

Report from the Board of Directors and President to the General Stockholders' Committee, 2016

Introduction

In 2016, the global and local business activities were adjusted. After 8 years, the global economy has not shown a consolidated recovery from the 2008 financial crisis, since the advanced countries production growth continued to be moderate, whereas that of important emerging countries shown a downturn. Within this context, the average annual oil price was lower than that of 2015, which is highlighted. In addition, important political events, including Brexit¹, and the USA presidential elections, lead to a lack of stability in the marketplace.

In this context, the Colombian economic condition shows a downturn in which, as opposed to the previous year, a lower household consumption dynamics was observed. Moreover, adjustments continued to be applied to the government investments and consumption, as a result of oil prices, which were fixed in the average amount of USD 47 per barrel². Nonetheless, inflation was rectified, which allowed for the Central Bank to prevent the referenced interest rate from increasing. Finally, the Colombian currency was depreciated, although its lack of stability was diminished compared to that of the previous year.

Despite the rough economic condition, Bancóldex disbursed COP 3.89 trillion and financed more than 113,000 companies in 2016. During that year, the Bank maintained its philosophy, providing financial support to all kinds of companies, seeking to find comprehensive solutions to the needs of each sector, as per its new corporate strategy. Likewise, the Bank disbursed COP 1.56 trillion in order to modernize the Colombian production system.

In addition, Bancóldex consolidated its role as a National Government tool by offering financial support to companies affected by adverse economic conditions faced during that year, especially those affected by a decrease in the business activities in areas near the Venezuela border, among others. Thus, by means of the plan to boost productivity and employment (Plan de Impulso a la Productividad y el Empleo, PIPE 2.0), designed by the Government and aiming at revitalizing the economy, Bancóldex disbursed COP 1.19 trillion, thereby benefiting 13,404 companies.

In 2016, Bancóldex further implemented and consolidated the corporate strategy launched in 2015 in order to have greater impact and be an entity closer to entrepreneurs and of higher relevance for the country. The strategy consolidation was mainly focused on being closer to entrepreneurs, assisting relevant regions and offering financial and non-financial products and services that may answer to the different growth-related needs faced by companies.

¹ Term referring to the UK exit from the European Union, according to the referendum performed in June 2016.

² 2016 WTI average price

In addition, in order to help implement the corporate strategy, the Bank continued developing strategic projects guidelines with the purpose of performing any necessary tasks to consolidate the Bank across many fronts and turn it into a strong, more efficient entity with greater alignment with its subsidiaries.

On the other hand, in 2016, the Bank advanced on defining and following-up a measuring system aimed at controlling the corporate goals and efforts that, Bank's front, middle and back areas make to help reach such goals, which results in the compliance with the strategy established with all the entity commitment.

2017 Bancóldex challenge consists of keeping on strengthening internal skills, produce higher income and contributing to the companies growth in Colombia, no matter their size or sector.

Below is the 2016 Bank management complete report, which includes all aspects concerning regulatory provisions, aspects related to risk management, quality management, internal control system, legal situation, corporate government, operations with parties related to capital, subsidiary companies, intellectual property, and copyrights, among others.

Economic behavior in 2016

2016 was characterized by a decreased dynamic activity in the global economy that has not been resolved yet. Several advanced and emerging countries show downturn signals, affected by several reasons. Apart from the economic situation, the abundant uncertainty and lack of stability that led to different political events in the financial markets, such as the referendum performed in UK about its presence in the European Union (Brexit), the armed conflicts in the middle west (Turkey and Syria), USA presidential elections and Brazil's president discharge, among others.

Concerning advanced economies, although USA's employment market grew, the economic activity had a moderate increase, exports and fixed investments showing weak results. Meanwhile, in the Euro Zone, despite the European Central Bank (ECB)'s quantitative boosting program, most of the countries show lower GDP growth rates compared to 2015³, within a context of moderate household consumption, a low inflation rate and low credit availability. On the other hand, in important emerging economies, such as China and India, a downturn was observed, while recession continued in Russia and Brazil.

The main central banks' measures consisted of monetary expansion. On December 2016, due to the employment market strengthening and the inflation rate increase, the Federal Reserve

³ International Monetary Fund. World Economic Outlook. January 2017

(FED) increased the Overnight Rate from 0.25% to 0.5%. The European Central Bank (ECB), the England Bank and the Japan Central Bank, among others, adapted their monetary policy by decreasing interest rate to minimum historic levels (or even negative⁴) and purchasing assets (sovereign and corporate bonds), with the purpose of providing liquidity to markets and promote the granting of credits by commercial banks.

In accordance with the International Monetary Fund⁵, in 2017, the economic activity will show an increase, mainly for emerging countries. A heterogeneous behavior from advanced economies is estimated, since the Euro Zone, United Kingdom⁶ and Japan would show a downturn, whereas United States' GDP would increase. The circumstances leading to tension and affecting markets in 2016 would become normal again for big emerging economies. Especially, it is estimated that Brazil and Russia will show an economic recovery; and China, India and Nigeria, among others, would show an increase higher than expected.

The Colombian economic behavior was not considered irrelevant compared to that of other emerging countries and of the region generally, since it shown a downturn. A product activity of the main business partners lower that the estimated one, as well as the slow declination of the exchange terms, was reflected in an increased growth. For such reason, in 2016, the GDP increased by 2.0%, compared to 3.1% in 2015⁷ and the construction financial services behavior was outstanding due to the effective building and manufacturing activities, which shown the recovery of the Cartagena Refinery's reopening. According to the demand, as of September 2016, consumption rate decreased, ranging from 4.2% in 2015 to 2.1% in 2016, mainly as a result of household consumption; while there was a reduction in the investment⁸ and imports rate. In contrast, exports increased by 1.6%.

In relation to foreign trade, imports decrease benefited the trade balance. According to the Dane, in 2016, exports (FOB) reached USD 31.045 billion, an amount equal to a -13% variation, the reduction of which was explained by a decrease of -21.7% and -10%, respectively, in fuels and manufactures external sales. Meanwhile, imports (CIF) decreased by -17%, being fixed in the amount of USD 44.889 billion, which resulted in the deficit reduction of the trade balance (FOB) at an amount of USD 11.804 billion. Consequently, it is estimated that the current account deficit, as GDP percentage, 6.5% a 4.5% ranged from 6.5% to 4.5% in 2015 and 2016, respectively⁹.

⁴ In 2016, the ECB decrease the deposits rate to -0.4%, while the Japan Central Bank established a negative interest rate at -0.1% for one part of the bank reserves.

⁵ Ibid.

⁶ United Kingdom's moderate increase would be related to the Brexit effects.

⁷ Source: National Administrative Department of Statistics (Departamento Administrativo Nacional de Estadística, DANE)

⁸ Gross fixed capital investment

⁹ Ibid.

The inflation rate decrease led to a rate reduction on behalf of the Central Bank. On December 2016, 12-month inflation was estimated at 5.75%, 102 basic points under the rate reported in 2015. The disappearance of the effects of El Niño intense phenomenon in the country from the end of 2014 and the absence of other factors, such as the relevant depreciation of the Colombian currency in 2015, was reflected in the reduced prices, especially in food costs. According to the foregoing, after 5 months, the Central Bank decided to decrease 25 points of the reference rate to 7.50% in December. During that year, it can be noticed that deposit rates increased, due to the contractual policy of the Central Bank during the first semester of the year.

In relation to the Colombian currency, the exchange rate depreciated with respect to the dollar (USD) in the middle of the year, ranging from COP 2,746 in 2015 to COP 3,053 in 2016. The reasons that help explain the COP range include the Euro devaluation and the dollar strengthening, which includes the main central banks' monetary policy, the oil price, the average value of which was lower than that in 2015, as well as foreign investment flows decrease. On the other hand, as of the end of the year, the exchange rate was fixed in COP 3,001 compared to COP 3,149 in 2015.

For the Colombian economic situation, in 2017 there would be some beneficial conditions that would help increase the product rate. The conditions that would positively impact include the great external demand from some of the main business partners of the country, the pressure towards oil price increase as a result of the Organization of the Petroleum Exporting Countries (OPEC)¹⁰, the positive impact of the inflation decrease in household true compensation, as well as the lowest interest rates and, finally, the public spending growth that would be financed by means of higher tax collections and that would benefit the construction industry, among others. Therefore, the risks resulting from the external environment would remain latent, especially those related to the global economic activity decrease and the possibility of adopting less trade liberalization policies in the United States. Meanwhile, within the internal context, there are risks related to a lower oil production rate and a delay in the infrastructure works performance. According to the Bank of the Republic, it is estimated that the GDP growth rate will increase by 2.0% in 2017.

Financial sector¹¹

Despite the downturn, the financial sector statements remained positive and the risk levels continued to be appropriate in 2016. However, according to the portfolio quality indicators, a declination was observed, especially in the business and microcredit portfolio. In addition, 2016 was marked by a notable lack of stability in the financial markets due to economic and

¹⁰ Ibid.

¹¹ It only includes credit institutions

political reasons, which had an impact on income earning and led to an increase in the market risk exposure, especially in the case of fixed and variable income values.

The economic downturn was reflected in a lower credit activity, which, even though it had a positive increase rate, was lower than that observed in 2015. Thus, the portfolio balance reached COP 387.1 trillion and had an annual increase of 7.8%, the housing mortgage portfolio having an outstanding increase of 13.5% as of November 2016¹². As of 2016, the credit risk exposure increased compared to the same period in 2015, and the quality indicators of bad debt and risk profile were at higher risk levels than those registered in the last few years (3.45% and 7.95%, respectively)¹³. This behavior occurs mainly because of the economic downturn¹⁴, the low placement rate restricting the ability to diminish declinations and some specific events, such as truck strikes and weather events, which contributed to such declination.

On the other hand, investments¹⁵ shown a decreasing tendency (-2.9%), reaching COP 105.3 trillion, thus when conditions of interest rate increase were in place, the system decreased the deposit dynamism. Accordingly, part of the placements was leveraged due to liquidity. Thus, investments decrease its sharing in the assets by being at 18.1%.

The capitalization level continued to be one of the strongholds of the financial sector entities. As of November 2016, the solvency rate was at 15.9%, higher than the one registered the previous year (15.1%), the reserves showing a remarkable increase (15.4% annually). In addition, the liquidity conditions are appropriate. As of November, credit institutions had resources enough to comply with the short-term current liabilities without any problem, every time the liquidity risk indicator (LRI)¹⁶ was placed above regulatory limits.

On the other hand, in addition to the high expenses for supplies (+17.6%) associated with the quality indicators declinations, the contractual monetary policy of the Central Bank had an impact on the funding cost and, therefore, the gross financial margin decreased. Despite the foregoing, the system income-producing capacity improved due to the effect of a particular fact performed by a bank entity¹⁷. As of November 2016, the net income reached COP 10.9 trillion, with an increase of 9.3% compared to the same period of the previous year¹⁸.

¹² Supported in competitive interest rates, housing programs adopted by the national government and grants at the interest rates. Nonetheless, the consumption portfolio (+12.8%), the business portfolio (+5.2%) and the microcredit portfolio (+6.3%) shown a moderate activity, with increase rates lower than those of the previous year;

¹³ It is remarkable that bad debt indicators increased in all portfolio segments in the last year. The business portfolio ranged from 2.34% to 2.64%; the microcredit portfolio, from 6.59% to 7.34%; the housing mortgage portfolio, from 2.01% to 2.29%; and the consumption portfolio, from 4.72% to 5.28%.

¹⁴ This especially affected the overdue portfolio of the business and consumption segments.

¹⁵ In terms of composition, the public debt securities had a share of 39.1%, followed by foreign stockholders' stocks (24.7%).

¹⁶ The IRL of Banks, Financial Corporations, Trade Financing Companies and Financial Cooperatives was at 315%, 256%, 271% and 147%, respectively.

¹⁷ This is related to the transfer of some strategic investments, which generated non-operating important income.

¹⁸ The Colombian bank asset income-producing capacity (2.2%) is above that of the Latin America average (1.7%), while the return on equity was at 16.2%, which is lower and is considered negative compared to the local level (18%).

In 2017, it is estimated that the coverage and quality indicators will decline, since different economic sectors will be affected by an economic activity rate lower than that registered in 2016 and the potential adjustment of the tax reform. Also, the portfolio results shall be lower, with its relevant impact on the statement of income, although no critical situation significantly affecting the entities financial statements is estimated.

I. Bancóldex as a Bank for companies growth

2016 management and achievements

In 2016, Bancóldex disbursed COP 3.89 trillion to more than 113,000 companies, especially small and medium-sized enterprises. Therefore, the Bank maintained its philosophy, assisting all kinds of companies, unrestrictive of their size, finding comprehensive solutions that promote the companies growth.

2016 strategic goals achievement may be summarized as follows:

- **Business modernization:** as a Development Bank , one of the key objectives consists of deepening in financing the production system modernization. For such purpose, Bancóldex disbursed an amount ascending to COP 1.56 trillion.
- **Short and long-term financing:** COP 2.56 trillion, i.e., 66% of the total disbursements, accounted for middle and long-term investments, thus achieving the proposed objective consisting of transforming credits due dates.
- **Attention to SMEs:** COP 2 trillion for financing this kind of companies.
- **Support for economy's internationalization:** COP 1.46 trillion as financial support to 784 exporting companies. As of November 2016, total exports of these companies were equal to USD 2.724 billion.
- **Regional coverage:** the Bank issued credits to entrepreneurs in 738 municipalities of the republic, thus providing financial coverage for the 32 departments.

On the other part, Bancóldex, acting as a National Government tool, provided financial support to those companies affected by the 2016 adverse economic circumstances. In this sense, by means of the credit programs designed by the Bank with resources from the plan to boost productivity and employment (Plan de Impulso a la Productividad y el Empleo, PIPE 2.0), created by the National Government, credits amounting to COP 1.19 trillion were issued, thus financing 13,404 companies.

2016, a year of strategy's consolidation

In 2016, Bancóldex carried on with the transformation process in order to be the partner of entrepreneurs who dare to grow. For this reason, the event called *Growing 2016* (Crecer 2016) was held in honor to entrepreneurs, visionaries, resilient and courageous leaders of companies throughout the country, who make daily efforts for the Colombia economy situation to improve.

The event was held of April 5, 2016, Corferias, Bogotá, and 3,131 people attended: 1,754 of them personally appeared, while 1,377 attended via streaming.

The entrepreneurs had the opportunity to know global trends and international experts, such as Rita McGrath¹⁹, Nassim Talex²⁰. In addition, courageous Colombian entrepreneurs shared their experiences, who create companies with vision, conquer markets, dare challenge assumptions and evolve and constantly challenge themselves.

In 2016, the Bank strategy on the commercial front was consolidated, since the management focused on getting closer to entrepreneurs in the regions and understanding projects aimed at a business growth.

As regards the Bank internal aspects, important advances were made for strategic projects (project guidelines), with the purpose of strengthening the Bank, thus turning it into an entity with profitable growth, closer to entrepreneurs and generating a greater impact on the country economy development.

Additionally, efforts were made to design new metrics for corporate management control and following up of front platforms and middle and back support areas. Thus, the Bank will have a stronger following up of the strategy achievements.

In this sense, the main achievements of the year are mentioned below for the segments of greater impact in the strategy consolidation process.

¹⁹ Columbia University professor, Business School in New York, is one the worldwide main experts in strategies in highly uncertain and unstable environments.

²⁰ Known by "The Black Swan", described by The Times as one of the 12 most influential books since the World War II, and considered as one of the most current brilliant and influential minds.

2016 achievements: Growth platforms²¹

Global influx

- Business unit consolidation as a platform to support the Colombian economy internationalization by means of the strengthening of exporting companies and support for goods and services exportation mainly for those who had an added value offer. Additionally, supporting the *landing* or strengthening of foreign companies that promote production investment, knowledge exchange, technology and drive Colombian production chains development.
- Deepening of the knowledge the Bank has regarding the exporting segment, foreign companies and companies that provide support for the whole exporting chain logistics, such as port companies and tax free areas, among others. This knowledge has allowed for the understanding of financial and non-financial needs of the company sector and its exporting business model, and has allowed BancolDex to carry on searching and developing further and new financial and non-financial solutions to satisfy such needs.
- During 2016, the Global Flows Platform provided financial support for 725 exporting companies by means of 5,631 operations, 879 in dollars and 4,751 in pesos (this figures include 4,299 invoice discount operations) in the total amount of COP 1,311 trillion.
- The Global Flows Platforms offered the following financial and non-financial products for the exporting segment and foreign companies:
 - Credit facilities in pesos and dollars to finance purchases or investments related to exportation activities, investments on machinery, equipment, technology or facilities necessary for competitiveness in the international market, as well as certifications, approvals and other formalities that help the company to become part of valuable global chains.
 - Discount on securities that support credit sales abroad as sales invoices, authorized bills of exchange, credit acknowledgements and stand-by guarantees. This figure is aimed at allowing Colombian entrepreneurs to be more competitive in their business offer to foreign countries, including due dates to the purchaser.

²¹Business units. There 7 business units in the Bank: Global flows, international expansion, business scaling, investment and transformation, extraordinary growth, production integration and dynamic ecosystems.

- Strengthening of the companies exporting business model by means of technical consultancy specialized in Program 3E: Exporting Excellence Companies (Empresas de Excelencia Exportadora). This is a non-financial instrument aiming at increasing Colombian companies' exports.
- As regards the design, financial instruments are executed, such as shared-risk guarantees, which allowed for the participation of Colombian companies in other countries, as well as the appearance of foreign investment in Colombia, by means of which the country is considered a business center for exportation activities; also, EXIM guarantees, which allow foreign countries to import Colombian products; additionally, Liquidex Plus, as a new portfolio purchase mechanism.
- Strengthening of the financial and non-financial alliances network in order to support the development of Colombian exporting companies and foreign companies located in Colombia, by means of the development of long-term relationships with entities such as PROCOLOMBIA, Commerce Chambers, trade unions including ANALDEX, ANDI, and local entities that encourage foreign investment.

International expansion

- Platform consolidation and development of specialized knowledge on business dynamics, business models adopted for expansion processes and the needs and barriers identified in such processes. Likewise, portfolio adjustment, linking the Bank products and new financing schemes with affiliates, particularly with Leasing Bancoldex, in order to provide support for companies in foreign countries.
- The initial rate of potential clients increased by 58.4%, ranging from 173 to 274 companies. On this basis, a search task was performed to identify the expansion model type adopted by companies in Bogota and the regions, as well as the target countries of this investment. Additionally, 200 visits were made in 2016 as part of a business operation, by means of which the expansion model and the company's needs -whether in Colombia or the country where the investment is made- were identified.
- COP 539.534 billion disbursed to 78 companies located in a foreign country and those developing an international expansion plan, which accounted for compliance with 235% with respect to the budget. It should be noticed that 67.5% of the disbursed amounts were assigned to the manufacturing industry, located mainly in Bogota, Valle, Atlántico and Antioquia. Out of the total amount of credit granted in the Platform, USD 62.2 million were assigned to finance the investments required by 18

companies for their establishment or consolidation in foreign countries, mainly in Ecuador, Peru, Panama, United States and Mexico.

- According to 2016 surveys, it is estimated that nearly 80 Colombian companies are identified in Ecuador. For such reason, a business operation in that country was performed together with Procolombia, in which 14 Colombian companies located in that market participated. This led to the design of a special credit percentage for Colombian companies in such country, which aims at providing support for middle-term financial needs.

Domestic Boost

- In 2016, the platform was appropriately defined in order to support the business scaling process, by means of providing financial support for investments on the modernization of companies that provide support for the domestic market and that have relevant sales growth.
- An appropriate identification, segmentation and characterization of local companies and its growth percentages and local coverage was achieved, which accounted for 18,717 companies considered as clients, since they have contacted the Bank at some point in time and 70,257 proposed business units, which Bancóldex has not contacted yet.
- COP 1.4 trillion was disbursed for 4,175 companies with leasing and rediscount operations, 51% of which was disbursed in traditional lines of credit, and 49% in special lines especially assigned to the small and medium-sized enterprise's modernization, in total accordance with this platform strategy, since 72% of the resources disbursed were assigned to this kind of company and only 28% was assigned to the big company. The platform shares 37% of the Bank total disbursements.
- These resources were disbursed with long-term interest rates that generate income for the Bank, which accounts for an interesting portfolio duration, since 81% of the resources were disbursed at a medium and long term.
- The model of attention, business management, retention and loyalty of clients was defined, according to the needs of the entrepreneurs who belong to this platform.
- Allies with which work was jointly performed both in financial intermediaries and trade unions and companies were appropriately selected.

Smart capital, Investment and transformation

- In 2016, an enrolment Program was carried out for the Bank's commercial area, with the purpose of identifying companies that may receive smart capital and contact them with private equity funds. It was found that both local and foreign equity funds cannot easily have access to qualified companies, the investment closure thus decreasing. Bancóldex has a natural flow of companies that occasionally does not need a leverage, but intelligent capital, in order to growth. Therefore, the enrolment program for the commercial area was created and performed for the purpose of correctly identifying, in 2017, companies that may need smart capital and that, at the same time, may access to it by means of the platforms and local offices.
- The task of identifying 15 funds of PE/VC²² that may be interested in investing in Colombian was initiated, and 8 of them complied with the Bancóldex Capital investment policies and entered the pipeline (assessment stage). In 2016, COP 15.000 billion were invested on the Ashmore Andino II fund, and USD 5 million were invested on Darby Latin American Private Debt Fund III, which allowed for the first closure. A work agenda was prepared together with the Darby Latin American Private Debt Fund III, where 7 companies appeared, which are still under the due diligence process.
- Throughout the year, support was provided to 24 companies that had latent needs of equity direct investment. Qualifying companies were referred to diverse capital funds with the purpose of densifying the ecosystem, generating a track-record for the Bank and creating more successful cases. Occasionally, subsequent support was provided to improve its probability of success in the attainment of resources and performance of its operating processes.
- A study was performed to identify potential national and international investors who might invest on the Bancoldex Capital Fund of Funds in 2017. An added value strategy was established and different databases of national and international limited partners were developed. In addition, relationships with potential investors were developed. The 2017 goal consists of having equity in the amount of COP 78.000 billion for private equity and venture capital: COP 15.000 billion, and COP 10.000 billion for seed capital.
- Alliances with investing banks were established with the purpose of being jointly pipeline suppliers for the different projects of each one and connecting them with capital funds. In addition, an exhaustive task was performed to establish relationships

²²PE: Private Equity
VC: Venture Capital

with capital funds so as to supply a pipeline that will be adjusted to their relevant investment policies.

Extraordinary growth

- Bancóldex has committed to developing the debt as financing instrument for companies at early stages of development. For such purpose, the Bank has begun its first year of commitment as follows:

Special credit facilities for companies with less than 5 years of invoicing, at such appropriate rates, payment methods and odd time as per the business need. With this credit line, nearly COP 12.900 billion were disbursed, thus benefiting more than 70 companies in the republic.

The **Bancóldex Mentor Program** was performed, by means of which a closer contact with a segment was sought by the Bank`steam, , thus acquiring deeper knowledge on these companies dynamics, their needs, weaknesses and strengths, in such a way that the products and services designed by the Bank for this segment may be more precisely focused. In the first group, 9 companies from Bogota, Caldas y Quindio participated, with 18 mentors from the Bank.

The **Bank internal policies** were modified as regards the type of traditional financial intermediaries that have been used until today, in such a way that nowadays a financial intermediary may be those entities with entrepreneur credit programs and experience in that segment, which are not necessarily traditional financial entities. As of December 2016, the first financial allied enterprise specialized in entrepreneur credit came to exist.

Alliances were made with **Bancolombia and Actuar Caldas**, so that, together with the Cali Chamber of Commerce and the Manizales Program, respectively, these financial entities may acquire more knowledge on the segment and, thereby, on a credit risk assessment methodology more accurate with the nature of early stage companies.

Dynamic ecosystems

Considering that this platform is composed of three units, the main enhancements reached in each of them are shown below:

Coordination of Ecosystems Intelligence

- On April 2016, during the event GROWING (CRECER), the Atlas of Economic Complexity of Colombia (DATLAS) was officially launched and directed by the Bancóldex team in collaboration with Harvard University.
- During that year, DATLAS has become of public knowledge, by means of workshops on the use and features of the tool in 12 regions: Antioquia, Valle, Atlántico, Bolívar, Magdalena, Risaralda, Caldas, Huila, Cauca, Quindío, Santander and Bogota. Entrepreneurs, universities, representatives of the Chamber of Commerce and of organizations promoting business growth in different territories participated in these training workshops. In addition, 32 department profiles were created with information generated by the tool, with the purpose of promoting the search and analysis in all the regions of the republic.
- Since its launch, DATLAS Colombia has become a strong and pertinent tool to for business development that has drawn the attention of entities including the Government, the academy, organizations promoting business development and entrepreneurs, who have used it for different purposes.
- Companies interested in diversifying their portfolio have made a dedicated use of DATLAS, taking the tool analysis as supply for opportunities selection and prioritization, by means of which new business lines may be generated.

In 2017, a second stage of the tool will be developed, in alliance with the Center for International Development (CID) of Harvard University, which will include updated information and new variables to widen the complexity analysis and sophistication opportunities for the agricultural sector.

Coordination of project structuring

- The Coordination of Project Structuring officially initiated its activities on January 2016, defining the focus of the projects of interest to manage, structure and/or conceptualize. In this sense, a target project was considered a project i) in which industry leading companies participated, ii) that was aligned with the local production capacities and which make the most of the sophistication opportunities, iii) required or benefited from being inter-institutionally articulated and iv) that clearly contribute to the business development in the relevant region.

Consequently, during 2016, the work team identified several efforts that fitted the target project profile of this coordination, including: Atlántico -Monomeros Colombo Venezolanos (new superphosphates plant), Risaralda - Busscar (hybrid

bus production), Valle del Cauca - Center for the Development of the White Protein Sector, Antioquia -UMO (certified seeds production for the commercial aeronautic sector), Santander - Ecodiesel (taking advantage of sophistication and diversification opportunities from palm tree), Caribbean region -North Regional Competitive model (Palm sector - Oleochemistry), National - Surface Strategic Platform (SSP) (sophistication of metal-mechanic industry and other related industries, for the provision of materials required for the production of 8 new military frigates that will replace the Republic's current fleet.

- As regards the latter, two understanding agreements were entered into between Cotecmar and Dosquebradas Chamber of Commerce, by virtue of which they jointly agree to develop activities focused on identifying, conceptualizing and structuring projects for the Social Entrepreneurship Program. These agreements will provide support for the performance of specific activities, which will lead to inter-institutional agreements with the same entities during 2017.

As regards the other cases, operations were performed in advance to allow for the conceptualization, prioritization or structuring of specific projects, and, likewise, contact with relevant allied companies was promoted in order to develop the project or carry out the respective task.

- In addition, in March 2016, the conceptualization and subsequent start-up of the consultancy with the Economic Development Innovations Singapore (EDIS) team commenced, which aims at "Applying the Singapore principles for the strengthening of industrial clusters and analyzing the Colombian Investments Promotion strategy." This task is advanced in alliance with the Ministry of Commerce, Industry and Tourism, the Production Transformation Program and Procolombia, as well as with the participation of Colciencias and local entities. By means of this initiative, key industrial supplies are being collected to conceptualize the efforts and projects that help strengthen the selected clusters. Oil Chemistry and Cosmetics/BioCosmetics.

Coordination of Consultancy and entrepreneurship training

Consulting programs and activities and entrepreneurship training were focused on three thematic axes: Business model strategic management, Corporate Government and Financial Structuring.

Consultancy programs

1. "Empresas de Excelencia Exportadora" (3E) Program - OLA III:

- With the support from the Ministry of Commerce, Industry and Tourism, the call was opened and non-mining energy exporting companies were invited to participate in the selection and link with the “Empresas de Excelencia Exportadora” (3E) Program - Ola III. In this program, the selected companies have the opportunity to make its international business model dynamic performing exercises in validation of market, client and business model and concluding with a detailed work plan. Forty-nine companies were nominated, 39 being qualified as beneficiary of the Program, belonging to 10 regions of the republic. The exports value of the 39 companies qualified as eligible for the 3E Program - OLA III, amounted to USD 2.065 billion, as of December 2015.

Strategic interventions²³ are being performed by the consulting team of the 3E Program (trained in the E3 methodology and experts in exporting business models strategies and foreign trade instruments) with the support from entities including Procolombia and the local Chambers of Commerce.

2. Family Business Program – IIC

- By means of the IIC’s international cooperation resources²⁴ this program was initiated in 2016, which includes two components: one related to knowledge exchange and skills generation and another related to direct technical support, created for clients who hire Bank financial services. By means of this program, actions will be taken in 8 companies of four Colombian regions.

3. “Strengthening regional skills of transformation” Program -Initiative from the Regional Council of the Chambers of Commerce

- This program aims at strengthening the local offer of consultancy specialized in two critical areas to drive double-digit growth business in Colombia. Corporate Government and Competitive Strategy. This program shall be developed in alliance with the Chamber of Commerce of Barranquilla as Chamber coordinating the chambers net of the Caribbean region of Colombia and, for such purpose, an agreement was signed at the end of 2016, which shall become effective in the first semester of 2017.

¹Four companies concluded with the intervention (19 account for 90%), and the rest will conclude the Program during the first semester of 2017.

²⁴ IIC: Inter-American Investment Corporation-IDB

In-person intervention and training activities

1. Strategic Intervention Comprehensive Program

- During 2016, the Bank developed the Strategic Intervention Comprehensive Plan, which consists of a plan of business intervention providing the best training practices and some consultancy elements, thus building particular knowledge collectively. This program was composed of three thematic axes: Strategic management in business models, corporate government in family businesses and financial sustainability. Nine programs were performed, together with the Chambers of Commerce of Manizales, Pereira, Cali, Dosquebradas, Ibagué, Santa Marta, Cartagena, Bucaramanga and Aburra Sur²⁵.

2. Workshops and seminars

- With CAF's (Development Bank of Latin America) support, three seminars called "GOOD GOVERNMENT, COMMITMENT OF ENTREPRENEURS WHO DARE TO GROW" were held, in which 74 directors in Dosquebradas, Cali and Medellin participated.
- With the purpose of strengthening the financial management of operations in dollars in exporting small and medium-sized enterprises, six workshops called "Make sure your business foreign operations have return on investment, by reducing the exchange rates risk", in which 196 entrepreneurs from Pereira, Cali, Cartagena, Santa Marta, Medellin and Armenia participated.
- The workshop "Financing risk via debt and its impact on the enterprise" was held to strengthen the Colombian entrepreneurship ecosystem institutions skills, in relation to the debt as an alternative to financing early stage enterprises. This workshop was held in Bogotá and 14 entities supporting this ecosystem participated.

E-training activities

- For business strengthening activities to have a wider coverage and regional scope, free e-learning courses (Mooc - Massive Online Open Course) and e-learning courses with an innovative scheme of specialization and support²⁶

²⁵ Nearly 130 small and medium-sized enterprises and 300 directors of in the regions were benefited from this program.

²⁶ 12 courses were given, from which 816 directors from small and medium-sized enterprises were benefited.

were created, which allowed the companies to put into practice the acquired knowledge. As a supplement, videocalls focused on management topics were held. These e-learning courses benefited 4,069 entrepreneurs from 102 cities and municipalities.

Productive insertion

- In 2016, the new platform was defined and launched to help generate access to credit under appropriate conditions for small enterprises, by means of alliances with entities from the region and the dynamism of disbursements with intermediary entities focused mainly on providing financial support to small enterprises and bank entities.
- Resources provided in the amount of COP 631.600 billion in 108,800 operations via the financial and production inclusion platform, by means of 46% in traditional credit lines and 54% in agreement and other lines.
- Disclosure of the mechanism of alliances with local entities among the new mayors and governors with the purpose of encouraging small and medium-sized enterprises to apply for credits.
- 14 inter-administrative agreements were entered into between local entities and dependencies of the central government.
- COP 217,443 was assigned to 34,815 operations with charge to resources of agreement lines.
- The network of entities focused on credits for small enterprises (Entidades Orientadas a Crédito Microempresarial, EOCM) concluded in 2016 with 72 entities composed as follows: 37 cooperatives, 18 financial NGO, 1 compensation cash, 3 employees' funds, 1 mutual association, 1 Infi and 5 entities formed as S.A. or S.A.S., whose main core is financing; in addition, they form the 4 Banks network and 2 financial corporations.
- Disbursements were reactivated in 3 entities focused on credits for diverse small enterprises from banks and financing institutions in the amount of COP 168.006 billion in 48,393 operations.
- The placement by means of controlled financial intermediaries increased by 45%, ranging from COP 131.129 billion in 2015 to COP 191.124 billion in 2016.
- Improvement of the rediscount process in order to facilitate the disbursement of financial intermediaries for small enterprises.

- Contribution to methodology development for linkage and analysis of entities for the financial support to early stage enterprises.
- Performance of administrative and commercial tasks generated by Bancóldex , entity from the National System for Assistance, Attention and Comprehensive Reparation of Victims and attention to commitments from the national government to finance and develop local small enterprises.
- Contribution to the proposal of a new vehicle for the production integration and financial inclusion.

Bancóldex strategic projects achievements

1. Mobilization and transformation

Throughout 2016, the Corporate Relations Management analyzed the implementation of the organization human talent mobilization process, based on adaptive leadership, which had been implemented during the last quarter of 2015, as a key step to advance on Bancóldex new corporate strategy.

After the analyses and diagnosis performed at the end of 2015, the following activities were carried out on January 2016:

- Seven workshops on adaptive leadership –with all the organization officers– with the purpose of encouraging the teams towards transformation and generating skills that contribute to intelligent and articulate management –in all the bank areas– focused on adopting the strategy.
- Creation of a group of collaborators from different areas of the organization –all 33 of them– that has the ability to act in a jointly manner and with all the areas inside the bank, with the purpose of strengthening the organization’s collective leadership.
- Creation of 12 dialog collective spaces, called Conversation to grow, which help develop more fluid and direct communication between Bancóldex Board of Directors and all the workers of the organization.

As a result of these activities, new challenges could be identified that should be addressed in order to continue to transform the organization, which allowed for defining a path to reinforce the adoption of the strategy that was composed of the following steps:

- **Create to grow:** one collective work session with a duration of one day and with the attendance of all the Bank employees, with the purpose of acquiring deeper knowledge and implementing the new Bank strategy.
- **Workshop** with the executive team, in order to identify and decide collective priorities surrounding the 2016 strategy implementation, focused on strengthening the committee's team work skills and the prioritization of the strategic axes to be implemented.
- **Reinforcing the leadership skills in the executive team**, directors, managers and coordinators by means of workshop on intelligent organizations focused on strengthening teamwork and the officers empowerment.
- **Bancóldex Coffee:** execution of 18 activities of knowledge sharing and conversation, with all the organization's staff, about topics that help to reinforce the purpose of the organization.
- **Services Design Week:** between October 24th and October 28th, 2016, 33 staff members participated in a workshop focused on generating knowledge and skills in the service design oriented to the user, in order to have a bearing on the way of working to the internal part of the organization and for the learned tools could be replied to the other staff members of the bank.

Lastly, and due to the observance during the progress of the activities done during the year, 2016 was finished with the exercise of defining the culture that the organization requires in tune with its new corporate strategy. In this process, eight values were identified that could propel the progress of the corporate strategy and drive the organization to continue in its process to be smarter, adaptable, non-fragile and resilient, oriented to grow and improve over the time: team work, opening-up to the change, integrity, responsibility, passion to serve, diversity promotion, excellence, and meritocracy.

2. Bancóldex Capitalization

In December, 2015, Inverlink S.A. submitted to the Board of Directors the results achieved at the due diligence and the assessment done to Bancóldex.

Besides, Inverlink submitted to the Board of Directors a report about the viability, appropriateness and opportunity of the acquisition of strategic partners or the alienation of the Bank by the Nation.

The above was a starting point for the Bank to begin the mission to look for entities, especially multilateral entities, interested in investing in Bancóldex. In 2017, the Bank shall continue with the process of joining a partner-investor.

3. Leasing Bancóldex Capitalization

The aim of this project was to relate a strategic partner with Leasing Bancóldex that could increase its leverage capacity, change the hiring regime and reinforce the entity's corporate government to grow.

In 2015, the Inter-American Investment Corporation (IIC) of the Inter-American Development Bank (IDB) wanted to participate in the company's share capital. Nonetheless, in 2016, taking into account the change of strategy of the IIC, the new administration of this Entity expressed its interest in investing in Bancóldex as a center of the group and not only in Leasing Bancóldex. Therefore, this project was merged with the one of the Bank Capitalization.

4. Corporate Government

During 2016, Bancóldex achieved the implementation of 24 recommendations delivered by the International Finance Corporation (IFC) in relation to the Corporate Government. Likewise, in 2017 it shall continue with the implementation of 21 remaining measures focused on the strengthening of the corporate government of Bancóldex.

5. Disinvestment in Segurexpo

During 2016, the following activities were moved forward:

During the first quarter of 2016, the activities aimed at the issuing of the decree to approve the sale of shares program that the Bank and La Previsora have in Segurexpo were finished.

In June 24th, 2016, it was issued the 1007 Decree by which it was approved the sale program, with a one year validity as of its publication, extendable one year more by the National Government in the case it would be convenient in order to meet its purposes and goals.

With the issuing of the decree, on June 30th, 2016, the Bank and La Previsora requested the temporal registration of the shares to the Financial Superintendence of Colombia. After being provided and approved the whole documents by such Superintendence, on November 18th the Resolution 1431 was issued by which is indicated the temporal registration in the National Registry for Securities and Issuers (Registro Nacional de Valores y Emisores, RNVE). Then, during 2017, the bid process of such shareholding shall continue.

6. Alignment and Synergy with Bancoldex Subsidiaries

The Bank expressed the necessity of carrying out a project with the aim to redesign and implement a new operation and organizational structure model that supports the corporate strategy of Bancóldex and its subsidiaries and definite business model, allowing the achievement of benefits in relation to efficiency and effectiveness for the three entities. For that matter, in July, 2016, the consultancy firm Ernst & Young S.A.S was hired in order to develop the design phase of the previously mentioned project.

During 2016, the project was developed and resulted in ending the assessment of the current operation and organizational structure model. Likewise, a progress was done in the high level design of the new operational model and structuring of the base line of the business case that shall financially support the expressed design, visualizing an integrated operational model of “shared management” based in processes, flexible to respond to the strategic necessities of the three entities, focused on the client, respecting the legal nature of the business, delegation of professionalism and expenditure optimization.

The progress of the project in its design phase (*range of what was hired with the consultancy firm*) is a 70%, by the end of December, 2016. During January and February, 2017, the construction phases of the detailed design of the operational and organizational structure model shall be finished and the road map shall be provided for the implementation phase. All the preceding was supported in a business case that financially supports the proposed design. Therefore, the design phase hired with the consultancy firm shall be ended and the implementation phase shall start.

7. Productive Insertion and Financial Inclusion Vehicle

With the aim of serving in a different way the micro-companies and helping integrate them in the productive sector, the Bank sets out to structure a specialized vehicle, focused on Productive Insertion and Financial Inclusion for this sector. This means shall be able to attain new players, develop incentives to scale up innovative solutions, offer funding under the rediscounting diagram and create sustainable business networks, in order to expedite and increase the ecosystems of financial inclusion and productive integration in the country.

During 2016, the Strategic and Executive Vice-President was the leader of the project structuring of the vehicle strategy, with the help of all the involved areas of the Bank in this important challenge. During the year, the Bank was focused on

strengthening the Productive Insertion and Financial Inclusion Unit in the Bank as one of the seven platforms, so then it could make progress in the search of a strategic partner interested in investing in it.

Therefore, in 2017, the vehicles shall be designed and structured, with the help of a consultancy team, and then, it shall be separated from the Bank in order to be a new Entity to serve differently the sector of the small and micro business with significant productive challenges.

8. Fund of Funds

In response to Bancóldex strategy and continuing with the purpose of offering instruments that facilitate the access to the company's capital, as well as the development of the funds industry of private equity and venture capital in the country, in 2016 the Bank began to structuring a Fund of Funds of Private Capital of Bancóldex, which has the nature of a long term, closed-end, collective investment fund.

Such structuring covered from the creation of an investment regulation with its corresponding addenda, since the fund is designed by sections, the design of the corporate government that shall govern it, as well as the team structure which shall be in charge of it and its corresponding functions, until the checking and adaptation of internal processes in the Bank, achieving by the end of the year 2016 a fund of fund completely structured to start its operation in 2017.

9. Savings Account

In 2016, the incorporated activities in the work schedule were executed for the Savings Account project in relation to the estimated times in the timetable. However, the provider selection process of transactional monitoring took three (3) more months than the expected time, since the provider and the solution had to meet all the Bank's requirements in relation to transactional monitoring not only for the Savings Account product, but also for the entire Bank's products. Once the provider was selected, the activities were checked and submitted to the Management Committee and the Board of Directors where the decision was made about altering the submission timetable to the Financial Superintendence for April 2017.

10. Development of New Products

In 2016, the efforts were put on the design and structuring of new products and services, that allowed to serve the needs of the companies in its different growth phases. Among the developed products are the following:

- a) Diagram to relate new intermediaries oriented to the “Entrepreneur Credit”;
- b) Internal structuring of the “Direct Credit to Companies” process;
- c) Activation of the complete portfolio of Bancóldex with International Financial Intermediaries;
- d) Activation of the Investment and Transformation platform, “Investment Business Management” Training Program, oriented to the labor force of Bancóldex;
- e) Incorporation of entrepreneurial support programs to the credit agreements;
- f) “Liquidex Plus” discount product, directed to a liquidity generation of the big purchaser’s providers, and
- g) Support program for the identification and structuring of projects.

In 2017, the last three products shall continue in the implementation phase.

On the other side, this same year, Bancóldex started designing the following projects to be developed in 2017:

- a.) The Extended Provider Liquidex product is a diagram directed to facilitate the provider’s discount that form part of specific productive chains.
- b.) The Scoring Model looks for creating a methodology that allows the correct assessment of the companies in early stage when financial resources are required. This knowledge would be transmitted to the financial intermediaries.
- c.) Credit program structuring for the export agricultural sector with the help of the Ministry of Agriculture.
- d.) The electronic discount of physical securities is aimed at facilitating the Liquidex product operational capacity to make them accessible to the entrepreneurial sector.

Other Achievements

International Relationships and Cooperation

In 2016, the implementation of the corporate strategy involved to focus efforts to support the institutional strengthening and the product and services development of the Bank, directed to explode the entrepreneurial growth.

In this sense, the second meeting of the International Advisory Board was held and it was discussed the role of the development banking in a challenging moment for the economy, in order to promote the entrepreneurial growth of Colombia. It had the participation of the Ex-President of the Development Bank of Canada, Mexican experts of Bancomext and NAFINSA, the Ex Finance Minister Rudolf Holmes, and the leaders of the Bank's allied government entities.

Besides, cooperation resources were mobilized to complement the efforts of the Institution in non-financial services, supporting the development of the industrial cluster activation project in Colombia as of the experience of Singapore. As well as the products and services development for the early stage with the support of multilateral agencies and the non-traditional products and services sophistication of export with the support of Korea.

Human Talent and Well-being Management

During 2016, the staff members' profiles were updated, the training politics were redesigned in order to strengthen the staff members' abilities for the strategy implementation in the following areas:

- Abilities strengthening
- New abilities generation
- Development in the Bank

Moreover, a new development assessment tool was implemented, that stimulated the conversation between the chiefs and their collaborators, in order to identify career plans and abilities gaps.

In relation to the human talent, the social well-being program called "Estar bien" (Being well) was redesigned in order to have the staff comprehensive development as a central theme and its principles are:

- To all
- To our comprehensive development
- To share
- To improve
- Clear, simple and user-friendly

Pursuant to the required by the Decree 1072 of 2015, important improvements were done in the Health and Security areas in the workplace in relation to organization, planning, implementation and verification.

For the year 2017, Bancóldex shall actively work in the design and implementation of the management system by skills and variable compensation.

Innovation Management

The innovation management during 2016 was prioritized in these aspects: 1) Training in innovation, 2) Development and implementation of new products and services, 3) Implementation of ideas awarded by the Innovative Tournament of 2015, and 4) Active support in the execution of the Sectorial Innovation Fair and other activities of the MinCIT.

From the Department of Strategic Management (DDE), it was managed the implementation of the “MinCIT Comprehensive Service Offer” project, an idea created by the “*Pa’que nos invitan pues!?*” (Why do you invite us?) team that ranked in the third position of the innovation tournament of the CIT sector and the first position in the innovation tournament 2015 of Bancóldex.

Besides, Bancóldex supported MinCIT in the planning and definition of the “Picnovation 2016” Sectorial Fair that was held in December 7th, and had the participation of MCIT, the 11 joined entities and more than 100 staff members and assistants (including sector collaborators, sponsorships and innovation, merchandising and communication leaders).

It is important to highlight that Bancóldex also actively supported MinCIT and achieved the following: 1) that three entities of the sector have an implemented Management Model of Innovation, 2) that nine entities have a definitive innovation process, 3) having implemented tools. Besides, it was achieved that the Innovation Club was held every month to share interest topics to manage the innovation with experts and with the participation and leadership of the 11 entities.

Finally, Bancóldex reached the final for the Indigo Awards 2016 (national awards organized by MinCIT) in the “Innovation in Security and Privacy” category with the “Risk, synonym of opportunity” initiative, which consisted in the integration of the operative risks administration model in synergy with the information security administration system, so it optimized resources, added more value, generated consolidated reports, with unique and comprehensive view of the process risks.

II. Bancóldex as Administrator of Special Programs

• Management Unit for the Entrepreneurial Growth: iNNpulsA Colombia

In 2016, the behavior of the national economy showed that the dependency on commodities has to be transformed already to look for new ways for the national development. It was confirmed that the strengthening of the entrepreneurship and innovation has to continue, as knowledge generators to get a high aggregate value in the productive sectors.

In Colombia, the traditional entrepreneurship and innovation politics have been complemented with a concept evolution to the innovative entrepreneurship and the entrepreneur innovation, which generate more economic impact able to generate wellness.

iNNpulsA has already been working with the entrepreneur, businessmen and innovative persons of the country, supporting them from different perspectives that look for responses to their needs and find spaces that take them to the next step. Therefore, in 2016, iNNpulsA:

- It transferred more than COP 85.000 billion through co-financing instruments, of which COP 33.000 billion were contributed in consideration by the private sector.
- It supported 13,321 companies/entrepreneurs through co-financing invitations.
- Through different initiatives like Heroes Fest (national and regional), Emprendetones and Heroes Talk among others, people from the 32 departments of the country were impacted.
- It is assisting 2,314 victims of displacement and violence, through the productive inclusion invitations.

iNNpulsA works to change the mentality and the culture of Colombian entrepreneurs

The risk aversion, the low failure capitalization, the limited lessons and learning adoption and the difficulties to build long term visions, are factors affecting the ecosystems of entrepreneurship and innovation in the country. In view of the above, iNNpulsA intends to positively influence the mentality and culture of the Colombians through the development of activities which promote behaviors to overcome barriers and the transfer of knowledge and skills.

New service model: ALDEA

iNNpulsas has been working to help the entrepreneurs and innovators of the country grow with different mechanisms for more than four years. As a result of the learning reached in this time, a new service model was launched called ALDEA, which intends to improve processes, shorten times and end with the excessive paper work, building a community where early-stage companies, entrepreneurs and business spin-off will find allies, friends and mentors who will challenge and guide them to grow.

Strengthening of financing

iNNpulsas understands that one of the main problems that entrepreneurs find is the financing of their projects, that is why, it works to facilitate the access to credit and other funding mechanisms.

In 2016, progress was made in: training at a national and international level, in order to strengthen capacities for its development; a contract was entered into for COP 300 million with Bancolombia, of which iNNpulsas financed 50%, for the design of the credit rating processes aimed at innovative companies at an early stage and scaling companies; the creation of two new entrepreneurial private capital funds was supported: Promotora II and Capitalia; the execution of the projects of 6 companies which received capital from angel investors was initiated.

Innovation

From the National Government, an important goal has been set: become the third most innovative economy of Latin America in 2025. In 2010, according to the Global Innovation Index, Colombia was in the 90 position among the most innovative countries on earth: today we are in the 63 position.

Compared to Latin America, Colombia went from the position 10, 6 years ago, to the fifth position in 2016, it was only outperformed by: Chile, Costa Rica, Mexico and Uruguay, respectively.

The international measurements show an important evolution, in which iNNpulsas has played a leading role through different collaborative Innovation programs, where a collective work has been executed, in which joint actions have been performed with the public and private sectors.

Business development

During 2016, iNNpulsA continued strengthening the regional competitiveness and the productivity, through the strengthening of capacities in the business sector with programs such as: Readiness of exports; initiatives to improve the productivity of 216 micro, small, and medium-size enterprises (MSME) and in partnership with the Ministry of Information Technologies and Communications (ICT), a program for the better use of the technology and to promote e-commerce in the Colombian MSME was carried out.

- **Productive Transformation Program (PTP)**

The Productive Transformation Program -PTP, is one of the entities ascribed to the Ministry of Commerce, Industry and Tourism, created by virtue of article 50 of the Law 1450 of 2011, amended by article 11 of the Law 1753 of 2015, a program responsible for leading, in the trading sector, the strategies and tools to increase the productivity and competitiveness of the companies from the sectors forming the PTP.

An analysis of the work being done by the Ministry of Industry, Commerce and Tourism and its ascribed entities showed that among the different programs of the National Government and the regional projects, they mainly developed interventions with impact on 1,047 types of products, which represent the majority of the non-mining-energetic sectors of the country.

That number of prioritization generates an unnecessary fragmentation of resources and efforts and exacerbates the difficulties in the institutional articulation, at a national and at a regional level.

The National Council on Economic and Social Policy (Consejo Nacional de Política Económica y Social, Conpes) 3866 of August 8th, 2016 – Policy of productive development, proposed a set of sectorial and cross-cutting instruments to solve market, government and articulation failures which inhibit the growth of the productivity or which make the sophistication processes of the Colombian productive system difficult.

In order to solve the absence of diversification and sophistication, the Policy defines guidelines to implement a prioritization strategy of productive venture at a departmental level. The PTP led the development of this strategy during the second semester of 2016 through the formulation of a methodology of prioritization of productive ventures which was socialized and coordinated with each of the 32 departments of the country.

Such methodology focused the productive ventures in 12 sectors plus Tourism which will be performed under the chain vision, distributed as follows: Agri-food, 4.0 Industries, Metallurgy, Chemicals, System of Fashion and Tourism.

Hereafter, the Program shall be responsible for leading the implementation of the strategies proposed by the Policy regarding the improvement of the productivity, the compliance with quality standards and the integration of Colombian goods and services in productive chains for the prioritized ventures in the departments.

The PTP will facilitate and make available for the companies of the prioritized ventures, the instruments to increase their productivity (efficiency), improve their quality standards and generate productive chains, with the purpose of closing gaps and transforming the Colombian productive system into more sophisticated goods and services in which the country is competitive.

During the year 2016, the Productive Transformation Program accompanied 934 companies in Quality, Productivity, Human Capital and other initiatives with investments of COP 9 billion.

- **“Banca de las Oportunidades” Investment program**

The “Bank of opportunities” (Banca de Oportunidades, BdO) investment program was created by Decree 3078 of September 8th, 2006, incorporated in the Decree 2555 of 2010, to promote the access to financial services to families of lower incomes, micro, small, and medium-sized enterprises and entrepreneurs. Also, the program intends to improve the level of financial inclusion and to extend the coverage to all municipalities, with financial products and services adequate for all the segments of the Colombian population.

During 2016, the programs of extension of financial coverage were continued in nine municipalities of areas of territorial consolidation affected in terms of public order through the opening of offices of seven financial entities. The coverage program in San Andres was continued, with which the offer of micro credit has been extended. Also, the population of 42 municipalities continued being assisted with the opening of Cooperative offices in the context of the technical assistance program to this sector.

The technical assistance program for Cooperatives for the design and implementation of savings and credit products ended on the first semester of 2016. With this project, assistance was given to 32 cooperatives and 262,265 persons were benefited which were included in the formal financial system. Also, in the context of the project, the cooperatives developed 45 savings products, 16 urban micro-credits, 19 rural micro-credits and 2 education credits.

With the guarantee program developed through the agreement entered into with the National Guarantee Fund (Fondo Nacional de Garantías, F.N.G.) on November 2016, 97,328 persons were benefited with micro-credits of low amount for an accumulated placement of COP 158.221 billion.

On October of 2016, the startup program with financing schemes ended, with which training, technical and financial support was provided to inhabitants of 11 municipalities of the departments of Cordoba and Sucre, through which it possible for 456 entrepreneurs to access credits and, initiate their business.

In 2016, the announcement and hiring of the operator was made to advance the “Project of Support for Areas Bordering Venezuela”, with which it is expected to benefit the population of 57 municipalities of the border area in terms of financial inclusion with programs boosting the financial inclusion.

In terms of Financial Education, during 2016 there was a participation in the Intersectorial Commission of Financial and Economic Education in which the National Strategy of Economic and Financial Education is being created; on the other hand, the subcommittee of vulnerable population and the subcommittee of MSME were led and we have drafted the national strategy document for these two segments which shall be revised and approved by the Commission in 2017.

During 2016, with the project of financial inclusion for the inhabitants of the population United Network of the program of the Ministry of Housing, City and Territory “100% subsidized housing”, the methodology of local savings and credit groups was implemented in 59 housing projects located in 42 municipalities of 15 departments of the country. As of December of 2016, 3,200 groups had been created and benefiting more than 46,000 persons, achieving a saving of COP 746 million.

Following with the program of “Financing for the housing improvement” in 2016, the fifth workshop was done in Bogota in which 8 financial entities participated, which acquired tools and knowledge about the creation and implementation of products having the needs of people with the lowest incomes as the main purpose.

Reports of the three first quarters of 2016 of financial inclusion of the country were elaborated and together with the Superintendence of Finance of Colombia, the fifth Annual Report of Financial Inclusion was elaborated as of December 2015.

With regards to the total of credits paid to small business owner through Banks, Financing Companies, micro-credit NGO and Cooperatives, as of October 2016 1,910,025 micro-credits were reached for an accumulated value of COP 7.82 trillion.

The 96,039 correspondents, who reported for August 2016, are distributed in 1,102 municipalities and 3 departmental jurisdictions of the country. Between January and August 2016, through these 54.5 million transactions were done for a value of COP 23.2 trillion, irrespective of collections and 62.4 million of transactions in collections for a value of

COP 11.7 trillion. The most representative types of operation in number of transactions and value traded are collections, withdrawals, deposits and payment of obligations.

About the banking correspondents the study developed between Bank of Opportunities and CGAP – World Bank Group was ended. This study analyzed the banking correspondent model in Colombia, its characteristics and it identified some of the challenges of this channel at a rural level. Moreover, with this study the importance of searching for mechanisms to strengthen the information of the correspondents was demonstrated, as currently there is an estimated duplication of 100% in the data reported by the entities compared with the real physical points that exist.

The percentage of adults with some financial product in the consolidated report of all the entities (credit institutions, Cooperatives with savings and credit division and micro-credit NGOs) as of June 2016 amounted to 77.3%. When comparing this indicator between December 2015 and June 2016, a increase of 1% is observed, going from 76.3% (Dec-2015) to 77.3% (Jun-2016). This means that the number of adults with some product in the financial system in this period of time rose by 551,646 adults, going from 24.95 to 25.50 million adults.

Risk Rating

In 2016, Fitch Ratings confirmed the local ratings of F1+ and AAA granted to Bancoldex for the short and long term respectively, with a stable perspective. On the other hand, BRC Standard & Poor's confirmed the AAA ratings for the long term and BRC 1+ for the short term.

Regarding the foreign currency rating, Fitch Ratings Inc. kept the BBB rating with an outlook downgrade from stable to negative. The foregoing was based on the reduction of the sovereign rating of the Republic of Colombia performed by this Rating agency when going from BBB+ to BBB with a negative Outlook.

Compliance of SINERGIA²⁷ goals of the year 2016

Within the strategies of the National Development Plan, Bancoldex participates with three goals.

- a. Operations of exporting companies benefiting from Bancoldex financial products:** for the period 2016, the goal was to disburse 1,400 operations for this business sector. At the closing of December 2016, Bancoldex had disbursed credits for an amount of

²⁷ Goals system of the Government of Colombia. It allows the Government and all the citizenship to perform a detailed follow-up of the social and economic policies within the framework of the National Development Plan.

COP 1.46 trillion through 1,465 operations benefiting 784 exporting companies, for a compliance of 105% over the goal of the period.

b. Private and venture capital funds investment commitments: the goal of Bancoldex in capital funds investment commitments through its Bancoldex Capital program for 2016 was COP 107.343 billion.

During 2016, resources were committed for COP 149.247 billion, which allowed a compliance of 139% largely exceeding the set goal.

c. Value of the additional exports generated by the beneficiary companies of the interventions of the 3E Program, Exporting Excellence Enterprises: in view of this commitment, at the closing of 2016, the strategic interventions of the third wave of the 3E Program were still being performed, with the collaboration of entities such as Procolombia and the regional Chambers of Commerce. As of December 31st, 2016, out of 39 companies rated as beneficiaries, 19 had advanced 90% of the strategic intervention and four of these companies finished all the process. It is estimated that the other companies end their intervention on the first semester of 2017, and that the results be reflected on the export increase as of the termination.

Compliance of the commitments in the Sectoral Strategic Plan of the Ministry of Commerce, Industry and Tourism- PES 2016

During 2016, and in the framework of the Sectoral Strategic Plan led by the Ministry of Commerce, Industry and Tourism, Bancoldex participated in the following strategy: financing instruments.

In 2016, Bancoldex disbursed COP 1.46 trillion for the financing of exports benefiting 784 companies belonging to this business segment and which foreign sales amounted to USD 2.724 billion during 2016. With this result, the goal of the period was achieved in 97%.

At the closing of 2016, Bancoldex disbursed resources for COP 627.410 billion with the purpose of increasing the productivity of the microenterprises, achieving the goal in 95%. In view of the number of microenterprises assisted with these resources, the goal was achieved in 95% financing 116,456 microenterprises. It is important to mention that this last indicator presents a delay of 60 days due to the way the microfinances operate in Bancoldex, thus, once the reports of November and December 2016 are received, the compliance of the goal set for the year will increase.

In view of the commitment of presenting a progress report in the structuring of a fund of funds, at the closing of 2016, the goal was achieved in 100%. During the year, progress was made in the following:

- Structuring of the regulation
- Selection of the Management Company
- Structuring of a Corporate Governance
- Approaches to possible investors

Regarding the commitments of Bancoldex in its Bancoldex Capital program, during 2016 the achievement of the goal of investment commitments in private equity funds in 111% stood out, committing resources for COP 149.247 billion in eleven private capital funds.

In view of the commitment to increase the exports generated by the companies benefited by the interventions of the third wave of the 3E Exporting Excellence Enterprises Program in USD 200 million, at the closing of 2016, the strategic interventions of the group of consultants qualified in the 3E methodology together with Procolombia and the regional Chambers of Commerce still continued. As of December 31st, 2016, out of 39 companies beneficiaries of the program, 19 had advanced 90% of the strategic intervention and four of these had finished the process. It is expected that the remaining companies finish the program on the first semester of 2017, and that the results be reflected on the increase of exports once the interventions end.

Financial management

During the first semester of 2016, the inflationary pressures continued reaching its maximum during July with a 12-month CPI (Consumer Price Index) of 8.97%, so the Bank of the Republic was forced to extend the adjustment to the monetary policy being performed since the previous year and as a control mechanism, it increased the intervention rate (Repo rate) again up to 7.75% APR (annualized percentage rate). In view of this increase, the markets experienced a considerable increase in the liquidity cost and the cost indicators of the money, the reference bank indicator (Indicador bancario de referencia, IBR) and the fixed term deposits (Depósito a término fijo, DTF) remained in high levels. During the second semester of 2016, the acquisitions indexed to the DTF recovered some activity again, but the IBR (Reference Bank Indicator) indicator remains the top reference for the short term of the Colombian private debt curve.

In this scenario, and considering the larger positioning of the Reference Bank Indicator IBR for the short term resources and the CPI as a base for the funding in pesos in the medium and long term, Bancoldex continued promoting the disbursement of lines indexed to the IBR, generating new placement products for the monthly IBR index and the quarterly IBR index

and working with the design of future lines indexed to the CPI. On the other hand, the Bank adjusted the rates for credit in pesos and credit in foreign currency to mitigate the increase of the funds cost of the Entity caused by the continuous increase presented in the intervention rates during 2016 and the increase of the Libor rate.

The Bank continued stressing service to the MSME segment through disbursements in traditional lines (Modernization and Work Capital) and with special quota, which were especially funded with contributions from the Ministry of Commerce, Industry and Tourism (Ministerio de Comercio, Industria y Turismo de Colombia, MinCIT) to continue the disbursements of the credit line for Competitive MSMEs. With these resources it was possible not only to increase support of the MSME segment, but also to transform (increase) the terms of the companies' productive system.

In order to continue supporting the foreign currency portfolio placement with more competitive rates, and encourage disbursements in US dollar mainly in the long term, it is important to mention that during 2016, Bancoldex used a new funding of USD 112 million of the quotas approved with the Inter-American Development Bank under the public window in soft conditions.

Regarding the investment portfolio, the year 2016 was characterized by a downturn of the performance curve of Fixed Income later accompanied by a flattening of the curve; such flattening was mainly caused by an increase in the flows from portfolio investors off shore after a recovery in the oil prices going from minimum levels of 26 dollars per barrel at the beginning of the year to 53 dollars at the end of the year, which caused a better outlook in the fiscal scenario of the Colombian economy. Such behavior of the public debt curves allowed the income for portfolio yields to be much higher than what was executed the immediately preceding year.

The strategy of the portfolio of the Bank during the year, was focused on maintaining a value of portfolio in levels close to COP 800 billion with short term, according to the strategy of liquidity administration of the Bank and with the purpose of maintaining an adequate level of the liquidity risk indicator (Indicador de Riesgo de Liquidez, IRL).

Regarding the funding, during the year 2016, the strategy of fund raising in the market was continued through Term Deposit Certificates (Certificado de depósito a término, CDT) with a maximum maturity of 2 years; due to the upsurge in the private debt curve, it was decided to make fund raising at terms shorter than 18 months which corresponded to 46% of the total funding of the year 2016, this was made with the purpose of optimizing the funding cost and reducing the duration of the liability to the extent possible to keep term gap between the assets and liabilities adjusted, something we have been working on since the end of the year 2014; objective which was achieved at the end of the year 2016.

With the purpose of supporting from the funding, the new BancolDEX strategy in which the expectation is to increase the placements with more competitive rates, during 2016 we actively worked on the activities schedule for the implementation of the Savings Account product for the Institutional and Corporate Segment and which implementation is expected for the third term of 2017.

Financial Results

The year 2016 was a year with favorable levels of incomes mainly generated by the good performance that the investment portfolio had and which generated higher incomes compared to the previous year in COP 62 billion significantly contributing to the financial margin of the Bank. The decision made at the end of 2015 of reclassifying the portfolio that the Bank has in Yankees Bonds as investments available for sale according to the intention of duration in the balance sheet also contributed to the increase of these incomes compared to the previous year; thus, the volatility of the Income Statement for market valuation of these securities is eliminated and the contribution for valuation at IRR (Internal Return Rate) remains stable. Also, on June 2016, the investment of this portfolio was increased in USD 10 million.

Despite the lower disbursements made in 2016, and which achieved a compliance of 81%, the total of the credit portfolio presented an increase of the margin compared to the previous year by COP 4.277 billion (4%). The foregoing is explained by the good performance that the dollar portfolio had in terms of average balance, as a result of placements at more than three years. Regarding the pesos portfolio margin, it is worth indicating that the highest funding expenses caused by the increase of the base rates (annual CPI, IBR and DTF) compared to the previous year, were partly offset by the increase of the rates of the placements performed in 2016 and by the reduction of the funding cost as a result of the higher acquisitions in short term CDTs according to the funding strategy.

Regarding the treasury operation in foreign currency, in 2016 they were developed in a revaluation environment. The foreign exchange market registered an appreciation of peso which, at the closing of December 2016, reached 4.72%. Under this scenario, the management of the non-deliverable forward (NDF), and the purchase and sale of foreign currency in Spot, generated an accumulated utility at the closing of the year 2016 of COP 11.207 billion compared with an accumulated utility of COP 4.06 billion registered as of December 2015.

The category of income tax includes the net effect between the current income tax²⁸ and the deferred income tax²⁹, which for the year 2016 was determined in (COP 16.743 billion) and (COP 128 million) respectively. For the year 2015, the net movement amounted to (COP 18.167 billion) and (COP 9.235 billion) respectively. The variation (COP 7.682 billion) mainly corresponds to the assessment of the deferred tax generated by loss in valuation of derivatives registered in the year 2015.

Following, the main financial results of 2016 are presented and compared with the previous year which figures of 2015 are approved by International Financial Reporting Standards (IFRS) to facilitate the analysis:

Assets

For the closing of 2016, the assets of the Bank were COP 7.01 trillion, amount greater by COP 206.626 billion (3.04%) compared with the previous year. This variation is the result of the following factors:

- As of December 2016, the balance of the pesos portfolio was greater by COP 62.507 billion compared to December of the previous year. The increase of the portfolio is explained by the lower level of prepayments received in 2016 (COP 327.000 billion) which offset to a great extent the lower disbursements done during the year. As of December 2016, COP 2,144,187 were disbursed at an average weighted rate of DTF + 4.31% and at an average term of 3.5 years; the good performance that the resources placement in the competitive MSME line had is highlighted, promoted with resources from the Ministry of Industry and Commerce to support the productive scaling up of the MSME and which disbursements were close to COP 296 billion.
- Increase of the credit portfolio in dollars by USD 7.8 million which restated into national currency presents a decrease of COP 62.130 billion as a result of the decrease of the restated representative market rate (Tasa representativa del Mercado, TRM) regarding 2015. During 2016, disbursements were made for USD 563 million, granted with an average weighted rate of LIBOR + 2.35% and an average term of 3.1 years. It is worth highlighting the commercial effort of BancolDex during the year 2016 in the placement of

²⁸ The current income tax for the years 2016 and 2015 was determined by the presumptive income system,

²⁹ The deferred income tax corresponds to the tax generated by the temporary differences which will be reverted in the following periods

resources in dollars in the medium and long term to support the modernization and reconversion of the Colombian productive system and to boost the competitive advantage of Bancoldex in this type of resources in keeping with the credit negotiations with the Inter-American Development Bank.

- Increase of the investment portfolio by COP 212.243 billion (19% compared to the previous year):

Within the liquidity strategy established by the Treasury of the Bank and given the favorable market conditions, on December 2016 the investment portfolio was increased within the established risk limits. The foreign currency portfolio during 2016 was increased in USD 10 million classified in available for sale. On the other hand, the capital requests addressed during 2016 were of COP 17.840 billion.

Liabilities

Compared to December 2015, the liability of the Bank presented an increase of COP 117.242 billion (2.16%). This increase is due to the variations of the following positions:

- In foreign currency, the biggest use of credits with correspondent banks and multilateral banking increased the capital balance in USD 2 million, which restated in pesos represented a decrease of 4.4% compared to the previous year:

The growth of the foreign currency portfolio was completely financed with debt, the funding of foreign trade operations (trade) and Work capital (WK) came from the Correspondent Bank and the Multilateral Banking. During 2016, Bancoldex formalized disbursements of long term indebtedness on the CCLIP line with the IDB (Inter-American Development Bank) for USD 112 million.

- In local currency, there was an increase in the capital of the certificates of deposit CDT in COP 246 billion, corresponding to an increase of 9.7% compared with the previous year.

The new acquisitions performed during the year amounted to COP 1.79 trillion, with a main concentration on IBR index-linked securities and which offset the debt maturities presented during the year of approximately COP 1.5 trillion.

Equity

As of December 2016, the equity was COP 1.47 trillion compared to COP 1.37 trillion of December 2015, which represented an increase of COP 89.584 billion (6.4%). This variation is explained mainly by higher profits obtained in this period (COP 85.573 billion).

Income statement

Financial margin

The gross financial margin compared to the gross financial margin as of 2015, presented an increase of COP 77.564 billion. The foregoing was the result of a better performance of the investment portfolio of fixed income in pesos, in keeping with the correction of the Colombian capital market due to an increase on the expectations of a future change in the monetary policy of the Bank of the Republic accompanied by the decrease of inflation presented during the second term of 2016; and the highest income of the Yankees registered as available for sale portfolio.

The contribution to the financial margin derived from the business of placement of legal currency portfolio for the year 2016 was very similar to that reflected in the results of year end 2015; only inferior in COP 11 million. On the contrary, the contribution to the financial margin derived from the portfolio operation in foreign currency that in the year 2016 presented an increase of COP 4.288 billion compared to the year 2015. The increase in the contribution to the financial margin of the foreign currency portfolio in the year 2016 was due to a higher volume of the average portfolio registered during the period, as a result of the increase of the placements of medium and long term operations and thus, in greater conditions of active rate.

Finally, the net financial margin which corresponds to the difference between the gross financial margin and the portfolio provision presented an increase of COP 88 billion if compared with the previous year, which contemplates a lower provisions expense in COP 10.000 billion compared to the year immediately preceding.

Profits

The accumulated profits of 2016 reached COP 100.387 billion, higher than the same period of 2015 in COP 85.573 billion (578%), variation which is explained by higher financial income derived from the management of investment portfolio (COP 62.632 billion), the operation of the treasury products in legal currency and in foreign currency (COP 7.147 billion), and higher dividends obtained from the subsidiaries (COP 8 billion, approximately).

In the year 2016, there was an increase in the income expense compared to the previous year of COP 7.682 billion. Though in the two years, the income tax was assessed by the presumptive income system, the increase is due to the application in the year 2015 of the deferred income tax for the valuation of derivatives.

Risk management

Credit risk management system (CRMS)

In 2016, the credit risk policies mainly related to the methodologies to assign limits to the credits granted to the different kinds of debtors were reviewed and adjusted. Additionally, adjustments were made to the risk assessment methodology of financial intermediaries of Colombia and the strengthening of the follow-up process of the different kinds of debtors through reports and early warnings was continued. Moreover, in line with the new Bank strategy, policies and methodologies specialized in direct credits to enterprises were established.

Market Risk Management System (MRMS)

With the purpose of adopting best practices of risk management and complying with the regulatory requirements for the adoption of the IFRS, the fair value adjustment of the transactions of derivatives was implemented through the daily calculation of the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA).

Furthermore, considering the market conditions and the business strategy, the review and update of risk policies of the derivative financial instruments was performed. This led to the amendment of the concentration limit of derivatives and to the change in the use policy of the collateral contemplated in the Credit Support Annex - CSA contracts.

Additionally, monitoring and control methodologies were developed and implemented to manage the market risk based on the calculation of the possible losses before movements of a basis point in the interest rates (DV01). These methodologies correspond to the best practices and allow a better risk understanding and management by the traders.

Liquidity Risk Management System (LRMS)

In 2016, and with the purpose of improving the prediction capacity of the liquidity risk internal model, the contingency estimates and metrics for the private equity funds were updated. Moreover, a validation test of the CTDs was performed as part of the liquidity contingency plan.

Additionally, the developments and tests to assure the appropriate implementation of the Financial Superintendence and Bank of the Republic regulations make reference to the individual and consolidated Short-term Exposure Indicator, DODM 361, which shall come into force on January 16, 2017. These regulations shall allow knowing the liquidity risk of the Bank and its subsidiaries by significant currency on fortnightly and monthly basis.

Operative Risk Management System (ORMS)

During 2016, the self-assessment of risks and controls was performed through risk maps for the entire Bank processes, and the transversal risks affecting all processes were consolidated.

Through the management of operative risk events, the self-assessment of risks and controls in the processes was supplemented through the strengthening or improvement of controls, as well as action plans and treatments that answered to transversal and particular problems of the processes.

The fraud and corruption risk prevention program continued to strengthen. The tree with the typology of fraud risks to which the entity is exposed was included with its corresponding definition. In 2016, the synergy with the subsidiaries to strengthen the Fraud and Corruption Risk Prevention Program stands out, as well as the study of cases before the new Savings Account product.

Internal trainings regarding operative risk and fraud were performed and they were addressed to all levels of the organization, to the Special Programs and to third party providers through Asobancaria (Colombian Banking and Financial Entity Association). In regards to detection, the Bancóldex ethic line was continued to be available to the Bank and its interested parties, and the transactional fraud management model was being built.

Lastly, in 2016, the Operative Risk Management System accompanied the development of product initiatives or process modifications, such as savings accounts, among others. This accompaniment allowed the appropriate identification of risks and the feedback of their improvement opportunities.

Information Security and Business Continuity (ISBC)

In Information Security, during 2016 the work of synergy with subsidiaries was highlighted. As a result, a document for the management of information security in the 3 entities was structured and approved, which generated added values for the strengthening of the Information Security Management System (SGSI) within each organization. In the same way, the Safety and Continuity Plan of Bancóldex was approved by the Security and Continuity Committee. The construction of an Integral Plan for the Protection of Information in the

Bank, which collects legal, sectorial and internal policy aspects, was also initiated. Finally, synergies with the operational risk team continued to be strengthened, which result was translated into an integrated risk management model that will be phased over the medium term.

In regards to Business Continuity, through the implementation of a test plan oriented mainly to the technological aspect, improvement needs that are being addressed by the Systems Department were identified and prioritized, which has strengthened mechanisms of high availability in the production environment and of new elements in the Triara contingency environment. Works for the improvement of the scheme in the alternate center are continued.

Conglomerate Risk Management System

In 2016, the Bank's Management continued to strengthen the follow-up scheme for the risk level of subsidiaries and related companies and deepened the integral risk analysis of counterparties. Additionally, within the action framework of the risk conglomerate, defined by the Bank for 2016, progress was made in aligning methodologies for identifying, measuring and monitoring the different types of risks, and synergies associated with the management of these risks were identified (credit, market, liquidity, operative, information security and ML/FT). This work shall continue to develop during 2017.

Risk Management System of Money Laundering and Financing of Terrorism (RMSMLFT)

During 2016, this system allowed the Bank to prevent and mitigate money laundering and financing of terrorism (ML/FT) risks in transactions and contracts performed by the entity in its own capacity or as administrator of the special programs. Moreover, the process of customer awareness and risk assessment methodologies and ML/FT controls continued to be strengthened, accepting the recommendations of international standards, which contributes to the mitigation of ML/FT risks.

In the same way, the risk profile of ML/FT was monitored by risk factors, associated risks and the consolidated of the Bank, both inherent and residual, maintaining the latter within the level approved by the Board of Directors. Policies, procedures and annexes of the RMSMLFT Manual were updated; training, socialization and updating were performed for the officers and the Board of Directors of the Bank regarding the adequate knowledge for linking and updating clients, providers and counterparts, about aspects relevant to prevention and mitigation of ML/FT risks in Bank transactions and contracts, including cases and typologies of these risks, as well as the responsibilities of the Board of Directors before the RMSMLFT.

Additionally, following the IFC recommendations, the organization structure of support to RMSMLFT was strengthened with the creation of the Compliance Management, which Manager is the Chief Compliance Officer.

Finally, all the regulatory reports on RMSMLFT and the specific requirements of the different competent authorities were attended in a timely manner.

System for FATCA Compliance

In compliance with the provision of the FATCA Law, for the year 2016, the Bank maintained its Foreign Financial Institution (FFI) participant status before the Internal Revenue Service (IRS) of the United States. Additionally, it managed the updating of the FATCA due diligence to all financial institutions and intermediaries with which the Bank maintained relations or transactions, and all the requirements of other local and international financial institutions on FATCA and CRS (Common Reporting Standard) of the OECD (Organization for Economic Co-operation and Development) were met.

Quality Management System

In May 2016, Bancóldex received the second follow-up visit of the certification company Bureau Veritas in order to assess the compliance with the requirements of the Quality Management System (SGC) before the standards ISO 9001:2008 and NTCGP 1000:2009. According to the concept issued by the certifying entity, the Bank showed in regards to the requirements demanded by the audited regulations, pursuant to the Management System documentation, the effective implementation and maintenance/improvement of its Management System and the effective and complete implementation of the Internal Audit Program. Bureau Veritas maintained the certification to the SGC of Bancóldex until August 2017, and before that date, it shall advance the rectification process in regards to the new ISO 9001:2015 standard and maintenance of the NTCGP 1000:2009, complying with Notice No. 06 of June 27, 2005 of the Administrative Department of Public Service (DAFP) and the Decree No. 4110 of December 9, 2004 of the Presidency of the Republic.

Adaptation to the new ISO 9001:2015 standard

In August 2016, the launching of the Transition Project to the ISO 9001:2015 standard was performed under the Management of the Organization Development Department and the participation of the Owners of Processes and Quality and Operative Risk Managers.

As the first phase of the project, during August, the meetings of understanding of ISO 9001:20015 were held with the Process Leaders and Quality and Operative Risk Managers. In September and October, several work sessions were performed with different cross-

disciplinary groups of the Bank with the purpose of analyzing and identifying the deficiencies of each area in regards to the new standard requirements; since the end of this phase and until January of 2017, a term to define and/or close the action plans required by each of these areas in order to solve said deficiencies was established.

In December, the Organization Development Department and the Quality and Operative Risk Managers received from Bureau Veritas a refresher course regarding Standard ISO 9001:2015, with the purpose of standardizing knowledge and understanding concerning the Standard and, in this manner, guarantying its applicability in each of the Bank's processes and, additionally, training them to attend the Quality Audits, which are scheduled for March and May of 2017.

Among the important contributions of this new version of the Standard, the articulation of the improvement actions of the organization with the strategic and operative objective of each area can be found. The aforementioned means that each defined improvement action (project-initiative-action plan) shall respond to the achievement of the proposed objectives and to the manner they are achieved, for which the different management indicators shall be identified.

Internal Control System

Bancóldex's Internal Control System (ICS) is based on the Self-monitoring, Self-regulation and Self-management principles in line with the current Internal Control models (MECI, CIC, COSO) and with the stipulations of the "Internal Control System" applicable to the institutions supervised by the Financial Superintendence of Colombia, Part I, Heading I, Chapter IV of the Basic Legal Notice.

During the compliance with this framework, the Bank has been subject to the exercise of Supervision and Tax Audits by the corresponding entities. In the result of the Comprehensive Audit performed by the Office of the Comptroller General of the Republic in 2016 regarding the 2015 validity, this oversight body issued an unqualified opinion regarding the Financial Statements, qualified the Internal Control System with 99.36 over 100 points and ceased the Bancóldex Account for the fiscal year 2015. The "Opinion regarding the Financial Statements" indicates that they "reasonable present, in all significant aspects, the financial situation as of December 31, 2015, as well as the results of the transactions of the year ending on that date", pursuant to the generally accepted accountability regulations and principles, the special instructions of the Financial Superintendence of Colombia and the General National Auditing Office, which grants reliability to the organization in the handling of resources and in the compliance with objectives and goals. The audit indicated only one (1) administrative finding with tax range, and an improvement plan with activities and terms established by the

people responsible, which periodic follow-up was addressed and reported in a timely manner.

Under the General National Auditing Office, the Accounting Internal Control System (AICS) obtained a rating of 4.83 over 5 considered as *“Efficient”* in the assessment of the 2016 validity (Resolution 193 of 2016).

Additionally, the Financial Superintendence of Colombia made official in 2016 the report of the visit made in 2015 with the purpose of assessing the processes of risk analysis, control and follow-up of rediscount transactions, and review of the application of the methodology developed to comply with the External Notice 032 of 2014; recommendations were generated, which implementation plan was submitted and reported in a timely manner.

In 2016, the Internal Comptroller made a survey regarding the state of the Internal Control Standard Model (MECI) regarding the 2015 validity reflecting a maturity of 92.45% over 100%, which is considered *“Advanced”*. Moreover, SCI assessments were performed per process and based on risk, according to the stipulations of the Audit Annual Plan approved by the Auditing Committee of the Board of Directors. The conclusions of the audit works indicated in general that the result were mostly *“Satisfactory”* - *“There are no deviations in the compliance with the controls or these are minimal or do not affect the objective of the process”* and *“Appropriate”* - *“The deviations in the compliance with the assessed controls generate a minor risk in the compliance with the objective of the processes”*. It is worth mentioning that the audit process is certified in the regulations for the professional practice of the Internal Audit of the IIA® International.

The Comptroller informed to the different interested agencies and the Auditing Committee the recommendations and improvement opportunities, as well as the results of the follow-up to the related actions, allowing the Committee to verify the adoption of said recommendations. In compliance with its responsibilities, the Auditing Committee has served as support and communication channel with the Board of Directors in the decision-making related to the Internal Control System and its continuous improvement.

At the 2016 year end, neither the Management nor the internal or external oversight bodies of the Bank, nor the Auditing Committee detected fraud, malicious errors or manipulations in the financial information prepared and revealed by the Bank, nor significant weaknesses were reported that could put at risk the effectiveness of the Internal Control System.

Bancóldex Legal Situation

At the end the fiscal year 2016, Bancóldex maintains its legal regime of partially government-owned company at national level, linked to the Ministry of Commerce, Industry and Tourism

and organized as an establishment of credit, not assimilated to the regime of the industrial and commercial companies of the State, regardless of the state participation in its equity. Given this character, regardless the public entity nature, Bancóldex maintains a legal regime of Private Law regarding its acts and contracts, pursuant to the legal and regulatory provisions regulating the subject, which allows its competitiveness in the activities of financial support to businessmen.

The Congress of the Republic passed the Law 1815 of 2016 “[b]y means of which the budget of revenue and capital resources and the law of contributions during the term between January 1st and December 31st of 2017 is enacted”, where it was established that “the autonomous estate, which administration has been assigned by Law to Banco de Comercio de Colombia S.A. Bancóldex, can be directly administered by it or through its subsidiaries”. Consequently, in 2017, the proceedings for the treatment of the Business Growth Management Unit and of the Productive Transformation Program to Fiducóldex shall start.

Additionally, the Congress of the Republic passed the Law 1819 on December 29, 2016 “[b]y means of which a structural tax reform is adopted, the mechanisms to fight against evasion and tax avoidance are strengthen, and other provisions are enacted”.

Furthermore, as of the report date, Bancóldex along with Fiducóldex, Banco de la República and the Ministry of Foreign Affairs, has been connected to five ordinary labor processes promoted by Assistants, Deputies and Directors of the commercial offices of Colombia abroad, who provided their services between 1967 and 1992. In said processes, the acknowledgment of retirement contributions is expected.

Lastly, it is stated for the record that the Bancóldex’s administrators did not impede the free circulation of the invoices issued by the providers. The aforementioned proof is made under the terms established in Paragraph 2 of Article 87 of the Law 1676 of 2013, “By means of which, the access to credit is promoted and the regulations regarding personal property guarantee are enacted”, added by Article 7 of the Law 1231 of 2008, “by means of which, the invoice is unified as security, as financing mechanism, for the micro, small and medium size businessmen, and other provisions are enacted”.

Corporate Governance

Since 2001, Bancóldex has a solid Governance Code containing the Corporate Governance policies and proceedings oriented to the protection of its shareholders and investors, and of the public in general.

During 2015, the *International Finance Corporation* – IFC assessed the practices and policies of Bancóldex corporate governance. In the 2016, the Implementation Plan suggested by the

IFC was presented to the Board of Directors and measures were selected in order to start with its implementation, which were processed during the entire year; as a result, on December 31, 2016, the Board of Directors approved 24 recommendations identified as imperative.

Additionally, since October, 2012, the Bank participates in the Corporate Governance Latin American Network for State Entities. The purpose of this Network is “to promote good governance in public entities of the region through the exchange of experiences and knowledge regarding policies, practices and reforms, using the guides developed by two multilateral bodies as main reference framework” (CAF – Development Bank of Latin America and Organization for Cooperation and Economic Development (OCDE)). On September 2016, the Bank participated in the work meetings held in San Jose de Costa Rica, where topics related to the experience of the Latin American countries and the OCDE in the development, monitoring and use of the corporate governance voluntary codes were discussed. Moreover, topics related to corporate governance and corporate integrity focused on trust, transparency and accountability were discussed from three perspectives: i) the Board of Director’s role in trust creation; (ii) digital security risks; (iii) corporate governance framework to fight corruption.

It is recorded that the Board of Directors held ordinary and extraordinary meetings in fifteen occasions and the covered topics, as well as the adopted decisions, are recorded in the corresponding minutes elaborated for said purpose, which are in the custody of the Legal Vice-presidency - General Secretariat.

Country Code Survey

The Country Code Survey is defined as a tool applied by the Financial Superintendence of Colombia for the achievement of a proper corporate governance contributing to the compliance with the objectives of stability, security and trust, promotion and development of the Colombian stock exchange, and protection of the investors, savers and insured.

In this sense, the Bank served in 2016 the Country Code Survey corresponding to December 31th, 2015, which is published for the public knowledge in general in the Bank’s website, UNDER the link “Information of interest of shareholders and other investors”.

Corporate Social Responsibility

In 2016, the *International Finance Corporation* – IFC in 2015 made a diagnostic of Bancóldex Environmental and Social Risk Management.

As a result, in 2017 the action plan before the suggested recommendations shall be defined.

Having said that, in relation to the Sustainability Report of the Bank, it was decided to publish a biannual report (2015-2016) allowing other groups of interest of the Bank to compare the progresses of the new strategy of the Entity from the main economic, environmental and social results OF the two mentioned years; its construction and publishing shall be performed in 2017.

Contracting of goods and services at Bancóldex

The contracting of the Bank in 2016 was leveraged to 857 providers of goods and services.

Additionally, and in line with the policy of rationalization of resources and cost savings established by the Presidency of the Republic and complying with the instructions of the Board of Directors and the Presidency of the Bank, a series of administrative measures were taken, which results reflected during the term of the year 2016 savings representing 18% of the budget assigned for the administrative expenses, which was equivalent to COP 709 million. As a consequence of these initiative, the Bank achieved organizational efficiencies in the administration of its resources in different areas that facilitate the institutional management, such as document processing, travel management, the appropriate use of public services, optimization of cleaning and surveillance services, administration of fixed assets adjusted to the application of international financial regulations, rationalization of physical spaces and infrastructure, eco-efficiency, management of providers and negotiation, attention of payments to providers, printing and stationery, due attention of internal requirement of physical resources, among others.

The year 2017 shall be very important for the Bank, since there shall be challenges in different areas. Additionally, from the Bank's strategic perspective, the Administrative Services Department shall actively participate in the updated of the Contracting Manual with the purpose of introducing better practices; the structuring of the electronic invoicing project; the continuity of the modernization to LED technology of the lightening in the Bank's premises; the continuity of the efforts towards an organization without paper, migrating the delivery of external communications from printing to electronic means, through the use of certified mail and the reinforcing of internal processes of the area in search of greater organizational efficiencies.

Transactions with related parties

As of the date of this report, the Bank maintains its transactions duly instrumented and complies with the regulations by which it is governed.

The transactions performed by the Bank with its partners and administrators are within the institution's general policies. Said transactions are duly specified in note no. 29 (transactions with related parties) of the financial statements. The Bank performed neither transactions nor operations with partners or administrators, which characteristics differ from those performed with third parties, nor supplied free of charge or compensated services, nor loans without interests or compensations, except for those of labor nature regulated by Articles 152 and 153 of the Substantive Labor Code.

Subsidiaries

Bancóldex sets up a control situation with Fiduciaria Colombiana de Comercio Exterior S.A. FIDUCOLDEX, which is an indirect partially government-owned limited liability company at national level, incorporated in October 31, 1992, in which it has a participation of 89.32%. Furthermore, a control situation is set up with Leasing Bancóldex S.A. Compañía de Financiamiento, which is an indirect partially government-owned company, not subscribed or linked to any Ministry and assimilated to an industrial and commercial company of the State, where it has a participation of 86.55%.

During the course of 2016, the Bank directly performed with Fiducóldex some administrative transactions such as the contracting of the global banking policy and the project of alignment of Bancóldex and its subsidiaries. Additionally, dividends were received from the fiduciary. It is also clarified that the Fiduciary is the administrator of the private equity fund Aureos Colombia FCP, where Bancóldex is an investor.

Furthermore, transactions of credit portfolio, treasury and administrative transactions related to the global banking policy, and the project of alignment of Bancóldex and its subsidiaries were performed with Leasing Bancóldex Compañía de Financiamiento. Additionally, dividends were received from that entity.

Also Bancóldex has with Fiducóldex and with Leasing Bancóldex a framework agreement of shared services, which aims at leveraging the synergies between the Bank and its subsidiaries, provided that it does not imply, in no case, the delegations of its professionalism.

Lastly, it is important to mention that the independence in the handling of businesses and decision-making is a premise in their relationship, which is limited by the benefit the client might have from the products or services offered by each entity.

Other equity investments

As of the closure of 2016, Bancóldex kept investments at Banco Latinoamericano de Exportaciones - BLADEX (1.3%), at Fondo Nacional de Garantías (25.73%) and at Credit and Foreign Trade Insurance - SEGUREXPO (49.63%).

Intellectual property and copyright

Bancóldex performs according to Law, through defined policies in regards to technology purchase and use of licensed software. Moreover, it has internal control proceedings aimed at assuring the satisfactory compliance with said regulations.

Performance of the disclosure and control systems

With the purpose of complying with the provisions of Articles 46 and 47 of the Law 964 of 2005, Banco de Comercio Exterior de Colombia S.A. Bancóldex certifies that the financial statements and other reports relevant to the public do not contain vices, inaccuracies or errors preventing to know the real financial situation or the transactions it performs. Additionally, the disclosure and control systems used by the entity to incorporate the information contained in said financial statements and relevant reports to the public are appropriate, based on reliable information and subject to audits performed by the Bank's Internal Comptroller and the Tax Auditing Office under the supervision of the Auditing Committee.

2017 Management and Prospects

2017 Management

In 2017, the Bank shall continue consolidating the corporate strategy strengthening its commercial management from each of its platforms and deepening the knowledge of the corporate sector at regional level.

Moreover, the Bank shall focus its management on the development of 10 defined strategic projects for 2017, which most of them shall enter into the implementation stage. The projects are: 1. Mobilization to Transformation; 2. Corporate Governance; 3. Bancóldex Capitalization; 4. Launching of Bancóldex's aligning operation plan with its subsidiaries; 5. Design, structuring and launching of the Productive Integration and Financial Inclusion; 6. Launching of the Fund of Funds; 7. Business Intelligence Management Information System; 8. IT Strategic Plan; 9. Entry into production of the Savings Account products; and, 10. CRM implementation³⁰

³⁰ CRM: Customer Relationship Management - Tool to improve commercial management

In order to reach the objectives outlined, in 2017 the Bank's management shall mainly focus on:

- Lure resources (fundraising) from third parties of at least USD 18 million to initiate the Fund of Funds operation.
- Designing, implementing and launching the new vehicle of financial inclusion and productive insertion, in alliance with the multilateral banking, in order to address more deeply the challenges of the micro and small size companies with greater productivity challenges.
- Continuing strengthening Bancóldex's Corporate Governance, with the implementation of the recommendations proposed by the IFC³¹.
- Implementing the Operation Plan suggested by the consulting company Ernst & Young (of the Back and Middle structure) for the alignment of Bancóldex with its Leasing Bancóldex and Fiducoldex subsidiaries, in order to gain higher efficiency.
- Strengthening the Bank's regional presence with the purpose of fulfilling the corporate needs of the regions in order to facilitate insertion in the fertile regional ecosystems.
- Articulating the comprehensive offer of support mechanisms to sophisticate exports, accompany the international expansion process of the Colombian companies and facilitate the direct foreign investment arrival, along with the other entities of the sector.
- Completing the strategic intervention of Wave III of the Program Companies of Exporting Excellence - 3E for the 39 selected companies.
- Promoting the Datlas Colombia tools by updating the information as of 2015, including new variables of analysis to deepen the export/production possibilities and extending the complexity analysis to the farming sector in order to also identify potential products in that area, through the incorporation of data bases as the agricultural census, livestock census of the ICA (Colombian Agricultural Institute), among others.

Financial prospects

2017 is expected to be a year of price adjustment of the assets for the world's economy and uncertainty is envisioned. The world's economic growth, and especially of advanced economies, may be driven mainly by Japan, due to the recovery of the United States and

³¹ IFC: International Finance Corporation of the World Bank

Canada. Emerging markets, although in general they are under positive economic growth, shall depend on tax discipline, commercial dynamics and the incorporation of structural reforms in economic and social matters, along with the execution of a proper and effective monetary policy.

In Colombia, the new macroeconomic estimates suggest a growth of 2.6% for 2017 and an important reduction of inflation incorporating the tax reform's impact, as well as stability in the representative market exchange rate. The strengthening of these behaviors is expected for 2018 with the outcomes of the recently signed peace agreement and the tax reform.

The uncertainty regarding the oil price exchange rate, the reduction of investments in the oil sector and the government's narrow tax margin due to the oil income increase make the national government to set the goal of collecting within the year the 6 trillion COP it was seeking to collect by means of the tax reform approved in December 2016, allowing to maintain the credit rating and not affecting the growth perspectives.

Additionally, the decrease of the inflationary pressures is expected in 2017, depending on the effect that the tax reform might have on the economy; however, it is likely that the Central Bank continues with the position of the end of 2016 of decreasing the intervention rate for inflation control and balance of economic growth.

Taking into account this prospect of monetary policy, it is expected that the rate levels of the public and private debt bonds decrease during this year and in possible market situations increase their volatility. For this reason, the strategy of the Bank's portfolio shall be to maintain a position allowing a proper liquidity level to finance the disbursement goals, comfortably complying with liquidity indicators, focusing on short-term durations and liquid references.

In regards to liabilities, the fundraising shall remain focused on CDTs as in 2016; however, the duration of liabilities shall be monitored with the purpose of maintaining the GAP of term between the assets and liabilities adjusted, given the Bank's strategy of placing credit lines with longer terms. In the projections, it is expected to receive long-term bonds depending on the disbursements' behaviors, seeking to extend the liabilities' term accompanying the assets. Additionally, the Bank shall continue during 2017 with the challenge of implementing the Savings Account product in the third quarter of the year, as a strategy for diversifying liabilities.

Implementation of the International Financial Reporting Standards – IFRS

The Law 1314 of 2009 ordered the alignment with the most widely accepted international standards at world level regarding accounting, financial information disclosure and ensuring

the accuracy of the information. Consequently, the National Government issued Decree 2784 of December 28, 2012, which regulates said Law, and includes a new regulatory technical framework for the preparers of financial information that make up Group 1³².

Moreover, through Decree 1851 of 2013, some particularities were established for banking establishments, which were modified with Decree 2267 of 2014, as follows:

- For the preparation of consolidated financial statements, the regulatory technical framework stipulated in the Annex of the Decree 2784 of 2012 and its subsequent amendments shall apply.
- For the preparation of the individual and separate financial statements, the regulatory technical framework stipulated in the Annex of the Decree 2784 of 2012 and its subsequent amendments shall apply, except the provisions regarding the treatment of the credit portfolio and its deterioration, and the classification and appraisal of investments in the IAS 39 and the IFRS 9, included in said Annex.

On December 17, 2013, the General National Auditing Office issued Resolution 743, where it included Bancóldex within the group of entities with special regimes, and it settled the applicable schedule for these entities; moreover, the Financial Superintendence of Colombia issued on December 26, 2013 the External Note 038, where it is established that the preparers of the financial information that are within the scope of the public accounting regime shall follow the schedule and other guidelines established by the General National Auditing Office.

On December 31, 2016, Bancóldex concluded the first implementation period. This meant for the Bank to be prepared in the following fronts:

- Accounting policies and technical memoranda adjusted in the items where higher accuracy is required to avoid misinterpretations.
- Follow-up and adjustments to the credit portfolio process in the application performing the calculations required for the presentation of figures under
- Training for the officers appointed by XBRL taxonomy.

³²In this decree, three stages for the alignment are stipulated: 1. Mandatory preparation period from January 1, 2013 to December 31, 2013; 2. Transition period from January 1, 2014 to December 31, 2014; 3. First implementation period from January 1, 2015 to December 31, 2015, that is the moment when the Banking must be governed under the International Financial Reporting Standards.

- Since January 2016, the Bank started the monthly transmissions to the Financial Superintendence of Colombia of the separated Financial Statements under the new regulatory framework.
- Since March 2016, the Bank started the quarterly transmissions to the Financial Superintendence of Colombia of the consolidated Financial Statements under the new regulatory framework.
- Since March 2016, the separated and consolidated financial statements under the XBRL taxonomy were quarterly transmitted to the Financial Superintendence of Colombia.

Subsequent events

The Administration is not aware of any relevant event that had occurred between the closure of fiscal year 2016 and the submission date of this report that could affect its scope or interpretation.

Original Signed by

Luis Fernando Castro Vergara
President