# ANNUAL MANAGEMENT REPORT
# 2017

**"Integrating", "strengthening" and "evolving" are words that encapsulate the experience that Grupo SURA and its core businesses have had throughout Latin America in 2017. So as to be able to continue creating added value for our shareholders and other stakeholders, this year we concentrated our efforts on honing our strategic planning, with a clearly-defined focus on profitability, innovation and adapting to new requirements and challenges in today´s ever-changing business environment.**

*After a decade of expanding on an international scale, strengthening our financial position and diversifying our sources of income, that now span a total of 11 countries, 2017 was a year in which we focused on consolidating our inorganic growth, furthering the strategic management of our portfolio for optimal performance and greater profitability, as well as driving the scale of our Business Group throughout Latin America ".*

Despite an economic slowdown affecting the entire region, both Suramericana, the Group´s specialized insurance and trend/risk management firm, and SURA Asset Management, its pensions, savings and investment management subsidiary performed well. Similarly, Bancolombia, Grupo SURA´s strategic universal banking investment also obtained a good level of performance. This resulted in an increase of 47.3 million in the client base of all three companies, which in turn were attended by 56 thousand employees. Consolidated revenues for Grupo SURA rose by 12.0%, producing COP 1.26 billion (USD 426 million) in net income and COP 604.3 billion (USD 202,512 million) in assets under management on the part of our strategic investments, as shown further on in this report.

As a Financial Conglomerate, a term adopted as a result of new oversight rules and regulations being passed in Colombia, we embarked on a review last year of our strategic planning, an initiative we call "Evolution 2030". This new endeavor is consistent with the current need to address new trends and requirements, enhance the profitability and sustainability of our investments, come up with better solutions for our current and potential clients, and be able to spot opportunities and risks beyond our current business environment.

## A SHARED DIRECTION »

After a great deal of fruitful, in-depth conversations to bring our strategic planning up to speed as to the direction we are pursuing, we were able to construct a higher purpose for all companies belonging to the SURA Financial Conglomerate, namely "creating well-being and sustainable development for people, organizations and society", while aspiring to become "the leading Latin American Group in the financial services sector, based on our ability to transform and generate superior value to shareholders and society alike".

These definitions shall ensure that we become increasingly more useful for the overall development of all those countries where we are present while steering us towards providing greater added value for all our stakeholders. Consequently, the greatest challenges to our new Evolution 2030 initiative are addressed by the following six strategic pillars that shall determine the prioritization of plans and projects over the coming years: **human talent and organizational culture**, as factors driving our competitiveness and differentiating our performance; **innovation and entrepreneurship**, that contribute to the sustainability of our portfolio; **internal and external alliances**, since they enhance our capabilities and make us more efficient; **knowledge** which is so necessary for analyzing emerging trends in our business environment, planning ahead and remaining relevant over time; **reputation and trust**, with which to strengthen our relationships as a consequence of delivering on our promise of value and adopting the best corporate governance standards; and finally **the optimal management of our financial resources** in order to further the sound financial position that has always characterized us as a Company and a Group.

This Roadmap to 2030 drills down on and complements aspects that have formed the core of Grupo SURA's strategic planning over recent years as well as our ability to create both value and trust. Given the level of maturity we have reached as a regional player, we are convinced that our central purpose of creating wellbeing and sustainable development shall guide the way we manage our portfolio in the face of the challenges to be addressed in the financial services sector.

**SEEKING GREATER PROFITABILITY »**

Under these conditions, our updated strategy is concentrated on enhancing the profitability of the operations acquired over recent years as well as those previously existing, through a greater focus on portfolio optimization, combining our capabilities and efficiencies based on technology and innovation, as well as driving the organic growth of our different lines of business.

Therefore, we continue to be actively involved in our investments by constantly monitoring and gauging our performance so as to ensure a continued level of value creation on the part of all those Companies belonging to our Conglomerate.

Our goal is to achieve an adequate capital structure, going beyond the indicators commonly used by the credit rating agencies for this purpose, which is why we have been able to maintain an international investment grade. Based on this premise, we implemented various measures such as divesting certain non-strategic and real estate portfolio investments, totaling COP 74,045 million (USD 25.1 million) in 2017, in addition to the debt reduction plan to improve our overall leverage. Likewise, debt maturities in 2017 and 2018 were refinanced in the amount of COP 708,000 million (USD 237 million) so as to make our cash position more flexible over the next two years.

On the other hand, an issue of bonds was placed on the local market for COP 550,000 million (USD 190 million) to finance part of the purchase of the minority stake held by the International Finance Corporation (IFC), the World Bank's private investment firm, as well as IFC ALAC Spain in SURA Asset Management. This transaction, completed in April 2017, amounted to USD 382.5 million and extended Grupo SURA's stake in this subsidiary to 83.6%.

Our business profitability also entails optimizing our investment portfolio. Here, it is worth noting that on October 31 SURA Asset Management finalized the sale of its majority stake in its life annuity operation, Seguros SURA Peru, for a total of USD 276.3 million. In this way, we are focusing on furthering the growth of our pension fund management business and driving both our savings and investment business for private individuals as well as our asset management offering for the institutional segment.

Suramericana, for its part, acquired the life insurance company SURA Asset Management in Mexico; this transaction worth USD 20.6 million was completed in November 2017 and remains subject to regulatory approval. In this way, each of our subsidiaries shall be able to capitalize on the greatest potential for growth that their own areas of specialty offer.

**PLACING OUR FAITH IN THE FUTURE »**

Our outlook over the long-term depends on innovation and entrepreneurship which forms one of our strategic pillars. We have designed a well-articulated Innovation System that propels us as a holding company to invest, create and consolidate new companies based on disruptive models, that currently show great growth potential and constitute a perfect fit with our current strategy. This is a path we have chosen to tread in asserting the enterprising spirit we have as a group and to build up a portfolio that adequately addresses the emerging risks and trends in all those industries to which we belong, and hence helps us to improve the lives of our clients.

In 2017, we furthered our corporate venturing program called SURA Ventures which was developed in conjunction with the firm, Veronorte. We already hold investments worth USD 22.1 million in a venture capital fund as well as another eight new high-tech ventures in the financial services and insurance sectors.

Five of these investments were completed in 2017, namely **MoneyLion**, which offers an app for clients to optimize their financial management capabilities, through which products specially tailored to their needs are recommended; **Clover**, a US health insurance company for the over 65s, which uses analytical predictions for optimizing operating costs; **Driver**, which created a groundbreaking platform for accessing and developing cancer treatments; **Pager**, which produces technological solutions for managing health care services both digitally and remotely; and **Trov**, that reads patterns of behavior and provides, in a simple, straightforward manner, a range of insurance policies catering to the current demand or those required in the moment.

Our investments in solutions, that are still at a development or growth stage, were mainly detected by an Entrepreneurship Ecosystem in Silicon Valley in the US, and now join various others which were given the go-ahead back in 2016: **Acsendo**, a Colombian technological solution for handling human talent at a corporate level; **Bold-Capital Partners**, a venture capital fund focused on disruptive companies; **Alkanza,** which makes use of a robo-advisory software to structure and manage financial portfolios; and **LendingHome**, which serves the US mortgage market with a solution that fast tracks credit approvals while ensuring optimal portfolio quality.

Several of the aforementioned investments, in conjunction with our financial service companies, have begun to explore possible alliances that could drive business development in our own fields and, in this way, enhance our sustainability and competitiveness.

By leveraging the adoption of new technologies and business models, we are furthering our commitment to the future of our Group. It is also another way of addressing the vertiginous changes of the digital age and the so-called Fourth Industrial Revolution. In fact, Grupo SURA is already a Latin American benchmark for the innovation ecosystem as applicable in corporate venturing segment.

**NEW FINANCIAL CONGLOMERATE ACT»**

Besides redirecting our strategic planning, focusing on the profitability of our investment portfolio and our latest initiatives in terms of innovation, it is also worth mentioning when it comes to our performance last year, the application of a new regulatory framework for the oversight of financial conglomerates, which came into being as a result of Law 1870, passed on September 21, 2017, and is currently in the process of being regulated.

These new rules and regulations shall require us to: (i) continue strengthening our Corporate Governance System as a Financial Conglomerate, of which Grupo SURA is the parent company; (ii) review our risk management and capital adequacy models; (iii)move ahead with simplifying our corporate structure; and (iv) strengthen the internal control and information reporting systems of the Companies that make up the Group, among other aspects, this in accordance with the guidelines to be issued by the Colombian Superintendency of Finance.

With this aim in mind, we are working on an action plan facilitating a more proactive dialogue with the Colombian Government now that this new legislation is being regulated while preparing our companies for the new obligations this shall represent.

Complying with new regulations, implementing the new strategy and better addressing the demands of today´s business environment, are all opportunities for us to further the collaborative efforts on the part of all those companies that make up the SURA Financial Conglomerate. This will allow for greater coordination in handling and forming alliances between our different lines of businesses so as to extend our value offering and accentuate our shared identity.

**BUSINESS ENVIRONMENT, MARKETS AND STOCKS»**

With regard to the global macroeconomic situation in 2017, we saw an improved growth with the global gross domestic product (GDP). The International Monetary Fund (IMF) estimates that global GDP shall end up at 3.7% FY 2017, that is to say, half a percentage point higher than that recorded for 2016, thanks to the extent of the recovery shown by both developed and emerging economies. Based on this, the projected GDP growth for 2018 has been raised from 3.7% to 3.9%, this as a result of the changes in the US tax policy as well as a gradual increase in interest rates on the part of the FED.

In the case of Latin America, the overall macroeconomic situation recorded an improvement year-on-year, thanks to a recovery in investment and foreign trade as well as higher commodity prices. Furthermore, as for the countries where SURA is present, Brazil and Argentina were able to emerge from recession, while Mexico showed signs of recovery. Consequently, the IMF is forecasting a regional GDP growth of 1.3%, after a decline of 0.7% in 2016, and is projecting a further recovery in 2018 with a projected GDP growth of 1.9% (see chart).

With regard to our performance on the capital market, our shares continued to steadily climb with our ordinary stock (GRUPOSURA) ending 2017 at COP 40,300, up 5.5% compared to year-end 2016; while our preferred stock (PFGRUPOSURA) reached COP 39,000 at year-end, for a year-on-year increase of 5.4%. On the other hand, the COLCAP, Colombia´s main stock index recorded a year-on-year increase of 12%. Average daily trades for 2017 in the case of our own shares came to approximately COP 13,000 million, as we continue to be one of the top traded shares on the local market.

Consequently, Grupo SURA's market cap reached COP 23.3 billion (USD 7.8 billion), compared to COP 21.85 billion (USD 7,282 million) in 2016, accounting for 6.4% of the Colombian stock market's total market cap. Upon adding all those listed companies that form part of our investment portfolio, including our strategic and industrial investments as well as certain subsidiaries (Grupo SURA, Grupo Nutresa, Bancolombia, Grupo Argos, Odinsa, Protección, Celsia, Cementos Argos and Epsa), these account for 29.2 % of the local market capitalization along with a 58% weighting of the COLCAP stock index at the end of 2017.

The Company ended the year with 14,451 shareholders, of which 3,476 hold both ordinary as well as preferred shares, that is, 2,004 more than in 2016. This increase was due to the fact that 86% of our shareholders decided to receive their dividend payments in the form of preferred shares in 2017 and obtained gains of 6.7%, upon selling on the same payment date, or 9% at year-end 2017. The fact that we continue to have 875 international funds as shareholders -22 more than in 2016-, is another vote of confidence, which means that foreign holders of both Grupo SURA's ordinary and preferred shares now reaches 21.5% of the total shareholder base.

In this sense, a relevant benchmark for investor decision-making is the fact that Grupo SURA was included for the seventh year running in the Dow Jones Sustainability World Index (DJSI). Moreover, it remains the only Latin American company in the diverse financial services and capital markets sector, obtaining a score of 79 out of 100 in terms of the practices thus evaluated.

The Company joined a total of 24 throughout the region that are among the 478 included in the latest edition of the Sustainability Yearbook, published in January 2018 by the consultancy firm, RobecoSAM, after evaluating the performance of 2,479 organizations. This has indeed strengthened our ties with international investors, in addition to being able to constantly gauge our performance against the highest environmental, social and governance standards. This also has reaffirmed our organizational practices ensuring that we are able to stand the test of time and continue creating added value for our stakeholders.

It should be noted that all those *Multilatinas* in which Grupo SURA owns stakes have continued to be listed in the DJSI as well in the Sustainability Yearbook with regard to their respective sectors, namely Bancolombia (banking), Grupo Nutresa (food processing) and Grupo Argos and its subsidiary Cementos Argos (building materials). This confirms our commitment to building a portfolio of sustainable investments.

**FINANCIAL RESULTS**

Our financial results for 2017 were largely due to the following five factors: the operating performance of our subsidiaries, which continued to go from strength to strength on a quarterly basis thus reinforcing their competitive position throughout the region; higher contributions from the operations acquired by Suramericana in 2016, which exceeded our initial growth expectations; the good level of performance obtained from our insurance companies as well as the SURA Asset Management pension fund management firms; stable sources of revenues obtained via the equity method from our associates (Bancolombia, Grupo Argos, Grupo Nutresa, Protección and others); and the impact of the foreign exchange differences given the appreciation of the Colombian peso, as well as higher non-recurring expenses.

Consequently, the Group´s consolidated revenue performed well in spite of the low growth recorded throughout the region, having risen by 12% year-on-year to reach COP 20.5 billion (USD 6,933 million). This was mainly due to a 13.9% increase in retained premiums, which totaled COP 12.0 billion (USD 4,060 million), as well as an increase of 21.1% in revenue from services rendered amounting to COP 2.8 billion (USD 952 million); this as a result of a higher number of users of both SURA´s mandatory and complementary health care plans. Likewise, revenues from the investment portfolios of both the insurance companies and pension fund management firms reached COP 1.9 billion (USD 627 million), for a growth of 12.6% compared to year-end 2016.

Consolidated expense came to COP 18.6 billion (USD 6,306 million) for a growth of 14.5%. This increase was largely due to the amount of expense incurred for the first full year after Suramericana took over the RSA operations, as well as higher interest and amortization expense on the part of the acquired companies.

As a result, the parent´s consolidated net income came to COP 1.26 billion (USD 426 million), for a decline of 13.0% compared to COP 1.44 billion (USD 473 million) recorded at year-end 2016. This drop was mainly due to other non-comparable items on a year-to-year basis, exchange differences, which produced a negative variance of COP 242,356 million (USD 82 million) along with depreciation, tax and non-recurring expense. Were we to exclude the aforementioned adverse effects, Grupo SURA's net income would have risen by 7.7%, given the level of operating performance obtained by both subsidiaries and associates.

On the other hand, Grupo SURA's financial position at the end of 2017 showed assets of COP 69.4 billion (USD 23,249 million), that is to say, 2.8% more than a year ago, as well as liabilities rising by 2.4% to COP 43.1 billion (USD 14,460 million). On the other hand, shareholders´ equity came to COP 23.8 billion (USD 7,986 million) for a growth of 5.2% compared to 2016, this due to the amount of net income obtained for the year.

As far as the Company's separate financial statements are concerned, net income totaled COP 755,085 million (USD 255.8 million), for a decline of 9.6% compared to 2016. The was mainly due to the adverse effect of exchange differences and higher interest due on a higher level of debt taken out to finance the Company's inorganic growth. It is on this amount of net income that the Company's proposed profit distribution is based.

As for our financial management, it should be noted that the credit rating agency Fitch Ratings maintained a BBB investment grade for Grupo SURA, along with a stable outlook. This rating reflects the Holding Company's creditworthiness as well as its stable, well-diversified stream of revenues. Similarly, the aforementioned credit ratings agency confirmed its expectations that the Company shall be able to maintain adequate levels of liquidity and a stable while moderately leveraged capital structure over the coming years. On the other hand, Standard & Poor's downgraded its rating from BBB to BBB-, while providing a stable outlook, as a consequence of having downgraded Colombia´s sovereign debt rating.

**STRATEGIC INVESTMENTS »SURA ASSET MANAGEMENT**

With regard to this subsidiary, which is present in six countries and already attends 18.8 million clients in the pension, savings and investment industry, one of the main milestones last year was having created a new Asset Management Unit to strengthen its institutional business thus complementing the subsidiary´s offering with the launch of 26 funds in 2017, for a grand total of 400.

Meanwhile, operating performance for this subsidiary remained strong in spite of the slow economic growth throughout the region and was in line with average wage/salary increases on which the mandatory pension business is highly dependent.

In keeping with is corporate strategy and the opportunity detected in the voluntary savings sector, SURA Asset Management continued to invest in developing the mandatory pension business, producing increases of 27.2% in fee and commission income and 32.3% in assets under management (AUM), which reached COP 37.1 billion (USD 12,421 million) at year-end 2017.

The Company continues to strictly focus on growth in order to reach sufficient scale so as to reflect the profitability of this business while depending less on local regulatory frameworks, producing higher margins than for the rest of the mandatory pension business, and taking advantage of a high potential for market penetration.

Total Assets Under Management (AUM) totaled COP 402.5 billion (USD 134,876 million) at year-end, for a growth of 20.8% compared to 2016. This goes hand in hand with returns going 73% higher than the market average for managed funds.

As for the life annuity business, it is worthwhile noting that Sura Asset Management sold off its 69.29% stake in the life insurance company in Peru (Seguros de Vida Perú), for a total of USD 276 million. This took place after a regulatory change was introduced that had an adverse effect on the Company’s life insurance business in this part of the world, and hence it was decided to concentrate on its core fund management business instead. Another of last year’s highlights was an issue of bonds placed on the international markets for USD 350 million in April 2017, producing a bid to cover ratio of 8. This indeed was a vote of confidence from the investor community in SURA Asset Management.

Against this backdrop, the Company's operating revenues came to COP 2.6 billion (USD 885 million), for a growth of 10.1% compared to 2016. Also, worth noting was the amount of revenues received in the form of pension fund returns, which rose by119.2%. There was also a 45.2% growth in revenues obtained from associates via the equity method, which came to COP 172,836 million (USD 58.6 million). On the other hand, fee and commission income rose by 4.3%, which was in line with the increase in the wage/salary base for mandatory pension fund members.

Operating expense totaled COP 1.5 billion (USD 523 million) for an increase of 6.7%, which was lower than the increase posted in revenues. This was mainly due to our efficiency efforts as well as lower reserves that were set up last year, all of which served to offset the moderate growth rates obtained with the mandatory pension business. Lower reserves were also in line with the drop in written premiums, taking into account the aforementioned divestment in Peru.

This item also evidences the amount of investment that has been made over recent years to develop a regional platform and consolidate a client-centric sales force and a multi-product offering. Technological and more efficient distribution channels have also been launched to take our services to a greater number of people throughout the region.

In this respect, operating earnings recorded a year-on-year increase of 15.4% reaching COP 1.07 billion (USD 361 million). Consequently, SURA Asset

Management posted a net profit figure attributable to its shareholders of COP 615,229 million (USD 208.5 million), similar to that obtained during 2016. Finally, the consolidated EBITDA for this subsidiary amounted to COP 1.46 billion (USD 495.2 million) for an increase of 15.7%, with Chile accounting for 32.3% of the total figure, followed by Mexico (29.2%), Peru (24.1%), Colombia (11%) and Uruguay (3.4%). In the case of Colombia, this calculation covered revenues obtained via the equity method from Proteccion, which includes Crecer in El Salvador.

**SURAMERICANA**

This subsidiary specializing in insurance and trend/ risk management, focused its efforts on several fronts last year, including the integration of all those operations recently acquired from RSA in six countries; incorporating new clients -which rose by 5.9% to 17.5 million; introducing technological upgrades; strengthening and developing channels; positioning the SURA brand in the insurance industry outside Colombia; and strengthening the range of solutions offered. All this was aimed at achieving a level of profitability above and beyond the cost of capital in all countries in which it operates.

One of last year´s highlights was the progress made with those foreign-based operations acquired in 2016, whose growth rates have surpassed their respective market averages having responded favorably to SURA´s organizational culture and its way of doing business.

Along with the aforementioned level of organic growth, another important milestone was having acquired the Life Insurance Company that formerly belonged to SURA Asset Management in Mexico. Once approval has been issued by the Mexican Regulatory Authorities, Seguros Sura shall be strengthening its competitive position in Mexico with a total of 200 thousand clients and an annual production of USD 200 million in premiums.

Regarding its operations in Colombia, Suramericana continues to lead the local insurance market with a 25% share for 2017, according to data published by the Colombian Superintendency of Finance. Upon adding its insurance and social security operations, a growth of 10% was obtained which is far higher than the average scored by the local market. With regard to just its insurance business, its Life Insurance operations produced a 12% increase in revenues %, while its Property and Casualty business rose by 8%, mainly due to the increase in car insurance premiums.

With regard to the performance of its social security companies in Colombia in 2017, its mandatory health care company increased its revenues by 24% while significantly expanding its coverage and providing more than 33 million individual health care services. So much so that the Colombian Ministry of Health declared SURA as the best mandatory health care provider in the country. In terms of revenues from Suramericana´s Workers´ Compensation firm, ARL Sura, these rose by 20% and, together with its Risk Management Consulting Service, it continues to help drive down accident, occupational disease and mortality rates among almost 3.5 million workers belonging to 231 thousand affiliated employers.

Consequently, Suramericana increased its consolidated revenues by 20.9% to COP 14.2 billion (USD 4,812 million). This figure is not totally comparable with that recorded for 2016, since this was the first full year of operations for the recently acquired operations, whereas in 2016 Suramericana took control over these companies on a gradual basis. The good levels of business performance obtained in Colombia, Central America and the Caribbean, as well as higher than budgeted results for Mexico, Chile, Argentina, Uruguay and Brazil were all decisive factors for the growth posted in revenues.

Written premiums totaled COP 12.02 billion (USD 4.073 million) for a growth of 23% compared to the previous year. Meanwhile, fee and commission income increased by 39%, while those obtained from services rendered rose by 22%. Portfolio returns rose by 1% compared to 2016, when higher inflation had a positive effect on CPI-indexed securities which form an important part of our Investment Portfolio

Consolidated expense rose by 20% to COP 13.59 billion (USD 4,603 million), due to various factors including a 26% increase in total claims, higher amortizations relating to acquisition costs and a 23% increase in the costs of services rendered. This comes in contrast with the strict control over administrative expenses, which rose by just 7%, this being lower than the increase in revenues. Also, lower reserves were set up which helped to offset the increase in retained claims. As a result, consolidated net profits attributable to the shareholders rose by 26% for the year to COP 505,269 million (USD 171 million).

These figures go hand in hand with adequate levels of reserves, which underpin the continued sustainability of our different lines of business. The liability for insurance reserves increased by COP 1.84 billion (USD 615 million), that is to say14% more than for 2016 with consolidated reserves reaching COP 15.26 billion (USD 5,115 million).

This level of performance from Suramericana shows the progress made with its strategic focus as a trend and risk management firm, leveraged by its human talent and the development of new solutions capable of responding to today´s interpretation of the business landscape as well as to the needs of all those markets where the Company is present. Hence, technology is increasingly becoming an enabler of opportunities for bringing business strategies to a fruitful outcome while furthering sustainability, value creation, effective engagement and operating efficiency

**GRUPO BANCOLOMBIA**

As one of Grupo SURA's strategic investments, Bancolombia successfully tackled what was after all a challenging year, due to lower economic activity, higher provisions for loan impairment and a more measured demand for credit in Colombia.

Against this backdrop, it is worth pointing out that net interest income rose by 7.8%, given a higher gross loan portfolio, that in turn increased by 5.7%, as well as an improved interest margin, which reached 6.1%. Net commissions also increased by 8%, mainly due to a growth in credit and debit cards.

The Bank´s efficiency indicator, that is to say the ratio between operating income and expense, ended up at 49.2%, showing a decline of 1.8% compared to 2016, which amid much more complex market conditions shows the amount of effort made in controlling expense by automating different processes, reducing the amount of “bricks and mortar” branch offices, and optimizing operations, among other contributing factors. Furthermore, operating expense was reduced by 3.5%, which is lower than the inflation rate for Colombia which is where its main operations are concentrated.

All in all, there was an annual decline of 8.7% in consolidated net income, which came to COP 2.62 billion (USD 886.1 million), this having been affected by a year-on-year increase of 20.6% in the provisions that had to be set up in order maintain a solid coverage ratio. In this respect the Bank posted reserves 1.64 times the value of its 90-day past due loans along with a regulatory capital that comfortably surpasses the levels required in the different countries where it is present. Doubtlessly, this has allowed Bancolombia to ideally position itself so as to continue capitalizing on growth opportunities.

Indeed, Grupo Bancolombia consolidated its on-line banking strategy in 2017, with 51% of its 11 million clients already using its on-line channels, thus accounting for 80% of the total transactions conducted by the Bank. This level of performance is underpinned by initiatives such as Nequi, the organization's native digital bank, with more than 300 thousand clients, as well as InvesBot, the robot platform that up till now has managed investments worth COP 63,000 million (USD 21.1 million).

On the other hand, Grupo Bancolombia has successfully transferred its operating model in Colombia to its subsidiaries abroad, including the top financial institution in El Salvador (Banco Agrícola), the second largest in Panama (Banistmo) and the fourth largest in Guatemala (BAM), thus becoming the leading financial network on the Central American market.

It is also worth noting the growth obtained by its non-banking correspondents, which is an alternative channel that has facilitated the Bank´s expansion into what hitherto were unattended, underbanked segments of the population. Today, there are more than 10 thousand non-banking correspondents and in 2017 this channel exceeded the number of transactions carried out in the “bricks and mortar” branch office network.

Finally, we would like to make special mention of Bancolombia’s commitment to environmental sustainability, as can be seen with its financing of projects relating to renewable energies and sustainable building construction all of which help to combat climate change.

**GROWING BUSINESSES**

In addition to the aforementioned strategic investments, Grupo SURA’s investment portfolio also includes certain businesses that not only offer future growth potential but also can be used to harness possible synergies in terms of skills and capabilities for driving our different lines of business.

These include Arus, which offers integrated technology, information and knowledge solutions. This Company has made great strides with its profitable growth strategy with total revenues reaching COP 222,883 million (USD 74.7 million), for a year-on-year increase of 7.7%, whereas EBITDA came to COP 24,521 million (USD 8.2 million) for a year-on-year increase of 1.3 %, as well as a margin of more than 11%. The Company invested COP 8,355 million (USD 2.8 million) in technology aimed at driving its transformation and ensuring the delivery of its services on a platform that offers the highest availability rate for clients to conduct their business. It also made progress with its robot-based digitalization initiative in providing its services, automating its processes and offering cloud solutions.

As for Habitat, this specialized assisted living institution for the elderly became one of the top facilities of its kind in 2017. This was made possible by acquiring the new El Ciruelo facilities and opening its new headquarters in the Loma de los Bernal sector in Medellin. At the end of 2018, it shall have be offering a total of 350 rooms prior to determining the second stage of this new headquarters. This investment for us complements the services offered to the clients of our Business Group, as we accompany them throughout their life cycles.

**OTHER HIGHLIGHTS»**

We have always acknowledged that our human talent is one of the main driving factors in our Organization´s ongoing competitiveness. This is why, being able to manage our human resources is so essential to our strategy, ensuring that our employees receive a relevant and growth-oriented value-added offer, within the framework of an organizational culture that facilitates the development of leadership skills in accordance with our shared purposes. Human talent is after all a factor that sets us apart and ensures the sustainability and ongoing development of our organizational capabilities, allowing us all to abide by the same corporate principles, thereby building up a shared organizational culture as a Group.

Based on our corporate principles of Transparency, Fairness, Responsibility and Respect, we reinforced our Ethics and Corporate Governance System in 2017 for the purpose of said principles forming the shared basis for a sustainable business performance, characterized by strict compliance with all legal and regulatory requirements, and with the aim of consolidating long-term relationships with various stakeholder groups. This commitment was taken up by the Board of Directors´ Sustainability and Corporate Governance Committee, whose scope was extended in 2017.

An external performance evaluation was also performed on the Board of Directors by the firm AT Kearney, producing outstanding results, which have been made available on Grupo SURA's website. It is worth noting that our Board of Directors is made up and chaired mainly by independent members. The Board also met on 19 occasions in 2017, with an attendance rate of 98%.

As previously mentioned, as a parent company, we must strengthen and extend the Corporate Governance System to the other companies belonging to the SURA Financial Conglomerate, pursuant to that stipulated in Law 1870 of 2017, which was introduced as a result of Colombia being admitted to the Organization for Economic Cooperation and Development (OECD).

For Grupo SURA and its subsidiaries, social outreach initiatives lie at the heart of our corporate responsibility. In this regard, and during the past year, the SURA Foundation made a real difference to the lives of more than 180 thousand people, by investing a total of COP 18,640 million (USD
6.31 million), for a year-on-year increase of 11%, in community and social outreach programs. The Foundation extended its presence from 25 to 32 Departments in Colombia, in addition to expanding its reach to countries such as El Salvador and starting up its initial operations in Chile and Mexico.

In any case, education continues to be the central focus of the Foundation´s social investment strategy. In Colombia, this strategic focus on culture and education was evident through projects such as "Memory and Creativity: The Indigenous Enterprise", which concentrated on the marketing of more than 500 different handicrafts made by in 11 communities belonging to 10 ethnic groups. Also, the coverage of the Foundation´s banner education program for peaceful co-existence, called Felix and Susana, was also expanded in Bogotá, with the capital´s District Council providing co-financing for such. We are also very pleased to learn that Ms. Astrid López, a teacher with the Felix and Susana program, received a Colombia 2020 award for the classroom experience she provides with regard to teaching peaceful co-existence.

It was also enormously gratifying to see that 3,576 of our employees came together simultaneously in 10 countries for two whole days of volunteer work, as part of an unprecedented initiative for driving the quality of basic education.

**LEGAL MATTERS AND CONTROL ARCHITECTURE »**
Grupo SURA´s Corporate Internal Auditing staff carried out their annual work plan, as approved by the Audit and Finance Committee, and reported on the progress made during the course of 2017. This work plan essentially revolved around the self-control and self-management mechanisms defined and implemented by the Company, which in turn are aligned with the standards that form part of the COSO 2013 - International Internal Control Framework drawn up by the Committee of Sponsoring Organizations of the Treadway Commission- and COBIT 5 - Framework for the Governance and Management of Enterprise Information Technologies, Auditing Practices issued by the Institute of Internal Auditors (IIA) and the definitions contained in the good governance practices issued as part of Colombia´s Country Code.

In order to continue working in coordination with the internal auditing areas of our subsidiaries, we have laid on various means to increase the exchange of information and thus strengthen our synergies and provide a more comprehensive overview of the auditing function. Examples of this include the Corporate Internal Auditing Committees, the roundtables organized by different areas of expertise as relating to the internal auditing function as well as carrying out cross-cutting audits. Upon extending this initiative to our subsidiaries according to the agreed schedules, no material impairment was incurred that could have affected the effectiveness of the Business Group’s Internal Control System.

Likewise, as part of the audits performed on the Group´s Internal Control System, the level of maturity of the Control Architecture was updated, based on the components and principles defined in the COSO 2013 framework. The findings thus obtained were shared with the different areas so as to be able to continue enhancing Grupo SURA´s Control Architecture. As an additional measure, the Company’s functional areas have continued to develop self-control mechanisms through self-assessment guides, which contribute to strengthening the control environment and activities, risk management, communication and monitoring.

In 2017, the findings of the work carried out by the Internal Auditing staff as well as the Statutory Auditing firm were presented to Grupo SURA’s Audit Committee, whereupon recommendations were made aimed at strengthening the Group´s Control Architecture. As a result, Senior Management drew up action plans with the persons responsible for such as well the corresponding implementation dates, and these are subject to periodic follow-ups on the part of Grupo SURA´s Internal Auditing staff.

As part of the evaluation conducted on the Company’s Internal Control System, although room for improvement was found, no shortfalls or weaknesses were discovered that could materially affect the Company's Control Architecture.

As for the Company’s legal matters, Senior Management hereby states that it has faithfully complied with all applicable intellectual property and copyright legislation, both in terms of its products and the software used for its normal day-to-day running. Also, the use of its brands and distinctive symbols have been duly registered before the corresponding authorities.

Furthermore, and pursuant to that provided by Law 1676 of 2013, the Company hereby states that did not obstruct the free circulation of invoices as issued by its vendors or suppliers.

Lastly, the entire Annual Corporate Governance and Control Architecture reports have been made available to the shareholders on the Grupo SURA website.

**CONVERTING CHALLENGES INTO OPPORTUNITIES »**

Based on new learnings, capabilities, advances and strategic decisions that have allowed us to tread a sustainable path to growth in 2017, we focused our attention on the challenges being posed throughout Latin America, particularly in the industries to which we belong. This has lead us to implement a more proactive attitude towards transforming challenges into opportunities and creating added value for all our stakeholders.

In terms of the region´s current situation, we must take full and timely advantage of the gradual improvements seen with overall macroeconomic conditions and the restoring of consumer confidence in the face of external shocks. This shall be key to gaining greater market penetration - which continues very low - with our financial services and also for risk rating agencies to take a more favorable view of the markets in which we are present.

However, there shall be a certain amount of political uncertainty in several countries, due to new presidential elections in Brazil, Mexico and Colombia, which is precisely what happened in Chile in March 2018. These electoral proceedings are almost always preceded by growing social discontent, new cases of corruption being unmasked and manifestations of institutional weakness. Therefore, expectations regarding the feasibility and the outcome of a series of pending reforms shall also lead to a certain amount of legal uncertainty and affect business and investment performance throughout the region.

In particular, pension systems still face challenges in gaining greater coverage, efficiency and sustainability, while discussions continue to be held regarding the adjustments required for enhancing retirement and social security conditions for the Latin American population. Regulatory changes have already been ushered in in El Salvador, Uruguay and Argentina, and headway is being made with reforms in Chile and Brazil, while this remains an issue of much electoral debate in Colombia it is expected to form part of the agenda of the next Government to be elected in Mexico.

This leads to the challenge of actively participating in these discussions, thereby placing our knowledge of the industry at the disposal of all those concerned, seeking more collaborative efforts between companies and the State, based on transparency and institutional respect, as well as demonstrating to the public the benefits of the role played by the private sector when it comes to strengthening the pension savings of the Latin American people and responding to their retirement expectations.

At the same time, although we have already gained a great deal of experience in operating both efficiently and profitably amid high levels of uncertainty, we must focus more on constantly monitoring the business environment, adapting to new realities, anticipating new trends and changes in our lines of business and strengthening our capabilities in the face of new competitors emerging in our financial services sector.

It is for this reason that it shall be a priority for both Grupo SURA and its strategic investments to continue to develop and opportunely transform its operations based on new technologies and innovative business models that in turn drive our competitiveness and profitability. At the same time, we wish to continue creating added value for the solutions we are able to provide to our clients.

In order to turn these challenges into opportunities, we need to have a more in-depth knowledge of the people we attend and how their consumption patterns are evolving. In response to all of this, the Trend and Risk Management initiative that Suramericana has developed over the past couple of years, is becoming more robust with every day that passes and able to reach out in a timely and relevant fashion to different market segments, both current and potential

For its part, SURA Asset Management looks ahead to adapting its pension fund management models in the light of possible regulatory changes that may arise in different countries. At the same time, the Company continues to develop products, channels and business models to offer more relevant voluntary savings and investment options throughout the region, while consolidating itself as a platform for accessing the Latin American market for large-scale institutional investors with its asset management services catering to the corporate segment.

As for Bancolombia, after a challenging year in spite of which it was still able to continue with a good level of operating performance, its current priorities are to improve its lending indicators in Colombia, reinforce the operating model of its Central American subsidiaries and in this way help the Bank extend its profit margins. It shall also continue to make headway with its digital banking initiative, remaining at the forefront of new solutions and channels, so as to boost its consolidated results.

Achieving a level of sustainability that is consistent with the aims of our current strategy necessarily involves us taking on the role as a holding company of encouraging a greater amount of articulation and integration between our different operations while forming internal and external alliances for exchanging knowledge. At the same time, we must build upon a shared identity based on a corporate culture that encourages innovation and creativity at all levels of the Organization.

Finally, this report provides us with an ideal opportunity for acknowledging the efforts of each and every one of SURA's employees who have made it possible for us to attain the level of performance we are reporting for 2017, and who bring to bear their knowledge, experience and efforts on a day-to-day basis in facing the challenges going forward. In addition to our employees, we would also like to thank our shareholders, investors, as well as the millions of clients, suppliers and other stakeholders that have helped us with our strategic purpose of creating well-being and sustainable development and being genuinely committed to being socially useful companies for the Latin American people.

Many thanks to you all,

**Luis Fernando Alarcón Mantilla**
Chairman of the Board of Directors

**Jaime Bermúdez Merizalde**
Vice-Chairman of the Board of Directors

**Carlos Antonio Espinosa Soto, Sergio Michelsen Jaramillo, Alejandro Piedrahíta Borrero, Carlos Ignacio Gallego Palacio, Jorge Mario Velásquez Jaramillo**

**David Bojanini García**
Chief Executive Officer - Grupo SURA