverage indicator stood at 142.4%.

Additionally, profits of credit institutions reached COP \$5.8 trillion as of November 2020. This shows an annual decrease of nearly 50.6% when compared to the same month of the previous year, mainly due to higher provisions and lower income from commissions and dividends.

Credit institutions maintain a total and basic solvency margin of 17.07% and 11.85%³, respectively, so that the minimum regulatory levels of 9.0% and 4.5% were widely exceeded and remained within the average of the last two years. Similarly, the liquidity situation is adequate, the LRI of credit institutions scored above the minimum regulatory requirement and the 10.2% significant increase in public deposits per annum stands out.

Finally, in line with the country's expected economic recovery and the incentive mechanisms for credit placement implemented by the National Government, a better credit dynamic is foreseen for 2021, although it would be expected to be at a slow pace due to the new waves of Covid- 19 contagion. As far as portfolio quality is concerned, a greater deterioration is expected due to the finalization of the relief regulations and the repercussions that the next pandemic waves may have on the financial situation of the clients; however, it is expected that the delinquency indicators will remain at moderate levels. As far as solvency and liquidity is concerned, no major changes are identified.

² 5.18% for delinquency and 10.74% for risk profile, at the end of November 2020.

³ Figures as of November 2020.

3. Bancóldex as a development bank

3.1. 2020 Achievements

In 2020, the Bank focused its management on the following action lines and on addressing the situation resulting from the Covid-19 crisis. Credit disbursements worth COP \$6.76 trillion were achieved, thus benefiting over 172,000 companies. This represented a 26% increase in disbursements compared to 2019.

Bancóldex as a public policy instrument: Response to the Covid-19 crisis - "Responde" Portfolio

Bancóldex performed a fundamental role as a public policy instrument to address the Covid-19 emergency. Therefore, the Bank implemented the portfolio "Responde" to mitigate the economic effects caused by the pandemic, which includes 38 credit lines: 2 at the national level, 4 at the sectoral level and 32 at the regional level. It was implemented with the support of the National Government, ministries, governor's offices and mayor's offices, among others. More than COP \$1.45 trillion out of an amount of COP \$1.82 trillion was disbursed to over 56,000 entrepreneurs, 99% of them from micro, small and medium-sized enterprises. The number of entrepreneurs financed will increase, as -at the date of publication of this report- reports are still pending on the number of companies benefiting from various credits granted through microfinance institutions.

These credit lines aimed at supporting the business sector in its liquidity needs; therefore, credits traditionally financed in the short term were transformed into credits whose average term exceeded 2.5 years. This allowed entrepreneurs to weather the crisis, due to the liquidity obtained during periods of closure and significant loss of income.

8,222 credits financed under the rediscount mechanism are among the main outcomes of the portfolio "Responde". These credits had a weighted average interest rate of + 4.33% base and generate average interest rates below 8% per annum, given the nominal value of the FTD E.A. and the IBR. Conversely, 64% of microenterprises benefited had never had a Bancóldex credit or had not made a transaction in the last five years.

Although the largest recipients of loans were companies in Bogota, Antioquia, and Valle del Cauca, the Bank reached in 2020 new municipalities where its entrepreneurs were able to access credit for the first time. This is the case of Timbiquí in Cauca, and Carmen del Darién and Bojayá in Chocó. Similarly, 100% of beneficiaries of the Guainía Responde line were new, and more than 60% of companies located in the commerce, accommodation, food service, administration service and construction sectors were new companies. In

total, the portfolio of emergency lines published by the Bank financed companies in 938 municipalities in the country.

Productivity of MSMEs

One of Bancóldex' strategic approaches aims at boosting productivity of the micro, small and medium-sized enterprises. This is in turn aligned with the policies established by the National Government.

Driven by the portfolio of lines aimed at overcoming the effects of the pandemic, the Bank disbursed in 2020 resources worth COP \$3.62 trillion to the MSME segment, including COP \$2.23 trillion to over 9,000 SMEs and COP \$1.32 trillion to over 162,000 microenterprises, thus covering 1,042 municipalities.

COP \$1.45 trillion out of these resources were provided through lines for pandemic liquidity, another COP \$1.54 trillion for liquidity needs through other credit, and COP \$0.63 trillion for investment. The latter was in limited demand given the condition of the economy during the pandemic.

Similarly, as a development bank, Bancóldex promoted the placement of credit resources with social impact during the year, represented in the line for the productive strengthening of female micro-entrepreneurs in the country. This line was launched in the first quarter of 2020, in order to contribute to its development and economic growth. It had a 12% share of total disbursements to microenterprises. Additionally, the placement of resources for micro-enterprises located in the municipalities of the Zomac and PDET⁴ areas was promoted; therefore, COP \$167,236 million was disbursed in 34,441 credit operations for this regions and COP \$143,157 million was disbursed in 28,049 credit operations for companies of the victim population.

Conversely, in the entity's effort to deepen its presence in the regions, nearly COP \$850 billion was disbursed in 2020 in more than 5,000 operations for regions outside the main cities (Bogota, Barranquilla, Cali, and Medellin).

Green growth

Despite the global context as a result of Covid-19 and the low investment made by companies in energy efficiency, due to the investment prioritization and the uncertainty of the economic future, the Bank achieved disbursements worth COP \$84,771 million as of

⁴ Areas Most Affected by the Conflict and Development Plans with a Differential Approach.

December 31, 2020. Investments made during 2020 were mainly used to renew the cargo transportation fleet, generating estimated impacts of at least 3,680 tons of CO₂.

In addition, some important agreements were signed to leverage more sustainable investments. The microfinance line for ecosystem-based adaptation measures (MEBA) is one of the innovative products developed in a participatory manner with microfinance institutions. This line, launched in December, has a quota of COP \$14 billion for small farmers to improve their adaptive capacity to extreme weather events.

Conversely, a Blended Finance-type solution was developed to implement the NAMA for domestic refrigerators in Colombia, in which the financing of refrigerator manufacturing companies at the national level will be proposed in order to improve their production processes and thus offer more efficient refrigerators to the market.

Disbursements for the Orange Economy

During the year, Bancóldex continued to implement the orange strategy aimed at supporting and accompanying the country's creative and cultural industries through credit and investment tools, as well as products and projects aimed at education and training for this sector.

In 2020 the challenge was to disburse COP \$900 billion to orange companies and surpass 2019, which had been a record year in orange credits. Bancóldex disbursed in 2020 COP \$1.2 trillion to over 45,800 Orange Economy companies (103 ISIC⁵), marking a milestone for the Bank in financing the country's creative and cultural sector.

This year, the orange sector had six lines with special and differential conditions, which stand out among the actions carried out: Orange Credit Line - Version 2020 (Bancóldex); Recovery Credit Line ICTs (MinTIC); Competitive MSME Credit Line - Orange Benefit (Mincomercio); Credit Line "Crea, Bogotá Crece" (Bogotá Mayor's Office); Credit Line for the Creative and Cultural Sector of Medellín and Antioquia-Elpauer version 2020 (Route N - Medellín), and Credit Line "Popayán Responde" - Orange Benefit (Popayán Mayor's Office and Cauca Chamber of Commerce). This allowed the Bank to get closer to entrepreneurs with an offer in line with their needs, regions, and sectors, thus improving the dynamism of disbursements, even in a complex situation.

As far as non-financial services are concerned, Bancóldex offered two courses aimed at orange industries: "Structuring Business Models for ICCs" and "Chattel Guarantees." Both courses doubled the expected number of participants. Also, the first virtual courses on

⁵ In accordance with the provisions of the Ministry of Culture.

financial education for artisans were held in alliance with Asobancaria and Artesanías de Colombia.

Business modernization

The Bank disbursed COP \$883,915 million in 2020, with an average loan term of 4.55 years. Low compliance with disbursements resulted from postponing corporate investments in modernization projects as a result of the crisis caused by Covid-19, as companies prioritized short-term liquidity resources over investment plans.

Modernization disbursements are composed of rediscount and corporate direct credit disbursements, which amounted to COP \$735,323 million, and disbursements by the Vice-Presidency of SME Direct Credit, which amounted to COP \$148,592 million in leasing and direct credit operations to SMEs with terms longer than three (3) years.

As far as the corporate direct credit product is concerned, a significant part of the investment decisions was suspended or cancelled due to the pandemic. The priority of the different economic sectors focused mainly on the achievement of working capital operations and replacement of liabilities, rather than on the activation of new investments.

Given the complex economic environment of this period, the Bank deepened in 2020 its relationship with key partners, such as multilateral banks, investment banks, business structuring teams of commercial banks, trade unions, chambers of commerce and free trade zones, among others. Additionally, the work team involved in analyzing this type of operations within the Bank was strengthened, so that the entity now has a better capacity to respond efficiently and timely to the identified financing requests.

This allowed the Bank to build a business pipeline estimated at COP \$1.4 trillion and achieve the approval of operations worth COP \$370 billion. Project Finance-type structured projects are among these approvals, which opens an opportunity for the accompaniment of this type of business, especially in the field of renewable energies.

Bancóldex Capital Program - Fund of Funds

July 2020 marked the first year of operation of the Bancóldex Capital private equity fund - Fund of Funds, with its Venture Capital sub-fund. It aims at investing in Colombian and regional venture capital funds that invest in high-impact, scalable and transversal ventures in the commerce, industry, tourism, services, and creative industries sectors.

At the end of the year, this sub-fund had resources worth COP \$116,091⁶ million, with Bancóldex acting as anchor investor with an amount of COP \$45,000 million. iNNpuls Colombia, the Ministry of Science, Technology and Innovation, a multilateral entity, and a Japanese corporate investor also participated.

Three (3) new venture capital funds were approved during the year: one (1) corresponds to a new Colombian professional manager and two (2) to international professional managers. These venture capital funds focus on Colombian entrepreneurship. Additionally, an investment worth USD \$9.5 million was made by a Japanese corporate investor.

As far as investments are concerned, the Venture Capital sub-fund had outstanding commitments worth COP \$20,595 million in one (1) underlying fund, FCP ALLVP Fund III, which has invested in nine companies. Two (2) out of them are Colombian ventures that received resources worth COP \$43,250 million.

Non-financial services

During the year, Bancóldex expanded its coverage in the provision of non-financial services through consultancy, technical assistance, training, and project structuring programs. This was achieved by adapting its programs to the business needs generated by Covid-19, migrating to virtual formats to transfer business knowledge and emphasizing topics that contribute to business strengthening during the beginning of the economic and productive reactivation, reaching 390 municipalities in the 32 departments of the country.

The Bank and the Ministry of Commerce, Industry and Tourism jointly developed the program Conecta aimed at improving the management, performance, and competitiveness of the country's MSMEs by generating training spaces, direct technical assistance and valuable connections between entrepreneurs and financial partners. Its first version was carried out in person in seven cities in the country, its second version evolved to Conecta Digital due to the restrictions generated by Covid-19 and its third version, Conecta Cluster, was carried out in alliance with Confecámaras.

Entrepreneurs from 29 departments and 117 cities and municipalities of the country participated in the three versions of Conecta: 2,454 entrepreneurs participated in the training sessions, 1,211 participants attended financial and business conferences, and 415 companies received direct technical assistance from thematic experts.

Additionally, the virtual campus was consolidated as a space to develop basic management skills. 3,028 certifications were generated in 369 municipalities with the support of 46

⁶It corresponds to capital available for investments through the Fund of Funds.

partners (including chambers of commerce, mayor's offices and microfinance institutions). 66% of the participants are part of micro and small enterprises.

The third version of the Delta program was carried out in partnership with Innpulsa Colombia, thus accompanying the country's SMEs in the structuring of projects to access tax benefits for investments in research, technological development, and innovation. Accordingly, 25 projects with a total budget worth over COP \$37 billion were registered before the Ministry of Science, Technology and Innovation. 21 out of these projects were approved by the entity to receive the tax benefit.

The project "Mobilizing private investments to implement energy efficiency measures in Colombia's industrial sector" was developed together with entities such as *Colombia Productiva*, *Corporación Ambiental Empresarial (CAEM)*, Carbon Trust and the Colombian Energy Efficiency Council (CCEE). Consequently, 106 companies were accompanied in the characterization and profiling of energy efficiency projects and financial appraisals were carried out for nine of these projects.

The "Program for emerging private equity fund managers" was developed in partnership with Colcapital. This program strengthened the knowledge, competencies, and skills of the 31 participating managers to deepen their knowledge of the private equity fund industry.

The "Financial readiness program for companies with extraordinary growth" provided specialized financial consulting to facilitate access to funding and private equity fund resources. This initiative was developed with the support of CreditCapital and benefited 10 companies in Bogotá.

Due to the support of technical cooperation resources from the Inter-American Development Bank (IDB) and in order to promote the expansion of financing sources for early-stage companies, a pilot program was developed for financial institutions to implement an entrepreneurial credit program. This pilot program generated three new credit analysis methodologies for early-stage companies, granting credits worth over COP \$1.8 billion to these types of companies. In addition, 26 entities that support entrepreneurship were made aware of the minimum requirements to develop a financial product for the business segment of early-stage organizations.

Finally, partnerships were made with different entities, such as the District Secretariat of Economic Development of Bogota and the International Finance Corporation of the World Bank Group, to provide entrepreneurs with tools for digital transformation and innovation, as well as useful guides for managing the crisis and changes generated by Covid-19.

Merger by absorption of subsidiary Arco Grupo Bancóldex

The merger by absorption of *Arco Grupo Bancóldex Compañía de Financiamiento S.A.* (merged company) by Bancóldex (merging company) was formalized through public deed N° 1209 issued on July 31, 2020 and registered by the Chamber of Commerce of Bogotá on August 1, 2020. The non-objection procedure was previously carried out by the Colombian Financial Superintendent in Resolution 624 of July 3, 2020.

The incorporation of the financing company to the Bank had the following objectives, amongst others:

- Complement the services offered by Bancóldex to SMEs.
- Centralize the service offer in Bancóldex, facilitating the potentiation of products.
- Contribute to the deepening of the leasing market.

The merger by absorption process has been executed in three main phases. The preparation stage that concluded on August 1, 2020 with the issuance of the public merger deed through which Bancóldex assumed the rights and obligations of Arco GB. The transition phase, between August and December 2020, was aimed for Bancóldex and Arco to operate as a single legal entity; therefore, a business was created with the front, middle and back-office areas of Arco, which was constituted as the Vice-Presidency of SME Direct Credit in Bancóldex. The integration phase will take place from January to December 2021, and it aims at implementing the definitive operating model and seeking economies of scale in the Bank's areas.

Concessional financing and international non-reimbursable resources

The strategy to offer entrepreneurs financial and non-financial services tailored to their needs, in order to face the crisis caused by Covid-19, was partly supported by working with international partnerships to obtain new sources of funding, renegotiate the conditions of some existing sources, and receive non-reimbursable financial resources and technical assistance to meet the entrepreneurs' needs.

For the first time at Bancóldex, the Multilateral Investment Guarantee Agency (MIGA), a World Bank agency, approved a guarantee worth US \$400 million to the Bank to access resources through international commercial banks. The MIGA-guaranteed loan enabled Bancóldex to continue supporting Colombian companies affected by the crisis through special credit lines, mainly working capital, for up to 36 months, placed through the institution's financial partners.

Additionally, Bancóldex expanded its funding sources by borrowing US \$60 million from IDB Invest and US \$10 million from the Financial Development Agency of Canada (Findev)

to continue providing liquidity to the country's micro, small and medium-sized enterprises and thus helping to sustain them and preserve employment.

As far as non-reimbursable financial resources and technical assistance are concerned, international support focused, on the one hand, on providing solutions to address the crisis, by transferring knowledge on measures to deal with the emergency and training for SMEs to accompany their recovery.

On the other hand, support was maintained for the Bank's long-term commitment to promote sustainable business development. Cooperation included the strengthening of the Bank's environmental and social risk system, market studies for circular economy, sustainable mobility and energy efficiency actions, and the identification of barriers to design actions that contribute to gender equity. Thanks to international partners, progress was also made in two innovation projects.

International positioning

Bancóldex' experience as a sustainable development promoter and its rapid action to address the crisis caused by Covid-19 strengthened the Bank's international recognition. Thus, Bancóldex participated in three (3) of the most relevant international events for development banking at a global level, to present its business case as the business development bank that generates and measures its impact, as well as to show the actions and experiences to address the difficult situation caused by the pandemic.

The Bank was also mentioned in five (5) international publications for its response in times of emergency, a performance that earned it the recognition of Distinguished Crisis Leadership, from Global Finance magazine, for its outstanding leadership and response to Colombian companies with respect to the needs derived from Covid-19.

Impact assessment

Given the importance of measuring not only financial profitability but also social profitability as a development bank, Bancóldex consolidated the methodologies and reports for measuring the impact of its different products.

An impact measurement of loans granted to Orange Economy companies was submitted to the IDB in 2020. Although there was insufficient statistical evidence to adduce any effect, this confirms Throsby's (2008) concentric circle theory. This theory indicates that as the cultural and intangible component weighs more heavily in companies, they not only prioritize the maximization of economic benefits, but also operate on the basis of strengthening intangible cultural objectives.

Concerning the lines "Responde", the first family of emergency lines in response to Covid-19, the Bank executed results reports detailing, among others, the amount disbursed, the distribution of disbursements by company size and economic sector, and the term and rate conditions. To highlight the beneficiary's experience, short videos were made with entrepreneurs' testimonies in conjunction with the Communications Office, in which they shared their experience during the crisis and how Bancóldex credits contributed to overcoming the difficulties caused by the pandemic.

In addition to the publication of the annual reports for the social, green, and orange bonds, a pilot results report was carried out for the companies benefiting from Bancóldex Capital's investment. In this pilot report, managers were asked to fill out the information of their organizations for the years 2017-2019 mainly concerning: revenues and exports, distribution of their workforce by age and educational level, participation of women in the total number of employees and in management positions, and formality of their hired employees. There will be a social inclusion module for 2021, which seeks to measure the participation of vulnerable groups (indigenous, Afro-descendants and disabled people) in the companies' workforce.

Innovation at Bancóldex

The innovation office was formally launched in January 2020. It is responsible for creating innovative financial and non-financial solutions that generate value for the Bank's different target segments and promoting a culture of innovation within the Bank.

Among the results of innovation, the design and implementation of the "Beethoven Contigo" program stands out, a cultural initiative that, through music, sought to generate wellbeing and development in times of pandemic, especially for the most vulnerable population affected by the Covid-19 crisis. The program consisted of the interpretation of six (6) Beethoven piano sonatas by three Colombian artists: Teresita Gómez, Mauricio Arias-Esguerra, and Sofía Bustamante. The sonata cycle was broadcast through the Bank's social networks from late August to early October 2020, reaching over 55,000 Colombians, including Bank employees, their families, entrepreneurs and vulnerable populations, such as hospitalized patients, medical staff, and senior citizens.

Additionally, two innovative solutions were designed and presented to the Bank's senior management and board of directors, which were prioritized within the strategic projects for 2021 and were approved with a budget for their implementation.

The first solution is the microcredit marketplace, a digital platform where microentrepreneurs may apply for a credit and compare and choose the one that best suits their needs, among the offers provided by different financial intermediaries that serve this segment. The second solution is the creation of a structured development finance unit in the Bank, leveraged by a network of external partners, in order to establish solutions for SMEs seeking to optimize their capital structure to improve their cash flow, as well as to design and finance projects that contribute to the diversification of their income.

As far as innovation culture is concerned, different activities were developed throughout the year to promote creativity and innovation in the different teams of the Bank. In order to share knowledge on innovation among employees, the area produced and shared six (6) podcasts that sought to teach on a specific topic and share progress in innovation initiatives.

Strengthening human talent management

In order to strengthen human talent management, the Bank worked on the following approaches:

1. **Work environment:** According to the outcomes of the 2019 measurement, an action plan was implemented to strengthen the middle management skills, the connection of leaders with their teams and the pride of the Bank's collaborators with the organization.

As a result of the action plan implemented, the Bank improved significantly in the work environment index, going from 59 points in 2019 to 84 points in 2020. According to the 2020 outcomes, the Bank registered a very outstanding work environment, which allowed it to receive for the first time the *Great Place to Work* certification as a great place to work, placing Bancóldex as one of the most attractive employers in the country.

2. **Covid-19 management:** Employee care was a priority throughout the year; therefore, employees were trained on Covid-19 and how to prevent it. The Bank joined the first quarantine drill of the Mayor's Office of Bogota and switched from a 100% on-site to a 100% remote operation.
3. **Skills of the Bank's mid management:** The plan "Empowering the role and impact of middle management" was implemented. This plan aimed at building individual development plans, providing tools to generate a greater connection between leaders and their teams and consolidating the middle management's vision.

This exercise allowed middle management leaders to receive tools to generate connection and commitment with their teams and to define their individual development plans.

4. **Arco-Bancóldex merger:** The Bank carried out activities to ensure an effective transition of the new employees to Bancóldex. Therefore, a communication strategy was defined so that both entities were informed about the progress of the merger process. The labor figure of employer's substitution was implemented as of August 1, 2020, and individual sessions were held for the new employees to learn about their conditions and duties.

Implementing digital rediscounting

In order to improve the experience of clients who use Bancóldex resources through the rediscount credit product, the Bank developed the digital rediscount project. It reduced from 72 hours to 24 hours the time of a transaction from its execution to its disbursement, making this process more agile, simple, and efficient.

Bancóldex response through its channels

The marketing department focused its efforts on strengthening the website as a tool aimed at leveraging the Bank's positioning at the national level and the placement of its products at the regional level. The website received 2,482,365 visits in 2020, while it received 802,294 visits in 2019, which represented a 209% increase. Similarly, it went from having three countries with more than 1,000 visits per year to having nine countries. At the regional level, it went from having four cities with 10,000 visits per year to having 10 cities.

In order to meet the demands of entrepreneurs in the context of the crisis caused by the pandemic, the Bancóldex contact center expanded its capacity from 10 advisors to 36 and implemented the IVR-Interactive Voice Reporting system to address each of the entrepreneurs' requests in an agile and timely manner.

Similarly, seeking a greater presence in the regions during the pandemic, the Bank held 195 sessions between talks and webinars on socialization of its products and services, with 65,350 participants.

All the actions implemented allowed timely response to be given to the needs and requirements of entrepreneurs and the Bank's stakeholders.

3.2. Compliance with commitments as contained in the Sector Strategic Plan (PES) by the Ministry of Commerce, Industry and Tourism - 2018

Bancóldex participated in the funding strategy belonging to the Sector Strategic Plan led by the Ministry of Commerce, Industry and Tourism during 2020 with the following initiatives:

Approach/ Objective B: Productivity and innovation⁷: Increase businesses productivity to boost economic growth and business development.

Strategy/ Initiative: Provide financial solutions and guarantees so that companies invest in productivity improvement and modernization.

- **Deliverable:** Disbursements (credits) worth COP \$889 billion to increase the productivity of microenterprises.

Progress: During 2020, Bancóldex disbursed credits worth COP \$1.32 trillion, which represented 148% compliance.

- **Deliverable:** 7,000 small and medium-sized enterprises that are beneficiaries of Bancóldex' financial products.

Progress: At the end of 2020, 9,359 SMEs were benefited with disbursements through all financial products of Bancóldex' portfolio, thus achieving 134% compliance of the target.

The outstanding dynamic of these indicators is largely due to the offer of credit lines implemented by the Bank to counteract the negative effects of the Covid-19 situation on the Colombian business network, as well as the lines aimed at economic reactivation, which are mainly focused on the MSME segment.

Approach/ Objective: D. Entrepreneurship and formalization: Facilitate formalization, entrepreneurship, and its scalability.

Strategy/ Initiative: Facilitate the escalation of high-potential ventures.

- **Deliverable:** Investment commitments in venture capital funds worth COP \$213 billion.

⁷ In accordance with the Sector Strategic Plan of the Ministry of Commerce, Industry and Tourism.

Progress: During 2020, resources worth COP \$205,843 million were committed in capital funds, which allowed 96.6% compliance of the set target.

3.3. Compliance of SINERGIA⁸ goals for 2018

Small and medium-sized enterprises that benefit from Bancóldex' financial products: Benefit 7,000 SMEs with disbursements through all Bancóldex' financial products.

9,359 SMEs received services during 2020, achieving 134% compliance with the target set for this period.

Investment commitments in venture capital funds: By 2020, Bancóldex set a target worth COP \$213 billion in investment commitments. At the end of the year, resources worth COP \$205,843 million had been committed by Bancóldex in equity funds, achieving 96.6% compliance of the set target.

4. Bancóldex as program manager

"Opportunity Banking" Investment Program

The "Opportunity Banking" Investment Program was created by Decree 3078 of September 8, 2006 and incorporated in Decree 2555 of 2010. It aims at promoting access and use of financial services to low-income families; micro, small and medium-sized enterprises, and entrepreneurs. The program executes the financial inclusion strategy approved by the Intersectoral Commission for Financial Inclusion created by the National Government in 2016. This program is managed by Bancóldex.

During 2020, the "Opportunity Banking" program worked on three main approaches. They were financial inclusion programs, financial education, and follow-up and monitoring of the status of financial inclusion.

Accordingly, several strategic projects were carried out, such as: promotion of inclusive insurance, movable guarantees to facilitate access to credit for MSMEs, technical assistance to promote small business financing, digital financial education for MSMEs, promotion of banking correspondents, technical assistance, and expansion of rural financial coverage with cooperatives with financial activity. In addition, a series of

⁸ Goals System of the Government of Colombia. This allows the government and all citizens to perform a detailed follow-up of social and economic policies within the framework of the National Development Plan.

reports and studies were prepared to analyze the financial inclusion of individuals and companies⁹.

Additionally, in order to support the government with the Solidarity Income Program, "Opportunity Banking" participated in several activities such as: crossing databases to identify the product and channel through which transfers could be made to beneficiaries; promotion strategy through videos, radio spots and infographics to disseminate the program; financial education strategy through radio and accompaniment to financial entities in 38 municipalities, for the monetary transfer to beneficiaries who had not yet received this aid.

5. Risk ratings

Fitch Ratings confirmed the national ratings of AAA (col) and F1+(col) awarded to Bancóldex in October, 2020 for the long-term and short-term respectively. The long-term rating outlook is stable. As far as BRC Standard & Poor's is concerned, the AAA rating for the long-term and the BRC 1+ rating for the short-term were confirmed in November 2020.

As far as the foreign currency rating is concerned, Fitch Ratings Inc. maintained the BBB rating with a negative outlook. It was based on the sovereign rating of the Republic of Colombia given by this Rating Agency in April, 2020.

6. Financial management

Bancóldex' performance in this complex economic context was outstanding during 2020. Credit placement increased 26% compared to the previous year and it represented COP \$6.76 trillion (including COP \$196,381 million from the Vice-Presidency of SME Direct Credit), with a significant percentage of support lines in view of the Covid-19 situation, generating a 13.2% net portfolio balance growth compared to 2019. This increase was leveraged by Term Deposit Certificates (TDCs) oriented towards the short end of the curve (taking advantage of the reduced market spreads in such terms). It accompanied the asset length and sought optimal funding costs. Additionally, the expansion of the institutional savings account product continued, allowing to increase the volume of resources on demand with favorable rate conditions, and improving the cost of the total mix in pesos for the Bank.

⁹ What factors influence the demand for microenterprise credit in Colombia?; Semiannual Financial Inclusion Report; Financial Inclusion Report 2019; Well-being, poverty and access to financial services products; Lessons learned for the adoption of electronic and digital means of payment in traditional channels.

In order to guarantee access to resources to meet the demand for credit arising from the economic situation, the Bank signed a guarantee with the World Bank's Multilateral Investment Guarantee Agency (MIGA), which gave it access to financing from foreign banks in the amount of US \$400 million, indexed to Libor for a two-year term.

Furthermore, last August the Bank concluded the merger process with its subsidiary Arco Grupo Bancóldex (today Vice-Presidency of SME Direct Credit), allowing it to integrate its portfolios, broaden the spectrum of client segments to be served and generate operating and administrative synergies. This operation added more than COP \$865 billion in credit operations to the Bank's portfolio.

On the other hand, a portion of the additional individual provision held by the Bank since 2015, worth COP \$20 billion, was reversed.

Additionally, the Bank reclassified its investment in the National Guarantee Fund from associate to available-for-sale investment. This modification led to a better result, due to the update in the price of the investment and the release of the Other Comprehensive Income (ORI) account.

As a result of the above, net income for 2020 was COP \$132,703 million, which is equivalent to a 172% budget compliance and constitutes the highest level of profit obtained in the Bank's history. With these results, the ROE profitability indicator¹⁰ was 8.48%, the highest in recent years since the implementation of IFRS in 2015 as an accounting standard.

As the Bank's core business, the total portfolio contributed COP \$171,623 million to the financial margin and reached a margin of COP \$130,224 million for the portfolio in pesos, COP \$22,373 million for the portfolio in dollars and COP \$19,026 million for the SME direct credit portfolio.

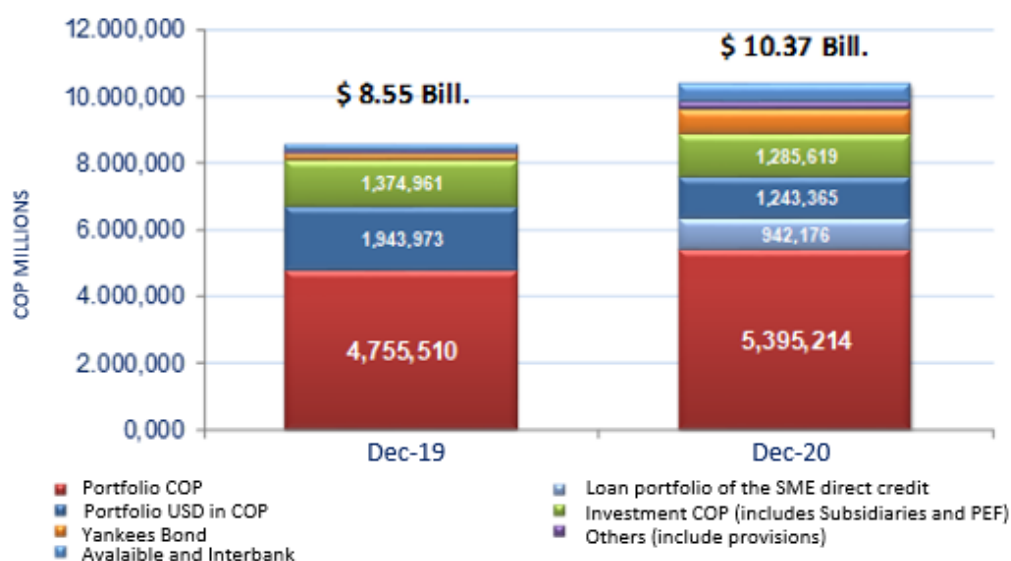
The investment portfolio contributed COP \$75,524 million to the financial margin, a remarkable performance considering that the fixed income market was characterized by high volatility as a result of portfolio devaluations during the first part of the year, due to the pandemic and its consequent impact on the world economy, and with subsequent recoveries in the second half of the year. Additionally, this margin expansion was driven by a COP \$10,055 million increase in the margin of Yankee investments, due to the increase in this portfolio since January.

¹⁰ ROE - Return on equity.

Considering the complex local and international scenario, the management of the Bank's interest rate portfolios focused on maintaining an average investment amount close to COP \$900 billion, with low duration and concentrated in highly liquid papers, which allowed for a higher portfolio turnover necessary to achieve the year's results.

The main financial results for 2020 compared to those of the previous year are presented below:

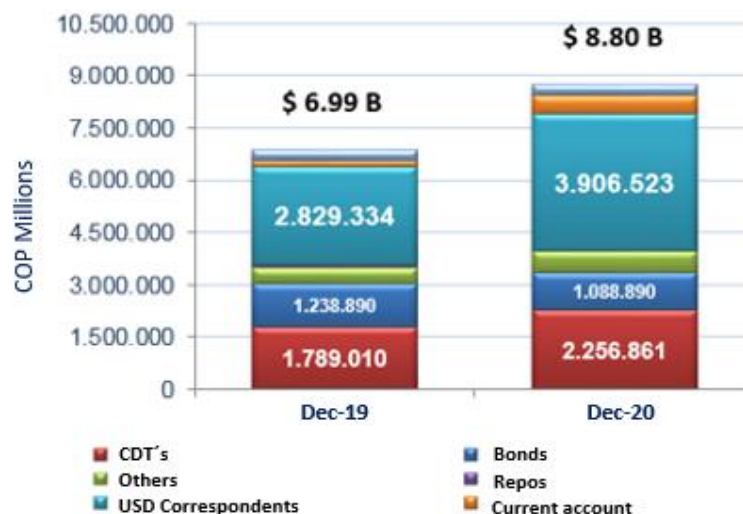
Assets



Compared to December 2019, the Bank's assets showed growth of COP \$1.82 trillion (21.3%). Credit placement levels reached COP \$6.76 trillion in 2020, making it possible to increase the gross portfolio balance by COP \$881,272 million compared to the previous year (13.2%). The level of portfolio provisions increased by COP \$21,727 million as a result of the incorporation of the loan portfolio of the SME direct credit unit, despite the reversal of additional individual provisions worth COP \$20 billion. These two factors place the variation in the net portfolio balance at COP \$859,544 million (13.1%) when compared to the end of the previous year.

Moreover, the Bank's liquidity represented in available funds recorded an increase of COP \$364,206 million compared to the end of 2019, which may be explained by increases in deposits in the last month of the year (CDTs and savings account), as well as by lower disbursements compared to those expected during the last quarter.

Liabilities



Compared to December 2019, the Bank's liabilities increased by COP \$1.82 trillion (26%). This growth can be explained by the increase in several of its credit lines: mainly, the acquisition of financing in dollars through the guarantee acquired with MIGA, which allowed the increase in the funding volume with correspondents in foreign currency by COP \$1.08 trillion at the end of December. Additionally, CDTs presented an increase of COP \$467,851 million, while institutional savings accounts had an increase of COP \$364,202 million. These movements offset some reductions in other funding lines, such as bond maturities of COP \$150 billion and lower interbank funds of COP \$104,524 million.

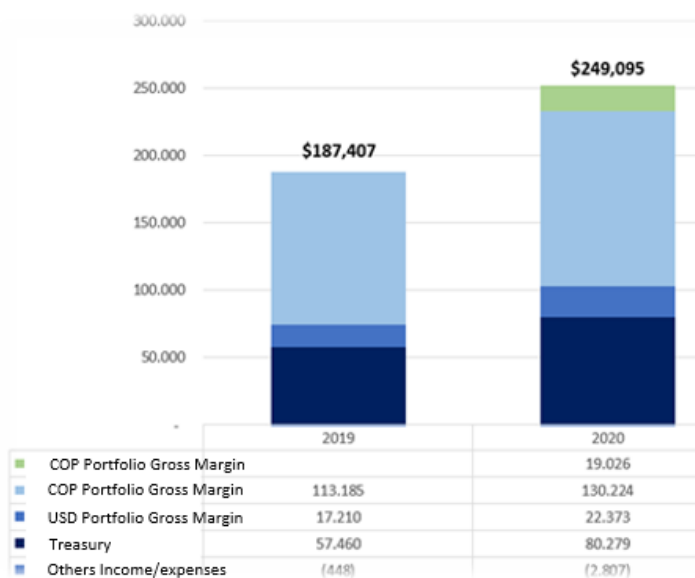
Equity

The Bank's equity increased by COP \$2,034 million (0.13%) compared to December 2019. This result may be explained by the following factors:

- Decrease in the surplus worth COP \$11,892 million, which reflects the aforementioned changes in investments in equity securities (COP -\$19,729 million), despite an improvement registered in the valuation of portfolio instruments (COP +\$3,340 million).
- COP \$8,019 million reserve increase.
- Greater accumulated profit of the period worth COP \$5,870 million.

Financial margin

Figures in COP millions



Compared to December 2019, the accumulated gross financial margin recorded an increase of COP \$61,688 million (32.9%). The main factor determining this growth lies in the increase in the average volume of portfolio operations, mainly in pesos (average balance COP +\$1.29 trillion) and the incorporation of the portfolio of the SME Direct Credit Vice-Presidency (average balance of COP \$901,905 million since August). For the portfolio in dollars, the variation in the average balance was COP -\$207,243 million.

The treasury products margin, on the other hand, increased by COP \$22,819 million, mainly due to the increase in the volume of the Yankees portfolio and the positive results in the valuation of the available and marketable portfolio.

As far as net interest margin is concerned, the portfolio in pesos (including SME direct credit) presented an increase compared to the end of 2019, in an environment of declining market rates. On the one hand, this allowed the cost of funds to be reduced together with adequate fund management; while on the asset side, the decrease in rates was lower, partly due to the effect of the inclusion of the SME direct credit portfolio, which has a higher net interest margin due to the nature of the market segment it serves.

Foreign currency portfolio presents a lower rate as a result of shorter terms and lower associated placement rate with the decrease trend observed in the Libor during 2020.

Despite this effect, funding in foreign currency decreased in greater proportion, associated to a change in the funding composition, favoring financing with banks with lower average cost, as opposed to the operation with the IDB (higher cost). The combined effect between assets and liabilities resulted in an increase in the net interest margin.

Profit

The accumulated profit at December 2020 was COP \$132,703 million, which is the highest profit in the Bank's history and represents a 4.6% growth when compared to 2019. The increase in the gross financial margin in growth in an environment of lower rates and controlled credit risk, with an increase in operating expenses and a higher causation of income tax, stands out.

7. Risk management

7.1. Risk appetite framework statement

As part of the merger by absorption process with Arco GB, the Board of Directors approved some adjustments to the risk appetite framework statement. Accordingly, consolidated risk limits and indicators were redefined for each type of risk (top-down and bottom-up approaches). The main adjustments focused on credit risk, as a new segment (SME banking) was incorporated into the Bank's original business. The estimates considered adverse scenarios and established the negative impact they could have on profitability, solvency and liquidity levels. Similarly, different stress scenarios were considered, from the base scenario to the pessimistic one, to estimate risk appetite, tolerance, and capacity limits.

7.2. Credit Risk Management System (SARC)

During the year, adjustments were made in all segments to strengthen the credit granting and follow-up processes. In the credit segment for local financial intermediaries, foreign financial intermediaries and entities oriented to micro-enterprise credit, the projection and scenario models were reinforced, as well as the periodic follow-up reports for these clients. In the SME segment, an alternative model was incorporated for granting operations within the framework of the Direct Credit Line (Decree 468 of 2020). These operations are backed by the National Guarantee Fund (FNG).

Accordingly, in the second half of 2020, the Risk Vice-Presidency advanced several actions aimed at achieving the integration of credit policies after the absorption of Arco GB. These modifications included the definition of a general framework of policies for direct credit, in which credit operations for both SMEs and large companies will be framed, and the policy to carry out leasing operations for large companies and structured projects was enabled.

On the other hand, the Bank updated the granting methodology for direct credit operations for large companies and structured projects, in order to strength the analysis with greater predictive capacity indicators and with the incorporation of environmental and social risk components. Similarly, adjustments were made to the Bank's decision-making committees, mainly related to credit attributions, which will allow optimizing response times to clients' credit requests.

7.3. Market Risk Management System (SARM)

During 2020, a comprehensive review of SARM policies, limits, methodologies, and procedures was carried out in connection with the integration with Arco. As a result of this review, the policies related to own position limits in dollars, collateral policies for derivative instruments were adjusted, and the functions of the committees and senior management related to market risk management were updated. Similarly, in the first quarter of 2020, the VAR Total and VAR Strategic Portfolio limits were updated in response to market conditions and the treasury's investment strategy.

Concerning the implementation of the Cross Currency Swap - Interest Rate Swap - CCS-IRS, for hedging purposes, the Risk Vice-Presidency supported the design of the hedging calculation methodology and implemented the valuation, margin call and credit exposure processes, among others.

As far as compliance with limits is concerned, it was necessary to design a more exhaustive monitoring scheme on treasury products as part of the follow-up process, due to the situation. The results of these follow-ups and of the resulting scenario analyses regarding the impact of the pandemic were reported in a timely manner to the different instances.

7.4. Liquidity Risk Management System (SARL)

As in the case of SARM, during the year a comprehensive review of SARL policies, limits, methodologies, and procedures was carried out in connection with the integration with Arco GB. As a result of this review, the policies related to the savings account limits

within the regulatory models were adjusted, the warning signals and indicators and their action plans were reviewed and the methodology for the stress scenario of the regulatory model was defined. Similarly, some adjustments and clarifications were made regarding regulatory and internal limits and back and stress testing.

In the context of the pandemic and its effects on market liquidity, liquidity indicators were continuously and exhaustively monitored, implementing prospective risk estimates and including stress scenarios that incorporated changing conditions in the market and the Bank's funding structure. Similarly, and in response to the changes generated in the indicators, the limits of the liquidity portfolios (buffer and liquidity support) were adjusted, ensuring that they are adapted to the Bank's conditions, both in normal and stress scenarios.

Finally, as part of the integration process with Arco GB, the necessary operational processes were implemented to calculate, monitor and report regulatory and internal liquidity indicators.

7.5. Operational Risk Management System (SARO)

As a consequence of the pandemic, significant challenges had to be assumed from the point of view of operational risks and cybersecurity to the extent that it was necessary to accompany the operational and technology areas in the support of the "remote" operation. Despite the above, there were no significant events that altered the proper functioning of the Bank. The contingency plans worked adequately. Notwithstanding the above, the business continuity plan continued to be strengthened and the Business Continuity Management System was implemented, aimed at meeting the new needs of the organization and the best practices based on DRI international and ISO.

On the other hand, the Bank continued with its regular operational risk and control review activities, and all reported operational risk events were managed.

Finally, training was provided to the entire organization on operational risk management, with particular emphasis on issues such as fraud, information security, business continuity and personal data protection.

The Bank's operational risk profile continues to be low-moderate, within the residual risk zone approved by the Board of Directors.

7.6. Strategic Risk Management System (SARE)

All the Bank's strategic risks and controls were reviewed and updated in conjunction with the Strategic Management Department and the process leaders who execute the corporate strategy. In this way, the strategic risk profile was updated, which is within the framework of the Bank's risk appetite. During the period under evaluation, no strategic risks were identified in the "critical" residual zone.

7.7. Information Security and Business Continuity (ISMS) Management System

The Information Security Management System was strengthened through the management of access control in the applications that have a security module, achieving greater control in the segregation of functions and assignment of privileges for collaborators, and leaving as input a matrix that allows recognizing the applications to which employees must have access from the beginning of their activities in the Bank.

As a result of the situation the world is experiencing due to the Covid-19 pandemic and the Bank's challenges regarding information security under the occasional work-at-home modality, a consultancy focused on the immediate actions to be taken to strengthen cybersecurity management in this aspect was carried out.

As far as personal data protection is concerned, the knowledge of the people in charge of the Integral Personal Data Protection Program was strengthened and the analysis of personal data from the merger with Arco was performed. Similarly, reports of new developments, PQR (claims) and incidents were prepared and registered before the National Registry of Databases (RNBD).

7.8. Environmental and Social Risk Management System (SARAS)

During 2020, the Bank's SARAS was evaluated and the project to update this system was started, due to an international technical cooperation effort and with the support of a recognized consulting firm in environmental and social issues. Among the main scopes of the project were identified activities such as the strengthening of the environmental and social risk reporting and disclosure system, the positioning as a reference in terms of SARAS in the country and in the region, and the alignment with the most updated international standards.

7.9. Asset Laundering and Financing of Terrorism Risk Management System (SARLAFT)

Bancóldex continued the implementation and maintenance of SARLAFT to prevent and mitigate the risks of asset laundering and financing of terrorism (AL/FT) in its operations, as well as to strengthen such system, incorporating adjustments on the due diligence of knowledge of clients, and to prevent and control such risks in the businesses and operations received as a result of the merger by absorption of Arco Grupo Bancóldex.

The monitoring of Phase 2 products in the Advanced Compliance Risk Manager (ACRM) customer and transaction monitoring system was completed, customers and their operations were monitored, alerts and unusual issues were managed and the regulatory reports on SARLAFT, as well as the specific requirements of the different competent authorities, were made in a timely manner. Similarly, the SARLAFT Manual was updated, including requirements from control entities and adjustments in policies, procedures, and segmentation methodologies, as well as the evaluation of risk factors.

SARLAFT training was also provided to the Bank's officers, including those coming from the merged entity, continuing with the awareness of the importance of preventing and controlling AL/FT risks, through the timely action of the different lines of defense. The evaluation of risk factors and the AL/FT risk profile by risk factors, associated risks, and the Bank's consolidated risk, both inherent and residual, was updated and monitored, maintaining the latter within the level approved by the Board of Directors.

System to comply with FATCA (Foreign Account Tax Compliance Act) and CRS (Common Reporting Standard)

In 2020 and in compliance with the provisions outlined by FATCA Act, the Bank kept its status as a participating Foreign Financial Institution (FFI) registered with the United States Internal Revenue Service (IRS). Bancóldex also enhanced due diligence procedures on entities acting as intermediaries and financial institutions that had connections or conducted business with the Bank. Additionally, actions were taken to respond to the requirements made by other local and international financial entities concerning FATCA and CRS (Common Reporting Standard) of the OECD (Organization for Economic Cooperation and Development).

8. Internal Control System

Bancóldex' Internal Control System (SCI) is based on applicable models and current practices of internal control (Internal Control Standard Model -MECI- within MIPG¹¹, CIC (Internal Accounting Control), and COSO® 2013 (Committee of Sponsoring Organizations)). These frameworks comply with the requirements for the "Internal Control System" of financial institutions that according to the Basic Legal Circular Letter¹² are supervised by the Financial Superintendence of Colombia. This model focuses on supporting the continuous improvement of the organization, seeking to optimize or establish best control practices for different processes, elements and components of the management systems, particularly the risk management, quality and security systems.

As far as the independent assessment function is concerned, the Internal Comptroller's Office of the Bank, which is responsible for the independent assessment process, implemented the Annual Audit Plan following the risk-based priorities approved by the Audit Committee of the Board of Directors in 2020. Risk-based control assessments were performed using management systems and processes; and the selective checks of compliance with the strategic and operative actions of the entity were conducted. In addition, work was performed in the role of accompaniment or consultation specifically requested by the processes, which meant an additional way of adding value to the organization.

The Audit Committee of the Board of Directors was informed about the recommendations and opportunities for improvement derived from the internal audit management. The Committee was aware of the impact and took part in monitoring the actions undertaken under the corresponding improvement plans to check the implementation of these recommendations.

On the other hand, under the methodology of the General Accounting Office of the Nation, Resolution 193 of 2016, the Bancóldex' internal accounting control system was rated as "efficient" in the evaluation carried out in 2020 on the 2019 fiscal year, obtaining a score of 4.85 out of a maximum of 5.

During the year, the Bank received an on-site inspection visit from the Financial Superintendence of Colombia on the specific management of the lines "Responde" to respond to the emergency generated by Covid-19. Similarly, the Bank continued to follow up on the institutional aspects of previous visits regarding operational risk and

¹¹ MIPG: Integrated Planning and Management Model, Decree 1499 of 2017.

¹²Part I, Title I, Chapter IV.

business continuity, AL/FT risk, internal audit and aspects related to liquidity and profitability.

Similarly, the Bank received the financial audit visit on the 2019 fiscal year by the General Comptroller's Office of the Republic, which resulted in a favorable opinion on the financial statements and budgetary management of the Bank, in the verification of compliance with the previous improvement plan, and in the consequent signing off on the 2019 account. This audit did not generate observations or improvement plan.

The Bank managed and complied with the commitments derived from the improvement plans subscribed with other control bodies such as the General Archive of Colombia. Such plans have been established and approved by the relevant authorities.

At the end of 2020, neither the Administration nor the internal or external Bank control bodies nor the audit committee detected fraud, malicious mistakes or manipulations of the financial information prepared and disclosed by the Bank, nor were there significant weaknesses that could jeopardize the effectiveness of the internal control system or the Bank's strategic goals.

9. Legal status of Bancóldex

At the end of the 2020 financial term, Bancóldex maintains its legal regime as a Colombian mixed-economy company. It is incorporated as a banking credit establishment and it is not assimilated to the regime of industrial and commercial companies of the State, regardless of the State's share in its capital. However, despite its nature as a public entity, Bancóldex abides to the Private Law legal regime regarding its transactions and contracts, in accordance with the legal and regulatory provisions governing this area; thus, enabling the bank to be competitive in activities that provide financial support to entrepreneurs.

In accordance with the provisions of Article 1 of Decree 492 of 2020, on August 13, 2020, the Ministry of Commerce, Industry and Tourism requested the transfer of its participation in Bancóldex on behalf of the Ministry of Finance and Public Credit and the latter, on September 24, 2020, contributed as capital of Grupo Bicentenario S.A.S. the totality of its shareholding. As a result of the foregoing, Grupo Bicentenario S.A.S. has a 99.72% share in Bancóldex. The Nation - Ministry of Finance and Public Credit is a 99.99% shareholder of Grupo Bicentenario.

It should be noted that numeral 1 of Decree 492 of 2020 established that the corporate governance of the entities belonging to Grupo Bicentenario will maintain the representation of the sectors to which it is linked.

Regarding the regulations issued in 2020 that are related to Bancóldex' activity, it is pertinent to highlight, among others:

- i) Decree 468 of 2020 whereby the National Government authorized new operations to Bancóldex within the framework of the economic, social, and ecological emergency. In order to comply with this regulation, Bancóldex launched the "Direct Support Line" to grant credits at subsidized rates directly, aimed at financing projects and activities of SMEs in the manufacturing, trade, and services sectors, in order to overcome the crisis or prevent the extension of its effects.
- ii) Decree 492 of 2020, whose applicability to Bancóldex was described above.
- iii) Decree 575 of 2020, whereby the National Government allocated resources from the Colombian general budget to the National Fund for the Modernization of the Cargo Vehicle Fleet, so that the Ministry of Transportation could sign agreements with the Bank to promote access to credits in order to mitigate the economic effects of Covid-19 on the provision of public transportation services. As a result, "Transporte Responde 2" was created.
- iv) External Circular Letters issued by the Financial Superintendence of Colombia, whereby instructions were given to adopt the Debtors Accompaniment Program (PAD). The Board of Directors approved the program in accordance with the particularities of the Bank's operations as a second-tier bank, as well as with respect to the operations incorporated as a result of the merger with the subsidiary *Arco Grupo Bancóldex Compañía de Financiamiento*.

On the other hand, as of the date of this report, Bancóldex together with Fiducóldex, the Bank of the Republic and the Ministry of Foreign Affairs, is involved in two ordinary labor proceedings brought by associate members, deputy members and directors of the commercial offices of Colombia abroad, who rendered their services between 1967 and 1992. Their claims are based on the recognition of pension contributions by the aforementioned entities.

Finally, and notwithstanding the requirements established by the Asset Laundering and Financing of Terrorism Risk Management System, it shall be recorded that Bancóldex administrators did not hamper the free movement of invoices issued by providers. This statement is recorded under the terms set forth in Article 87, Paragraph 2 of Law 1676 of 2013, "Whereby access to credit is promoted and rules on movable collaterals are issued", complemented by Article 7 of Law 1231 of 2008, "Whereby the invoice is

unified as a security as a funding mechanism for micro, small and medium-sized entrepreneurs, and other provisions are issued."

10. Corporate Governance

Complete information concerning the Bank's corporate governance may be found in the annual corporate governance report. This document is an integral part of this annual report and it is available on the Bank's website under the link "information of interest to shareholders and investors."

This report highlights the management of the Corporate Governance, Nominating and Compensation Committee in the following aspects: i) follow-up of the 2020 action plan on organizational climate; ii) follow-up of compliance with corporate indicators and corporate strategy; and iii) participation and follow-up in the external consultancy on the Bank's corporate governance structure, as a consequence of the absorption of Arco Grupo Bancóldex and the expansion of the portfolio of direct credit and leasing products.

With respect to the aforementioned external consultancy, it should be noted that its purpose was to make a diagnosis of the Bank's corporate governance structure as a consequence of the absorption of Arco Grupo Bancóldex, establish the recommendations that would allow improving the structure and proceed to implement those approved by the Board of Directors. Further details of the results of the consultancy are presented in the annual corporate governance report 2020.

Similarly, two virtual update sessions were held in 2020 for the Board of Directors' members of Bancóldex and Fiducóldex. The topics to be updated were: good business practices from an investor's point of view with Dr. Gabriel Hasson, VP Latam Investment Stewardship - BlackRock; economic agenda after the crisis and the role of development banks with Dr. José Antonio Ocampo, former Minister of Agriculture and former Minister of Finance; digital transformation trends in financial services with Dr. Diego Herrera Falla, Financial Markets Leader - BID, and managing cyber risk during Covid-19 and remote work with Dr. Olga Botero, Partner & Managing Director C&S.

11. Environmental and social sustainability

Bancóldex has a social and environmental risk management system (SARAS), approved by the Board of Directors, which was designed to identify and evaluate the environmental and social risks of credit operations, as well as to establish mitigation measures to reduce the potential impact of the risks identified.

Accordingly, Bancóldex' present and future activities support the growth of the Colombian business sector by working on the protection of the environment and societal welfare. The bank promotes the rational use of natural resources in its operations to cause the least possible environmental impact and it designs financial and non-financial products aimed at mitigating and adapting to climate change and generating social benefits.

Bancóldex, in coordination with the Presidential Advisory Office for Human Rights, integrates the initiative of the Commerce, Industry and Tourism sector on the implementation of the National Action Plan on Human Rights and Business to support the protection of human rights in business activities.

Bancóldex conducted its 2019 sustainability report, compared to 2018, under GRI standards. The report history is available on the website since 2012.

Bancóldex is also part of the group of banking institutions involved in the preparation of the Bank's sustainability report in Colombia, which will be published in the next banking convention organized by the Association of Banking and Financial Entities of Colombia – ASOBANCARIA.

12. Related Party Transactions

To the date of this report, the Bank ensures that its operations are duly implemented in accordance with applicable regulation. The operations performed by the Bank with its partners and administrators comply with the general policies of the institution. These operations are duly specified in note 31 (related parties) to the financial statements.

The Bank did not perform transactions or operations with partners or administrators with different characteristics to those performed with third parties, nor did it provide free or compensated services, or interest-free loans or any consideration, except those related to employment, governed by articles 152 and 153 of the Substantive Labor Code.

13. Subordinates

Fiducóldex, incorporated on October 31, 1992, is a Colombian indirect mixed-economy company, where Bancóldex holds 89.32% share.

Over the course of 2020, the Bank carried out direct administration operations with Fiducóldex, such as contracting the global banking policy. Additionally, Fiducóldex dividends were received for the 2019 financial term broken down as follows: COP \$2,567,507,200 in cash and the rest in shares for a total amount of COP \$2,874,500,600.

As of 2017, the fiduciary was to administer the following special programs: Business Growth Management Unit -Innpulsa Colombia, and Productive Transformation Program (currently, Colombia Productiva) previously managed by Bancóldex. It is worth noting that Fiducoldex is the administrator of the Aureos Colombia FCP private equity fund, where Bancóldex is an investor.

On the other hand, prior to August 1, 2020, when, as indicated above, the merger by absorption with Arco Grupo Bancóldex was formalized, the Bank had an 87.78% share in said mixed economy entity of indirect creation, not attached or linked to any ministry and assimilated to an industrial and commercial enterprise of the State.

Moreover, the Bank performed credit portfolio operations, treasury operations and administration operations with Arco Grupo Bancóldex prior to the merger. The operations were related to global banking policy and the project to align Bancóldex with its subsidiaries. Additionally, the General Shareholders' Meeting approved share capitalization of the profit generated in 2019 for an amount of COP \$5,676,166,500.

Bancóldex has a framework agreement for shared services with Fiducóldex. The agreement seeks to take advantage of the synergies between the Bank and its subsidiary, provided it does not imply, in any case, the delegation of its professional capabilities.

Lastly, it should be noted that the relation between Bancóldex and its subsidiaries is characterized by independent business management and decision making, which is limited by the benefit the client may obtain from the products and services offered by each of the entities.

14. Other capital investments

At the end of December 2020, Bancóldex held investments in the Latin American Export Bank -Bladex (1.34%), the National Guarantee Fund (7.3%) and the Credit and Foreign Trade Insurance Company (*Aseguradora de Crédito y de Comercio Exterior*) -Segurexpo (49.93%).

15. Intellectual property and copyright

Bancóldex acts in accordance with the Law by implementing defined policies on the acquisition of technology and the use of licensed software. It has also put in place internal control procedures that seek to ensure satisfactory compliance with the regulations.

16. Performance of disclosure and control systems

In compliance with the provisions set forth in articles 46 and 47 of Law 964 of 2005, *Banco de Comercio Exterior de Colombia S.A. Bancóldex* (Foreign Trade Bank of Colombia, Limited Liability, Bancóldex) certifies that the financial statements and other relevant public reports do not contain defaults, inaccuracies or errors that may conceal the Bank's real equity situation or the transactions conducted. Additionally, the disclosure and control systems used by the entity to incorporate the information contained in such financial statements and public reports are suitable, based on reliable information, and they undergo audits conducted by the Bank's internal Comptroller's Office and the tax Audit under the supervision of the Audit Committee.

17. 2021 Prospects

The Bank's 2021 disbursement target is COP \$7.9 trillion, which represents 17% growth compared to the disbursements made in 2020. The Bank will focus on supporting economic reactivation with its portfolio called "Adelante" credit lines, which will be designed with longer terms and better conditions. This will also be accompanied by the impacts from the approaches defined in the corporate strategy.

The Bank has planned to achieve this disbursement target by focusing on the following action lines:

- 1. Productivity of MSMEs:** Bancóldex will seek to disburse COP \$1.3 trillion to microenterprises in 2020 through its network of microenterprise credit entities. This will benefit over 130,000 microenterprises. Similarly, the Bank will seek to allocate 45% of disbursement operations to female microentrepreneurs; 15% to municipalities included in PDET and Zomac¹³ areas; and 15% to companies that

¹³ PDET municipalities (Development Program with Territorial Approach): 170 municipalities. Zomac municipalities (areas affected by the armed conflict): 344 municipalities.

have been affected by violence, expanding coverage to 650 municipalities throughout the country.

Furthermore, 2021 will be a year of significant benefits for small and medium-sized enterprises. More than 10,000 SMEs are expected to benefit from more than COP \$3.3 trillion in loans, which accounts for 32% growth compared to 2020.

2. **Financing the Orange Economy:** The Bank will continue to support companies in the creative and cultural industry with a COP one-trillion disbursement target. This goal includes disbursements worth COP \$100 billion to "pure orange" companies¹⁴, which corresponds to a 15% increase compared to 2020. On the other hand, 80% of new companies¹⁵ are expected to access credit and 25% of disbursements are expected to be directed to orange microenterprises.
3. **Green growth:** The Bank expects to disburse COP \$350 billion for green growth in 2021.

These disbursements are expected to achieve the main following results:

- Reduce greenhouse gas (GHG) emissions from the companies the Bank finances by 40,000 tons of CO2 per year (37,000 in 2019).
- Reduce energy consumption from the companies the Bank finances by 130 Gw/hour per year (100 in 2019).
- Fund 80 green projects (25% more than in 2019).

4. **Provide support to exporting companies:** The Bank will seek to disburse COP \$1.5 trillion in 2021 and benefit over 1,100 exporting companies. This target will be accompanied by actions determined by the Bank such as creating a credit line exclusively for exporters with the support of the Ministry of Commerce, Industry and Tourism. The bank plans to launch a new exchange hedging product for exporters in 2021.
5. **Bancóldex as a public policy instrument - Program to Promote Economic Reactivation:** In order to promote the reactivation of companies, Bancóldex will carry out several actions through the Program to Promote Economic Reactivation. This program seeks to disburse COP \$300 billion through competitive MSME lines with grace, rate, and term benefits for the financing of micro and small enterprises that develop green projects, for Orange Economy companies and Companies of Collective Benefit and Interest (*Empresas de Beneficio e Interés Colectivo-BIC*).

¹⁴ Correspond to the 34 CIUS of purely cultural and creative activities.

¹⁵ New companies that have not received Bancóldex credits in the last 2 years.

Bancóldex expects to disburse COP \$500 billion in 2021 with the portfolio called "Líneas Adelante."

Within the framework of Decree 468 of 2020 and with the objective of supporting economic reactivation, the Bank has a quota of COP \$400 billion for direct credit aimed at SMEs.

- 6. Fund of Funds:** Bancóldex' goal is to reach COP \$370 billion in active funds managed under the Fund of Funds in 2021. Similarly, the network of investment funds is expected to be expanded with six (6) new funds approved by the Investment Committee.

Financial Perspectives

2021 seems to be a challenging scenario from several perspectives. From the commercial perspective, the bank seeks a considerable increase in the disbursement target compared to the figures observed in 2020. From the credit risk perspective, there may be portfolio deterioration due to the country's economic situation.

Under this scenario and in order to ensure financial sustainability and growth, the following strategic actions are proposed to guarantee profits and results:

1. The increase in the Bank's financial margin will be supported by an ambitious placement strategy, which exceeds COP \$6 trillion for the peso portfolio in 2020, with a significant expectation for placements of the SME Direct Credit Vice-Presidency products.
2. **Debt structure in pesos:** In order to adjust the peso funding structure in accordance with the expected placements for 2021 in terms and rates, funding activity will concentrate on the short end of the curve (up to 18 months), where there is greater efficiency in funding costs.
3. To support the funding strategy, the share of institutional savings account funding or other short-term instruments is expected to increase, thus improving the total funding mix in pesos and its contribution to the financial margin.
4. COP \$6.3 trillion will be required for the projected disbursements. Funding will be obtained from TDCs and institutional savings accounts.

5. **Debt structure in dollars:** By 2021 Bancóldex will continue to meet its funding needs in foreign currency through the negotiated quotas that Bancóldex has with correspondent banks and multilateral organizations.
6. **Expenditure efficiency:** Bancóldex remains committed to expenditure austerity. Therefore, including resources to handle strategic projects and technological developments of the entity to run the business in 2021, operating expenses¹⁶ increased 13.9% from the 2020 operating expenses, less growth than the expected increase in the financial margin before provisions. This demonstrates the Bank's commitment to financial sustainability and profit generation. The budget is ranked at 37.5% in terms of the efficiency indicator, measured as the relation of operating costs over the gross financial margin.

18. Subsequent events

The Administration is not aware of any important events that may have occurred between the close of the 2020 fiscal term and the date of submission of this report that could affect its scope or interpretation.



Javier Díaz Fajardo
President

¹⁶ Excluding taxes

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