

## Management Report

Dear Shareholders,

We are pleased to present you with the results obtained for 2019, a year that allowed us to continue growing as an Organization as well as furthering our strategy. This is not only illustrated by the increase in our consolidated financial results that we consider to be an all-time high, but by the amount of progress made with extending the profitable growth of all those companies that form part of our portfolio. We also were able to reap the benefits of our well-diversified sources of income in what was after all a challenging environment; and we took important steps in bringing to fruition all those initiatives aimed at furthering the strategic priorities that we set for ourselves in this specific stage of consolidating and optimizing our portfolio, this after the expansion undergone over the last decade.

Similarly, last year, through different practices, we were able to consolidate our corporate purpose of remaining a truly sustainable Organization over the long term, firmly committed from both the standpoint of our different lines of business as well as the social outreach programs we are deploying in all those countries where we are present, all this thanks to a robust team of human talent, which bases everything they do on a strong sense of ethical responsibility.

### OUR ESSENCE HAS REMAINED UNCHANGED

It is worth noting that, in 2019, we celebrated the 75th Anniversary of our insurance subsidiary, Suramericana, which today presents itself as a trend and risk management firm. It was this subsidiary that, all those years ago, gave rise to what today is the SURA Business Group, always guided by its overarching purpose of creating well-being and sustainable development for the Latin American people. This anniversary has represented an ideal opportunity for us to reaffirm the key elements of the Organization's growth trajectory, from its very beginnings as an insurance company in Medellín (Colombia), to its current status as a benchmark multi-Latina for the regional financial services industry.

As an essential part of our culture, we firmly believe that besides achieving our projected results, the manner in which these are achieved is also important. We have historically cultivated a long-term vision and an awareness of an ever-changing environment that not only poses risks but also represents diverse opportunities, and this has effectively encouraged us to evolve as an Organization. Our commitment to work for a more inclusive society continues equally valid, as we strive to provide more people with access to our services, while at the same time furthering the impact of the social outreach initiatives of our own SURA Foundation and the Companies themselves, beginning in Colombia and expanding these to other countries throughout the region.

### ECONOMIC, POLITICAL AND SOCIAL ENVIRONMENT

Last year was also one of learning and reflection regarding to the amount of civic discontent prevailing, particularly in Chile and Colombia. Convinced of the fundamental role that companies play in society, we, as an Organization, have put forward the need to facilitate opportunities for dialogue so as to be able to identify common goals and create a consensus for strengthening our institutions and public-policy making. This is an appropriate way for encouraging equitable development for all, so as to meet

the expectations of the population as a whole and be able to build upon the progress made throughout the region in recent decades.

On the global economic front, and in spite of the prevailing geopolitical tensions, there was a notable recovery with the capital markets in the United States, Europe and Japan, as well as in Latin America in the case of Mexico, Colombia, Peru and Brazil. Conversely, we are witnessing a slowing of overall economic growth in Latin America: the International Monetary Fund (IMF) forecasts that the region's gross domestic product (GDP) shall have risen at year-end 2019 by just 0.8% —this excluding Venezuela—, when in 2018 it rose by 1.8%, this given the lower growth rates in Mexico, Brazil, Chile, Peru and Uruguay, while Argentina remains immersed in a recession while facing important macroeconomic challenges. Amid this backdrop, it is important to note the growth in Colombia and an improved economic performance in Central America and the Caribbean, particularly in Panama and the Dominican Republic, with El Salvador showing clear signs of a recovery.

It is also worth noting the situation facing the Colombian health care system in terms of financing, as well as the amount of health care entities (EPS) being wound up, which led to the regulatory authorities having to transfer millions of users of the Colombian health care system. In the case of EPS SURA, the Company absorbed nearly 558 thousand new users, including users reassigned from other failed health care entities, which drove up our membership base by a year-on-year increase of 18% for a total of 3.6 million. In the light of this situation, we have proposed that the Colombian Government carry out a series of necessary adjustments so as to ensure a healthy population and a sustainable health care system in our part of the world.

Finally, from the regulatory standpoint in Chile, expectations continue with a possible plebiscite as well as constitutional changes that would take place during the course of 2020. At the same time, the pension reform bill, which began its way through the legislative pipeline in 2019, is still being debated amid a certain amount of social and political tension. In the face of this reform bill, which we consider to be an urgent measure in order to be able to respond to the demands of Chilean citizens, we have placed a lot of value on the fact that it includes the necessary elements for immediately improving pensions and increasing the savings rate, even strengthening the solidarity component of the Chilean pension system, as well as providing support for women and the middle class.

Meanwhile, in Colombia we are still awaiting a bill that the Government is scheduled to present in 2020, for improving a pension system that needs to expand its coverage, become more equitable and ensure its fiscal sustainability. All this as part of the collaborative efforts of all the various actors involved.

## **OUR OWN BUSINESS DEVELOPMENT**

On the other hand, we made much progress in 2019 with the strategic priorities defined for our Business Group, not only as its Holding company, but also from the standpoint of our core subsidiaries Suramericana (insurance and trend and risk management) and SURA Asset Management (pensions, savings and investment). The following are certain issues that we would like to highlight and shall be expanded upon later in the different chapters of this Report:

## **Business Transformation**

We have implemented certain initiatives aimed at taking full advantage of our interdisciplinary knowledge, trend analysis, innovative models and technology, so that we can continue to evolve in all those fields of business where we are present.

**SURA Asset Management.** In order to secure greater operating efficiencies, improve service levels and get closer to clients in its mandatory pension business, last year this subsidiary scaled up the automation and redesign of its processes, as well as the implementation of robotics and analytical models. Its on-line channels have also gained greater importance in being able to attract new fund members and increase our overall fund membership base in Chile, Peru and Mexico.

In the voluntary savings business (savings and investment) this subsidiary is attending 1.4 million clients for a volume of Assets under Management totaling COP 35 trillion (USD 10.683 million). Furthermore, 16 new products were launched that already have amassed 6,000 clients along with USD 160 million in Assets under Management.

Also, at year-end 2019, SURA Asset Management had a total of 16 initiatives up and running, these aimed at encouraging entrepreneurship and intra-entrepreneurship.

**Suramericana.** Besides solutions addressing certain events or threats, and handling future risks, this subsidiary is making much headway with consolidating a well-differentiated regional portfolio in terms of delivering capabilities in the fields of Health Care, Autonomy, Mobility, Competitiveness, Connectivity and Habitat. Here, the new SURA Enterprises Program was started up in 2019, this aimed at helping its 1.2 million SME clients throughout the region to boost their own competitiveness. Entrepreneurs are able to visit Suramericana's "bricks and mortar" branch offices and receive expert knowledge, personalized support and specialized advice, this as a value-added feature to the traditional coverage provided.

Also, this subsidiary's operations in Colombia were enhanced with the alliances formed with two companies belonging to the SURA Ventures program. Seguros SURA incorporated Pager's artificial intelligence platform into its mobile app so as to be able to attend its health care users on-line. The Company is also running a pilot program with Zendrive, using its advanced data technology to trace the driving behavior of individual policy-holders so as to be able to determine their risk of being involved in an accident.

## **Financial strength**

Another of our strategic priorities has to do with our financial strength and investment capacity, this in order to consolidate Grupo SURA's on-going profitable growth. During 2019 we made headway with our capital optimization project between the different SURA operations throughout the region. Opportunities were identified for reallocating resources within Grupo SURA and its subsidiaries, these amounting to a pre-tax figure of almost COP 2.5 trillion (USD 763 million). The Group also continued to divest certain operations that do not form part of its current strategic focus, this including the sale of its life annuity business in Mexico (SURA AM) or the minority interest held in the health care plan

business in the Dominican Republic (Suramericana) and in Sodexo Colombia (Grupo SURA and Suramericana).

On the other hand, we continued with our gradual deleveraging plan. Using the Company's own funds, we were able to reduce our individual indebtedness by COP 379,781 million (USD 115.7 million). We also moved forward with our foreign exchange hedging strategy so as to be able to mitigate our market exposure. Currently only 10% of our overall debt is exposed to the performance of the US dollar.

Similarly, the international credit risk rating agencies maintained the Company's investment grade in 2019, with Fitch Ratings reaffirming its BBB rating and Standard & Poor's upholding its BBB- rating, with stable outlooks for both ratings.

### **Creating greater added value for our clients**

In terms of this priority, we as a Business Group, are striving to think ahead, differentiate ourselves from the rest of the pack and develop more tailored solutions, this in addition to providing the best possible client service, based on our in-depth knowledge of more than 38.4 million clients who have placed their trust in SURA companies throughout the region.

This is clearly evident with the headway made by Suramericana, in creating solutions and providing assistance in a more relatable and relevant way so as to encourage greater sustainable mobility in Chile, Mexico, Brazil and Colombia; as well as introducing new Individual Life Insurance solutions in Argentina, Chile and Mexico, where before these were mainly confined to the Property and Casualty segment; and incorporating greater degree of segmentation so as to enhance channel access and productivity.

SURA Asset Management also provided significant rates of return on its clients' savings, most notably in Chile and Mexico, where SURA's pension fund management firms were among the most profitable in their respective markets. In the case of SURA Investment Management, 73% of the funds it manages were ranked with an Alpha, 17 new funds were developed and at year-end this business unit had accumulated a total of 304 institutional and corporate clients.

### **GROWTH IN FINANCIAL RESULTS**

With regard to Grupo SURA's financial results, operating income rose by 13.3%, this mainly due to the following three factors:

- A positive level of operating performance at subsidiary level, which in turn drove up the organic growth of their respective lines of business.
- The increase in revenues received from its associates via the equity method, particularly Bancolombia and Protección.
- The increase in investment returns, given the positive performance of the portfolios belonging to the pension fund management firms (legal reserves) and insurance companies.

Another contributing factor worth noting is that income rose at a higher rate compared to expense. The latter increased by 12.3%, and included significant investments made by the Companies in their business transformation projects. Consequently, operating earnings rose by 19.5% to COP 3 trillion

(USD 920.4 million), and consolidated net income rose to a record high of COP 1.72 trillion (USD 523.8 million), for a year-on-year increase of 27.9%.

SURA Asset Management contributed a net income figure of COP 724,989 million (USD 221 million) to Grupo SURA's consolidated results, this corresponding to a year-on-year increase of 95.4%, driven by higher returns on investments and the growth of fee and commission income for its mandatory pension (8.3%) and voluntary savings (17.7%) lines of business.

On the other hand, Suramericana maintained a sound growth of 10.9% in revenues from written premiums, along with a growth of 23.6% for its health care services in Colombia. It is also worth noting the good levels of operating performance in Central America and the Caribbean, with significant progress made in Panama, El Salvador and the Dominican Republic, in both the Life Insurance and Property and Casualty segments.

However, Suramericana's consolidated net income slowed by 25.6%, to end up at COP 390,327 million (USD 119 million), this due to various external factors such as the macroeconomic and market impacts on Suramericana's Argentinean operations; the new VAT tax levied on life insurance commissions in Colombia, and a higher claims rate for the EPS SURA healthcare provider, given the situation of Colombia's health care system. Also, our insurance business was affected by the social protests that took place mainly in Chile.

Another important driver for the Group's overall performance in 2019 was the amount of net income posted by Grupo Bancolombia, this totaling COP 3.12 trillion (USD 950 million), for a growth of 17.2%. This included a 24% increase in its consumer lending portfolio and a ROE that rose from 11.5% to 12.1%. Similarly, it is worth noting the growth in Grupo Bancolombia's total client base, which now numbers 15 million in all four countries where present. In the case of Nequi, its on-line banking facilities, its client base went from 700 thousand to a total of 1.8 million.

Finally, Grupo SURA's separate financial statements showed a net income figure of COP 932,190 million (USD 284 million), on which the proposed distribution of dividends was based, this for a year-on-year increase of 43.7%.

Chapter 3 of this Annual Report provides more details on the financial results obtained by our subsidiaries, as well as Bancolombia, our industrial investments and those belonging to Grupo SURA's own portfolio that are growing.

## **GOING BEYOND THE CONFINES OF OUR BUSINESS TO THE DIFFERENT SOCIAL DEVELOPMENT INITIATIVES CURRENTLY UNDERWAY**

As part of our firm commitment to the sustainable development of our Latin American citizens, we are fully aware of the importance of our role as leaders and co-managers of social transformation initiatives. Consequently, in 2019, 342 thousand people and 2 thousand organizations throughout the region were benefited by a social investment of COP 82 billion (USD 25 million), which included the funds channeled through the SURA Foundation and those allocated by the Companies belonging to the

Business Group to initiatives, partnerships and commercial sponsorships that are having a positive community impact.

Through the SURA Foundation, present in Colombia, Mexico and Chile, we made a social investment totaling COP 20,458 million (USD 6.2 million) thereby improving the living conditions of 122 thousand people and the sustainability of 940 organizations in all those countries where SURA is present. We also wish to underscore our commitment to enhancing the Quality of Education, this being a strategic focus for our social investment efforts, and over the last 5 years we have managed to mobilize more than COP 50 billion (USD 15.3 million) for the benefit of more than 700,000 people in Latin America. These funds have been invested in meaningful, life-long, learning initiatives for educators, students and their families alike.

Our corporate volunteer program also benefited 42,286 people and 73 social and community organizations throughout the region, thanks to the efforts of 8 thousand of our employees and their friends and families, all of whom dedicated 46 thousand hours to a total of 56 initiatives.

Finally, we would like to make special mention of the fact that 75% of our total social investment was directly provided by our SURA companies, this for the purpose of enhancing people's well-being, promoting healthy, lifestyle habits and encouraging art and culture in different communities.

## **OTHER HIGHLIGHTS**

Below is a series of other important aspects of our performance in 2019, which are discussed in greater detail in subsequent chapters of this Annual Report:

### **A more sustainable Business Group**

For the ninth year running, Grupo SURA was ranked as one of the three global companies with the Best Sustainability Practices from the Diversified Financial Services and Capital Markets sector, this according to the Dow Jones Sustainability World Index, which tracks 318 top-performing companies on a global level. Upon evaluating our performance as a Business Group, special mention was made of our leadership in terms of financial inclusion and social reporting, as well as the progress made with participating in public policy-making and anti-crime policies and measures.

Another important highlight was the decision made by SURA Asset Management and its main subsidiaries operating in the various countries throughout the region, to adhere to the Principles for Responsible Investment (PRI) initiative which involves extending the analysis of investment decisions to include environmental, social and governance (ESG) issues. This was a major decision, since SURA AM is one of the most important players in the Latin American asset management sector.

Similarly, Suramericana has made headway with incorporating the ESG criteria in its insurance underwriting processes, and has been reinforcing its guidelines for sectors that are sensitive to environmental impacts.

In terms of sustainability, we also would like to underscore the social commitment on the part the Companies belonging to the SURA Business Group, by providing their knowledge and skills to the Latin

American people so that they can make proactive and conscious decisions for enhancing their financial well-being. Over this last year, 1.8 million Latin Americans have benefited from 32 financial education initiatives along with another 356 thousand beneficiaries of 18 products and solutions focused on extending financial inclusion, in all 10 countries where SURA is present.

### **Conglomerate regulation and corporate governance**

In complying with our commitments as a holding company of the SURA-Bancolombia Financial Conglomerate, here at Grupo SURA we are making progress with the implementation of the regulatory requirements, which require the coordinated efforts of all our companies and include aspects such as corporate governance, appropriate levels of capital and exposure limits, as well as risk management and evaluation, among other factors.

As far as Ethics and Corporate Governance are concerned, we continue to consolidate our strategies for raising awareness and extending our training programs. In 2019, we extended the scope of these initiatives to cover almost 50 thousand suppliers and service providers of the Companies belonging to the Business Group, this in order to reinforce performance standards and continue building relationships based on trust with our various stakeholder groups.

Finally, the external and independent performance evaluations of Grupo SURA's Board of Directors found that it is indeed a sound, governing body in terms of its performance, structure and experience offered. The auditing firm PricewaterhouseCoopers (PwC) assisted with these evaluations

### **CONTROL ARCHITECTURE AND LEGAL ASPECTS**

Grupo SURA's Corporate Internal Auditing Department carried out its risk-based work plan, this under international standards. This plan has been approved and supervised by the Board of Directors' Audit and Finance Committee which, in keeping with best practices, is made up entirely of independent members.

This Committee ensures objective and unrestricted audits on the part of our Internal Auditing Department and, based on the findings obtained and the gaps identified, provides feedback to Senior Management for the purpose of reinforcing the Company's Internal Control System. The audits thus completed in 2019, reasonably abide by all applicable institutional and legal principles and standards.

The gaps that were identified do not represent any material risk for the Company or its stakeholders, this according to the opinions of our external auditors. The recommendations issued have been attended in a timely manner by Senior Management and follow-ups were conducted by the Internal Auditing Staff, the Management Committee and the Audit and Finance Committee.

As for legal issues, Grupo SURA hereby states that it has faithfully complied with all applicable intellectual property and copyright legislation, both in terms of its products as well as 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.

Similarly, in compliance with that stipulated in Article 29 of Law 222, the Company has drawn up the SURA Business Group's Special Report, which addresses the economic relations existing in 2019 between the Companies making up the Group. This report has been made available to the Shareholders both at the Company Secretary's Office as well as on the Company's website. It can also be found as a digital appendix to the printed Annual Report.

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.

## **GRATITUDE**

2019 allowed us not only to obtain positive results, but also move forward with the implementation of our strategy. This was also a year that marked the end of a stage of transformation and growth for Grupo SURA, under the leadership of our Chief Executive Officer, Mr. David Bojanini.

Gaining greater international scale, with both SURA and Bancolombia, present in 11 countries and attending 52.4 million clients; 76%, or the bulk of our portfolio, corresponding to companies belonging to the financial sector; and the Business Group continuing to consolidate its diverse lines of business, bringing to bear a corporate culture deeply committed to sustainable management, these being just some of the main features of his legacy.

The achievements obtained are unquestionable as are the challenges that markets, business dynamics and the environment still pose. But we know that the Organization has a deeply-committed staff, well aware of social realities and exhibiting the highest professional and human qualities, who shall continue in charge of guiding us along the path to greater growth and generating shared value.

Our gratitude goes out to all of our staff, because thanks to their efforts it has been possible for SURA to be recognized today in Latin America as a Group that creates well-being and sustainable development for people, organizations and society alike.

**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 Piedrahita Borrero**

**Carlos Ignacio Gallego Palacio**

**Jorge Mario Velásquez Jaramillo**

**David Bojanini García**

Chief Executive Officer - Grupo SURA.