

Report of the Board of Directors and the President to the General Shareholders' Meeting 2018

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Introduction

In 2018, Bancóldex registered outstanding performance. It achieved disbursements of COP 4.81 trillion, which are the highest in the history of the Bank and represent growth of 37% compared to the previous term. Moreover, the Bank financed over 110,000 companies throughout Colombia, an increase of 41% compared to 2017. The Bank retained its philosophy of serving businesses of all sizes and, within this area, it is highlighted that 40% of all disbursements were credit to SMEs and 17% to microenterprises.

The Bank continued to perform its role as a policy instrument to the National Government, providing financial support to businesses affected by economic difficulties and situations such as strikes and natural disasters, among others. The disbursements for special lines with contributions from the National Government and regional authorities represented COP 1.31 trillion.

In terms of support to foreign trade, the Bank paid COP 1.52 trillion to 978 export companies, which confirms its support to the export sector and the internationalization of the Colombian economy.

Under its commitment to supporting, strengthening and financing green growth, the Bank disbursed COP 343,723 million in lines exclusively directed to sustainable development and energy efficiency projects of the business sector, which represented growth of 628% compared to 2017.

In order to strengthen the acquisition strategy focused on optimizing the cost of funding and managing liquidity, two specific bonds were issued: Social Bonds and Orange Bonds. The demand for the Social Bonds, worth COP 400,000 million, was 4.17 times the value offered, and the demand for the Orange Bonds, also worth COP 400,000 million, was 2.9 times the value initially offered.

Externally, the global economy slowed down slightly¹. The outstanding growth rates observed in the US economy were countered by a slowdown in Europe and a moderation of the course in China. Additionally, the trade tensions that arose between the United States and some of its trade partners, particularly China, led to downward pressure in the growth of the global economy and devaluations in financial markets. Meanwhile, the main central banks continued to normalize their monetary policy. Moreover, oil prices recovered, and the average price rose by USD 17 per barrel, although it ended the year with a downward trend.

¹ In the IMF World Economic Outlook Update of January 2019, annual growth of 3.7% is estimated for the global economy of 2018, slightly lower than the 3.8% recorded in 2017.

On a local level, economic activity accelerated as a result of the improved performance of private consumption and exports. Inflation returned to the official target range, marking a downward trend throughout 2018. Similarly, the current account deficit reduced slightly compared to 2017, whereas, according to estimates, the Government deficit would have fulfilled the target set by the Fiscal Rule. In this area, the Finance Law, which was processed by the Legislature at the end of the year, will make it possible to finance part of the increase - implemented by the Government - to the General Budget of the Nation for 2019. Based on this context, the Central Bank of Colombia implemented two reductions to its intervention rate during the year, therefore maintaining the real rate of the monetary policy in a slightly expansive economic sector.

In August 2018, the Bank carried out a strategic planning exercise with the members of the Board of Directors and the Administration in order to determine, in general terms, the direction of Bancóldex in the medium and long term. This was the first strategic planning exercise carried out with the full participation of the Board of Directors, and it defined the following strategic lines and transversal lines of action. These will be the Bank's action framework over the next four years of the current Administration, and they will be aligned with the strategic sector planning of the Ministry of Commerce, Industry and Tourism and based on the National Development Plan:

1. Bancóldex as a Development Bank
2. Bancóldex as a Public Policy instrument
3. Export Promotion
4. Mitigation of climate change and promotion of alternative energies
5. Support competition and productivity with emphasis on MiSMEs and entrepreneurship
6. Direct credit as a new business line
7. Financial Sustainability
8. Bank Digitalization
9. Human Talent
10. Bancóldex Group

Lastly, on December 18th, 2018, Dr. Mario Suárez Melo resigned as president of Bancóldex after 15 months managing the entity. In January 2019, the Board of Directors of the Bank appointed Dr. Javier Díaz Fajardo as the new Bancóldex president, and he took office on February 4th, 2019.

The full management report of the Bank for 2018 is presented below.

1. Economic performance in 2018

In 2018, the global economy was dominated by three main factors: i) outstanding growth rates in the US economy, downturn in Europe and moderation of Chinese dynamics; ii) trade tensions that led to downward pressure in the growth of the global economy; and iii) the main Central Banks standardized their monetary policy. At a local level, economic activity grew, inflation returned to the official target range and the current account deficit displayed a slight upward trend, whereas the Government deficit, according to estimates, would have fulfilled the target set by the Fiscal Rule. Based on this context, the Central Bank of Colombia (BanRep) implemented two reductions to its intervention rate during the year.

For its part, the US economy grew by 2.9%² in 2018, its highest rate since the period prior to the financial crisis of 2008, leveraged by the Tax Reform of the Donald Trump Administration at the end of 2017. Additionally, the US economy ended the year with full-employment levels and an unemployment rate of 3.9% in December and core inflation of 2.2%³, higher than the official target of 2%. In the Eurozone, however, economic expansion fell from 2.4% in 2017 to 1.9% in 2018. In regards to China, its economy grew by 6.6%, the lowest growth rate in 27 years.

The aforementioned economic performance developed in a context of trade tensions between the world's largest two economies, which shook investors' confidence. In June 2018, Donald Trump's Administration decided to impose a tariff of 25% on imported Chinese goods worth USD 50 trillion, which will come into force in the following two months. This decision was based on the considerable trade balance deficit maintained by the US in favor of China. Its balance rose to USD 344 trillion in 2018⁴. At the end of the year, the rapprochement between the two powers led the US president to postpone the tariff increase from 10% to 25% for 3 months (until March 1st, 2019), in order to negotiate an agreement which is beneficial to the US economy in that period.

In this scenario, the Federal Reserve (Fed) carried out its most aggressive cycle of rate increases in 13 years, increasing interest by 100 basis points (bps) to 2.5%. It was followed by the Bank of England, which increased its rate by 25 bps, placing it at 0.75% at the close of 2018. The Central European Bank (CEB) fulfilled expectations by maintaining stable rates at historic lows of 0% and announcing that it would conclude its debt purchases as of

² Projections for the global economy are in accordance with those published by Consensus Forecast in its January 2019 edition. Estimates for Colombia correspond to the economic projections made by the Grupo Bancóldex Economic Research Area.

³ Source: Bloomberg.

⁴ Source: US Bureau of Economic Analysis.

January 2019. The Bank of Japan (BoJ) acted likewise, maintaining negative interest (-0.1%) with a balance of around USD 5 trillion⁵ that continues to grow.

In this international context, the Colombian economy exhibited positive performance amidst a downward inflation trend and a slightly expansive monetary policy. It is estimated that the Gross Domestic Product (GDP) grew by 2.7% in 2018, greater than the 1.8% expansion registered in 2017. However, it is still significantly below the potential GDP which, according to measurements, would be approximately 3.3%. According to forecasts, private consumption increased by 2.6%, recovering compared to the 1.8% of 2017, whereas gross fixed capital investment fell from 3.4% to 2%.

Growth in government spending also slowed, falling from 4% to 3.5%. The performance exhibited by exports was considerably more positive, with expected growth of 2% in 2018 in contrast with the shrinkage of 0.5% shown the year before. This course is mainly associated with the recovery of the Brent Crude oil price which, in 2018, was USD 71.1 on average per barrel, higher than the average recorded for 2017 which was USD 54.7 per barrel⁶. In this context, the average exchange rate demonstrated a slight annual depreciation of 0.3% at COP 2950⁷. Forecasts predict an import growth of 1.9% in 2018, above the 0.4% shown in 2017.

At the end of the year, inflation was 3.18%⁸, lower than the figure for the 2017 close, 4.09%, and it ended within the target range (between 2% and 4%) for the first time since 2014. In line with this, the Central Bank of Colombia maintained a downward trend in its intervention rate, and it implemented two interest reductions of 25 bps in the meetings of January and April, closing the year at 4.25%. Externally, it is estimated that the current account deficit will close the year at 3.3% of GDP, slightly lower than the 3.4% presented in 2017. Finally, forecasts predict that the government deficit will meet the target set by the Fiscal Rule for this year, which is 3.1% of the GDP.

2. Financial Sector⁹

In 2018, entities of the financial system maintained a lower course compared to the one historically registered. The lowest economic growth rate was reflected in the behavior of new loans, particularly in the business segment and in the deterioration of the credit portfolios of most financial intermediaries, even though, at a lower speed than what was shown in 2017. Nevertheless, the levels of liquidity and solvency of the financial system remained at proper levels and reflected the strength of Colombian banking.

⁵ Source: Bloomberg.

⁶ Source: U.S. Energy Information Administration.

⁷ Source: Central Bank of Colombia

⁸ Source: DANE (National Administrative Department of Statistics).

⁹ Includes solely credit institutions.

With this in mind, during the last year, the credit risk of the financial sector improved its profile, which is evidenced in portfolio quality indicators (as for delinquency as for risk profile) which reached the highest levels in the last 9 years¹⁰. It is worth noting that the difficulties encountered by several businesses of the corporate sector¹¹ had an impact on the portfolio quality indicators reaching 11,9%. This becomes particularly relevant in view of the fact that this segment participates with 54,1% of the system's gross portfolio. Similarly, the financial system has made a considerable effort in terms of provisioning, allowing them to maintain coverage¹² in adequate levels and to protect the portfolio from additional damage.

Moreover, the impact of provisions on profitability, was compensated to a large extent by a better net margin of interests, which was favored by the expansive policy of the Bank of the Republic and in a fewer proportion, by the valuation of investment portfolios. The latter, has been reflected in an increase of nearly 50% in the net result¹³, which in turn is evinced in profitability indicators¹⁴.

As for the liquidity of the system, the liquidity risk indicator (LRI) reflects that credit Institutions have enough liquid resources to comply with short term obligations¹⁵. Despite this, in 2018, low growth of traditional financial sources (savings and term deposits) was observed, in line with a low course of portfolios. On the other hand, the Colombian financial system encounters a relevant market risk, given the FED's forecast on interest rate rise for 2019 and 2020; if this happens at greater speed than expected, it could lead to the liquidation of foreign positions and to the generation of significant devaluation of fixed income securities.

Finally, credit establishments maintained a moderate internal capital generation, which is evinced by a basic and total solvency margin of 16,5% and 11,3%¹⁶, respectively; so that regulatory minimum levels of 9,0 % and 4,5% remained within the average of the past two years. According to the estimates of the Central Bank of Colombia (Banco de la República), the Colombian financial system maintains high resilience to negative events, with which, even under stress scenarios¹⁷, solvency indicators would remain above regulatory limits.

¹⁰ 4.85%: delinquency and 10.11%: risk profile, by the end of November 2018.

¹¹ Particularly in infrastructure, construction, transportation and energy sectors.

¹² Delinquency Coverage 128.4% and Risk Profile Coverage 61.6%, by the end of November 2018.

¹³ By the end of November 2018, the net result was COP 10.14 trillion

¹⁴ ROAA 1.70% and ROAE 11,98%

¹⁵ Banks (303%), Financial Corporations (301%), Financing Companies (297.8%) and Financial Cooperatives (272%). Figures as at September 2018, latest figures available.

¹⁶ Figures as at November 2018.

¹⁷ The stress scenario comprises a strong local economic downturn, difficulties regarding international financing, higher materialization of credit risk and foreign investors withdrawal from the local debt market.

Similarly, advances in terms of risk management and proper Corporate Governance practices allow the financial system to rely on the capacity to absorb endogenous and exogenous shocks.

3. Bancóldex as a Development Bank

3.1. Management and Achievements 2018

In the last quarter of 2017, the Bank established a strategy focused on stimulating disbursements.

Different main strategic focuses were established to achieve this purpose, aimed at consolidating Bancóldex as an instrument of public policy that contributes to business growth, provides clearly support to the Colombian export sector, and offers a strengthen rediscount scheme and a new line of operations for direct credit. Similarly, in the mid-term, the Bank was determined to become the national leader in stimulating and financing green projects that contribute to the mitigation and adaptation to climate change and the generation of clean and renewable energies.

Providing special support services to micro-enterprises was also ratified as a relevant focus for the Bank, and a policy was designed to strengthen entities dedicated to provide financial loans to micro-enterprises – EOCM (Business Finance Institutions for micro-enterprises) – and to broaden this partner network to serve a larger number of micro-entrepreneurs throughout the country.

The most important results of activities in 2018 are listed below:

Disbursement increase:

In 2018 the Bank focused on stimulating disbursement operations, delivering 37% more than in 2017. Disbursements increased from COP 3.5 trillion to COP 4.81 trillion. This benefited more than 111,000 entrepreneurs nationwide and surpassed the 79,000 entrepreneurs assisted the prior year.

To reach disbursement targets, the Bank implemented a pre-accession strategy with financial brokers at different levels and deepened the relations with relevant stakeholders in the business sector such as chambers of commerce, trading unions and associations in order to design new lines of credit to fit their particular needs.

Along with the National Government and the Ministry of Commerce, Industry and Tourism, the Bank designed different credit lines under special conditions, aimed at supporting the business sector, such as Competitive MiSMEs and support lines for micro and small enterprises. In 2018, disbursements operations carried out through special lines of credit amounted to COP 1.31 trillion. 2018 was the year when the Bank received Government and territorial funding for special lines of credit with lower rates than commercial rates.

Conversely, correspondent banks abroad were reactivated; thus, loans for USD 156 million were granted in 2018.

Strengthening micro-enterprises:

During 2018, 11 new microfinance institutions joined the EOCM network, accounting for 79 entities. This allowed Bancóldex to reach more micro-enterprises, thus expanding its coverage in the country. Likewise, the Bank complied 110% with the disbursement target in this segment as it deployed loans to the micro-entrepreneurial segment for COP 880,355 million through 107,593 operations.

Green growth:

The bank financed more than COP 343,723 million through lines exclusively allocated to green projects for sustainable development and energy efficiency of the business sector. Hence, the company was able to meet and surpass the 264% target. The Bank also promoted the policy of no financing means of transport powered by polluting fuels such as diesel thus setting an example in the financial sector to contribute to the improvement of air quality.

Strengthening the Colombian export sector:

The Bank continued to play the role of international trade promoter by supporting the internationalization of the economy with an emphasis on market diversification and making use of opportunities generated by the FTA. To meet the above target, COP 1.52 trillion was disbursed to 978 exporting companies.

Capital Bancóldex Program:

Through the Capital Bancóldex Program, 2 new commitments were made for entrepreneurial equity fund investment; one of them is aimed at having a social and environmental impact. Additionally, an existing commitment with the *Amerigo Venture Pacífico* entrepreneurial capital fund was also extended. In this context, Capital Bancóldex

has made investment commitments for COP 183,777 million in 14 multi-sector funds. Thanks to these investments, resources of COP 1 trillion have been mobilized to 67 Colombian enterprises in different sectors and stages of growth; resources disbursed by the Program are multiplied 8.5 times.

Issuance of Social Impact Bonds:

On May 24th, 2018, Bancóldex issued COP 400,000 million in Bancóldex Social Bonds, whose demand exceeded COP 1.2 trillion (4.17 times the value offered). Thus, Social Impact Bonds became the first bonds on the stock market to offer a social benefit.

The main objective of issuing social bonds is to promote the financial inclusion of micro- and small enterprises by focusing on financing rural businesses and companies owned by women and victims of the Colombian armed conflict.

Issuance of Orange Bonds:

In order to provide financial support to Orange Economy companies in their startup and growth phases, on November 29th, Bancóldex issued and placed the first orange bond in the world for COP 400,000 million. Its demand reached COP 867,000 million, 2.9 times the value auctioned.

Non-financial Services:

- In order to complement the range of non-financial services offered and strengthen the portfolio of non-financial products and services, the implementation of agreement 392 between Bancóldex and the Ministry of Commerce, Industry and Tourism was negotiated. The objective of this partnership is to offer non-financial services encompassing advisory programs, training programs, project structuring and production of valuable knowledge to promote the strengthening of business networks in the country and its regions.
- The Institutional Strengthening Program was developed for entities whose purpose is to provide micro-credits; 73 entities and 433 officers in 20 cities were benefited by this program. During this phase of the program, different activities (workshops, virtual courses, seminars and video conferences) on risk management, strategies, secured transactions and corporate government were conducted.
- During the first semester of 2018, the "Strengthening of Regional Capacities" Program was executed in partnership with the Chamber of Commerce in Barranquilla. 15 companies obtained specialized consultancy services (6 companies on competitive

strategies and 9 of them on corporate government) and 10 local consultants built their capacities in these areas.

- More than 260 entrepreneurs received training through Bancóldex Virtual Campus on costs, price fixation, marketing and customer service.
- Datlas Colombia was strengthened through the inclusion of information on the agricultural sector (one of the most important sectors with the highest potential in the country). The report *Intelligent Diversification: possibilities of diversification and refinement of the metal-mechanic industry in Colombia*, based on Datlas information, was published in conjunction with the Chamber of Commerce of Cartagena and Ruta N of Medellín.
- Accompaniment to 14 companies through the Delta Program was concluded. These companies were able not only to structure projects for corporate growth with technological and innovation development components worth over COP 30,000 million but also to apply to the tax-saving instrument managed by Colciencias.
- The "Accompaniment program for structuring sustainable development projects" was designed and launched. The program seeks to ensure that 11 companies from different cities of the country have the necessary specialized technical equipment to conduct the technical and financial assessment of markets in order to validate the feasibility of their projects and activate their investment decisions. This accompaniment is expected to contribute to the establishment of a Green Bank whose purpose is to serve as a reference for companies and entities interested in replicating or strengthening these types of investments.
- The "Buenaventura Action" program was developed through a partnership among Bancóldex, the Ministry of Commerce, Industry and Tourism (MinCIT), *Los Andes* University and the Chamber of Commerce of Buenaventura. It is an action program focused on generating productive transformation in three prioritized chains in the area: Port-Logistics, Tourism and Cocoa, through the implementation of management models such as the Sustainable Enterprises Network (RedES-CAR), and the Sustainable Agribusinesses (MAS).

36 companies of the port-logistics and tourism sectors joined the program, which resulted in 33 project proposals for cleaner production processes. Similarly, 38 cocoa productive units of Associations and Community Councils also participated in the program. These producers received technical and managerial training and were connected to markets by introducing them to potential clients and by participating in trade fairs.

Regional Advisory Councils:

In order to bring the Bank's management closer to regions, Regional Advisory Councils were created in Cali, Barranquilla, Bucaramanga, Medellín and the Coffee Zone during the first quarter of the year. Such councils are made up of recognized businessmen from each region and are directed at responding -in a differentiated manner- to the needs of each of these areas by guiding the Bank's decision making process in the regions.

These spaces have provided Bancóldex with greater and better understanding of the economic and cultural dynamics of the region; thus, more suitable products and services have been developed. The Bank has had access to the entire contact network of companies and institutions involved and has obtained special support in the implementation of its regional strategy. During 2018, 10 sessions of the Regional Advisory Councils were held.

Concessional financing and international non-reimbursable resources:

During 2018 the Bank made progress on the execution of the resources of the Inter-American Development Bank (IDB) with the Clean Technology Fund (CTF) for energy efficiency projects and non-conventional renewable energies in non-interconnected areas.

Progress was also made in the negotiation of a credit program between KfW Germany and Bancóldex for USD 100 million aimed at financing green growth. Additionally, the Bank has worked along with the European Investment Bank in the structuring of a credit line of approximately EUR 100 million. A percentage of the amount financed is expected to be directed to credit operations for MiSMEs and large companies located in post-conflict or stabilization areas.

Within the framework of the accreditation process by the Green Climate Fund (GCF), Bancóldex obtained a first positive response from the Fund after reviewing the supporting documents; the Bank will be able to move forward on the accreditation process which, upon completion, will provide Bancóldex with concessional and non-reimbursable financial resources for green operations.

Additionally, during 2018, resources from technical and non-reimbursable financial assistance initiatives were managed with international entities to support the Bank's strategic undertakings in order to structure environmental impact projects, strengthen microfinance and the orange economy and bridge the existing gaps to access more sophisticated international sources of financing.

Institutional Optimization:

In 2018, changes were made in the organizational structure to achieve greater operability by adjusting the requirements posed by the strategy.

Throughout 2018, some positions were eliminated as a result of structure efficiency adjustments and some vacancies that were not filled. The adjustments in the structure generated savings of COP 2,100 million.

The Commercial vice-presidency changed its organization to platforms; 5 new specialized groups were formed to attend: a) financial intermediaries; b) business banking; c) special businesses; d) microfinance and e) marketing.

Similarly, the following changes were made in the organizational structure to make it more efficient:

- Relocation of the Capital Funds Department to the Financial Vice-presidency.
- Relocation of the Consulting and Training Office to the Strategic Planning Management.
- Relocation of the Document Management Process to the Operations Department.
- Relocation of the Administrative Services Department to the General Secretariat.

On the other hand, in order to approach the direct credit new business line, the structure of the Risk Vice-presidency was adjusted. The Directorate of Direct Credit Risk was created; staff members with specific skills to conduct risk analysis for this type of credit were hired. A human resources team was also added to the Strategic Planning Management Office to measure the impact and the results of the programs carried out.

Savings Account:

In December 2018, Bancóldex launched Institutional Savings Accounts; as a result, part of the liabilities in Term Deposit Certificates and Bonds will be replaced and the Bank's short-term funding conditions will be improved.

Lastly, in December the Bank launched a new website. This webpage is designed to provide entrepreneurs, financial brokers and the general public with the opportunity to learn about the products and services the Bank offers.

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

During 2018, Bancóldex participated in the financial strategy which is part of the Sector Strategic Plan led by the MinCit, with the following initiatives:

7 PES Strategy – Financing:

- **Initiative: Disbursement to increase the productivity of micro-enterprises**
Deliverable: disbursements (credits) of COP 539, 896 million to increase the productivity of micro-enterprises.

Progress: during 2018, Bancóldex disbursed credits for COP 880,355 million; 163% compliance of the target was achieved. The outstanding results for this indicator were achieved thanks to the permanent provision of credit lines for this business sector, such as the “Competitive MiSME” credit line.
- **Initiative: Operations conducted by export companies that are beneficiaries of Bancóldex financial products**

Deliverable: 1,500 operations conducted for export companies that are beneficiaries of Bancóldex financial products.

Progress: for 2018, Bancóldex had set the target of conducting 1,500 operations for export companies. At the end of 2018, the Bank had completed 1,977 operations, thus, achieving 132% compliance of the target.
- **Initiative: Disbursements to export companies that are beneficiaries of Bancóldex financial products**

Deliverable: COP 1 trillion disbursed to export companies that are beneficiaries of Bancóldex financial products.

Deliverable: during 2018, COP 1. 41 trillion were disbursed to companies that carry out foreign trade transactions, achieving 141% compliance of this indicator.

3.3. Compliance of SINERGIA¹⁸ goals for 2018

Operations of export companies that are beneficiaries of Bancóldex financial

products: throughout the year, 1,977 operations were disbursed worth COP 1,41 trillion; 950 export companies were benefited and the period goal was met by 132%. The Bank's goal for 2018 was to disburse 1,500 operations to this corporate segment.

For the four-year period between 2015 and 2018, 5,700 operations with export companies were considered the goal. At the end of this period 6,287 operations worth COP 4.97 trillion had been performed, achieving 110% compliance of the established goal.

Investment Commitment in Private Equity and Entrepreneurship Funds: Bancóldex goal of investment commitments in capital funds through its program "Capital Bancóldex" for 2018 was COP 126,343 million.

During 2018, resources for COP 183,777 million in 14 equity funds were pledged. Consequently, 145% compliance of the goal was achieved, hence, expected results were widely exceeded.

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. The objective of this program is to promote access and use of financial services to low-income families; micro, small and medium companies; and entrepreneurs. The program executes the Financial Inclusion Strategy adopted by the Intersectoral Committee on Financial Inclusion, created by the National Government in 2016. This program is managed by Bancóldex.

Over the past year, important milestones regarding financial inclusion have been reached. In terms of financial coverage, the availability of at least one point of access in each of the 1,102 Colombian municipalities was maintained, and fragile coverage occurred in only 5 municipalities. The financial inclusion indicator -that measures the percentage of adults with access to formal financial services- went from 80.1% to 81.3%

¹⁸ Goal System set by the Government of Colombia. Through this System, the Government and citizens can follow up -in a detailed manner- social and economic policies within the framework of the Development National Plan.

between December 2017 and September 2018. As for microcredits, 1,786,326 worth COP 7.46 trillion were granted by September 2018.

In order to reach these milestones, Opportunity Banking worked on three different fronts: projects for financial inclusion and financial education focused on the most vulnerable population and MiSMEs in the country, as well as follow up and monitor the status of financial inclusion through its different reports and studies.

In 2018, six strategic financial inclusion projects were executed. Border Regions with Venezuela is one of the abovementioned projects which accomplished the inclusion of more than 15 thousand new people into the financial system. Carried out in partnership with the Desjardin Canadian cooperation, another project fostered credit for small business. Another one provided financial services for pensioners.

Within the framework of the National Strategy for Business and Financial Education, the Opportunity Banking program developed an articulated and cooperative relation with public entities in order to develop content, materials and methodologies focused on vulnerable population and MiSMEs; it also carried out training programs for trainers.

Regarding the follow-up and monitoring of the status and evolution of financial inclusion in the country: i) the Annual Financial Inclusion Report of 2017 was redesigned and published; ii) results of the second Study on Demand in Financial Inclusion 2017 were published; iii) results of the first Study on Demand in Financial Inclusion -Insurance were published; iv) the four Financial Inclusion Quarterly Reports were redesigned and published; v) reports published at the Opportunity Banking web site were strengthened and adjusted; vi) our technical publications were distributed in specialized magazines and websites; and vi) complementary financial inclusion reports were produced.

5. Risk Ratings

In 2018, Fitch Ratings confirmed the local ratings of F1+ and AAA awarded to BancólDex for the short and long term respectively, with a stable outlook. 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 February 2018.

As regards foreign currency rating, Fitch Ratings Inc. maintained the BBB rating with a stable outlook. This was based on the sovereign rating of the Republic of Colombia by this Rating Agency in November 2018.

6. Financial Management

The 2018 term was characterized as a year when the financial system continued to adjust to the economic impacts experienced since 2014. This process has led to the materialization of credit risk, a reduction in profit generation due to the existence of greater provisions, as well as stagnation in portfolio growth.

However, the performance of Bancóldex was different to that of the sector. Loans granted represented COP 4.81 trillion, thus, the budget target was fulfilled by 101%. The portfolio net balance increased 18% compared to the previous year. This increase was leveraged by labeled bond issuances, Term Deposit Certificates oriented towards the short end of the curve (taking advantage of the reduced market spreads for such terms) and synthetic COP/USD transaction structuring (short-term Swap) through which the Bank obtained pesos at competitive rates together with the strategy to reduce funding costs.

In addition to the above, Bancóldex updated the internal credit risk assessment model for the rediscount portfolio which enabled the release of provisions, therefore reflecting the best risk profile of its main clients. These factors led the Entity to generate net profit of COP 107,633 million, which not only meets the budget for the year by 116% but also sets a record in the history of the Bank.

Despite good commercial management in terms of disbursements, the total credit portfolio showed a reduction of COP 10,535 million (7%) in the net interest margin compared to the previous year. This reduction is explained by the following factors:

- Reduction in the average loan term: volatility in the exchange rate plus the increase in the FED reference rate affected the demand for foreign currency resources in the long term. As a consequence of the foregoing, operations disbursed in foreign currency were concentrated on the short term (95% of all operations), which caused a reduction in the interest income of this portfolio linked to lower loan spreads.
- Increase in the cost of resources of Multilateral Banking: during 2018, the Inter-American Development Bank (IDB) increased the cost of credit disbursed at a regional level. This variation in the deposit interest rate, in addition to the weight of the resources with this multilateral bank, resulted in an increased cost of mixed foreign currency resources and, therefore, in the reduction of the net interest margin of this business.

As far as the investment portfolio is concerned, it presented 91% budget fulfillment of the financial margin. This performance must be highlighted considering that the bond market was characterized by a global situation of rising rates.

Given the complex local and international context, the management of the Bank's interest rate portfolios focused on maintaining an investment amount close to COP 900,000 million, with short duration and concentrated on highly-liquid stocks and shares enabling greater portfolio rotation, which is necessary to achieve results for the year.

The following initiatives are highlighted among those implemented in financial management and Capital Funds management during 2018:

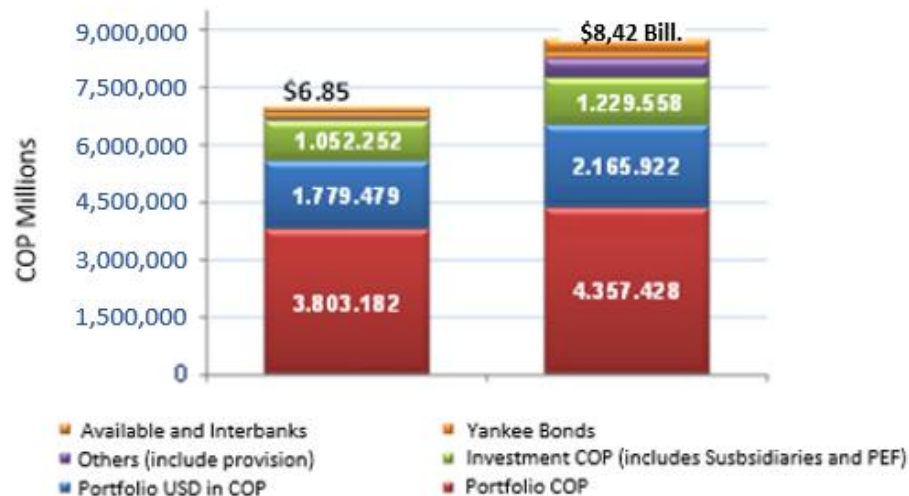
- Structuring and issuance of the first Social Bonds in Colombia, an initiative funded by the State Secretariat for Economy Affairs of Switzerland (SECO) and with the technical support of the IDB. The issuance, worth COP 400,000 million, achieved demand equivalent to 4.2 times the auction value and attracted the interest of 402 investors. By issuing social bonds to fund loans from micro and small enterprises to vulnerable groups in Colombia, Bancóldex is promoting a fairer and more inclusive society, improving the quality of life of vulnerable citizens and supporting economic growth and the fulfillment of the Sustainable Development Goals.
- Structuring and issuance of the first Orange Bonds in the world; this initiative received technical support from the IDB. The issuance made in November 2018 for COP 400,000 million achieved demand equivalent to 2.9 times the auction value and attracted the interest of 322 investors. The resources of these bonds are aimed at credit lines for companies of the creative and cultural industries in Colombia.
- Due to the reduced demand for credit in dollars in the long term, Bancóldex received approval from the Board of Directors and the Ministry of Finance and Public Credit (as debt guarantor) to carry out a debt management operation for the last individual loan signed on October 18th, 2018 with the IDB for USD 90 million. Conversion of credit into local currency will enable the Bank to improve its funding structure since this adjusts the financial conditions of liabilities to the needs of Bancóldex and to the portfolio demand, which results in optimization of the credit lines with the correspondent bank and access to funding in pesos in more favorable conditions.
- In August 2018, the first Green Bonds report was carried out, thereby complying with the investors who, in 2017, trusted in the Bank's ability to direct these

resources to credit lines to finance business projects with a positive environmental impact.

- In June 2018, a loan agreement worth USD 35 million was signed, under competitive conditions, with the Official Credit Institute of Spain (ICO) in order to promote Spanish investment in Colombia and foreign trade between the two countries, launching a special credit line directed towards assisting companies that fulfill these conditions.
- The Bank, through the Bancóldex Capital program, decided to broaden its investment in venture capital by establishing two new investments: i) it signed the investment commitment for the Acumen social-impact venture capital fund, which includes Colombia as a target market; and ii) preapproved an investment commitment in the ALLVP venture capital fund, whose investment thesis is based on technology ventures for health, finance, digital consumption and intelligent cities services; with a strong investment focus on Colombia.

The main financial results for 2018 compared to the previous year are presented below:

Assets

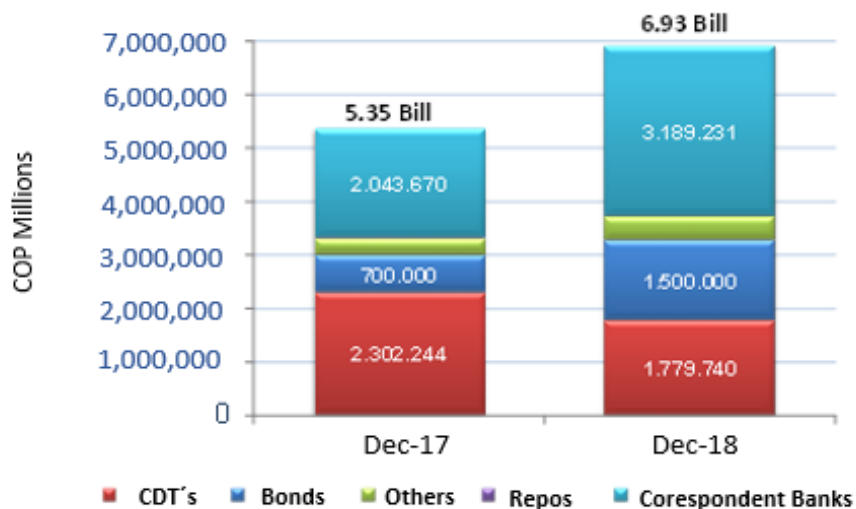


Compared to December 2017, the Bank’s assets displayed growth of COP 1.57 trillion (23%). During 2018, levels of credit placement reached COP 4.81 trillion, making it possible to increase the gross portfolio balance by COP 940,689 million compared to the previous year (17%). Additionally, it is important to highlight that the level of portfolio provisions fell by COP 39,709 million as a result of the changes to the provisioning model for the rediscount portfolio. These two factors place the variation

in the net portfolio balance at COP 980,397 million (18%) when compared to the end of the previous year.

On the other hand, the Bank's liquidity represented in available and portfolio investments also registered growth of COP 387,928 million, which can be explained by the liquidity generated by the issuance of orange bonds at the end of November 2018, as well as the disbursement of the IDB loan at the end of December, worth USD 90 million, which will be converted into pesos in 2019.

Liabilities



Compared to December 2017, the Bank's liabilities increased by COP 1.57 trillion (29%). This growth can be explained by the increased acquisition of resources with correspondent and multilateral banks; worth COP 1.14 trillion, which fulfills the use of quotas to meet the Bank's total credit demand. In addition to the above, resource acquisition in pesos showed a COP-289,699-million increase as a result of the maturity of Certificates of Deposit worth COP 522,504 million and the issuance of Social Bonds and Orange Bonds worth COP 800,000 million.

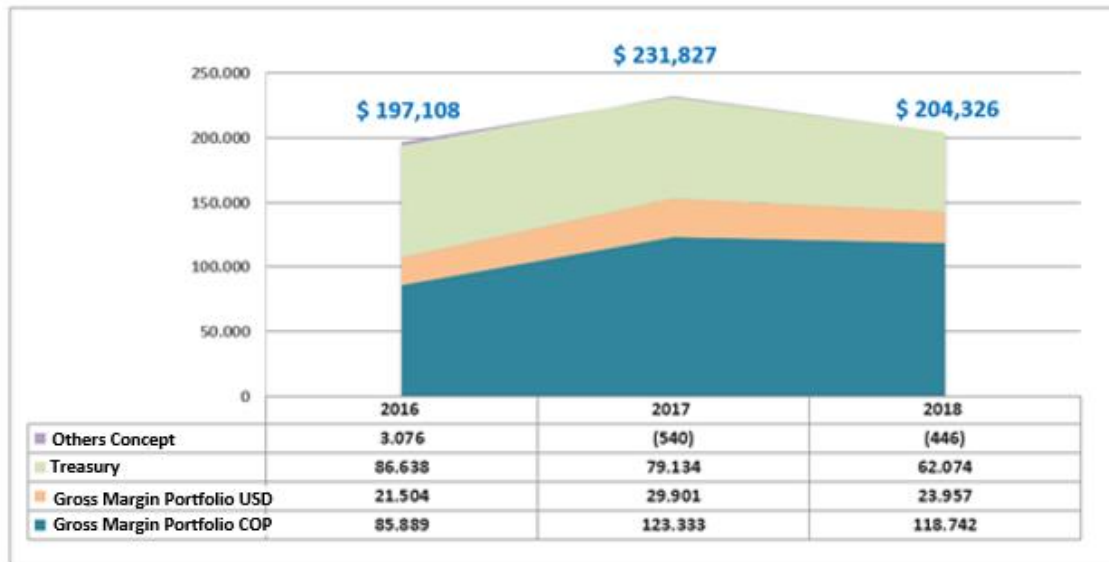
Equity

The equity of the Bank increased by COP 3,247 million compared to December 2017. This result can be explained by the following factors:

- Greater income accumulated in the period worth COP 24,768 million

- Reserve increase of COP 2,844 million
- Reduction of surplus by COP 24,365 million as a result of the investment portfolio which affects other comprehensive income (OCI) in a context of increasing rates

Financial Margin



The gross financial margin for 2018 presented a reduction of COP 27,501 million (12%) compared to the previous year. The correction in the bond market in pesos, followed by a slowdown in the demand for long-term resources (both in pesos and dollars) explain the negative variation in this figure compared to 2017.

In terms of the net interest margin, the portfolio in pesos accessed more competitive resources thanks to the way the bank managed funds thus mitigating some of the lower revenues received as interest. As far as the foreign currency portfolio is concerned, both placement and funding had a negative effect on the net interest margin generated.

Net interest margin	2017	2018	Variation
Portfolio margin COP	1.87%	1.84%	- 0.03 bps
Portfolio margin USD	1.72%	1.57%	- 0.15 bps

Profit

The accumulated profit at December 2018 (COP 107,633 million) was COP 24,768 million greater than the accumulated profit in the same period of 2017. Despite the

correction presented by the bond market in pesos which to a large degree explains the decrease in the gross financial margin, the movement of portfolio provisions showed a reimbursement of COP 40,456 million more in comparison to the previous year; enabling growth of COP 12,955 million in the net financial margin.

The policies implemented in 2018 to improve efficiency and contribute to expenditure austerity are reflected in the reduced level of operating expenses which, compared to 2017, decreased by 5% (COP 3,625 million). This is coupled with the reduced levels of spending in taxes (COP 7,279¹⁹ million), which contributed to greater profit generation in 2018.

7. Risk Management

7.1. Credit Risk Management System (SARC)

During 2018, Bancóldex continued to strengthen the credit granting and monitoring process for the different types of debtors, especially those relating to business direct credit. Thus, some adjustments were made to the policy framework for direct credit to companies and to the methodology and policies regarding structured credit assessment within the financial and environmental components; and structured credit policies and methodologies were established. This was accompanied by the creation of a direct credit management unit for companies.

On the other hand, in line with the implementation of the IFRS 9 standard, expected loss estimation models were reviewed and adjusted for all customer segments and the methodology for calculating provisions was adjusted. Regarding financial intermediaries, both national and international, periodic monitoring of customers continued to be carried out, among others, based on risk rating and early warning system models.

7.2. Market Risk Management System (SARM)

The periodic review process of market risk limits, which responds to the changes in the Treasury's business model, was made in the first quarter of 2018. The market risk limit update was set in accordance with the vocation and business model of portfolios.

Moreover, as a result of the on-site inspection carried out in the second half of 2018 by the Financial Superintendence of Colombia in order to assess the liquidity management and the Bank's market and liquidity risk management, a work schedule

¹⁹ Due to reduced equity tax

which finalizes the first quarter of 2019 was established. Among the activities listed in the plan, which finalized at the end of 2018, the following aspects are highlighted:

- Definition of a procedure to validate the suitability of the value at risk estimation results of the portfolio, which are obtained from applications used by the Bank to perform such measurements.
- The *backtesting* validation model was reviewed and adjusted to complement the methodology for measuring the value at risk. This will allow capturing the materiality and validity of the failures that may occur in the internal model.
- Activities to define appetite, tolerance and capacity for market risks were performed in order to set the Risk Appetite Framework (RAF) for Bancóldex, whose overall objective is being the link between the business strategy, the risk management system and the operational management of the Bank in such a way as to ensure the achievement of the stated objectives in an efficient way.

7.3. Liquidity Risk Management System (SARL)

The liquidity risk appetite framework was defined in 2018 at an individual level, including definition of metrics under which limits are established regarding the strategic objectives of the Entity.

Moreover, in order to address one of the recommendations after the on-site inspection carried out in the second half of 2018 by the Financial Superintendence of Colombia, the Liquidity Contingency Plan (PCL in Spanish) was updated with the inclusion of qualitative variables to activate the foresaid Plan directly. Furthermore, the temporary liquidity supports (ATL) with the Central Bank were included as a funding strategy since Bancóldex already implemented the dematerialization process of portfolio promissory notes.

In the context of the Savings Account product, limits and alerts required to manage the volatility and concentration of investors who capture resources through this product (MRP, Concentration by depositor, concentration of liabilities) were submitted for approval by the Board of Directors. Also, a minimum amount was defined for the portfolio of liquidity support so that Bancóldex may keep a liquid resource “cushion” to address unexpected withdrawals of resources in a timely manner.

7.4. Operational Risk Management System (SARO)

The risk self-assessments and controls were employed in 2018 to review all of the Bank’s operational risks and controls. Likewise, event management was used as a

complement to the update of process operational risk maps. This made it possible not only to implement action plans which addressed specific and cross-cutting issues related to processes but also strengthen controls within the organization.

The *Monitor Plus* tool was adjusted and refined. It enables monitoring transaction fraud in the Savings Account product. Additionally, the governance model to manage potential fraud events in savings accounts was implemented.

Regarding the detection phase of potential fraud and corruption situations, Bancóldex ethical line remained available to the Bank and its stakeholders; plus, the policies and a transactional fraud management model have been developed.

Work on key risk indicators (KRIs) was completed in order to strengthen synergies with Bancóldex subsidiaries, Arco and Fiducóldex in regards to the Operational Risk Management System (SARO). SARO is currently fully aligned with the three entities.

7.5. Information Security and Business Continuity (ISMS)

The Cyber-security Risk Management System was strengthened in 2018 in coordination with Bancóldex subsidiaries as part of the synergies and risk analysis of the conglomerate, thereby fulfilling Cyber-security regulations at a 100%. Bancóldex also participated in the work groups, thus following the industry, trade and tourism guidelines on critical infrastructure of the country.

As far as business continuity is concerned, the project to update the Business Impact Analysis (BIA) of Bank processes was completed, and new guidelines were established to adjust operational and technological strategies.

7.6. Conglomerate Risk Management System

The Bank Administration continued to strengthen its alignment with its subsidiaries in the areas of risk management and it reinforced the monitoring framework for the foresaid entities. Thus, within the 2018 framework of general and specific risk policies, the conglomerate made progress in the areas of definition and adjustment of risk appetite, risk tolerance and capacity for credit, market, liquidity and operational risks, the definition of Key Risk Indicators (KRIs), the construction and alignment of the Strategic Risk Management System, and the update of the assessments of risk factors of Asset Laundering and the Financing of Terrorism such as jurisdiction and economic activities. Similarly, the Bank continued to strengthen its participation in committees related to risk management in its subsidiaries.

The risk management consolidation process at individual and conglomerate levels will continue to be consolidated during 2019.

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

Throughout 2018, Bancóldex continued to implement and maintain SARLAFT to prevent and mitigate the risks of asset laundering and financing of terrorism (AL/FT) in the operations it performed and to strengthen such system. The Bank also updated the SARLAFT Handbook with a policy and methodology to assess AL/FT risks according to economic activities, identification and analysis of unusual operations, warning signs, operation monitoring methodologies and segmentation of risk factors, as well as the technological infrastructure to support SARLAFT.

Similarly, the new Advanced Compliance Risk Manager System (ACRM) was deployed with customer profiling and customer and transaction monitoring. It included Phase I products and progress was made in developing and testing Phase II products. The control application was updated to counteract reported AL/FT activities; and it includes new functionalities and an interrelation with the banking core and the new monitoring system. SARLAFT training was also carried out with Bank officials concerning the updates to the system and the handbook, customer knowledge due diligence, cases and irregularities and alert management, as well as AL/FT risk prevention workshops for microcredit entities.

Moreover, the AL/FT risk profile was updated and monitored based on risk factors, associated risks and the Bank's consolidated balance sheet. Both inherent and residual risks were considered and the latter remained at the level approved by the Board of Directors. Finally, all mandatory reports on SARLAFT and the specific requirements of different relevant authorities were addressed in a timely manner.

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

Under the 2018 provisions of FATCA, the Bank maintained its status as a Foreign Financial Institution (FFI) participating before the Internal Revenue Service (IRS) of the United States. The Bank completed the update of FATCA due diligence of the intermediaries and financial institutions the Bank kept links or operations with; and responses were given to the requirements from 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 in Internal Control (Internal Control within MIPG²⁰, CIC (Internal Accounting Control) and COSO (Committee of Sponsoring Organizations)), as well as on the provisions of the "Internal Control System" for financial institutions supervised by the Financial Superintendence of Colombia, in the Basic Legal Circular Letter. The Internal Control model aims for permanent improvement of the organization, seeking to optimize and develop best practices in different processes, elements and components of the management systems, particularly the Risk Management, Quality, Prevention and Security systems.

As a result of the Financial Audit conducted by the Office of the Comptroller General (CGR) during the first half of 2018 regarding the 2017 term, this supervisory body issued an "unqualified opinion" on the Financial Statements of the Bank. It rated the financial internal control with a score of 1.34, corresponding to the "Efficient" category, demonstrating the suitable design and effectiveness of the controls in the financial process. It rated budget execution as "Reasonable", confirming that the programming and execution of the budget for the audited period complied with budgetary regulations. On the basis of accounting and budgetary considerations, the CGR closed the Bancóldex Tax Account for the 2017 term. Additionally, the CGR verified the effectiveness of the Improvement Plan by comparing the accounting and budgetary findings of previous terms, concluding that "the effectiveness of actions proposed by Bancóldex was **100%**".

According to the methodology of the General Accounting Office of the Nation (CGN) (Resolution 193 of 2016), in the 2017 term evaluation, the Internal Accounting Control System was rated as "Efficient" and obtained a score of 4.83 out of 5.

During the year, the Bank was visited by other control bodies: by the Financial Superintendence of Colombia, regarding specific matters related to liquidity and trade risk management; by the Stock Market Self-Regulating Body (AMV), regarding aspects related to the prevention, detection and control of potential manipulative practices in the foreign exchange market, fulfillment of obligations to customers, managing conflicts of interests, internal control and certification duties, documentation and operations recording; and by the General Archive of Colombia, in inspections aimed at verifying all aspects related to the current archival standards, transparency law and other regulatory provisions, under Decree 1080 of 2015. Relevant action plans derived

²⁰ MIPG: Integrated Planning and Management Model, Decree 1499 of 2017.

from these inspection, surveillance and control exercises have been properly executed by the management with the knowledge and monitoring of the Audit Committee.

In 2018, the Internal Comptroller's Office of the Bank, which manages the Internal Audit process, executed the Annual Audit Plan in accordance with the risk-based priorities approved by the Audit Committee of the Board of Directors. Risk-based control evaluations were performed using management systems and processes, as well as verifications of compliance with the strategic and operative actions of the entity.

The Audit Committee of the Board of Directors was kept informed on the recommendations and opportunities for improvement resulting from the Internal Audit management. The Committee was aware of the impact of each of them and took part in results monitoring for the corresponding improvement actions plans, enabling verification of the adoption of these recommendations.

At the end of 2018, 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 provided by the Bank. No significant weaknesses that might compromise the effectiveness of the Internal Control System were reported either.

9. Legal Status of Bancóldex

At the end of the 2018 financial term, Bancóldex maintains its legal regime as a Colombian mixed-economy company. It is affiliated to the Ministry of Commerce, Industry and Tourism, organized as a credit establishment and 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 maintains a Private Law legal regime regarding its transactions and contracts, in accordance with the regulatory and legal provisions governing this area, enabling it to be competitive in activities to support entrepreneurs financially.

On the other hand, on the date of this report, Bancóldex, along with Fiducóldex, the Central Bank of Colombia and the Ministry of Foreign Affairs, is involved in five ordinary labor lawsuits filed by Assistants, Associates and Directors of the Colombian overseas trade offices, who rendered services between 1967 and 1992. During 2018, a final verdict was reached for two of the five cases, and one (1) new case was filed during the second half of the year. These cases seek the recognition of pension contributions by the aforementioned entities.

Finally, and without prejudice to 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. The aforementioned statement is recorded under the terms set forth in Article 87, Paragraph 2 of Law 1676 of 2013, "which promotes access to credit and outlines rules on secured transactions", complemented by Article 7 of Law 1231 of 2008 "which unifies the invoice as a title value as a funding mechanism for micro, small and medium-sized entrepreneurs and enacts other provisions".

10. Corporate Governance

Complete information concerning the Bank's corporate governance can be found in the Annual Corporate Governance Report. This document is an integral part of the present annual report and is available on the Bank's website under the link "Information of interest to shareholders and investors".

In accordance with best corporate governance practices, the dynamics of the Board of Directors was redesigned, centering its discussions on strategic aspects of the Bank.

Similarly, in response to the recommendations of the Corporate Governance Committee, a third-party evaluation was performed in order to evaluate the Board of Directors as a collegial body in terms of the efficiency of its meetings and best practices. The results of this evaluation were highly satisfactory.

11. Social and Environmental Sustainability

Bancóldex has a Social and Environmental Risk Management System (SARAS), adopted by the Board of Directors, to identify and evaluate the social and environmental risks of credit operations, as well as to establish mitigation measures to minimize potential losses arising from them.

In that sense, in its present and future activities, Bancóldex supports the growth of the Colombian business sector by working for the protection of the environment and the welfare of society. It favors the rational use of natural resources in its operations in order to generate the lowest environmental impact, and it designs financial and non-financial products aimed at mitigating and adapting to climate change and generating social benefits.

In 2018, the Board of Directors decided not to finance the acquisition of vehicles that increase pollution in cities by using fuels that produce greenhouse gases and

atmospheric pollutants, mainly the particulate matter associated with diesel combustion. Instead, the Board decided to use funding to boost the adoption of clean energy sources, such as gas and electricity.

The foregoing is framed within the Bank's decision to adopt green financing practices that lead to the generation of a portfolio focused on financing technologies with the highest environmental standards, in accordance with the best international practices for the urban public transportation sector.

Within the framework of the initiatives promoted by the National Government to raise standards in transparency, information disclosure, prevention of corruption and promotion of human rights in state entities, the Bancóldex Board of Directors adopted the public statement of respect for Human Rights, in accordance with the parameters provided by the General Directorate of State Holdings. This statement can be found on the Bank's website.

Moreover, the Sustainability Report for the 2017 financial term was published. It was produced under the guidelines of the *Global Reporting Initiative, GRI, Standard* version, in its essential option. It provides continuity to the last report published, for the 2015 – 2016 financial terms; by means of it, the Bank's interest groups may compare the progress of the Bancóldex strategy in terms of the main economic, environmental and social results for the two terms mentioned.

The content of the report was the result of the materiality analysis carried out by the Bank through questionnaires directed to its own interest groups. The full document can be found on the Bank's website through the "Commitment to Sustainability" link.

12. Transactions with related parties

On the date of this report, the Bank ensures that its operations are duly implemented in accordance with applicable regulations. 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 30 (related parties) of the financial statements.

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

13. Subordinates

Fiducóldex, incorporated on October 31st, 1992, is a Colombian indirect mixed-economy limited company, in which Bancóldex owns an 89.92% share. Arco Grupo Bancóldex is an indirect mixed-economy company, which is not attached to or affiliated with any Ministry and it is similar to an industry and commercial State-owned enterprise, in which Bancóldex has an 87.45% share.

Over the course of 2018, the Bank carried out direct administration operations with Fiducóldex such as contracting the global banking policy and the continuation of the project to align Bancóldex and its subsidiaries. Additionally, Fiducóldex dividends were received for the 2017 financial term and, as of 2017, the Fiduciary was to administer the following special programs: Business Growth Management Unit – Innpulsa, and the Productive Transformation Program previously managed by Bancóldex. It is worth noting that Fiducóldex is the administrator of the Aureos Colombia FCP Private Equity Fund, in which Bancóldex is an investor.

Moreover, during 2018 the bank performed credit portfolio operations, treasury operations and administration operations with Arco Grupo Bancóldex. The operations were related to the global banking policy and the project to align Bancóldex and its subsidiaries. Additionally, the General Shareholders Meeting approved share capitalization of the profit generated in 2017, for which Bancóldex received 838,424 shares.

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

Progress was made in the following activities within the alignment framework of Bancóldex and its subsidiaries during 2018: the risk policies framework for Grupo Bancóldex was implemented; seven group selection and recruitment processes were carried out, which enhanced efficiency for Bancóldex and its subsidiaries; service agreements were activated to generate greater efficiency between entities; risk appetite and strategic risk methodologies were designed; the Grupo Bancóldex Strategic Talent Committee was put into force and the centralization of payroll for the three entities in Fiducóldex was approved.

Lastly, it is important to note that independence in business management and decision making is a premise of the relation, 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, 2018, Bancóldex maintained investments in the Latin American Export Bank - BLADEX (1. 3%), the National Guarantee Fund (25. 73%), and the Credit and Foreign Trade Insurance Company (Aseguradora de Crédito y de Comercio Exterior) - SEGUREXPO (49. 63%).

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 order to comply with the provisions set forth in article 46 and 47 of Law 964 of 2005, the *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 reports of public domain 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. 2019 Prospects

The Bank's disbursement target for 2019 is COP \$5.7 trillion, which represents 19% growth from disbursements made in 2018. The Bank has planned to achieve this goal by focusing on the following strategic management guidelines:

1. **Bancóldex as a public policy instrument:** Bancóldex will – as usual – follow the guidelines established by the National Government aimed at promoting business growth with the objective of increasing the productivity and competitiveness of Colombian enterprises. The Bank has set the goal to disburse COP 1.6 trillion on special credit lines in 2019.

- 2. Financing foreign trade and the internationalization of the business sector:** The Bank will continue to prioritize the support to the export sector through different business lines both financial and non-financial, taking into account its initial mandate as Colombia's Foreign Trade Bank.

For this purpose, collective work will be carried out with trade unions to promote and finance companies exporting at the bottom of the pyramid and/or in the production and marketing chains of products related to foreign trade. Similarly, Bancóldex will join efforts with Procolombia to promote financing of exports on the part of government trade representatives abroad.

Bancóldex will play a significant role in financing and issuing the guarantees that facilitate service exports and the promotion of direct investment in Colombia and from Colombia to other countries.

In terms of financing, the Bank has planned to disburse COP 1.3 trillion in 2019 to support the Colombian export sector.

- 3. Green Growth: mitigation and adaptation to climate change:** The Bank will continue to support the promotion of renewable energies. In the mid and long term, it will maintain the promotion and the infrastructure of renewable energies. Likewise, it will support the widespread implementation of sustainable transport through project structuring, agreements and financing.

The 2019 target is to disburse COP 320,000 million to finance green projects, provide support in the structuring of 20 green projects, continue with the accreditation process of the Green Climate Fund and manage reimbursable and non-reimbursable concessional resources of international entities (KFW Bank of Germany, Inter-American Development Bank -IDB, among others).

- 4. Entrepreneurship and productivity of MiSMEs (Micro, Small and Medium Enterprises):** Promoting the productivity and competitiveness of mainly micro, small and medium-sized enterprises has been defined by Bancóldex as a strategic focal point. The foregoing is in line with the strategic proposal raised by the MinCIT and the National Government.

The Bank has established action lines in the following areas for 2019:

Entrepreneurship:

- The Bank's goal for 2019 is to identify new investment opportunities in Venture Capital Funds with the Bancóldex Capital program; and to start the Entrepreneur Capital compartment of USD 20 million directed at investments in Venture Capital Funds.

Assistance to micro-enterprises:

- The 2019 goals for this segment are to disburse COP 976,000 million, continue with the program to strengthen microfinance institutions and integrate them into the EOCM²¹ Fintech network so that they may have alternative colocation schemes in order to reduce the costs of microenterprise credit.

Assistance to SMEs

- The 2019 goal is to disburse COP \$2.08 trillion to support small and medium enterprises in Colombia. Similarly, the Bank seeks to develop new guarantee schemes, define a regional action model for the Bank and implement the platform for electronic invoice discount in order to upgrade *Liquidex*.

Financing the Orange Economy

- The Bank's 2019 disbursement target to support the Orange Economy industries is COP \$230,000 million. Additionally, 2 co-investments in cultural and creative companies in Colombia will be analyzed by Bancóldex Capital. The Bank will also participate in the Productivity Factories program in partnership with the Ministry of Trade, Industry and Tourism.

- 5. Direct credit to businesses:** for operations that fulfill specific eligibility criteria in terms of the investment type, credit risk, guarantees and added impact of such operations.

The objective for 2019 is to disburse COP 600,000 million in direct credit operations for projects that contribute to the business sector's mitigation of and adaptation to climate change; promote production chains and industry re-conversion; impact exportation growth; and medium and long-term projects, amongst others.

The organization established internal cross-cutting action lines, which contribute to the fulfillment of the goals set for this year, which are:

1. Efficiency: ensure that Bancóldex remains the most efficient financial entity in the country, achieving an efficiency rating of 30.7% (participation of administrative expenses in the gross financial margin) and maintain a rhythm-shift attitude in the organization to fulfill goals.
2. Strengthen Human Talent in the Bank.

²¹ EOCM: Business Finance Institutions for Micro-Enterprises

3. Enter the Digital Economy.
4. Continue to strengthen Grupo Bancóldex.

Financial Perspectives

The 2019 forecast is a challenging scenario from the commercial viewpoint, bearing in mind that the disbursement target has increased to COP 5.7 trillion, 19% higher than the demand for resources served in 2018.

The set goal includes significant support to the export sector, deepening the microfinance market, boosting green lines; and supporting the orange economy and continuing to promote credit to all Colombian entrepreneurs.

In this context, and in order to ensure the financial sustainability of the Bank, the following strategic actions are proposed to guarantee profit generation:

- Investment portfolio: the portfolio strategy for 2019 includes maintaining a level of investment close to COP 800 billion focused on the short and middle part of the yield curve. The purpose is to protect the profit and loss statement from potential devaluations due to upward movements in the yield curve. However, given the high volatility and possibility of more relaxed monetary policies worldwide, the duration of portfolios could be increased in the short term in order to contribute to the profitability of the Bank.
- Debt structure in pesos: The monetary policy adopted by the Central Bank of Colombia is expected to modify the trend in 2019, leading to an intervention rate close to 4.60%. This expectation has produced a flattening in the acquisition curve; therefore the Bank's strategy will be focused on the middle part of the curve (18 to 36 months), where funding costs are more efficient given that no bank reserve costs are generated.
- Within this strategy, a considerable portion of funding is included through the Savings Account, reaching levels close to 20% of total liabilities (COP 849,000 million), thereby improving the total mix of funding in pesos and its contribution to the financial margin.

To cover the projected disbursements, it is expected that around COP 1.9 trillion will be required in resources: 50% to fund CDs, 15% for Bonds, 15% with the Multilateral Bank and 20% through the Savings account, which is ready to operate as of January 2019.

- Debt structure in dollars: for 2019, Bancóldex requires funding in foreign currency worth USD 233 million, which will be completely funded through Correspondent Banking and Multilateral Bodies.
- Spending efficiency: Bancóldex remains committed to spending austerity, for this reason, resources are included to handle strategic projects and technological developments of the Entity in 2019. Operating costs²² only increased by 2.4% compared to the level implemented in 2018. This demonstrates the Bank's commitment to financial sustainability and profit generation; the budget is ranked at 30.67% 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 2018 fiscal term and the date of submission of this report that could affect its scope or implementation.

Javier Díaz Fajardo
President

²² Not including taxes