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FINANCIAL SECTOR ASSESSMENT PROGRAM

May 2022

DETAILED ASSESSMENT OF OBSERVANCE—BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

This Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2022.

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DETAILED ASSESSMENT OF OBSERVANCE

BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

Prepared By:
Monetary and Capital Markets Department, IMF, and Financial and Private Sector Development, World Bank

This report was prepared by Jose Tuya (IMF external expert) and Ludovic Fagette (World Bank external expert) in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in Colombia during June 2021, led by Zsofia Arvai, IMF, and Raquel Letelier, World Bank, and overseen by the Monetary and Capital Markets Department, IMF, and the Finance and Markets Global Practice, World Bank. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx, and www.worldbank.org/fsap.

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THE WORLD BANK

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Glossary

AS	Significant Activity
AG	Senior Management
ASP	Annual Supervisory Program
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles
BR	Banco de la República
CAR	Capital Adequacy Ratio
CBCF	Basic Circular on Finance and Accounting (*Circular Básica Contable y Financiera*)
CBJ	Basic Circular Legal (*Circular Básica Jurídica*)
CCSBBSO	Central American Council of Superintendent of Banks, Insurance and Other Financial Institutions (*Consejo Centroamericano de Superintendentes de Bancos, de Seguros y de Otras Instituciones Financieras*)
CCSSF	Financial Sector Coordination and Monitoring Committee (*Comité de Coordinación y Seguimiento del Sistema Financiero*)
CDD	Customer Due Diligence
CE	External Circular - Administrative Act of the SFC (*Circular Externa*)
CET1	Core Equity Tier 1
CF or FC	Financial Conglomerate (*Conglomerado Financiero*)
CI	Credit Institution
CFEN	Net Stable Funding Ratio (*Coeficiente de Fondeo Estable Neto*)
CIR	Resolution Intersectoral Commission (*Comisión Intersectorial de Resolución*)
CMCA	Central American Monetary Council
COLGAP	Colombian GAP
CP	Core Principle
CR	Credit Risk
CRO	Chief Risk Officer
CUIF	Colombian Financial Standards (*Catálogo Único de Información Financiera con Fines de Supervisión*)
CTPC	Public Accounting Technical Advisor (*Consejo Técnico de la Contaduría Públic*)
CUD	Value Payment System
DIID	Directory of Innovation and Development
DL	Decree Law
DSIB	Domestic Systemically Important Bank
EC	Essential Criteria
EOSF	Organic Statute of the Financial System (*Estatuto Orgánico del Sistema Financiero*)
EPR	Stress Testing Program (*Esquema de Pruebas de Resistencia*)
ES	SFC Supervised Entity (*Entidad Supervisada*)
EWI	Early Warning Indicator
EWS	Early Warning Signal
FCL	Financial Conglomerates Law

FMI	Financial Market Infrastructure
FOGAFIN	Deposit Insurance Fund for Financial Institutions (*Fondo de Garantías de Instituciones Financieras*)
FSAP	Financial Sector Assessment Program
HF	Financial Holding Company (*Holding Financiero*)
IFRS	International Standards on Financial Reporting (IFRS)
IMC	Foreign Market Exchange Intermediaries (*Intermediarios del mercado cambiario*)
IMF	International Monetary Fund
IRRBB	Interest Rate Risk in the Banking Book
IRL	Liquidity Coverage Ratio (*Indicador de Riesgo de Liquidez*)
ISA	International Standards on Auditing
JD	Board of Directors (*Junta Directiva*)
KYC	Know Your Customer
MAR	Risk Appetite Framework
MER	Mutual Evaluation Review
MGR	Risk Management Framework
MHCP	Ministry of Finance (*Ministerio de Hacienda y Crédito Público*)
MIS	Integrated Supervisory Framework (*Marco Integral de Supervisión*)
MOU	Memorandum of Understanding
NS	Supervision Nucleus
OCI	Other Comprehensive Income
OTC	Over-the-Counter Financial Contracts
PCA	Prompt Corrective Action
PEP	Politically Exposed Persons
PPA	Prompt Preventive Action
RAS	Risk Assessment Matrix
RBS	Risk Based Supervision
RWA	Risk-Weighted Assets
RP	Resolution Plans
SARC	Credit Risk Management System (*Sistema de Administración del Riesgo Crediticio*)
SARL	Liquidity Risk Management System (*Sistema de Administración de Riesgo de Liquidez*)
SARM	Market Risk Management System (*Sistema de Administración de Riesgo de Mercado*)
SARO	Operational Risk Management System (*Sistema de Administración de Riesgo Operativo*)
SCI	Internal Control System (*Sistema de control interno*)
SFC	Superintendency of Financial Institutions (*Superintendencia Financiera de Colombia*)
SGI	Integrated Management System (*Sistema Integral de Supervisión*)
UIAF	Financial Information and Analysis Unit
URF	Financial Regulation Agency (Unidad de Regulación Financiera)

EXECUTIVE SUMMARY[1]

1. There have been significant improvements to the legal framework and the supervisory process since the last Basel Core Principles (BCP) review; some additional recommended enhancements are highlighted in this assessment. The Superintendency of Financial Institutions (SFC) is an integrated supervisor with a purview that includes banks, finance companies, insurance, securities, and other financial intermediaries. Additionally, the SFC is also the bank resolution authority. To strengthen consolidated supervision, Congress passed Financial Conglomerates Law (FCL) 1870 addressing the supervision of financial conglomerates and granting the SFC supervisory authority over financial conglomerates (CF).[2] The FCL strengthened the framework for consolidated supervision, which already included banks and their subsidiaries, by adding holding companies as supervised entities. Moreover, it defined the scope of supervision of financial conglomerates, setting standards with regards to risk management, adequate capital, and corporate governance, as well as minimum requirements for managing concentration risks and conflicts of interest in intragroup and related party exposures. The SFC has strong coordination and cooperation arrangements with foreign supervisors (through signed Memoranda of Understanding (MOUs) and the coordination mechanisms derived from the CCSBSO, among others) as well as the authority to request information from parent companies, all of which were further enhanced with the issuance of the FCL. Additionally, the SFC has access and authority to require information from ultimate beneficial owners.

2. The SFC has instituted a supervision by risk (RBS) approach and has issued external circulars (CE), guides, and manuals communicating supervisory expectations. Expectations are principles based and, for the most part, avoid setting benchmarks or limits, and rely on the supervised entities (ES) to develop policies assessing and controlling risk while the SFC determines if the policies are adequate based on the bank's risk profile, size, and complexity. This assessment highlights principles where more precise guidance from the SFC is warranted.

3. As part of its ongoing process to communicate supervisory expectations, the SFC issued a draft regulation on integrated risk management[3], and the Financial Regulation Unit (URF) issued a technical paper on large exposures and related parties. The aim is to both, consolidate existing risk management guidance and align with the Basel Committee on Banking Supervision (BCBS) standards on corporate governance, large exposures, and related parties. There

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[1] This Detailed Assessment Report has been prepared by Jose Tuya (IMF external expert) and Ludovic Fagette (World Bank external expert).

[2] Law 1870 defines a conglomerate as a group of entities under common control that includes two or more entities performing activities supervised by the SFC.

[3] This regulation was published on September 22, 2021, by CE 018/2021, but references throughout the document remain true to the draft version, as it was the one discussed during the mission and the one that has been taken into consideration for the assessment.

is also a need to align, cross-reference and consolidate the rapidly expanding body of regulations outlining CF and banking/credit institution (CI) supervision.

4. **Ongoing supervision is supported by onsite/offsite procedure manuals, effective analytical and risk measuring tools, and close collaboration with banks' external and internal auditors**. Supervisory nucleus (NS) are teams responsible for monitoring a number of banks and perform both onsite and offsite activities. The SFC makes requests to external/internal auditors on an ad hoc basis to request information or verification of compliance; in response, external auditors maintain permanent staff at the large banks.[4] A supervision plan is developed for each bank/CF after reviewing the risk profile; a process that includes determining the significant activities (AS) and analyzing individual AS risks to arrive at a net risk indicator for the entity (N1, N2, or N3).

5. **A strong enforcement and follow-up process aids in implementing preventive and corrective actions**. The SFC is also the resolution authority and has a broad range of tools to ensure that its recommendations to address deficiencies identified through the supervisory process are implemented. Corrective enforcement tools include cease-and-desist orders, ringfencing, sanctions, and fines. The enforcement authority extends to the bank, its management and Board, and to those of the parent financial holding (FH).

6. **The Financial Regulation Unit (URF), with the SFC's technical support, is working on legislative reforms that will address deficiencies noted concerning transactions with related parties**. The URF proposal will be discussed with the industry and aims to consolidate all exposures with subsidiaries, ensure homogenous treatment of groups of related parties, consolidate the various limits currently in place, and reduce the number of existing exemptions. These deficiencies were also noted at the previous BCP assessment.

7. **The supervisory process to monitor country risk has been enhanced since the last BCP; additionally, a regulation on country risk has been drafted that will include transfer risk provisioning**. The regulation will require banks to set tolerance limits and include supervisory expectations concerning policies and procedures that banks should develop to identify, measure, and monitor country and transfer risks. The regulation will also address transfer risk provisioning. The current supervisory process monitors banks to determine levels of country risk and adequacy of bank management of the risk. The SFC reviews provisioning of transfer/country risk as part of its supervisory scope.

8. **The URF has undertaken a project to update and simplify the large exposure requirements and align with Basel Committee on Banking Supervision (BCBS) standards**. External Circular (CE) 13, issued in 2019 requires financial conglomerates to address, among other risks, concentration risk in their appetite statement and provides a high-level definition of

[4] Those requests to internal and external auditors may complement the supervisory exercises performed by the SFC, particularly at times when a number of new regulations are implemented but should not replace a direct and intrusive supervision of banks by the supervisor, including through onsite inspections. In other words, the SFC should continue to be cautious not to over-rely on external sources of information when performing its supervision.

concentrations and sets out general risk management requirements for the conglomerate. As the new requirements are drafted for banks, the following should be considered: providing guidance thresholds on concentrations levels and supervisory expectations when enhanced risk management thresholds are exceeded.

9. Since 2012, the Colombian authorities have made progress in converging their regulations on capital adequacy, liquidity and operational risks toward the Basel III framework. Now, the definition of capital and risk coverage, including operational risk, are broadly aligned with the relevant Basel III standards, and short- and long-term liquidity ratios have been determined based on the LCR and NSFR standards. The remaining differences, justified by the authorities as a means to adapt the international framework to the particularities of the Colombian market, are highlighted in this assessment.

10. Leveraging on several supervisory exercises on the interest rate risk in the banking book (IRRBB) carried out since 2018, the SFC now considers establishing a formal standard on the IRRBB. The contemplated methodology considers both earnings-based measures and changes in the Economic Value of Equity (EVE), pursuant to the BCBS principles.

11. International Standards on Financial Reporting (IFRS) and International Standards on Auditing (ISA) have been incorporated into the Colombian regulatory framework. They are fully applicable to all banks supervised by the SFC, with the exception of some of the IFRS 9 provisions relating to the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments, when it comes to individual financial statements.

INTRODUCTION

12. This assessment of the implementation of the BCP by the SFC is part of the Financial Sector Assessment Program (FSAP) undertaken by the International Monetary Fund (IMF) and the World Bank (WB). The assessment was performed June 1 through June 21, 2021, and is based on the regulatory and supervisory framework in place at the time of this visit.

13. Given the prevailing virus situation, the mission was conducted totally offsite. The authorities provided a detailed self-assessment and answers to an additional questionnaire prepared by the assessment team. Answers to a specific "COVID-19" questionnaire were also given, in order to appreciate how the crisis affected the banking sector and what has been the authorities' response to the situation. Despite the very good cooperation of the authorities and the quality of the documentation they provided, the assessment of actual practices was sometimes very challenging due to the offsite nature of this mission.

14. Compliance was measured against standards issued by the Basel Committee on Banking Supervision (BCBS) in 2012.[5] Since the previous assessment, conducted in 2012, the BCP

[5] Basel Committee on Banking Supervision: *Basel Core Principles for Effective Banking Supervision*, May 2012: http://www.bis.org/publ/bcbs230.pdf.

standards have been revised and reflect the international consensus for minimum standards based on global experience. The view is that supervision should be based on a process involving well-defined requirements, supervisory onsite and offsite determination of compliance with requirements and risk assessments, and a strong program of enforcement and corrective action and sanctions. The 2012 revision placed increased emphasis on corporate governance, on supervisors conducting reviews to determine compliance with regulatory requirements, and on thoroughly understanding the risk profile of banks and the banking system.

15. The core principles relate to banking supervision; however, because of recent regulatory changes, this assessment addresses aspects of conglomerate supervision. Under the 2017 FCL, the SFC supervisory scope was expanded to include financial holding companies and financial conglomerates. The FCL defines the controlling owner as a financial holding under the SFC's supervision. Thus, bringing the financial holding and all subsidiaries and affiliates under the SFC's consolidated supervision. The FCL is implemented and attendant amendments to the banking legal framework are in motion. The terms "ES" (supervised entity), "CI" (credit institution), and "bank" are used interchangeably, as banks are deposit-taking credit institutions, as defined by legislation and are also supervised entities under the SFC.

16. The assessment was performed in accordance with the guidance set out in Annex 2 of the BCP. It assessed the compliance with the "essential" criteria. The guidance requires that the assessment be based on the legal and other documentary evidence, combined with a review of the work of the supervisory authority as well as its implementation in the banking sector, including the state-owned bank and other credit institutions, such as financing companies. The assessment of compliance with the CPs is not, and is not intended to be, an exact science. Banking systems differ from one country to the next, as do their domestic circumstances. Furthermore, banking activities are changing rapidly around the world and theories, policies, and best practices of supervision are swiftly evolving. Nevertheless, it is internationally acknowledged that the CPs set minimum standards.

17. This assessment is based solely on the laws, supervisory requirements, and practices that were in place at the time it was conducted. However, where applicable, the assessors made note of regulatory and supervisory initiatives that have yet to be completed or implemented.

18. The mission team benefitted from the full cooperation of Colombian authorities, which strove to make the whole process as smooth as possible, despite the inherent difficulties attached to the conduct of a totally offsite mission. Evidence was made available through a dedicated SharePoint site and virtual meetings were organized efficiently. The mission wishes to thank sincerely the SFC representatives for their cooperation, productive discussions, and "virtual" hospitality.

INSTITUTIONAL AND MARKET STRUCTURE—OVERVIEW

A. Institutional Setting

19. The SFC acts as the licensing, supervisory, and resolution authority of a broad range of financial institutions. It includes commercial banks, finance corporations, financing companies, securities, and investment management industries, and the well-functioning of capital markets, as well as insurance companies and the financial conglomerate of which they are a part. The SFC has adopted an integrated risk-based framework under which it supervises all those financial institutions. The SFC is also in charge of financial consumer protection.

20. The SFC coordinates with other institutions in many areas:

- ***Bank resolution and deposit insurance***. The decision about when to resolve a bank rests with the SFC, but it works closely with the Guarantee Fund for Financial Institutions (FOGAFIN). To an aim to foster information sharing and shared analysis between those two authorities, a Resolution Cross-sectoral Commission (CIR) was created in 2018. FOGAFIN's mandate includes protection of the confidence of depositors and creditors, and the provision of insurance of deposits of only credit establishments. Besides managing the deposit insurance system, it provides open bank assistance and conducts modified purchase and assumption transactions, with the exclusion of assets and liabilities.

- ***Financial stability***. The SFC is a member of the Financial Stability Monitoring Committee (CCSSF), which includes Banco de la Republica (BR), Ministry of Finance (MHCP), and FOGAFIN. The CCSSF's mandate aims to ensure the harmonization of policies and necessary coordination among the agencies in charge of supervision and regulation of the financial system. It has the specific mandate to discuss proposals for new regulation and to reduce gaps or overlaps in the decision-making process for macroprudential policies.

- ***Anti-money laundering and combating the financing of terrorism***. The Unit for Financial Information and Analysis (UIAF) is an autonomous unit located within the MHCP that takes the lead in the country's efforts to combat money laundering and the financing of terrorism. The SFC works closely with the UIAF to ensure the financial system complies with international norms in this area.

- ***Design of financial regulation***. The Colombian constitution gives the President of the Republic the power to issue financial regulations. In practice, the regulation of the financial sector is delegated to the URF, a technical body under the MHCP created in 2011 to enhance the regulatory process, and the SFC, that establishes detailed regulatory standards. The Financial Superintendent is part of the URF's governing Board and the SFC contributes to the definition of technical aspects of the decrees issued by the URF.

21. The SFC works jointly with other superintendencies, such as the Superintendency of the Solidary Economy, for the control and surveillance of nonfinancial cooperatives; the Superintendency of Industry and Commerce, which is responsible for supervising and regulating competition issues; and the Superintendency of Corporations, in order to have a comprehensive knowledge of the companies linked to the financial conglomerates that it supervises.

B. Market Structure

22. Colombia has a large and sophisticated financial system that has grown steadily over the past decade. Financial sector assets increased to 218 percent of GDP in 2020 from 105 percent in 2010. Credit institution assets, primarily held by commercial banks, grew to 76 percent of GDP in 2020 from 50 percent in 2010, and control 35 percent of sector assets. Assets held by pension funds and trusts doubled in the past decade to 17 percent and 30 percent of GDP, respectively, and together represent 47 percent of total system assets. Mutual fund assets grew to 13 percent of GDP in 2020 and represent 6 percent of system assets. The insurance sector is developing, with premiums equivalent to 3 percent of GDP in 2020 (up from 2.2 percent in 2010), albeit below countries belonging to the Organisation for Economic Co-operation and Development (OECD).

23. Outside of commercial banks, there are a range of other credit institutions, including finance companies and cooperative financial institutions, but their share of financial sector assets is low. Other credit institutions collectively control assets equivalent to 4 percent of GDP. There is one state-owned bank and a number of development finance institutions with total assets equivalent to 9 percent of GDP. In terms of asset size, commercial banks account for 95 percent of total assets held by credit institutions.

24. The financial system is dominated by large and diversified financial conglomerates that offer a broad range of banking and financial services. The CFs carry out, among others, banking activities, financial services, and pension and assets' wealth management. The seven Colombian CFs account for nearly 81 percent of total conglomerates' assets, while the six CFs, with a foreign financial holding company, own the rest.

25. The cross-border exposure of Colombian CFs in Latin America has steadily increased in the past years. The exposure of Colombian CFs in Latin America has more than doubled from US$41 billion in 2012 to US$93 billion in 2020. Colombian CFs operate in 14 jurisdictions in Latin America providing banking, insurance, and asset management services. Central America represents the largest overseas operations of these CFs, primarily in Panama (US$29 billion), El Salvador (US$11 billion), Costa Rica (US$10 billion), and Guatemala (US$8 billion). Outside Central America, the most important markets in terms of assets are Peru (US$2 billion), Chile (US$0.6 billion), and Mexico (US$0.3 billion). Cross-border exposures can be as high as 25 percent of the assets of the respective CF, while as a share of the host-market assets, subsidiaries of Colombian banks in Central America range from 17 percent of assets in Guatemala to over 50 percent in Costa Rica and El Salvador.

Table 1. Colombia: Financial Sector Structure[1]

Type of financial institution	Assets (billion, COL$)	Assets (% of GDP)	Percent of total financial sector assets	No. of entities
Credit institutions	**768,724**	**76.2**	**34.9**	**46**
Commercial banks	701,990	69.6	31.9	24
State-owned bank	27,851	2.8	1.3	1
Other	38,883	3.9	1.8	21
Pension funds	**383,761**	**38.1**	**17.4**	**5**
Pension funds	325,138	32.2	14.8	
Other retirement funds	47,927	4.8	2.2	
Prima media	10,696	1.1	0.5	
Mutual funds	**135,027**	**13.4**	**6.1**	**279**
Collective investment funds	76,039	7.5	3.5	
Private equity funds	19,412	1.9	0.9	
Other	39,577	3.9	1.8	
Trust services	**660,546**	**65.5**	**30.0**	**23,680**
Management and Payment	179,000	17.8	8.1	11,986
Social Security Resources	88,000	8.7	4.0	103
Real Estate Development	76,000	7.5	3.5	8,572
Secured Finance and Collateral Management	72,000	7.1	3.3	3,010
Investment	15,000	1.5	0.7	404
Securities custody	222,173	22.0	10.1	
Other	8,373	0.8	0.4	
Insurance	**94,820**	**9.4**	**4.3**	**45**
Life	58,358	5.8	2.7	20
General	33,137	3.3	1.5	25
Other	3,326	0.3	0.2	
State-owned Financial Institutions	**88,120**	**8.7**	**4.0**	**11**
Other	**69,191**	**6.9**	**3.1**	
TOTAL FINANCIAL SYSTEM	**2,200,188**	**218**	**100**	

Source: SFC.

[1] This category includes only nonbanks and does not include the state-owned bank (Banco Agrario), which is reflected under credit institutions.

C. Competition in the Financial Sector

26. In the past years, the level of interconnectedness of the financial sector has increased as a result of mergers and acquisitions. As indicated earlier, financial conglomerates control at least 75 percent of the industry, with presence in banking, insurance, and asset management (including pension funds). The evolution of the industry has been characterized by mergers and acquisitions within Colombia, and expansion to Latin America, most notably, to Central American countries. Concentration, measured by traditional indices, such as the Herfindahl-Hirschman Index (HHI) or the asset concentration of the three largest participants (C3), has increased in key segments of the market, such as banking and pension funds.[6]

27. The competition authority in Colombia is the Superintendency of Industry and Commerce (SIC), which coordinates with the SFC on competition issues that affect supervised entities within the financial sector. The regulatory framework gives the SIC powers to regulate and supervise markets on competition issues across the entire economy, including in the financial sector. Within this mandate, the SIC can issue sanctions to entities performing anti-competitive practices, such as collusive practices or abuse of market power. For these types of cases, the SIC and the SFC coordinate and exchange information periodically as part of an MoU between the two institutions. In the case of mergers of entities and integration within the financial sector, the SFC authorizes the transactions, following a (nonbinding) analysis by the SIC.

28. The SFC has developed some tools within its supervisory powers to promote competition in the financial sector. For example, the authorization process has been revised to promote efficiency, adequate preparedness, and proportionality for the entry of new players.[7] As part of these efforts, the SFC has issued guidelines to facilitate the process for new entities (e.g., licensing and fit-and-proper guidelines) and it has standardized processes and unified criteria. In addition, it has strengthened the framework for financial consumer protection, including by developing a comparative tool for pricing of different financial products, and by regulating the practices regarding the sale of bundled products.

D. Impact of the Covid-19 Crisis on the Banking Sector

29. The banking sector appears to have been rather resilient in face of the Covid-19 crisis so far and remains relatively well capitalized.[8] The average CET1 and total capital ratios were 12.8 percent and 17.2 percent, respectively, at end-2020, up from 10.7 percent and 15.5 percent the year before. However, top-down stress tests performed by the SFC showed that some small credit institutions were vulnerable. Consequently, five institutions were required in 2020 to strengthen their capital positions, either through direct capitalizations, conversion of bonds into equity, or through the speed-up of bond issuances in the market.

30. Liquidity indicators of the banking system remain rather strong. The short-term liquidity indicator (IRL), which is based on the Basel III LCR, was at 219 percent at end-2020, up from

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[6] However, according to the SFC, competition indicators by product or region show an increased number of market participants competing in different segments of the market.

[7] Including a sandbox mechanism for promoting financial innovation and the adoption of new technologies in financial activities.

[8] Despite regulatory incentives to fully implement prescribed credit risk management processes (see the external circular 022 of 2020), the impact of the deterioration of the credit risk portfolio, and of the Covid-19 relief measures, may not have been completely reflected in banks' balance sheets yet. For instance, Colombian financial conglomerates operate in jurisdictions where the regulator has allowed forbearance products until the end-June 2021. Consequently, all figures presented in this section should be read with caution.

188 percent one year ago, and the structural liquidity indicator (CFEN), which is based on the Basel III NSFR, was between 109.3 percent and 175.6 percent. Larger banks benefitted from a "flight-to-stability phenomenon" when the crisis struck in March 2020, when resources transferred from mutual funds and other investment vehicles and deposited into bank accounts, mostly in the form of short-term and demand deposits. This, combined with low loan disbursements, favored banking investments in securities and cash holdings.

31. The average quality of the loan portfolio deteriorated in 2020, but expected losses are covered by provisions. Past-due loans have increased by 18.9 percent in 2020 and account for 5 percent of the total loan portfolio. Nevertheless, exhorted by the SFC, banks put aside exceptional provisions in 2020 to be able to withstand the deterioration of their loans. Thus, the coverage ratio of past-due loans by all types of provisions, including provisions for performing loans, general, and countercyclical provisions, increased from 141.8 percent to 152.6 percent.

32. The profitability of banking institutions has suffered from the crisis. Lower revenues combined with higher provisioning cost impacted banks' profitability. The average return on assets (ROA) decreased from 1.8 percent to 0.8 percent and the average return on equity (ROE) fell from 12.64 percent to 5.86 percent.

33. Going forward, uncertainty on the economic recovery and growing risks may put additional pressure on banks' profitability. According to a macroeconomic analysis performed by the SFC, credit risk is the greatest source of vulnerability for banks, followed by operational risk, and liquidity and market risks. The extent to which the risks will translate into lower profitability will depend on the credit institutions' ability to earn profits based on continued performance of the best qualified loans, greater administrative efficiency, and their capacity to maintain income from banking fees and trading revenues.

PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

A. Sound and Sustainable Macroeconomic and Financial Sector Policies

34. Colombia maintains a solid macroeconomic framework. Key components of Colombia's macroeconomic framework include the adoption of a full-fledged inflation-targeting regime, a flexible exchange rate, a Fiscal Rule (2011) for the central government, and a medium-term fiscal framework. The solid macroeconomic framework also helps build buffers and strengthen resilience to external shocks, as is the case with the current COVID-19 pandemic. Colombian authorities' response to this crisis has been flexible and comprehensive, with fiscal transfer programs aiming at mitigating the household income loss and private sector bankruptcies, prudential regulations supporting the implementation of short- and long-term relief measures for debtors, and central bank money injection.

35. The monetary policy has been successful in maintaining the inflation within the central bank's targeted range (between 2 percent and 4 percent) until July 2020. The monetary policy has been moderately accommodative since December 2016, which helped to support the economic recovery while compatible with well-anchored inflation expectations. The main interest rate has been progressively relaxed between March and September 2020, at a time when the Colombian economy was the most affected by the pandemic. The central bank's credibility is particularly valuable during the current crisis, as it mitigates the effects of the peso's depreciation on inflation expectations.

36. Overall, liquidity flows through the Colombian financial system smoothly. The BR plays a central role in the liquidity system, adjusting liquidity under ordinary circumstances to the financial system through several channels, including open market repurchase operations against government securities, with all financial institutions and intra-day repurchase operations (also against government securities) to participants in the payments system. Following the 2013 FSAP advice, the authorities have limited access to OMOs by non-systemic counterparties.

37. In the absence of an explicit framework, the macroprudential policy has been implemented in Colombia on an occasional basis in the context of decentralized financial regulation. The bulk of financial regulation is directly under the responsibility of the MHCP, while the monetary policy, foreign exchange regulations, controls on foreign indebtedness, and reserve requirements are set by the Banco de la República (BR). The SFC is in charge of the supervision of all financial intermediaries. Resolution is a responsibility of the SFC and FOGAFIN, which coordinate their actions through the CIR created in 2018.

38. An inter-agency committee (CCSSF) was established by statute in 2003 to improve coordination among financial safety net entities. The CCSSF provides a forum for information sharing and coordination but is not a decision-making body; those powers reside in the member institutions. Accordingly, there is neither a clear objective variable to target nor a set of predefined tools that could be adjusted to achieve financial stability. This institutional setting has been rather successful in the past in preventing an excessive build-up of risks in the financial system. However, as noted in a report issued by the BR in 2017, it may not be sufficient in a more open and complex economy, where difficult trade-offs may arise, and the objectives of the various agencies may not be aligned. It is then advisable to set up an explicit macroprudential policy framework, with a clear mandate for the lead macroprudential authority (and other involved agencies) that sets out well-defined objectives and adequate powers matched with strong accountability.

B. A Well-Developed Public Infrastructure

System of Business Laws

39. Despite some improvements introduced in 2014, enforcing contracts in Colombia is still a lengthy and costly process. It is considered that enforcing a contract takes on average three to five years, mostly due to protracted judicial procedures, and the typical cost amounts to 45.8 percent of the claim value.

40. Insolvency proceedings have been strengthened over time. Restructuring and liquidation proceedings are primarily ruled by Law 1116 of 2006, which has been revised several times since its entry into force. A significant amendment was brought by Law 1676 of 2013, according to which creditors with security interests over the debtor's moveable assets can enforce the guarantees to obtain payment of the debt, but only if those assets are not necessary for the development of the economic activity of the debtor into reorganization. In the same vein, in liquidation proceedings, the guaranteed goods can be excluded from the group of liquidated assets in order to pay the creditors' debt, as long as there are no outstanding labor credits. Consequently, despite those noticeable improvements, the treatment of secured creditors remains an important issue in the insolvency process.

Accounting Principles and Rules

41. Colombia has implemented a comprehensive and well-defined accounting framework based on the IAS and IFRS standards. Large companies, including public companies, credit institutions, pension funds and trust companies, among others, shall prepare their financial reporting according to the full set of applicable IAS and IFRS standards.[9] SMEs are subject to IFRS for SMEs. Micro businesses shall apply simplified accounting principles and rules derived from IFRS for SMEs. The accounting framework is regularly updated to take into account the modifications to applicable IAS and IFRS standards, as well as to incorporate new standards. The last update was in December 2020 (decree 1432 (2020)).

System of Independent External Audits

42. All stock corporations, branches of foreign companies and companies with assets and income over specific thresholds[10] are required by law to have an external auditor. External auditors shall give their opinion on the reliability of the accounts and can be held responsible in case of gross negligence or willful misconduct. Since 2016, International Standards on Auditing (ISA) are the mandatory reference framework for external auditors of large companies and companies who publish consolidated financial statements.

Payment and Clearing Systems

43. Colombia has developed a robust, comprehensive, and efficient set of financial market infrastructures (FMIs). The private sector, including Colombian credit institutions, trust companies, and pension funds, owns the stock exchange (BVC), which in turn operates the central counterparty for derivatives (CRCC), the clearinghouse for spot and next-day peso-dollar transactions (CCDC), and the platforms for stock exchange and private debt settlements (respectively, BVC-Renta and

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[9] However, when establishing their individual accounts, credit institutions should not follow principles laid down by IAS 39 and IFRS 9 relating to the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments, but COLGAAP. See BCP 27 for further details.

[10] In 2020, those thresholds were the following: Col$4.140 million (i.e., about US$1 million) of total assets and Col$2.484 million (i.e., about US$0.6 million) of income.

Deceval). The BR owns the large value payment system (CUD), which operates on a real-time gross settlement basis. Access to the CUD is broad as most regulated financial institutions are participants. The central bank also operates the public debt depository and settlement platform (DCV). BR has responsibility for the oversight of the payment systems.

Credit Bureaus

44. The credit reporting industry is well established and mature and operates well. Sharing both positive and negative credit information is widespread across both financial and nonfinancial lenders. Each of the two major credit bureaus, Datacredito and Transunion, has achieved wide coverage of the country's population (over 82 percent of economically active individuals in 2019). Both firms provide standard credit reports and a set of value-added products, including credit scores, which are used extensively in lending and other decisions. Credit bureaus operate under Law 1266 of 2008, also known as the *habeas data* act, which clarifies the rights of individuals about personal data held by database operators, regulates the types of information that can be collected, stored, and distributed, and includes a variety of specific provisions aiming at ensuring adequate consumer protection.

Public Availability of Basic Economic, Financial, and Social Statistics

45. Basic economic, financial and social statistics are publicly available. The National Department of Statistics (DANE) is responsible for the compilation and communication via its website of a broad range of statistics, including the national accounts, prices and costs indexes, and population and demography. The BR publishes a variety of monetary and financial statistics on its website, such as exchange and interest rates, external sector statistics, as well as periodic economic surveys and a biannual financial stability report. The SFC releases on its website bank-by-bank and aggregated monthly financial information, as well as a monthly report on the Colombian financial system, which includes aggregate information on the banking sector's profits, assets (including information on their quality and provision coverage), liabilities, capital ratios and liquidity risk indicators.

C. Framework for Crisis Management, Recovery, and Resolution

46. A voluntary pilot assessment carried out in 2015 concluded that the Colombian authorities have strong powers to manage weak and failing financial institutions, and a track record of using them. The resolution authority for financial firms is clearly delegated to the SFC, while FOGAFIN has consultative or specific operational roles in the execution of some resolution tools. However, there was no clear lead authority for resolution of conglomerates endowed with resolution powers over nonfinancial entities (notably, holding companies). In addition, the assessment highlighted key shortcomings of the Colombian recovery and resolution regime, with a need: (i) for additional powers to transfer assets and liabilities to a private sector buyer or a bridge bank without requiring consent from shareholders or other interested parties; (ii) to introduce an assessment of nonviability, based on clear criteria, as a trigger for timely resolution; (iii) to implement rules to minimize the exposure of public and deposit insurance resources in resolution, including additional bail-in powers with regard to unsecured or uninsured creditors; and (iv) to start recovery and resolution planning as soon as possible.

47. Several enhancements to the recovery and resolution regime have been implemented over the past four years. First, FOGAFIN has been granted explicit powers by law to transfer assets and liabilities to a credit institution, or a bridge bank, without requiring consent from shareholders or other interested parties as an alternative to the liquidation of the failing institution (Law 1870 (2017) and decree 521 (2018)). Second, four supervised entities (Bancolombia, Banco de Bogotá, Banco Davivienda, and BBVA Colombia) designated as systemic in 2020 and 2021 according to internationally recognized criteria,[11] will have to establish and communicate to the SFC a resolution plan from 2022 onward.[12] Third, although not directly related to resolution, the Conglomerate Law grants new supervisory powers to the SFC to require adjustments to the organizational structure of financial conglomerates which, when exercised, could help improve the resolvability of those groups.

D. Appropriate Level of Systemic Protection (or Public Safety Net)

48. The BR can provide emergency liquidity through a lender-of-last-resort facility. Conditions for access to the facility are set by the BR Board of Governors and are laid out explicitly. The current conditions stipulate that the BR must lend to "solvent" credit institutions (i.e., with a net equity of at least 50 percent or with regulatory capital of at least 40 percent of the minimum amount) and providing acceptable collateral, regardless of the BR's or the SFC's opinion on the firm's viability. Emergency funds cannot be used beyond pre-set periods of time and, in any case, cannot be used for more than nine months.

49. Colombia has an effective deposit insurance system, managed by FOGAFIN. The current coverage limit is about US$12,700 (Col$50,000,000) per depositor per institution. All deposit-taking financial institutions are required to participate in the system (except for the cooperatives covered by FOGACOOP) and pay quarterly deposit insurance premiums. The scheme covers 99 percent of the depositors in full. As of October 2020, the deposit insurance fund had resources of US$7.1 billion (Col$ 27.5 trillion), accounting for 5.8 percent of insurable deposits. In the event that the fund is depleted, FOGAFIN is allowed to raise extraordinary contributions from the industry or ask for contributions from the national budget (EOSF art. 319). FOGAFIN can begin to pay out insured deposits from eight days after the liquidation order. Conscious that the long payout timeframe raises concerns, as it could contribute to depositor uncertainty in cases of bank failures, FOGAFIN is working with relevant entities to be able to pay out insured deposits within seven working days.

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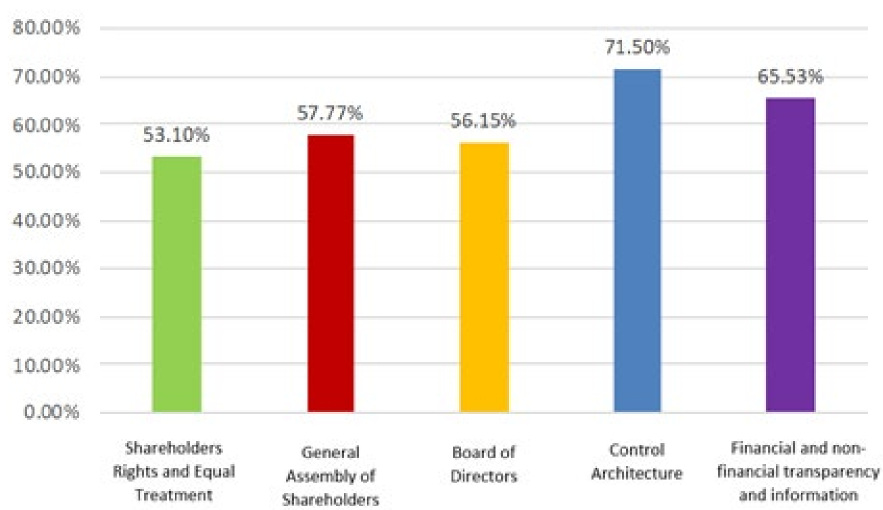
[11] Namely, their size, interconnectedness, substitutability, and complexity.

[12] The initial deadline for the establishment of the resolution plans was 2020 but has been postponed due to the Covid-19 crisis.

E. Effective Market Discipline

50. **In a review of corporate governance in Colombia carried out in 2016,[13] the OECD concluded that Colombian authorities had undertaken substantial reforms to strengthen the corporate governance framework, both for listed companies and state-owned enterprises (SOEs)**. It was noted that those reforms took place in a context where "Colombia faces important challenges with respect to low trading volumes and a gradually diminishing number of listed companies, as well as concentrated ownership in the context of large conglomerates that play a dominant role in the economy." Among the main reforms were the release of an updated version of the Colombian Code of Best Practices and of the corporate governance framework for state-owned enterprises, both of which were assessed as being broadly compliant with international standards.

Figure 1. Colombia: Corporate Governance Code—Implementation Status in 2019



Source: SFC.

51. **The effective implementation of the Code is monitored by the SFC**. All issuers (including banks and other financial institutions) are required to annually report their adherence to the Code under a "comply or explain" methodology. Moreover, the status of compliance with good practices shall be published on each institution's website, and the SFC reports annually on the results to provide the market with permanent, updated, and comparable information. Accordingly, there has been some progress in the Code's implementation, particularly among the biggest stock companies.[14] Areas where compliance levels are the lowest are the ones relating to (i) the

[13] Available here: http://www.oecd.org/colombia/corporate-governance-in-colombia-9789264281134-en.htm

[14] The biggest companies are listed on COLCAP, which is the main stock market index of the Colombia Stock Exchange.

enforcement of shareholder rights and equitable treatment; (ii) recognizing stakeholder rights; and (iii) the duties, rights, and responsibilities of Boards (see table below).

52. There are no restrictions on foreign investments in entities supervised by the SFC and no special conditions for foreign-financed takeovers, provided that the transaction is registered according to the terms and conditions set forth by the BR[15] and compliant with the general regulatory requirements under Colombian law. Currently, there are seven banks in Colombia with a majority of foreign shareholders and six financial holdings domiciled abroad.

MAIN FINDINGS

Responsibility, Objectives, Powers, Independence, and Cooperation (CPs 1–3, and 13)

53. The Colombian framework for banking regulation and supervision is clear and efficient. The SFC is the sole supervisor of the financial sector in Colombia, including insurance companies. It is invested with a broad range of preventive and corrective powers and has a track record of using them. Its preferred course of action is the issuance of administrative orders by which it requires supervised entities to correct unremedied weaknesses, as well as the imposition of fines. Its supervisory powers on financial conglomerates have been duly enhanced since 2017 and the adoption of the Financial Conglomerates Law.

54. The SFC is a technical body, affiliated to the MHCP, endowed with separate legal personality, and administrative and financial autonomy. It has developed adequate internal governance processes and possesses financial and human resources commensurate with its various missions. Those resources have been strengthened at a time when the financial sector has been growing steadily and becoming more complex.

55. The operational independence has been largely enhanced since 2015, but additional formal safeguards could still be considered. The issuance of a new decree in 2015 on the appointment and dismissal of the Superintendent was welcome, as it addressed a number of potential impediments to the supervisor's operational independence. Nevertheless, this decree has been partly censured in 2020. It is then important that the law specifies that the Superintendent is appointed for a minimum term and is removed from office during his/her term only for reasons specified in the law. Other formal safeguards could be strengthened to avoid SFC staff from being involved in lawsuits for actions taken and/or omissions made while discharging their duties in good faith and potential interference in the decision-making process.

56. The SFC has an extensive collaboration/communication network supported by information exchange agreements, both domestic and cross-border, to facilitate supervision on a consolidated basis. Domestically, the SFC through the CCSSF, monitors financial stability with

[15] The central bank keeps the registry of foreign investment.

the BR, the MHCP, and FOGAFIN. Through the CIR, the SFC, and FOGAFIN, coordinate possible resolution options and planning.

57. On a cross-border basis, the SFC works through regional groups, maintains home-host relationships, and participates in supervisory colleges. The SFC is home supervisor to seven conglomerates and host to six. The SFC is a member of and has signed an MOU with the Central American Monetary Council, covering a region where Colombian banks have active operations. Supervisory colleges have been conducted by the SFC, and it has participated as host supervisor in other colleges. On a one-to-one basis, the SFC maintains ongoing communications with cross-border supervisors and has signed bilateral MOUs.

Ownership, Licensing, and Structure (CPs 4–7)

58. The SFC developed well-designed processes for the authorization of new credit institutions, changes in their ownership, and their investments in other financial entities. The authorization process has been revised to promote efficiency, adequate preparedness, and proportionality for the entry of new players. As part of these efforts, the SFC has issued draft guidelines to facilitate the process for new entities (e.g., licensing, and fit-and-proper guidelines), and it has standardized processes and unified criteria. Depending on the materiality of the case, the analyzes made by the SFC prior to authorizing creation of the new entity, or the contemplated operation, are addressed. The technical study supporting the authorization decision contains a clear and conclusive analysis of the file.

59. The SFC acts proactively to counter illegal deposit-taking activities. To this end, it has a dedicated team of 26 officials who performed 237 offsite and 215 onsite inspection visits between 2016 and 2020 to understand the business models of unsupervised natural and legal persons, and to determine whether they constitute illegal deposit taking from the public or not. It resulted in 24 cases where there was indeed illegal deposit-taking activity; in another 7 cases, controlling persons were developing activities that were exclusively allowed to supervised institutions or required authorization from the SFC. The SFC also regularly carries out preventive actions aiming at increasing public awareness and publishes a detailed and pedagogical guide informing the public about illegal deposit-taking practices.

Methods of Ongoing Supervision (CPs 8–10, and 12)

60. The supervisory process at the SFC has undergone a significant overhaul since the previous BCP assessment. The SFC has implemented a supervision-by-risk (SBR) approach and communicates supervisory expectations using a principles-based philosophy. The legal framework has been strengthened to form a foundation for supervision and the enforcement of corrective action. The integrated supervisory framework (MIS) is based on risk-based principles and targets monitoring and inspections based on risk to both the financial system and individual institutions. And, through the issuance of external circulars and guides, the SFC communicates enforceable supervisory expectations. The passage of the FCL brought the Financial Holdings (HF for their initials in Spanish) under SFC supervision.

61. The MIS is applied through a risk assessment matrix (RAS) that is tailored to financial groups and individual banks. The RAS analyzes the bank's identified significant activities (SA), determines inherent risks, adequacy of risk management, and assigns a net risk rating to each SA to assess a global net risk (GNR) to all of them. Afterwards, supervisors evaluate the bank's capital, liquidity, and profitability to compute the bank's overall risk profile and rating. For HFs, the RAS adds an additional risk layer focusing on contagion, strategic, and concentration risks.

62. In its supervisory guidance to banks and in its internal supervision manuals, the SFC takes a principles-based approach and avoids setting hard-wired limits or benchmarks. The SFC communicates to banks its expectations on risk management, risk appetite statements, and determines adequacy of bank implementation on a case-by-case basis. To provide maximum flexibility to tailor risk management, the SFC provides high-level, broad guidelines for banks on items to be covered in their operating policies and procedures. Similarly, guidance to examiners is also high level. As recommended in relevant CPs, more detailed guidance is warranted. Establishing benchmarks and thresholds above which enhanced risk management monitoring of risk mitigants may be required does not impinge on principles-based guidance.

63. Through a blend of onsite and offsite activities, the SFC monitors the financial system. Offsite reviews are supported by an extensive array of information collected from the banks and other external sources. Onsite activities include visits to the banks, ad hoc requests to internal and external auditors for information, verification procedures and analysis. External auditors maintain full-time staff at the larger banks in response to information requests from the SFC.

Corrective and Sanctioning Powers of Supervisors (CP 11)

64. The SFC has available and actively employs a broad range of measures and tools to address safety and soundness issues and take preventive and corrective action. The SFC may require corrective action and apply sanctions on the holding company, and the bank, including management and the board. The powers may be implemented on a ladder approach, providing the bank opportunity to correct deficiencies.

65. Preventive action is applied when trends indicate that bank soundness may deteriorate if not addressed. On a preventive basis, the SFC issues orders and recommendations based on a determination that risk management, credit limits, or internal audits are inadequate. It may even request increases in capital if, in its view, capital, although meeting capital adequacy requirements (CAR), is not adequate given a lack of adequate operating policies that increase risk.

Corporate Governance (CP 14)

66. The SFC has issued requirements, guidelines, and a country code addressing corporate governance. In 2014 the SFC issued External Circular 028, which published the New Code of Best Corporate Practices—Country Code, applicable to stock and private debt-issuing banks. The code, referred to as "Country Code," establishes the duties and responsibilities of the Board of Directors, including membership, required committees, duty to issue operating policies, establishing internal controls, and enhancing the practices of Boards of directors through a detailed set of recommendations, based on which stock and private debt-issuing banks are required to report annually to document compliance. Adoption of the Code is voluntary but issuing banks must report annually on whether they have implemented it or not, thus promoting moral suasion. Once the bank adopts a recommendation, it will be of compulsory compliance and must be incorporated into their bylaws. These recommendations serve as the basis by which the SFC conducts a full evaluation of the bank´s corporate governance and issues any recommendations deemed relevant. All the items in the Code complement the supervisory work evaluating the entity’s performance according to the Knowledge and Assessment of the Corporate Governance of the ES.

67. The SFC has also issued corporate governance guidelines applicable to all banks. The guidance addresses in separate documents the requirements for senior management and the Board of directors in terms of performance. It also includes the internal control framework and the duties for directors and management. The SFC has also issued requirements for risk appetite statements and risk management systems. Taken together, they are a broad compendium of minimum corporate governance requirements. The SFC has also provided internal guides for assessing the adequacy of corporate governance.

Prudential Requirements, Regulatory Framework, Accounting and Disclosure (CPs 15–29)

68. The SFC determines that banks have comprehensive risk management processes and has issued guidelines to banks; however, areas to improve are noted in some of the individual CPs. The SFC has issued detailed risk management requirements for HFs, subordinates, and for independent banks. The guidelines address the Board’s role in ensuring internal controls, adopting risk appetite statements and risk management policies, and establishing Board committees and compliance systems. Guidance also highlights elements that should be included in the documents and reviewed by SFC supervisors. CPs on interest rate, liquidity, concentrations and large exposures, and country and transfer risk highlight recommendations to improve compliance on those risks.

69. Since 2012, Colombia has been gradually aligning its prudential regulations with the Basel III capital standards. The convergence toward the international framework culminated in 2018, with the introduction of the following changes to the Colombian regime: (i) introduction of new Tier 1 and leverage ratios calibrated as per Basel III; (ii) introduction of a capital conservation buffer of 1.5 percent and of an additional buffer of 1 percent for DSIBs; (iii) modifications to the list of instruments accepted as regulatory capital to further harmonize them with the international framework; and (iv) modifications to the risk weights of assets to make them more sensitive to their credit risk. The majority of the changes were enforced in January 2021. However, Tier 1 and capital buffers ratios will be progressively implemented over a three-year period (January 2021−January 2024). At the end of the transition period, capital requirements for a DSIB will be as follows:

Aggregation	Minimum	CET1 ratio	Tier1 ratio	CAR
Aggregation	Minimum	4.5%	6%	= 9%
+	Conservation buffer	1.5%		
=	Minimum plus conservation buffer	6%	7.5%	= 10.5%
+	Systemic buffer*	1%		
=	Minimum plus buffers	7%	8.5%	= 11.5%

Source: SFC.

70. Despite the gradual alignment, there remain some differences between Basel III and Colombian capital requirements for banks. When incorporating the international principles into their regulation, the authorities have made some adjustments to reflect specificities of the Colombian financial system and some discretionary choices allowed by the Basel framework. Overall, those adjustments and choices may reduce the capital requirements and improve the regulatory solvency ratios of Colombian banks. They include: (i) a few lighter risk weighting of assets, such as a zero risk-weight for cash deposits in financial entities supervised by the SFC, Colombian government debt (both denominated in local and foreign currencies),[16] mandatory investments irrespective of the credit rating of the issuers, and exposures to a clearing house; and (ii) the recognition of minority interests above minimum capital requirements as eligible capital for entities subject to prudential standards equivalent to the Colombian ones. It is then recommended to complete the alignment of regulatory capital requirements with the relevant Basel III standards.

71. The implementation of the new capital requirements is expected to improve the regulatory solvency of Colombian banks. Thus, the SFC estimates that the CET1 and total solvency ratios of banks would increase from 10.7 percent to 16.4 percent, and from 16.4 percent to 21.3 percent, respectively, because of those changes.[17] The improvement derives mostly from a reduction in the risk-weighted assets (RWAs) density (from 75.9 percent to 66 percent) and, to a minor extent, from the inclusion of results and reserves into the CET1 capital instruments. In 2020, the SFC authorized some credit institutions to adopt early the new requirements, if they were sufficiently prepared, or as a means to boost the solvency ratio of vulnerable entities.

[16] The Basel framework allows such a preferential treatment only for sovereign domestic debt denominated in local currency,

[17] For all credit institutions, those ratios would increase from 11.7 percent to 18.2 percent, and from 17.3 percent to 22.9 percent respectively.

72. The internal capital adequacy assessment process (ICAAP) of credit institutions is currently at an early stage. A pilot exercise was launched in 2019, by which the SFC required that each supervised entity define its own scenarios, which would result in noncompliance with its capital and liquidity targets. Due to the Covid-19 crisis, the SFC postponed until July 2021 the submission of the stress test results. Based on this, the SFC is expected to identify best practices, as well as the main shortcomings of the techniques being used, in order to enhance its regulation. The draft regulation contemplates formalizing a comprehensive management approach that links together the risk appetite framework with the ICAAP, ILAAP, stress tests, and recovery and resolution plans. Supervised entities will be required to periodically report the results of those exercises to the SFC.

73. On consolidated financial statements, banks/FHs follow IFRS; at the individual bank-level, banks follow prudential provisioning rules issued by the SFC. The SFC closely monitors loan portfolios and performs onsite credit reviews as warranted. Prudential requirements result in higher provisioning requirements than under IFRS.

74. Regulations establish connected-party and individual lending limits; however, the regulation does not fully address concentrations to include other factors listed in the CP. Current guidance and Decree 2555 define large exposures, connected lending, and related parties, and sets lending limits. Although, the FCL requires conglomerates to address a broader scope of concentration risks, existing guidelines focus on connected lending limits. The URF is conducting a review to streamline the various lending limits and align guidance with BCBS large exposures standard. The URF study should also review concentrations definition incorporating elements from external circular (CE) 13 of 2019 and consider guidance benchmarks to highlight exposures that may require increased monitoring and risk mitigants.

75. The regulations define related parties and apply lending limits, but they do not establish a consolidated body of requirements on related-party transactions. The legal framework was judged deficient at the last BCP assessment, and the framework has not been amended. The URF has undertaken a project that has the following purposes: (i) consolidate all exposures with subordinates; (ii) ensure the clear and homogeneous application of the concept of groups of related parties; (iii) simplify the scheme with fewer limits; and (iv) reduce the incidence of exceptions that can generate arbitrage and complexities in the rule's interpretation.

76. Country and transfer risks are not fully addressed. The SFC has addressed some of the deficiencies noted in the last BCP review, which include establishing requirements on risk management and controls for country risk at banks. However, detailed guidance on measuring and provisioning country and transfer risks and providing provisioning guidelines have not been issued. Colombian banks have a significant portion of assets booked in Central America which may be subject to concentration and contagion risks. A regulation has been drafted on country and transfer risks that may contribute to addressing these outstanding issues.

77. Adequate regulatory standards are in place with regard to the management of market risks by credit institutions, and the SFC supervises their implementation. Moreover, the SFC has developed a robust framework for the monitoring of market risk exposures and the identification of potentially vulnerable entities.

78. Since 2018, the SFC has strengthened its supervision on how Colombia's largest banks manage their interest rate risk in the banking book (IRRBB) through dedicated offsite exercises. A similar exercise was planned in 2021, with a focus on medium and small banks, as well as financing companies and financial cooperatives. However, the SFC has not issued prudential requirements or detailed guidelines to specifically deal with IRRBB, and the mandatory stress testing program (EPR) does not explicitly refer to IRRBB. Rightly, the SFC now considers establishing a formal standard on IRRBB through the issuance of an External Circular in the second half of 2021. The contemplated methodology considers both earnings-based measures and changes in the EVE, pursuant to the BCBS principles.

79. The framework for credit institutions to manage their liquidity risk is comprehensive and has converged toward international standards. It requires the calculation and monitoring of several liquidity ratios, including a short-term liquidity ratio (IRL), which has been further aligned with the LCR standard in 2018, and a structural liquidity ratio (CFEN) derived from the NSFR, which was introduced in 2019. Moreover, in its quality of the monetary and exchange authority, the BR has made mandatory in 2015 several new ratios relating to FX risk in the short term, and currency mismatches. Leveraging on this information, the SFC has developed both system-wide and individual dashboards to enable it to monitor the liquidity position of banks on an ongoing basis.

80. Several regulatory parameters used in the computation of those ratios are not totally aligned with those prescribed by the Basel III standards, or are not determined yet. For example, most run-off factors receive a more favorable treatment than the ones prescribed by the LCR standard. Colombian authorities explained that those parameters were designed to reflect the market conditions in which banks operate and the behavior of their clients. Nevertheless, this reduces the comparability between the subsidiaries of financial conglomerates, where different liquidity metrics can be used, depending on the jurisdictions where subsidiaries are established. It is then recommended to further align the local LCR and NSFR ratios with international standards and, as already envisaged by the SFC, to require the NSFR ratio to be also calculated at a consolidated level.

81. Operational risk is now included in capital requirements and its supervision has been enhanced. Since January 2021, banks must hold capital against operational risk. Regulatory capital requirements are derived from the Basel III operational risk standardized approach. On the other hand, the SFC has enhanced its framework for the management of operational risk, with instructions given to banks and other financial institutions to strengthen the information security, cybersecurity, performance of the operations, recording of operational events, and outsourcing management. Throughout 2018 and 2019, the SFC undertook its first evaluation of the degree of maturity of banks' cybersecurity and business continuity management. In 2020, it has been proactive in giving specific instructions to supervised entities, so that they improve their operational risk management during the pandemic and in following up on the implementation status of the related actions. It has also monitored daily the availability of online services provided by supervised entities, thanks to an automated connection test.

82. The Colombian authorities have implemented international accounting and auditing standards. Accordingly, since December 2015, credit institutions are required to prepare and disclose their financial statements pursuant to applicable IAS and IFRS standards, and their external auditors shall perform their engagement according to ISA standards. However, banks shall not comply with IAS 39 and IFRS 9 standards when they establish their individual financial statements, but with instructions imparted by the SFC. The local rules for loan-loss provisioning are not totally aligned with the IFRS 9 impairment principles. The main difference lies with the introduction of macroeconomic variables for loan-loss provisioning under the IFRS 9 standard, which, all other things being equal, increases the provision requirements, especially for consumer loans. It could then be considered to remove this difference in the loss-provisioning method and, more generally, review the exception to the application of IAS 39 and IFRS 9 standards in the individual financial statements of banks. Another consideration could be given to completing the regulatory requirements relating to the perimeter of the external audits of banks, and for imposing a mandatory firm rotation.

DETAILED ASSESSMENT

83. The assessment of compliance of each principle will be made based on the following four-grade scale: compliant, largely compliant, materially non-compliant, and non-compliant. A "not applicable" grading can be used under certain circumstances. While gradings in self-assessments may provide useful information to the authorities, these are not mandatory as the assessors will arrive at their own independent judgment.

- **Compliant:** a country will be considered compliant with a Principle when all essential criteria[18] applicable to this country are met without any significant deficiencies. There may be instances, of course, where a country can demonstrate that the Principle has been achieved by other means. Conversely, due to the specific conditions in individual countries, the essential criteria may not always be sufficient to achieve the objective of the Principle, and, therefore, other measures may also be needed in order for the banking supervision aspect addressed by the Principle to be considered effective.

- **Largely compliant:** A country will be considered largely compliant with a Principle whenever only minor shortcomings are observed, which do not raise any concerns about the authority's ability and clear intent to achieve full compliance with the Principle within a prescribed period of time. The assessment "largely compliant" can be used when the system does not meet all essential criteria, but the overall effectiveness is sufficiently good, and no material risks are left unaddressed.

[18] For the purpose of grading, references to the term "essential criteria" in this paragraph would include additional criteria in the case of a country that has volunteered to be assessed and graded against the additional criteria.

- **Materially non-compliant:** A country will be considered materially non-compliant with a Principle whenever there are severe shortcomings, despite the existence of formal rules, regulations, and procedures, and there is evidence that supervision has clearly not been effective; that practical implementation is weak; or that the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance. It is acknowledged that the "gap" between "largely compliant" and "materially non-compliant" is wide, and that the choice may be difficult. On the other hand, the intention has been to force the assessors to make a clear statement.

- **Non-compliant:** A country will be considered non-compliant with a Principle whenever there has been no substantive implementation of the Principle, several essential criteria are not complied with, or supervision is manifestly ineffective.

84. In addition, a Principle will be considered not applicable when, in the assessor's view, the Principle does not apply given the structural, legal, and institutional features of a country.

85. Unless the country explicitly opts for any other option, compliance with the Core Principles will be assessed and graded only with reference to the essential criteria. As a second option, a country may voluntarily choose to be assessed against the additional criteria, in order to identify areas in which it could enhance its regulation and supervision further and benefit from the assessors' commentary on how it could be achieved. However, compliance with the Core Principles will still be graded only with reference to the essential criteria. Finally, to accommodate countries that further seek to attain best supervisory practices, a country may voluntarily choose to be assessed and graded against the additional criteria in addition to the essential criteria. Colombia elected to be assessed on the additional criteria.

86. The detailed Principle-by-Principle self-assessment should provide a "description" of the system with regard to a particular Principle. The template also includes spaces for a grading or "assessment," and a "comments" section, if the country opts to include a grade in its self-assessment.

- **The "description" section of the template should provide information on the practice in the country being assessed**. It should cite and summarize the main elements of the relevant laws and regulations. This should be done in such a way that the relevant law or regulation can be easily located, for instance, by reference to URLs, official gazettes, and similar sources. Insofar as possible and relevant, the description should be structured as follows: (1) banking laws and supporting regulations; (2) prudential regulations, including prudential reports and public disclosure; (3) supervisory tools and instruments; (4) institutional capacity of the supervisory authority; and (5) evidence of implementation and/or enforcement or the lack of it.

- **The "assessment" section, if the country opts to include the grade in the self-assessment**, **should contain only one line, stating whether the system is "compliant," "largely compliant," "materially non-compliant," "non-compliant" or "not applicable" as described above**.

- **The "comments" section will be used by the assessors to explain why a particular grading was given, in particular, when a less than "compliant" grading was given**. This could be structured as follows: (i) reasons related to the state of the laws and regulations and their implementation; (ii) the state of the supervisory tools and instruments, for instance, reporting formats, early warning systems, and inspection manuals; (iii) the quality of practical implementation; (iv) the state of the institutional capacity of the supervisory authority; and (v) enforcement practices. In case of a less than "compliant" grading, this section will be used to highlight which measures would be needed to achieve full compliance, or why, notwithstanding that the system seems compliant based on laws, regulations, and policies being in place, yet a less than "compliant" grading was given, perhaps due to weaknesses in procedures or implementation. Countries choosing not to include grades in the self-assessment can use this section to introduce additional information, in particular, to make reference to planned initiatives aimed at amending existing practices, or legislation and regulation still in draft.

A. Supervisory Powers, Responsibilities, and Functions

Principle 1	**Responsibilities, objectives and powers**. An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups.[19] A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws, and undertake timely corrective actions to address safety and soundness concerns.[20]
Essential criteria	
EC1	The responsibilities and objectives of each of the authorities involved in banking supervision[21] are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.
Description and findings re EC1	The Colombian constitution assigns the president of the republic to regulate through the issuance of decrees, resolutions, and orders needed to comply with the laws (Art. 189.11). The president has also the power to exercise inspection, surveillance, and control over persons performing financial activities, securities, insurance, and any other tasks related to the management, use, or investment of funds raised from the public (Art. 189.24). This power is exercised through the Financial Superintendency of Colombia (SFC, for its initials in Spanish), which is the

[19] In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example nonbank (including nonfinancial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

[20] The activities of authorizing banks, ongoing supervision and corrective actions are elaborated in the subsequent Principles.

[21] Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

	sole supervisor of the financial sector in Colombia, including insurance companies (Art. 11.2.1.3.1 of the Presidential Decree 2555 (2010)). The SFC results from the merger in 2005 between the superintendencies of banks and securities. It is a technical body under the MHCP, with legal representation, administrative, and financial autonomy. It aims to monitor the Colombian financial system in order to preserve its stability, security, and confidence; and promote, organize, and develop the Colombian securities market, and protect investors, savers, and policyholders. Regarding the banking sector, the nature and objectives of the SFC are defined by law (*Estatuto Orgánico del Sistema Financiero*, EOSF, Art. 325 and 326). These articles define the SFC´s (i) objectives; (ii) the institutions supervised by it, specifically those that develop banking activities; (iii) functions; and (iv) faculties regarding banking institutions. New supervisory powers regarding the supervision of financial conglomerates were granted to the SFC in 2017 (Law 1870 of 2017). The SFC´s responsibilities are stated in Part 11, Book 2, Title 1, Decree 2555 of 2010. According to these, the President of Colombia regulates and supervises the financial intermediaries through the SFC. The SFC shall conduct its missions based on a materiality principle and has a right of access to the information needed to ensure the protection and stability of the financial system (Law 1328 of 2009, Art. Article 67). This applies even to institutions that are not supervised by the SFC. In addition to the aforementioned principles, the SFC must attend those that govern the general administrative activity, such as: equality, morality, effectiveness, economy, celerity, impartiality and public disclosure (Colombian Constitution, Art. 209, and Law 1437 of 2011, Art. 3). Finally, it is possible to find the legal framework that supports the work of the SFC, its mission, vision, and structure on the SFC website.
EC 2	The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, they are subordinate to the primary objective and do not conflict with it.
Description and findings re EC2	In compliance with its legal purpose and objectives, the SFC aims primarily at preserving the financial sector's stability, security and confidence through the supervision of banking entities and banking groups. The SFC is also in charge of protecting financial consumers. Accordingly, it may hear and solve disputes arising between financial consumers and supervised entities which are exclusively related to the implementation and fulfillment of contractual obligations incurred during the financial business, securities, insurance, and any other related to the management, use investment funds raised from the public (Law 1480 (2011)–Art. 57). The independence of the SFC's jurisdictional function vis-à-vis its supervisory function is laid down by the law. In practice, distinct departments deal with the financial supervision on the one hand, and with the financial consumers' protection

	and jurisdictional function on the other hand. So, there is no evidence of conflict, or even interference, between the different objectives of the SFC.
EC3	Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile[22] and systemic importance.[23]
Description and findings re EC3	The legal framework for the banking system is mainly contained in two presidential decrees: the EOSF of 1993, which has the status of a law, and the Decree Law 2555 (2010), which compiles the presidential decrees pertaining to the financial system, hereafter referred as DL 2555. Both regulations have been updated regularly. The main prudential regulations on capital, exposure and related party limits, licensing and the organization of the SFC are issued by presidential decrees of the MHCP. Additionally, the SFC regularly issues instructions of mandatory compliance pertaining to the legal and technical aspects, in which laws and decrees are to be followed, and on the management of risks. In this respect, the SFC has issued circulars and resolutions on a broad range of subjects, including capital adequacy, the management of various risks, loan classification and provisioning, accounting, and reporting requirements. Those instructions are mainly contained in the *Circular Básica Contable y Financiera* (or CBCF) and the *Circular Básica Jurídica* (or CBJ), which are both regularly updated. Altogether, the presidential decrees and the instructions issued by the SFC provide a comprehensive framework of minimum prudential standards that banks must comply. In addition, since 2015, the law grants the SFC the power to increase the prudential requirements for individual banks and banking groups based on their risk profile: 1. Based on its review of the ICAAP or on its process of supervision, the SFC may order the entities to adopt measures to prevent or correct the deficiencies identified or require levels of regulatory capital superior to the minimum ones (DL 2555, Art. 2.1.1.1.15); 2. In addition, the SFC can establish appropriate levels of capital for financial conglomerates considering for this purpose the activities carried out by the entities that are part of the financial conglomerate and the risks associated with them (law 1870 (2017), Art. 5); and 3. Banks considered as systemic shall also maintain a systemic capital buffer (Decree 1477 (2018)). In the last three years, as part of its regular monitoring, the SFC has ordered an increase of capital to two supervised entities, so that they achieve a capital adequacy ratio of 12 percent.

[22] In this document, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.

[23] In this document, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*, November 2011.

	Furthermore, the SFC reported that, as a consequence of its top-down stress test exercise in 2020, five institutions were required to strengthen their capital positions, either through direct capitalizations, conversion of bonds into equity, or the speed-up of bond issuances in the market. For 2021, institutions are required to submit their dividend distribution project to the SFC prior approval, and the SFC may limit such distributions if it deems it necessary.
EC4	Banking laws, regulations, and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate.
Description and findings re EC4	Banking laws, regulations, and prudential standards are updated regularly. Since 2009, the overall strategy has been a progressive alignment toward international principles and standards, both accounting (IAS/IFRS) and prudential (Basel III) standards. Accordingly, some important updates have been made, including: • Law 1314 (2009) on IFRS and related decrees, which provide for the progressive implementation of the IFRS since January 1, 2015; • Law 1870 (2017) and related decrees, which grant the SFC supervisory powers at the conglomerates level and focus on risk management, capital adequacy, exposure limits, and conflicts of interest; • the SFC external circular 031 (2017) on the implementation of stress tests; • the SFC external circulars 009 (2018) on the evolution of the Liquidity Risk Indicator (LRI), 019 (2019) on the implementation of a NSFR ratio since June 2019, and 002 (2020) on liquidity risk management; • Decree 1477 (2018), which redefines RWAs and technical capital (implementation in January 2021) and introduces a conservation buffer and a systemic buffer for DSIBs (full implementation in February 2024); and • Decree 1421 (2019), which includes new capital requirements for operational risk to be implemented since January 1, 2021. The Colombian financial regulation issuance process is the responsibility of the URF, a technical body under the MHCP, with dedicated and experienced staff, and the SFC. The Financial Superintendent is part of the URF Governing Board (D4172 (2011), Art. 8) and the SFC contributes to the definition of technical aspects of the decrees issued by the URF. For its part, the SFC issues detailed technical regulations under the form of resolutions and circulars on a broad range of subjects (some examples are given in the paragraph above). The regulatory processes (of the URF and the SFC) include a consultation with the public. Draft decrees and SFC circulars and resolutions are published on the MHCP and SFC websites, respectively. They are discussed with the industry and interested parties, which can send written comments.

<table>
<tr><td>EC5</td><td>The supervisor has the power to:
(a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations;
(b) review the overall activities of a banking group, both domestic and cross-border; and
(c) supervise the activities of foreign banks incorporated in its jurisdiction.</td></tr>
<tr><td>Description and findings re EC5</td><td>The legal framework grants the SFC a range of supervisory powers.
(a) As mentioned in EC1 above, the SFC has a general right of access to the information needed to ensure the protection and stability of the financial system, even in entities it does not supervise (Law 1328 of 2009, Art. Article 67). It has also the power to perform onsite inspections in supervised entities in order to get a comprehensive knowledge of their financial situation, the management of their activities and risks, and any other relevant aspects (EOSF, Art. 326.4). Directors, managers, legal representatives, external auditors, and staff of supervised institutions must abstain from obstructing the supervisory or control actions of the SFC, and from not collaborating in them (EOSF, Art. 72). Those powers enable the SFC to have full access to all banks' records for the completion of supervisory work, including having access to the bank's board, management, and staff.
In practice, the SFC performs each year onsite inspections as well as offsite controls to get a better knowledge of supervised entities (including nonbanking supervised entities), their corporate governance and management of risks. As part of its regular supervision process, the SFC may have discussions with Board members and executive directors, as mentioned for example in its public criteria, against which it assesses how risks are managed.
<table><tr><th></th><th>2018</th><th>2019</th><th>2020[1]</th></tr><tr><td>Offsite</td><td>160</td><td>114</td><td>79</td></tr><tr><td>Onsite</td><td>36</td><td>30</td><td>6</td></tr><tr><td>Total</td><td>196</td><td>144</td><td>85</td></tr></table>Source: SFC.
[1] A large number of supervisory exercises were cancelled in 2020 due to the COVID-19 crisis.
(b) The SFC has the power to review the overall activities of a banking group, both domestic and cross-border, supervised or unsupervised.
The SFC supervises financial entities both at individual and consolidated levels. Colombian authorities have adopted in 2017 the FCL, which grants the SFC new powers with regard to financial conglomerates. Among others, the SFC can request relevant information and perform onsite inspections in entities that are part of a financial conglomerate, including its financial holding (FCL, Art. 6 d).</td></tr>
</table>

	Since 2018, subsequent regulations make it mandatory for financial conglomerates to quarterly report to the SFC information relating to: (i) capital adequacy at consolidated level (external circular 012 (2019)); (ii) intra-group exposures; and (iii) exposures with related parties (external circular 030 (2020)). In addition, the SFC can conduct onsite examinations in entities that are not under its supervision, to review their files and request the necessary information to establish whether or not the conditions that would require the unregulated entity to consolidate its financial statements with the banking group are met, and to determine whether its activities pose risk for the group (EOSF, Art. 326.4.f). In practice, the SFC regularly carries out onsite inspections in foreign affiliates of financial conglomerates and/or send information requests. For instance, it inspected subsidiaries located in 7 foreign countries (Costa Rica, Honduras, Paraguay, Nicaragua, Panamá, Peru and Guatemala) in 2018. Three onsite inspections were performed in 2019 in order to better assess the risk profile of investments in Central America. (c) With regard to foreign banks incorporated in Colombia, those entities have to be authorized by the SFC. Prior to licensing a subsidiary or branch of a foreign bank, the SFC will seek to obtain assurances that the establishment in Colombia will be subject to consolidated supervision and will require the authorization or no objection of the home country, whenever the regulation requires it (EOSF, Art. 53 no. 3). Once they have been licensed, subsidiaries and branches of foreign banks enjoy the same rights and are submitted to the same obligations as other national banks. SFC supervises them the same way as any other supervised entity (EOSF, Art. 45A). In addition, when a foreign financial holding is not subject to a regulatory and supervisory regime equivalent to the Colombian one, the SFC may ask for information it deems appropriate for carrying out a comprehensive and consolidated supervision of the group (FCL, Art. 7).
EC6	When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to: (a) take (and/or require a bank to take) timely corrective action; (b) impose a range of sanctions; (c) revoke the bank's license; and (d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.
Description and findings re EC6	The legal framework grants the SFC a range of preventive and sanctioning powers. First, the SFC can autonomously issue administrative orders to suspend illegal, unauthorized or unsafe practices until remedial actions have been implemented (EOSF, Art. 326 no. 5). Thus, each department director of the SFC can issue administrative orders pertaining to its competences (DL 2555, Art. 11.2.1.4.33).

Additionally, the SFC is empowered with preventive set of actions such as an enhanced surveillance (complemented by a recuperation program, where necessary), the prohibition to distribute dividends in situations in which the capital ratios or other indicators allow the SFC to infer deterioration in the supervised entity, and the merger of the failing institution. Other tools include recapitalization, fiduciary administration, and partial or total transfer of assets and liabilities ((EOSF, Art. 326 no. 5).

As shown in the following table, the SFC resorts predominantly to administrative orders to require banks to take corrective actions to address unremedied weaknesses.

CORRECTIVE AND SANCTIONING POWERS	2016	2017	2018	2019
CORRECTIVE				
Administrative Recommendation	1		4	
Administrative Order	15	12	8	13
SANCTIONING				
Sanctioning process	20	9	10	13
Total	**36**	**21**	**22**	**26**

Source: SFC.

Second, the SFC can use moral suasion and/or sanctions vis-à-vis supervised institutions, or their legal representatives which do not comply with laws or regulations. Those powers take the form of warnings, fines, suspension or disqualification of up to five years to serve as Board member, legal representative, auditor or other high-level officers at supervised institutions; removal of administrators, directors, legal representatives or external auditors; and close down the representative offices of foreign financial institutions (EOSF, Art. 208 no. 3). The assessors were provided with a list of sanctions over the past five years, which shows that the SFC resorted mostly to fines and, in a few cases, warned and disqualified directors or administrators.

Third, if the conditions under which the SFC granted banking licenses disappear, the SFC may revoke them considering the general "Loss of Enforceability" provision (Contentious Administrative Code, Art. 66). There has been no case of withdrawal of a banking license to date.

Fourth, the SFC is entitled to take over a supervised entity after having received the opinion of an Advisory Council and the MHCP's acceptance, if it considers that one of these events was triggered (EOSF, Art. 114): suspension of payments, refusal to open its books and other documents, failing to comply with the SFC instructions and orders, persisting in conducting business in an unlawful or safe manner, capital below 50 percent of the issued capital, capital below the minimum capital established in the law, solvency ratio below 40 percent of the required minimum, severe inconsistencies in the information submitted to the SFC, or failure to comply with the recovery plan or the exclusion of assets and liabilities or the progressive deleveraging ordered by the SFC. The purpose of taking possession is

	to determine whether the institution should be liquidated, whether viability can be restored or whether other actions can be taken to improve the situation of depositors. The SFC must make a decision on the course of action within two months. It should beforehand consult with the Guarantee Fund for Financial Institutions (FOGAFIN, for its initials in Spanish), which manages the deposit insurance system and administers intervened financial institutions. The taking of possession implies the removal of the directors, administrators and external auditors, the suspension of payment of obligations (if the SFC decides so), suspension of embargoes and processes, among others (EOSF, Art. 116). Additionally, the SFC is entitled to transfer the business and assets of the institution to the FOGAFIN for its liquidation (EOSF, Art. 326 no. 5). The coordination between relevant authorities to achieve an orderly resolution of a failed bank is carried out through two coordination instances: the CCSSF (see CP11 for more details on this committee) and the CIR, created in 2018, with an objective to facilitate resolution actions between the SFC and the Deposit Guarantee Fund (FOGAFIN). There has been no case of a bank closed or merged as part of a problem bank resolution over the last five years.
EC7	The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.
Description and findings re EC7	As noted in EC5 above, the SFC has the power to review the activities and have access to the records and Boards of supervised entities, including parent companies which are banks. In addition, in order to enable it to carry out comprehensive and consolidated supervision, the SFC can make inspection visits to entities not subject to its control and surveillance, examine their files and request the information required to determine if they do not pose a risk to the supervised entity. The SFC has informed the assessors that it has been making such visits to real sector entities linked to financial conglomerates since 2008–2010. Regarding financial holding companies which are not banks, the FCL grants new powers to the SFC in relation to the prudential supervision of financial conglomerates. Thus, the SFC is entitled to: (i) give instructions to the financial holding relating to management of risks, internal control, reporting and corporate governance; (ii) authorize direct and indirect capital investments in financial entities, either national or foreign, that the holding is contemplating; (iii) request the holding to change the structure of the financial conglomerate when the current one does not enable (a) an adequate information reporting, (b) a comprehensive and consolidated supervision, or (c) the identification of the ultimate beneficial owners of the entities which form the conglomerate; (iv) request information and perform onsite inspections in entities which are part of a financial conglomerate in order to get a comprehensive knowledge of its

	financial situation, the management of its activities and risks, and any other relevant aspects; and (v) revoke the authorization granted to a supervised entity which is part of a financial conglomerate based in a foreign jurisdiction where the SFC considers that the information received is not sufficient to correctly perform its supervisory duties. Pursuant to the article 5 of the FCL, a decree detailing the rules to be observed by financial conglomerates in relation to their connected parties has been issued in August 2018. The decree stipulates that intragroup and related parties' exposure and risk concentration limits should be established by the parent company of the financial conglomerate. It is the responsibility of the Financial Holding to present its policies and limits to the SFC, and to permanently update information on its intragroup exposures and with related parties This information is officially transmitted quarterly but can be required by the SFC when needed. The SFC can also require an adjustment of the above-mentioned limits when it considers them inappropriate with regard to the embedded risk of the exposures or when they pose a risk to the financial system stability.
Assessment of Principle 1	**Compliant**
Comments	There is a clear and comprehensive framework for banking regulation and supervision. The SFC is the sole supervisor of the financial sector in Colombia, including insurance companies. It is invested with a broad range of preventive and corrective powers and has a track record of using them. Its preferred course of action is the issuance of administrative orders, by which it requires supervised entities to correct unremedied weaknesses, as well as the imposition of fines. Its supervisory powers on financial conglomerates have been adequately strengthened since 2017 and the adoption of the FCL.
Principle 2	**Independence, accountability, resourcing, and legal protection for supervisors**. The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.
Essential criteria	
EC1	The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.
Description and findings re EC1	The SFC is a technical body, affiliated to the MHCP, with separate legal personality and administrative and financial autonomy (EOSF art. 325 no. 1; DL 2225, art. 11.2.1.1.1). It has authority to regulate, supervise and take resolution actions (EOSF art. 325). Although the SFC is affiliated to the MHCP, it does not

	require the MHCP's approval to give general instructions to supervised entities, make its operational decisions, and perform its duties as a supervisor. The SFC has thus the ability to define its supervisory plans and methodologies, set up internal working groups, and make most of supervisory decisions and impose sanctions on supervised entities without prior authorization of other authorities. Nevertheless, the prior consultation of an Advisory council is mandatory for major supervisory decisions, including the licensing of a financial institution, its transformation, acquisition or merger, the sanctioning measures in case of illegal practice of financial activity, the takeover and control of a failing institution, or its liquidation (EOSF art. 326 & 334; DL 2225, art. 9.1.1.1.1; 11.2.1.4.2). The Advisory Council is appointed by the president of the republic and chaired by the Superintendent. It comprises five members, including a high representative of the MHCP, and four independent members. The director of FOGAFIN is also invited to the meetings of the council, although it has no voting right. Members of the Advisory Council must be experts in economics, finance, capital markets or law, but are not otherwise subject to explicit fit-and-proper requirements. The composition of the Advisory council could create scope, or the perception that there is scope, that decisions of the SFC are subject to undue influence. Some mitigants have been put in place to reduce this risk: (i) Since 2019, as for other senior officials, members of the Advisory council must populate annually a public register on conflicts of interest; and (ii) The Council's view is not mandatory and the final decision rests with the Superintendent (Decree 422 (2006), Art. 2). The SFC indicated that, so far, the Superintendent has always followed the opinion of the Advisory Council. According to the SFC, the Council plays somehow the role of a Board of Directors and helps the Superintendent in managing the SFC and taking balanced decisions. It does not delay the decision-making process, since the Advisory Council can meet urgently at the request of the Superintendent and, in some specific cases of emergency, the Superintendent can go ahead without the Advisory Council's opinion if the quorum is not reached.
EC2	The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed.
Description and findings re EC2	The presidential decree 1817 (2015) clarifies the regime applicable to the appointment and removal of the Financial Superintendent. Thus, • The power to appoint and dismiss the Financial Superintendent lies with the president of the republic; • The appointment follows an open application process of qualified candidates (at least 10 years of relevant experience);

	• The Financial Superintendent is appointed for a period of four years, concurrent with the presidential term; and • Dismissals before the end of the term must be motivated and the reasons made public by decree. Nevertheless, potential reasons for dismissal are not predetermined. In addition, the provision related to the fixed-term period of appointment has been partly censured by the Council of State in a judgment of May 14, 2020, on the ground that the Colombian constitution empowers the Congress, and not the president, to issue the laws that will govern the exercise of public functions. Consequently, a draft financial reform has been presented in March 2021 before the Congress. It aims to reinstate the censured provision about the fixed-term period of appointment. Overall, the high turn-over of Superintendents has decreased since the last FSAP mission (2012). Over the last nine years, there has been only one change of Financial Superintendent, whose retirement occurred due to his appointment as member of the Central Bank's Board of Directors. The current Financial Superintendent was appointed in 2017 and ratified by decree in 2018 for the current presidential term.
EC3	The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives.[24]
Description and findings re EC3	The missions and objectives of the SFC are published on its website and further detailed in its annual reports. The SFC holds an annual public hearing where it discloses the characteristics of the Colombian financial sector, its main achievements, as well as supervisory priorities. This is made available on the SFC website, together with answers to questions from citizens and other relevant information such as strategic objectives, annual actions plans and related results, as well as audited financial statements and budgets. Complementarily, a comprehensive annual report is published on the SFC website. The SFC is subject to legal provisions aimed at enhancing the transparency, good management and accountability of public entities. Its budget, included in the government's one, is to be approved by the Congress. As mentioned above, it is required to report annually on its activities and objectives in a public hearing where are invited the presidents of the Congress, the Comptroller General, the Attorney General, among others. In the context of the Covid-19 crisis, it has sent two reports to the Congress on actions taken in 2020 and 2021. Meetings with industry and citizen bodies are also being held. Additionally, administrative acts, including resolution decisions, must be disclosed publicly through circulars or press communications. They are generally appealable through a process of internal review and contested at the court system. The appeal process does not suspend execution of the decision.

[24] Please refer to Principle 1, Essential Criterion 1.

	Lastly, as a public sector entity, the SFC is subject to audits carried out by the Comptroller General. The two last audits took place in 2017 and 2020.
EC4	The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.
Description and findings re EC4	The SFC is directed by a superintendent, appointed and dismissed by the president of the republic (see EC2, above). The superintendent is assisted by Delegate Superintendents (DL 2555, Art. 11.2.1.1.2). The Superintendent has powers to appoint and dismiss senior staff of the SFC, including the Delegate Superintendents (EOSF, art. 329). It is also in charge of managing the work of the SFC, taking a range of major supervisory decisions, and instructing contestations over sanctions imposed by deputies. The SFC has updated in 2019 its internal governance processes and released accordingly an internal resolution. Financial institutions are separated into three groups according to their complexity, size, and materiality. Joint Supervisory Teams or JST (i.e., teams compounded of staff coming from both institutional and technical departments) are the basic nucleuses of supervision. They are headed by a director (for the three most significant financial conglomerates—Sura Bancolombia, Bolívar, and Aval—or a relationship manager. Supervised entities are classified into three categories (N1, N2 and N3) considering quantitative criteria (size, interconnection, substitutability, complexity, global activity) and qualitative (risk profile and expert criteria). There are three internal-decision making processes: 1. For entities categorized as N3 (least systemic importance), relevant Deputies approve the results of supervision and administrative actions; 2. For other entities not covered by the Supervisory Committee, a Review Panel approves the results of the supervision exercises and/or administrative supervisory actions, where appropriate; Deputy Superintendents and Deputies (Institutional and Risk) make up this panel; and 3. For entities categorized as N1 or which are part of a financial conglomerate, a Supervisory Committee approves the results of supervision, as well as the supervision measures. The Supervisory Committee is the highest-level deliberative and decision-making body within the SFC in matters of supervision. It is composed of the Financial Superintendent, Deputy Superintendents and Deputies. This structure is expected to allow decision-making in times of crisis to be carried out in an agile and timely manner. Processes and procedures in crisis scenarios are detailed in guidelines relating to the Integrated Supervisory Framework (MIS for its initials in Spanish), in the Safety Net Crisis Protocol, and in SFC and FOGAFIN Resolution Handbooks. All committees are then entirely composed of

	managers of the SFC, to whom rules to prevent conflicts of interest apply (see EC5 below). As indicated in EC1 above, an Advisory Council is consulted prior to major supervisory decisions or resolution actions, which are formally taken by the Superintendent. As noted in EC1 above, members of the advisory committee are required to populate a public register on conflicts of interest.
EC5	The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.
Description and findings re EC5	The staff of the SFC is subject to general rules applicable to Colombian civil servants relating to incompatibilities and the prevention of conflicts of interest (Law 734 (2002), Art. 36 to 41). For example, it is forbidden for the staff of the SFC to hold a position as a shareholder, director or executive officer in a supervised entity (decree 1170 of 1980). In addition, former staff members of the SFC cannot take a position in a supervised entity they controlled during a period of two years after quitting the SFC. Internal provisions applicable to the staff of the SFC include rules on how to avoid conflicts of interest and the obligation to maintain the confidentiality of the information obtained through work (see the Corporate Governance Code). Thus, each member of staff has to sign a Confidentiality Charter. The breach of conflict of interests and confidentiality rules is considered to be a professional fault (and, in some cases, a crime) and should be sanctioned in proportion to the gravity of the fault. Sanctions are the following: written admonition, fine, suspension, and destitution. In the last five years, there has not been record of disciplinary actions against officials of the SFC for misuse of information or conflicts of interest.
EC6	The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes: (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and program for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and

	(f) a travel budget that allows appropriate onsite work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (e.g., supervisory colleges).
Description and findings re EC6	The SFC budget is included in the general government budget, approved annually by the Congress. When necessary, budget additions shall also receive Congressional approval, as for all central public entities. The only case reported in which Congress allocated additional funds for a specific priority occurred in 2011, when US$2.3 million was earmarked for the SFC to deal with claims against it in the aftermath of the collapse in late 2008 of a series of pyramid financial investment schemes. The SFC has autonomy to manage its budget, which comprises operating costs and investments. It is covered at around 95 percent by industry contributions, the law stipulating that industry contributions should be calculated, so that they cover current and investment expenses of the SFC (EOSF, Art. 337.5.). Contribution revenues are supplemented by smaller amounts received mainly from sanctions revenues related to consumer protection. Expenses have increased regularly over the past four years (from Col$148,728 million in 2016 to Col$220,285 million in 2020), reflecting the increasingly complex financial system. In fact, the SFC supervises and is the resolution authority for a large number of diverse financial institutions (410), which constitutes an organizational and resource challenge. (a) The SFC budget is deemed to allow for sufficient and qualified personnel to perform its functions. The SFC had 1,075 employees as of January 2021, of which 67.3 percent are focalized on supervision and 32.8 percent are part of the support areas for the supervision work. In 2020 and so far in 2021, the SFC has strengthened its staff by hiring 220 new people, with profiles commensurate with the new challenges of the financial system, such as consolidated supervision of the financial conglomerates, digital transformation, internationalization of banking, financial inclusion, green finance, analytics, consumer protection and market conduct, among others. In addition, more than three-fourth of the staff has more than three years of professional experience. (b) Salary scales are the ones applicable for public employees. The SFC´s employee's salary regime includes several benefits such as: (i) a special reserve equivalent to 65 percent of the annual compensation; (ii) the possibility to obtain technical bonuses associated to education profile and performance (up to 50 percent of the basic salary); and (iii) mid-year and end-year bonuses. The SFC considers that its salary is attractive and retains staff, as evidenced by a relatively low turnover rate (3 percent in 2020). (c) The SFC has the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks. An example of this is the inter-administrative agreement between the SFC and the Toronto Leadership Center, and the external experts hired since 2011 to help the SFC shift toward risk-based supervision.

	(d) Training activities are aligned with the SFC strategic and supervision plan, which reflects the needs of the different areas of the SFC. Training activities are focused on four main topics: (i) Supervision; (ii) Legal; (iii) Management Support; and (iv) Technology and Innovation. They have been strengthened over the past 5 years (from 54 actions accounting for Col$850 million in 2016 to 137 actions accounting for Col$1.748 million in 2019). For 2020, the budget for the regular training of staff is COL$2.317 million, with 50 management support, 14 legal, 54 supervision, and 11 technological activities trainings. (e) Since 2018, the SFC is implementing a five-year program aiming at improving its IT platform, with increasing dedicated budget allocations. (f) The SFC has a budget for trips, supervision visits abroad, training abroad, meetings of the Central American Council, Colleges of Supervisors, participation in meetings of supervisory bodies (ASBA, etc.). For 2020, the travel budget was Col$29.432 million.
EC7	As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill sets identified.
Description and findings re EC7	The planning stage of the oversight strategy of each supervised entity is defined for a period of one year. The allocation of human resources depends on the objectives of the exercises, assignment of JSTs, the number of additional officials and the duration of the exercise.
EC8	In determining supervisory programs and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.
Description and findings re EC8	For several years, the SFC has been shifting its supervisory methodologies and practices toward a risk-based approach, known as Integrated Supervisory Framework (MIS, for its initials in Spanish), with initial support from the Toronto Centre. In consequence, the SFC considers the risk profile and systemic importance of individual banks and banking groups to determining supervisory programs and allocating resources. More precisely, as mentioned in EC4 above, supervised entities are put into three categories according to their size, complexity, inter-connection, international activity, and risk profile. More permanent and fully dedicated resources are allocated to large, complex, and high-risk entities compared to those of a smaller size and risk, and supervisor exercises results would be presented in the highest deliberative instances.
EC9	Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.

<table>
<tr><td>Description and findings re EC9</td><td>
The legal framework does not provide specific protections to the SFC, the Superintendent or staff of the SFC against lawsuits for actions taken and/or omissions made while discharging their duties in good faith.
Indeed, the Colombian Constitution lays down that public servant are responsible for infringing the Constitution or the laws, as well as for omissions or excesses in the exercise of their duties (Art. 6). It is presumed that the actions of public entities, as the ones of citizens, are taken in good faith (Art. 83). When they have been sentenced to indemnify a claimant because of a willful misconduct or gross negligence of a public servant, the State and other public entities are required to seek a compensation from him (Art. 90).
In a sentence dated 2014, the Council of State stressed out that the action that the State or a public entity should take against a public servant in accordance with the article 90 of the Constitution should only be in case of willful misconduct or gross negligence, and not because of any error committed in good faith.
Moreover, the SFC has several mechanisms in place to offer protection to the institution and its officials when executing their duties, including the following:

The Legal Department and, in some cases, external lawyers offer the SFC legal representation and defend the administrative acts issued by it; and
In accordance with the 2016 Budget Law which explicitly authorizes Superintendencies to bear the costs of legal processes brought against the Superintendents for acts performed in the course of their duties, the SFC has taken out a liability insurance contract for its key staff members that covers decisions made in the performance of their duties.

Furthermore, a National State Legal Defense Agency is charged with defending the interests of the state should the actions of an agency be challenged in the judicial system. An eventual participation of this agency offering legal protection to the SFC is still to be defined. At the moment, this agency has defined general policies regarding its duties in relation to public institutions, including the SFC.
In practice, so far, very few courts decisions have been ruled against the SFC, or its staff, as evidenced in the following table:
<table>
<tr><th>Period</th><th>Number of court decisions</th><th>Negative rulings</th><th>Positive rulings (in %)</th></tr>
<tr><td>2016</td><td>140</td><td>1</td><td>99</td></tr>
<tr><td>2017</td><td>60</td><td>0</td><td>100</td></tr>
<tr><td>2018</td><td>86</td><td>1</td><td>98.83</td></tr>
<tr><td>2019</td><td>167</td><td>0</td><td>100</td></tr>
<tr><td>2020</td><td>39</td><td>0</td><td>100</td></tr>
<tr><td>2021 (January to April)</td><td>7</td><td>0</td><td>100</td></tr>
</table>
Source: SFC.
</td></tr>
</table>

	Finally, although no law impedes claimants from bringing cases against individual officials, the SFC noted that, in practice, cases have been first brought against the institution and that no lawsuits have been filed against SFC employees related to the performance of their duties in the last five years.
Assessment of Principle 2	**Largely compliant**
Comments	The SFC is a technical body, affiliated to the MHCP, with separate legal personality and administrative and financial autonomy. It has adequate financial and human resources, which have been strengthened over the last years in a time where the financial sector has been increasing and become more complex. While some mitigants are in place (e.g., the SFC's Advisory Council has only an advisory role), the composition and role of this council could lead to interference in the decision-making process of the SFC, thus undermining its operational independence. Colombian authorities may then wish to consider additional safeguards. The SFC and its staff are subject to the general provisions of the Colombian constitution relating to the responsibility of the state, public entities, and public servants. Overall, the Colombian constitution, laws, and institutional arrangements of the SFC provide adequate protection for its staff against potential financial consequences of their actions taken in good faith. However, although it has not been experienced recently, SFC staff could be involved in lengthy and unpredictable legal proceedings while they discharged their duties in good faith (even if their liability is covered). Strengthening formal safeguards to prevent SFC staff from being involved in lawsuits for actions taken and/or omissions made while discharging their duties in good faith is then recommended. To achieve a full compliance with this core principle, it is also recommended that the law specifies that the Superintendent is appointed for a minimum term and is removed from office during his/her term only for reasons specified in it.
Principle 3	**Cooperation and collaboration**. Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.[25]
Essential criteria	
EC1	Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC1	The SFC has signed an MOU to enhance inter-agency cooperation. The coordination and information exchange are achieved through participation in joint

[25] Principle 3 is developed further in the Principles dealing with "Consolidated supervision" (12), "Home-host relationships" (13), and "Abuse of financial services" (29).

	committees and further enhanced by the SFC's broad supervisory role. Evidence of the workings of the coordination arrangements, both domestically and cross-border were provided to the mission. Decree 2555 addresses the sharing of information, including types of documents and data that may be shared. This information sharing is possible through MOUs to preserve the confidentiality of the information. Flexibility is provided by Decree 2280 which establishes that to formalize the exchange of information in a timely manner, public entities or individuals in charge of an administrative function may use the mechanism they deem most suitable for the purpose. Up to this date, 19 agreements have been signed with 17 authorities. Inter-agency agreements are available on the SFC website. • **Advisory Group of Agencies Responsible for Preserving the Soundness and Stability of the Financial System (CCSSF)**. Primary coordination group of authorities responsible for maintaining soundness of the financial system. • **Advisory Council:** Appointed by the president and composed of five financial experts to advise the Superintendent on a broad range of issues defined in Decree 422. The Superintendent is under no legal obligation to accept the advice; FOGAFIN Director participates but has no vote. **MHCP-URF:** The SFC is in permanent contact with the MHCP through the URF regarding financial topics. Article 8 of Decree 4172 of 2011 created the Steering Committee of the URF in which the SFC actively participates through one representative. The other members of this committee are MHCP, the General Director of the URF, and two independent members. The committee meets monthly and discusses regulation of the financial sector.
EC2	Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC2	The SFC has established cross-border information sharing and cooperation agreements. The SFC hosts and participates in supervisory colleges and regional supervisory groups. Additionally, the SFC has the power to exchange information and cooperate with home/host supervisors. The types of arrangements are: • **MOUs**: Currently, there are 30 MOUs signed with 22 countries, and MOUs with multilateral agencies, 1 of the latter being non-public by request of the counterparties. MOUs are available in the SFC website. • **International Internships:** SFC staff has participated, between 2016 and 2020, in a total of 49 internships with authorities and entities from 16 jurisdictions and 3 agencies. As with MOUs, international internships are available on the SFC website. • **Supervisory Colleges:** The supervisory colleges led by the SFC aim at the exchange of updated information and cooperation between the different

	supervisory authorities in the countries in which the national conglomerates have investments. Furthermore, to support the development of effective consolidated and cross-border supervision, strengthening mutual trust, and helping its members gain a global view of the entire conglomerate. Between 2015 and 2020, the SFC led 15 supervisory colleges. And participates in colleges led by home supervisors (Itau, BBVA, Santander, and Scotiabank). Going forward the supervisory colleges will emphasize a comprehensive focus on Financial Conglomerates. • **Central American Supervisors**. Since 2012 the SFC has been actively involved in the meetings, assemblies and working groups of the technical committees of the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO). At the September 2020 Assembly, the Superintendent was re-elected as vice-chairman for two additional years, ending in 2022.
EC3	The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.
Description and findings re EC3	MOUs include required confidential clauses stating that any confidential information received under the signed MoU must only be used for supervisory purposes, and if the agreement ends, confidentiality provisions will remain in force for any information provided prior to its termination. Each party shall maintain the confidentiality of the information received, agreeing not to disclose such information except when it is necessary to carry out its legal supervisory responsibilities or when it is legally bound to do so with the commitment that the third party receiving the information maintains confidentiality. In case of receiving a request for confidential information from third parties, without having a legal obligation to deliver the information, or when the disclosure of said information is not necessary to carry out the legal supervisory responsibilities, a party must consult and obtain prior written consent of the party that supplied the information, who may refuse to disclose or deliver it. Additionally, in an onsite visit, the Home Supervisor inspection team members must sign a confidentiality commitment.
EC4	The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.

Description and findings re EC4	As outlined in EC 3, MOUs address EC 4 requirements. Additionally, Article 15, Colombian Constitution, establishes that anyone may deny providing confidential information in its possession, except when the request comes from a tax, judicial or supervisory authority. Furthermore, the SFC must submit any information to the Criminal Authorities, if required, and they must keep this information confidential. In case of non-compliance with this regulation, administrative and even criminal procedures could be initiated.
EC5	Processes are in place for the supervisor to support resolution authorities (e.g., central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.
Description and findings re EC5	Decree 923 of 2018, D2555 strengthened the instruments of inter-institutional coordination in the matter of resolution of financial entities and created the CIR, a technical body composed of officials specifically designated by the SFC and FOGAFIN. The SFC, as resolution authority and supervisor of all financial intermediaries has as designed a decision-making process through a Decision Tree, whose objective is to establish a series of corrective actions and effective resolution mechanisms, based on the importance of an institution (systemic/non-systemic) and the feasible solution alternative (public/private), thus allowing a faster and more efficient decision-making process based on specific guidelines.[26]
Assessment of Principle 3	**Compliant**
Comments	The SFC's legal mandate with broad authority over most of the financial system enables it to participate in coordinating groups and pen MOUs with domestic and foreign supervisors. Participation in supervisory colleges and regional supervisory groups provides the SFC with conduits for enhancing its information base cross-border intelligence in developing trends.
Principle 4	**Permissible activities**. The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled.
Essential criteria	
EC1	The term "bank" is clearly defined in laws or regulations.
Description and findings re EC1	The term "bank" is clearly defined in Art. 2, EOSF. More precisely, banks ("*establecimientos bancarios*") are defined as financial institutions whose main function is to take deposits from the public, in the form of current account, as well as other types of deposits, and place them through loans, discounts, advances or any other form of credit. Banks are one of several financial institutions categorized as "credit institutions." The other ones are financial corporations ("*corporaciones financieras*"), financing

[26] Such guidelines are mainly based on the following purposes: To minimize costs and risks (contagion and moral); to provide the greatest protection to minority investors; to promote a timely, transparent, and efficient action-taking; and to prioritize resources.

	companies ("*compañías de financiamiento comercial*"), financial cooperatives ("*cooperativas financieras*"), and savings and housing corporations ("*corporaciones de ahorro y vivienda*"). All credit institutions are regulated and supervised consistently by the SFC. They are authorized to collect public deposits.
EC2	The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.
Description and findings re EC2	Activities that credit institutions are allowed and prohibited to carry out are prescribed by the EOSF. Banks are authorized to carry out the following operations (EOSF, Art. 7 to 9): discount various types of commercial paper, take current account, savings and time deposits, collect debts and make payments and transfers, grant credit, accept notes and other instruments as payment, issue letters of credit, custodian operations, take loans locally or abroad, grant endorsements, leasing, administration of credit, invest in domestic and foreign public securities and other fixed income financial instruments. Banks are prohibited to carry out determined operations and are subject to limitations, as follows (EOSF, Art. 10 of EOSF): they cannot hold more than 10 percent of another bank's shares as collateral, they cannot acquire or hold their own shares, they cannot grant loans whose object is to finance the acquisition of shares or preferred shares, they cannot invest in corporate shares or bonds, except in companies where the unique corporate purpose is to develop and/or apply innovation and technology related to the corporate purpose of the credit institution (DL 2555, Art. 2.26.1.4.1 to 2.26.1.4.3).
EC3	The use of the word "bank" and any derivations such as "banking" in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.
Description and findings re EC3	Any unauthorized use of the word "bank" is prohibited and penalized. Thus, the use of the word "bank" is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled. I. The commercial code (Art. 606) prohibits the use of a commercial denomination that may mislead the public with regard to the activities conducted by the entity. II. Article 108 of EOSF prohibits unauthorized legal and natural persons from using the word savings or their equivalents in their businesses or advertisement or requesting or receiving any unlicensed deposits. III. Article 109 of EOSF states that no person or company can advertise or place banners in their offices indicating that they correspond to a bank establishment (or financial corporation or savings and loan or financial service company or capitalization company), without being licensed as such by the SFC, with the exception of the Central Bank. Moreover, the SFC publishes information for the general public on its website related to supervised institutions and their names, as well as warnings about

	unlicensed companies that are using the word "bank" to mislead the general public to believe they are supervised. The assessors were informed that it took action in the last years against a beer company using the term "bank" in its advertisements and ordered two territorial entities to immediately stop using the term "bank."
EC4	The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks.[27]
Description and findings re EC4	The Colombian Constitution lays down that financial activities, including raising money from the public, can only be conducted after having received an authorization from the state (Art. 335). Moreover, article 108 of EOSF endows the SFC with preventive powers to stop illegal deposit taking activities by imposing multiple fines up to 1 million pesos each, dissolving involved legal entities and liquidating illegal operations. In addition, following a significant pyramid crisis were unlicensed deposit-type taking establishments had adopted schemes to circumvent the regulation and prevent the intervention of the authorities, a new decree granted to the Superintendency of Corporations extended powers to intervene these establishments (Decree 4334 (2008)). To this purpose, the SFC has a specialized office in charge of investigating and pursuing illegal deposit taking or banking activities. This office, which is composed of 26 officials, performed 237 offsite and 215 onsite inspection visits between 2016 and 2020 in order to understand the business models of unsupervised natural and legal persons and determine whether they constitute illegal deposit taking from the public or not. The conclusion was that in 24 cases there was, in fact, illegal deposit-taking and, in another 7 cases, they were developing activities exclusively allowed to supervised institutions or requiring authorization from the SFC. Actions taken by the SFC between 2016 and 2020 have all been confirmed by court, 198 were confirmed in the first instance and 73 in the second instance. These actions are published on the SFC website. The SFC also regularly carries out preventive actions aimed at increasing public awareness, which culminated in 2018 when, together with the Superintendency of Corporations, it published a detailed and very pedagogical guide informing the public about illegal deposit-taking practices.
EC5	The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.
Description and findings re EC5	The SFC maintains in its web site an updated list of all licensed Colombian financial intermediaries and their branches, as well as licensed foreign banks operating in Colombia: https://www.superfinanciera.gov.co/publicacion/61694

[27] The committee recognizes the presence in some countries of nonbanking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

Assessment of Principle 4	Compliant
Comments	Permissible activities are clearly defined by law. The SFC is proactive in countering non-authorized operations, in especial the numerous illegal deposit-taking activities.
Principle 5	**Licensing criteria**. The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of board members and senior management)[28] of the bank and its wider group, and its strategic and operating plan, internal controls, risk management, and projected financial condition (including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.
Essential criteria	
EC1	The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.
Description and findings re EC1	The SFC is the sole licensing and supervisory authority for all institutions pertaining to the Colombian financial system (i.e., credit institutions, financial services companies, capitalization companies, insurance and reinsurance intermediaries). The EOSF (Art. 326) contains the powers and functions of the SFC. Among these it clearly establishes the SFC has powers with regard to the authorization or objection of the operation of financial institutions. In any case, the license could be limited to the activities that the applicant declares to perform or the activities the SFC determines can be supported with the technical and operative infrastructure the applicant has shown in the Operating License (EOSF, Art. 53, no.7). In addition, the SFC might impose prudential conditions if it determines that the entity requires so (DL 2555, Part II). In 2020, for 2 of the new Electronic Deposit Institutions or e-money licenses (SEDPEs), the supervisor has conditioned its license, and it has been required an optimal technological and operative infrastructure.

[28] This document refers to a governance structure composed of a board and senior management. The committee recognizes that there are significant differences in the legislative and regulatory frameworks across countries regarding these functions. Some countries use a two-tier Board structure, where the supervisory function of the Board is performed by a separate entity known as a supervisory Board, which has no executive functions. Other countries, in contrast, use a one-tier Board structure in which the Board has a broader role. Owing to these differences, this document does not advocate a specific Board structure. Consequently, in this document, the terms "Board" and "senior management" are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

EC2	Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the license was based on false information, the license can be revoked.
Description and findings re EC2	There are two steps in order to obtain a Banking License in Colombia: 1) constitution, and 2) operation licensing. 1) The broad criteria for the constitution licensing are defined in the EOSF, Art. 53 no.3. The SFC has established a thorough internal process for all authorizations that are under its responsibility, including the authorization of banking licenses. The internal process for the authorization of banking licenses is described in the SFC Integrated Management System (SGI, for its Spanish name). It is complemented by a public document posted in the SFC web page (checklist for the constitution of supervised entities) where an interested party can find what documents it should include in its licensing request. All in all, before granting a new banking license, the SFC carries out various verifications, including: a. Organizational structure of the intended institution; b. Statutory laws; c. Compliance of capital requirements and verification of the origin of the capital, this aspect includes the verification of the owners' income statements and the identification of the ultimate beneficiaries; d. Pro forma financial statements—and five years detailed projections of such statements and main financial indicators; e. Fit-and-proper test to verify the quality and adequacy of managers, directors, statutory auditors, and legal representatives of the intended institution; f. Risk Management Systems' manuals (for the areas of credit, market, operational, anti-money laundering, and terrorism financing, as well as the mechanisms to manage conglomerates' risk and corporate governance); g. Strategic and operational plans, additionally the intended institutions must present to the SFC feasibility studios to support such plans. All operations related to licensing financial entities are studied by the Advisory Council (see, BCP2, EC1), who issue a concept and advise the Superintendent on the approval or rejection of the operation. If the licensing criteria are not fulfilled or if the information provided is deemed inadequate, the SFC can require the petitioner to provide it with additional information and to comply with the criteria within one month. If the applicant insists, albeit not fulfilling the requirements, the SFC indicated to the assessors that he would not authorize the constitution license. Besides, if during the authorization process the supervisor determines that the provided information is false, the SFC would proceed to reject the authorization immediately. In some cases, if the

	fraudulent information constitutes a felony, the SFC would inform other competent authorities, such as the Office of the Attorney General of the nation. The assessors reviewed the technical studies prepared by the SFC on the occasion of: (i) the conversion of a local financing company into a bank; and (ii) the establishment of a Colombian subsidiary by a foreign financial conglomerate. Those studies are of good quality and cover the above-mentioned aspects. 2) Once the SFC has approved the constitution license, the applicant has to obtain an operating license (EOSF, Article 53, no.7). The requirements are: • Formalization of the public deed, with the respective institution, highlighting the constitution capital value; • Formal payment support of the constitution capital; • Demonstration of the existence of the technical and operative infrastructure to operate on a daily basis; and • Registration certificate of the Deposit Insurance Institution, if required. To demonstrate (c), the Operational Risk Office performs an onsite examination in order to validate the technical and operative infrastructure. To facilitate the whole process, the SFC has recently published on its website a draft detailed guideline of its expectations at each stage of the licensing process. If, at a later stage, the SFC determines that such constitution or operating license was based on false information, it can revoke the license. In fact, such authorizations are considered administrative acts and they will therefore lack legal validity if the main approved fundaments cease to exist (Code of Administrative Acts, Art. 91, no.2).
EC3	The criteria for issuing licenses are consistent with those applied in ongoing supervision.
Description and findings re EC3	The criteria issued by the SFC regarding banking licenses are consistent with those applied in ongoing supervision through the Integral Monitoring Framework (MIS). Therefore, the documents and information required to authorize any banking license are similar with those used by the SFC's supervisors to evaluate banks' corporate governance, capital adequacy, risk management, financial analysis, and capital investments. During the licensing process, an Authorization Group keeps constant communication with the relevant Joint Supervisory Team (JST) to have a consistent evaluation of the authorization criteria with the supervisory framework.
EC4	The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.[29] The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.

[29] Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)

Description and findings re EC4	The SFC evaluates the compliance with the licensing criteria, which include an assessment of the transparency and adequacy of the proposed legal, managerial, operational and ownership structures of the bank and its wider group. If the proposed structure hinders effective supervision, the SFC can require changes in the ownership structure until it fits SFC standards. The SFC reported some cases where it asked the applicants to reevaluate the proposed shareholding structure and/or real beneficiaries or to put mitigation measures in place. For financial conglomerates, the SFC now has a legal power to order the financial holding company to change the financial conglomerate's structure if this hinders adequate supervision (FCL, Art. 6). Once the SFC grants the operating license, the SFC has the function of granting office to Board members, legal representatives, statutory auditors, and other parties of the supervised institutions (EOSF, Art. 326). Without the SFC's approval, they cannot hold the positions for which they were appointed. Therefore, this is a second suitability check for managers. To facilitate this process, the SFC has recently published on its website a draft detailed guideline on its expectations regarding the fit-and-proper criteria.
EC5	The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
Description and findings re EC5	Prospective shareholders, administrators and directors should send their CV to the SFC, together with other relevant information proving their suitability and financial position (certificate of legal existence, financial and income tax statements, justification of the origin of funds, and other direct or indirect investments in legal entities). Moreover, the SFC requires an authorization that enables it to investigate records of legal entities who will participate in the new banking entity. In case the licensing request does not come from a financial entity, the SFC is entitled to require, at the moment of licensing or at any time thereafter, relevant information on real beneficiaries of the prospective bank to enable an effective supervision (EOSF, Art. 53 no.3). When checking the solvency of prospective shareholders and administrators, the SFC pays particular attention to the fact that: • the net worth of the real beneficiaries of at least 10 percent of shares is at least 1.3 times the investment they intend to make; and that • at least one-third of their capital contribution to the new institution are own funds, not borrowed funds. Thus, assessors have been informed that, in some instances, the SFC has used moral suasion to provoke changes in the contemplated shareholders or to have additional guarantees about the adequate financing of the operation and the monitoring of the prospective bank's solvency.
EC6	A minimum initial capital amount is stipulated for all banks.

<table>
<tr><td>Description and findings re EC6</td><td>A minimum initial capital amount, subject to annual inflation indexation, is stipulated by the law for all kinds of credit institutions (EOSF, Art. 80). The 2020 minimal initial capital requirements are the following:
<table>
<tr><th>Type of Financial institution</th><th>COL
(in millions)</th><th>USD[1]
(in millions)</th></tr>
<tr><td>Banks</td><td>100,492</td><td>30.7</td></tr>
<tr><td>Financial corporations</td><td>36,553</td><td>11.2</td></tr>
<tr><td>Financial companies</td><td>25,893</td><td>7.9</td></tr>
<tr><td>Financial cooperatives</td><td>4,191</td><td>1.3</td></tr>
<tr><td>Companies specialized in electronic deposits</td><td>7,631</td><td>2,3</td></tr>
</table>
[1]Converted to U.S. dollars using the official exchange rate as of December 31, 2019 ($3,277.14 Colombian pesos per dollar).</td></tr>
<tr><td>EC7</td><td>The licensing authority, at authorization, evaluates the bank’s proposed Board members and senior management as to expertise and integrity (fit-and-proper test), and any potential for conflicts of interest. The fit-and-proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.[30] The licensing authority determines whether the bank’s Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks.</td></tr>
<tr><td>Description and findings re EC7</td><td>Pursuant to EOSF, Art. 53 no.3, at authorization, the SFC requires the CV of future legal representatives and administrators of the entity to be created. The formalized CV include, among others, relevant experience in financial sector companies and, as the case may be, prior investigations and sanctions and are completed with an authorization given to the SFC to run criminal background checks. Additionally, the SFC proactively runs verifications in social networks and news, among others. With that information, the SFC verifies the fit-and-proper qualifications of the managers, including Board members and legal representatives, compliance officers, financial consumer advocates, and seeks also to ensure that all Board members are independent from the management and have complementary backgrounds.

The SFC can deny a license if it thinks that the applicants have not satisfactorily established the character, liability and suitability of the persons participating in the transaction, in order to inspire confidence in the form they will participate in the management and administration of the financial institution.

In addition, as mentioned in EC4 above, a special committee (called Comité de Posesiones) integrated by the Superintendent, the senior deputy Superintendents, and the SFC Institutional Delegates has been set up to evaluate banks’ proposed Board members and senior management at authorization and on a continuous basis (EOSF, Art. 326 no.2). Based on its evaluation of the compliance with the fit-and-proper criteria, this committee approves or rejects the nomination of bank’s directors, managers, legal representatives and statutory auditors. Assessors have thus been informed that, between January 2020 and May 2021, some applications</td></tr>
</table>

[30] Please refer to Principle 14, Essential Criterion 8.

	have been rejected, mostly based on a lack of professional experience or availability of the candidate, and more scarcely on the existence of a criminal record or of a conflict of interest. The proposed directors and senior managers have to meet the fit-and-proper criteria at all times during their tenure. The SFC can remove them if they stop meeting the criteria. The SFC reported to determine that the prospective bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks through different processes: (1) a pre-application phase where meetings and workshops with candidates are held to help candidates present an application file in line with the expectations of the SFC and where the corporate governance and composition of the Board and other committees may be discussed; (2) the licensing phase, where the CV of Board members and executive managers are studied; (3) the nomination phase, where the SFC studies the ability of the Board as a whole to take appropriate decisions given the proposed appointments; and (4) the supervision phase. Assessors were informed of one case where the SFC required a strengthening of the Board of directors of the prospective bank.
EC8	The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.[31]
Description and findings re EC8	As mentioned above, the SFC reviews the proposed strategic and operating plans of the bank. In this regard, the authorization process includes prudential requirements, such as the feasibility study, which asks for specific information related to the main reasons for the new business model, description of the ongoing business, strategic and operational plans, a description of the corporate governance structure, and internal controls. When describing the ongoing business, the entity must define the oversight of proposed outsourced functions. It shall also communicate to the SFC draft risk management policies, including those related to the prevention of criminal activities.
EC9	The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.
Description and findings re EC9	As mentioned above, the SFC reviews pro forma financial statements and financial projections over a five-year period, including financial indicators for the proposed bank. The evaluation considers the adequacy of the financial strength to support the proposed strategic plan under different scenarios, as well as financial information on the principal shareholders. To this latter end, the SFC collects the

[31] Please refer to Principle 29.

	financial statements and tax records of the proposed shareholders, as required in the list of requirements for the license application posted on the SFC web page Check list for the constitution of supervised entities.
EC10	In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision.
Description and findings re EC10	Consistently with Art. 53 of EOSF, when submitting their licensing request to the SFC, foreign financial entities must checklist for the constitution of supervised entities: • show that they are subject to consolidated supervision by a competent authority in their country of origin, according to international standards in this matter; • explain the type and scope of the supervision of the controlling entity; and • attach to their application a copy of the authorization letter of their home supervisor to establish a bank in Colombia, when the authorization is required according to their applicable law. In case of a financial conglomerate with a cross-border financial holding company, a different authorization process is implemented whereby the applicant must demonstrate that the home jurisdiction fulfills an equivalent regulatory and supervisory regime to the one applied in Colombia (FCL, Art. 7). On the other hand, the SFC has executed MoUs with different jurisdictions to guarantee, in host-supervisor situations, the disposal of specific mechanisms for information exchange; in fact, executed MoUs with home/host supervisors is seen as a guarantee in the authorization process. Lastly, the SFC requests, before issuing the license, a declaration of no objection from the supervisor of origin, even though the applicant could meet the requirements established by the referred checklist.
EC11	The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met.
Description and findings re EC11	As part of its ongoing supervision, the SFC reported monitoring the first operational steps of the new banks by reviewing aspects, such as information reported to the SFC, tendency, legal compliance, and compliance of the prudential regulatory framework. If any recommendations were made during the authorization process, the SFC monitors their compliance through different information requirements. The supervision of new entrants is facilitated by the exchange of information that takes place during the licensing process between the Authorization Group and the JST (see EC3 above). In particular, the group hands out a knowledge document, together with all the gathered information through the authorization process. This

	document contains the main activities, risk appetite, corporate governance descriptions, among other supervisory considerations.
Assessment of Principle 5	**Compliant**
Comments	The SFC is the sole authority empowered to deliver credit institution licenses. It has developed a well-designed process for the authorization of new credit institutions based on a complete set of criteria. Technical studies which support the licensing decisions contain a clear analysis of the cases.
Principle 6	**Transfer of significant ownership**. The supervisor[32] has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.
Essential criteria	
EC1	Laws or regulations contain clear definitions of "significant ownership" and "controlling interest."
Description and findings re EC1	Although the law does not explicitly define the term "significant ownership," it makes mandatory the SFC's approval of any transaction that would imply the acquisition of 10 percent or more of a supervised institution, independently of how it is achieved, through one or more operations, simultaneous or sequential, or those through which such percentage is increased. (EOSF, Art. 88). The "subordination" is defined as the fact, for a company, to be subject to the will of other person(s) who will have a controlling interest over it (Code of Commerce, Art. 260). The subordination is presumed in several cases (Code of Commerce, Art. 261): • When more than 50 percent of the capital is owned by a parent company directly or through subordinate companies; • When a parent company or its subordinate companies, together or independently have enough votes to constitute a majority of the general assembly or they have enough votes to select the majority of the members of the Board of Directors; • When a parent company, directly or indirectly, exercises significant influence in the decision-making organs of the controlled company by means of a contract or business deal; • When a single person or group of persons (natural or legal), directly or indirectly present the following situations: (i) own 50 percent or more of the entity's capital; (ii) account for a majority in the decision-making process; or (iii) exercise influence in the decision-making process; and • When its control is exercised by another entity, through or with any of the persons and entities mentioned in the previous bullet.

[32] While the term "supervisor" is used throughout Principle 6, the committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

EC2	There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.
Description and findings re EC2	As mentioned before, each time a shareholder or an investor wants to acquire at least 10 percent of the capital of a supervised entity, it has to obtain an authorization of the SFC. The requirements for the authorization process are summarized in a public document posted in the SFC web page (Check list for the negotiation of shares of a supervised entity) and the internal procedure and process for the evaluation of these authorizations are contained in the SFC Integrated Management System. The assessors reviewed the technical studies produced by the SFC in 4 recent cases where two financing companies and a bank were acquired, and one holding company increased slightly its participation into one of its banking subsidiaries. In general, those studies include a thorough analysis of, at least, the proposed ownership structure and of the financial capacity of the proposed shareholders to acquire the entity. In the case of the acquisition of a bank, the study was rightly extended to other relevant aspects, such as the business plan and financial projections of the acquired entity, as well as the public interest. It is noted that this process encompasses very different situations ranging from the acquisition of a minority stake into a small financing company to the acquisition of an absolute majority in a significant bank. It could then be valuable that an internal guideline describes the minimum criteria to be analyzed in the different cases. At least for material cases implying a transfer of control of a bank, it is recommended that the analysis encompasses all relevant aspects of the operation, including the changes in the corporate governance and in the management of material risks, financial projections under several scenarios consistent with the new business plan of the entity, and its operational resilience or, if not, the reasons why those aspects have not been reviewed in detail should be explained. With regard to financial conglomerates, the authorization process is to be applied when the holding company is planning to acquire 10 percent or more of the shares of a supervised entity, or increase said percentage (FCL, Art. 6). If this threshold is not reached, the holding company has to notify the SFC of its planned acquisition at least 15 days before it takes place and the SFC has the possibility to ask for additional information if needed (CBJ, part 1, title 5, chapter 3).
EC3	The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.
Description and findings re EC3	The SFC has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, stating explicitly

	the reasons for the rejection, which must be based on the failure to demonstrate the character, responsibility, fit-and-proper or adequate financial standing of the parties involved in the operation. The assessment of proposed changes in significant ownership is based on similar—although less numerous—criteria as the ones used for licensing banks. In particular, the SFC performs an analysis of direct and indirect proposed owners or shareholders (or real beneficiaries) to determine whether they are fit-and-proper (see CP 5). In addition, depending on the materiality of the case, it may verify that the proposed change of ownership is not detrimental to the public interest. Number of applications for a transfer significant ownership or controlling interests over the past five years:

Total solicitations	Authorized	Conditioned authorizations	Denied	Desisted
48	41	0	2	5

Source: SFC.

	If the supervisor determines that the change in significant ownership was based on false information, the SFC has the power to reject, modify or reverse the change in significant ownership, the same way as for a banking license (see BCP5, EC2 above).
EC4	The supervisor obtains from banks, through periodic reporting or onsite examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
Description and findings re EC4	All supervised institutions and financial holdings must report on a quarterly basis to the SFC, the number of shares and shareholders, names of its shareholders, and the percentage of shares in each entity (external circulars 035 (2016) and 018 (2018)). Specifically, the supervised entity (including the financial holding) must report: 1. First ownership level: List and shares of all shareholders who own at least 1 percent of the ES capital (subscribed and paid-in capital).
	2. Second ownership level: List and shares of shareholders who own at least 5 percent of a first-level institution. 3. Third ownership level: List and shares of shareholders who own at least 10 percent of a second-level institution.
EC5	The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.
Description and findings re EC5	Any transfer of 10 percent or more, without authorization of the SFC will be invalid, without need of a judicial mandate (EOSF, Art. 88 no.2). The assessors were

	informed of one case where the SFC detected an unapproved change of capital in one supervised entity and ordered the reversal of this change.
EC6	Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information that may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Description and findings re EC6	There is no requirement that banks must notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder. However, all banks are listed companies and are therefore required to report relevant financial information to the public via the SFC website.
Assessment of principle 6	**Compliant**
Comments	The SFC has to authorize any acquisition of 10 percent or more of the shares of a supervised entity. It has developed a well-designed authorization process through which it analyzes in particular the proposed ownership structure and the financial capacity of the proposed shareholders to acquire the entity. Given that this authorization process encompasses very different situations ranging from the acquisition of a minority stake in a small financing company to the acquisition of an absolute majority in a significant bank, it could be valuable that an internal guideline describes the minimum criteria to be analyzed in each case. In addition, Colombian authorities could consider introducing a requirement for banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder.
Principle 7	**Major acquisitions**. The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.
Essential criteria	
EC1	Laws or regulations clearly define: (a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and (b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.
Description and findings re EC1	Laws clearly define what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments (i) are prohibited; (ii) need prior supervisory approval; and (iii) do not require the approval of the SFC but are subject to limitations.

	(i) As a general rule, commercial banks are not authorized to make capital investments in companies in the real sector, unless they receive shares or participations in payment of their debts, as established in Paragraph h, Art. 10, EOSF. (ii) Some acquisitions and investments require the approval of the SFC. They include: • Direct and indirect capital investments in financial entities, either national or foreign, that the holding of a financial conglomerate is contemplating (law 1870, Art. 6); • Merger with or the acquisition of another financial entity (EOSF, Art. 326 no.1); and • Investments of supervised entities in the capital of financial institutions, insurance companies, and capital markets institutions, as well as foreign subsidiaries (DL 2555, Art. 2.35.3.1.1). Authorization of the SFC is also required if the investment is carried out indirectly, through any foreign subsidiary provided that the investment meets specific materiality criteria. If the materiality criteria are not met, a notification should be sent to the SFC before the operation is performed (DL 2555; Art. 2.35.3.1.3). Materiality criteria are: (i) the size of the investment (equal or higher than 10 percent of the capital of the buyer in case of an initial investment—to be calculated over a 12-month period—and 5 percent or higher of the capital when it is an increase of an existing capital investment); (ii) the coordination with foreign supervisors (when the capital investment is to be made in a jurisdiction with whom the SFC does not have an MoU); and (iii) some acquisitions and investments do not require the approval of the SFC but are subject to limitations and can be investigated by the SFC. 1. Banks can invest in some corporate and government bonds, but each of those investments cannot exceed 10 percent of its paid capital and reserves (with the exception of investments in Colombian government bonds which are not limited; EOSF, Art. 9). 2. Banks can invest in the capital of some nonbanking financial subsidiaries, such as financial services companies, stock brokers, and online deposits and payment companies, provided that these companies are constituted in accordance with the banking regulations and the shares are not less than 51 percent of the paid capital of the company directly or indirectly (EOSF Art. 119 no.1). A cumulative limit for capital investments in nonbanking subsidiaries of up to 100 percent of the sum of capital, reserves and the capital revaluation account minus cumulative losses is set. Moreover, these banks' subsidiaries cannot have investments in the capital of any kind of companies (EOSF, Art. 119 no.2), with the exception of those listed in Art. 110, EOSF. 3. Banks can invest in shares of entities whose sole purpose is to provide technical or administrative services necessary for the banking business, upon a general authorization issued by government regulation, which was established

	in article 2.1.7.1.1 of the DL 2555 (EOSF, Art. 110). As mentioned earlier, these investments are subject to a cumulative limit of 100 percent of capital. 4. Financial corporations, investment bank-type entities, can invest in real sector companies without authorization of the SFC, even when they are a subsidiary of a bank (EOSF, Art. 12). Financial corporations can also invest in the capital of banks and nonbanking financial entities. The latter investments are subject to the 100 percent cumulative limit mentioned above (EOSF, Art. 119). The SFC reported that, based on its risk-based supervision, it supervises the material investments of financial corporations, as well as the investments which could compromise their financial condition, and that the cumulative limit can be adjusted. In addition, the SFC must also assess the situation of the capital investments of the supervised entities, and, to this end, it may request all the necessary information without any limitations from banking secrecy laws (EOSF, Art. 326 no.3). Accordingly, the SFC indicated that it monitors, through different supervision exercises, credit institutions' investments when they constitute a material part of their business/strategy. The 100 percent cumulative limit on banking investments in other credit institutions, nonbanking financial subsidiaries and some real sector companies seems rather high compared to what is expected in this EC. Nevertheless, it includes investments in other credit institutions, which require prior authorization from the SFC, under penalty of ineffectiveness, where the investment is equal to or greater than 10 percent of the capital in circulation of the receiving entity or corresponds to an increase in this percentage. Consequently, only a fraction of banks' total investments in other companies is not subject to prior supervisory approval. This fraction varies from one bank to another, depending on if it invests primarily in other credit institutions or in financial and technical services companies. The Colombian authorities could then consider introducing a lower limit for investments not subject to supervisory approval and/or conditioning them to a prior supervisory approval.
EC2	Laws or regulations provide criteria by which to judge individual proposals
Description and findings re EC2	The SFC has created an Authorization Group to harmonize visions and analysis regarding individual proposals such as investments, mergers, acquisitions, or even the fit-and-proper analysis of the Board of Directors or major shareholders. The SFC supervisory team and the Authorization Group can refer in the Integrated Management System (SGI for its initials in Spanish) all the procedures and processes to evaluate a request of authorization for such investments/acquisitions. The approval of a significant investment/acquisition is also part of the authorization process mentioned in EC1. The procedure defines all the elements to be covered. In practice, before a formal application is received, applicants can have discussions with the SFC with an aim to present the operation, ask for clarifications on whatever is unclear in the authorization process, and receive a first feedback from

	the supervisor. Those preliminary steps are conducted through meetings and workshops with supervisors focusing on different areas. Regarding the formal application, checklists for (i) the merger of a supervised entity; (ii) the acquisition of a supervised entity; and (iii) investments that are subject to supervisory approval are posted on the SFC website. The main documents reviewed by the SFC in case of a merger, or an acquisition of a supervised entity are the following: • The requesting letter, which shall include: (i) names of the entities involved in the operation; (ii) number and share of the investment; (iii) indication of whether or not the supervised entity already participates in the company in which the investment is proposed; (iv) value, term and description of the payment associated with the transaction; (v) indication of whether or not the investment is funded partially or totally with borrowing; (vi) detailed explanation of the origin of the resources invested; (vii) indication regarding whether or not the investor already has investments on entities supervised by the SFC; and (viii) indication regarding common interests with other parties involved in the company in which the investment is done; • A report explaining the reasons why the investment does not cause any threat to public interest; • A report explaining the measures adopted by the investors to protect the small investors (minority shareholders) according with the regulation (EOSF, Art. 62); • A report explaining the mechanism to protect financial consumers of the entities involved in the transactions; • CVs of the legal representatives and members of the Board; • Financial projections for the next five (5) years: financial statements, financial ratios, solvency, and scenario analysis assuming different macroeconomic conditions; • Evaluations or manuals of risk management systems, detailing prospective changes and the timetable to implement such changes; • Description of changes in the organizational structure and the compliance of dispositions regarding corporate governance; and • When the investment implies a conglomerate, there are additional requirements. The Advisory Council issue an opinion and advise the Superintendent regarding the approval or rejection of the operation, including major acquisitions. In the past few years, Colombian banking groups have continued their expansion abroad, so there is ample evidence of the SFC practice with regard to the authorization process. The assessors reviewed three files of investments in Latin America, as well as two authorizations for a merger between credit institutions. The technical studies, which summarize the analysis of the SFC and serve as a support

for its authorization decision, are well structured and cover the above-mentioned aspects. Especially, the examined files incorporate:

1. An assessment of the corporate structure and governance arrangements of the entities involved in the operation;
2. An analysis of the business plan of the acquiring institution, including financial projections;
3. An estimation of the impact that the acquisition would have on the compliance with prudential requirements (solvency, legal limits, reserve requirements, and foreign exchange);
4. An evaluation of the political and economic environment in the countries of operation and of the supervisory regime; and
5. An evaluation of the capacity of the acquiring institution to manage the risks of the new acquisition.

The following table gives an overview of the authorizations granted by the SFC of acquisitions or investments by banks over the past five years:

Total solicitations	Authorized	Conditional Authorization	Denied	Desisted
27	24	1	1	2

Source: SFC.

EC3

Consistent with the licensing requirements, among the objective criteria that the supervisor uses are that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[33] The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.

[33] In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

Description and findings re EC3	The SFC prepares a series of internal reports or study documents for some of these authorizations, depending on their materiality and relevance to the financial system. The analysis includes: • Financial implications of the acquisition for the acquiring bank; • Impact that the acquisition would have on the compliance with prudential requirements (solvency, legal limits, reserve requirements, and foreign exchange position); • Evaluation of host country supervisors incorporating the host country's cooperation standards regarding consolidated and cross-border supervision, ensuring there would be no access limitations to information by the SFC, and conduct onsite inspections identifying significant differences with the Colombian regulation on critical aspects; • Identification of all host supervisors and verify that MoUs have been signed with all of them and, if not, identify those supervisors with whom negotiations would need to be carried out; • Evaluation of the political and economic environment in the countries of operation; and • Evaluation of the capacity of the acquiring institution to manage the risks of the new acquisition. If, as a result of the analysis contained in these reports, it is established that the acquisition/investment exposes the bank to undue risks or hinders effective supervision (e.g., investment/acquisition in a country with secrecy laws or other regulations prohibiting information flows deemed necessary for adequate consolidated supervision), the SFC has the power to prohibit the contemplated operation (EOSF, Art. 58 and 64).
EC4	The supervisor determines that the bank has, from the outset, adequate financial, managerial, and organizational resources to handle the acquisition/investment.
Description and findings re EC4	The evaluation process has been progressively enhanced and includes an assessment of the adequacy of financial and organizational resources, as well as the capability of the acquiring entity to adequately manage the risks of the proposed acquisition. To this end, the acquiring bank has to submit financial projections for the next five years, as well as information on the compliance with prudential requirements, evaluations or manuals of risk management systems, and details on the organizational structure and the compliance of dispositions regarding corporate governance.
EC5	The supervisor is aware of the risks that nonbanking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in nonbanking activities.
Description and findings re EC5	As a general rule, banks cannot invest in shares of nonfinancial entities, unless it is carried out through a subordinate constituted as a financial corporation (investment bank-type). There are some exceptions to this general rule which are detailed in EC1 above. In any case, the approval process includes an assessment of

	the risks to which the nonfinancial entity is exposed and the risk management capabilities of the acquiring bank. With regard to mixed conglomerates made up of both financial and nonfinancial entities, the SFC has new means of action to mitigate risks that nonfinancial entities pose to supervised entities since the implementation of the FCL in February 2019 and the three subsequent decrees. The SFC is now entitled to request information and perform onsite inspections in entities which are part of a financial conglomerate in order to get a comprehensive knowledge of their financial situation, the management of their activities and risks, and any other relevant aspects. It can also require a change in the legal structure of a financial conglomerate if the existing one is not transparent enough and poses a threat to the financial stability. Moreover, it can ask for an adjustment in the risk policies and exposure limits, both intra-group and with related parties, when they are deemed inconsistent with underlying risks or when they pose a threat to the financial stability (decree 1486 (2018)).
Additional criteria	
AC1	The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[34] Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.
Description and findings re AC1	As noted in EC1 above, the SFC approves investments of supervised entities and of their foreign subsidiaries in the capital of financial institutions, insurance companies, and capital markets institutions, provided that the investment meets specific materiality criteria. If the materiality criteria are not met, a notification should be sent to the SFC before the operation is performed. Several instances of review by the SFC of acquisitions of financial institutions abroad made by foreign subsidiaries of CFs were shown to the assessors. In such cases, the scope of the SFC's review is the one mentioned in EC2 above.
Assessment of Principle 7	**Compliant**
Comments	Major acquisitions of credit institutions have been usual over the past years, as a consequence of both the expansion of financial conglomerates abroad and the willingness of some financing companies to get a banking license in Colombia through the acquisition of a bank. SFC performs thorough analyzes on several aspects, including the financial strength of the entities involved, before authorizing such acquisitions or investments. The 100 percent cumulative limit on banking investments in other credit institutions, nonbanking financial subsidiaries and some real sector companies

[34] Please refer to Footnote 33 under Principle 7, Essential Criterion 3.

	seems rather high compared to what is expected in this EC. Nevertheless, it includes investments in other credit institutions, which require prior authorization from the SFC, under penalty of ineffectiveness, where the investment is equal to or greater than 10 percent of the capital in circulation of the receiving entity or corresponds to an increase in this percentage. Consequently, only a fraction of banks' total investments in other companies is not subject to prior supervisory approval. This fraction varies from one bank to another, depending on if it invests primarily in other credit institutions or in financial and technical services companies. The Colombian authorities could then consider introducing a lower limit for investments not subject to supervisory approval and/or conditioning them to a prior supervisory approval.
Principle 8	**Supervisory approach**. An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become nonviable.
Essential criteria	
EC1	The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks: (a) which banks or banking groups are exposed to, including risks posed by entities in the wider group; and (b) which banks or banking groups present to the safety and soundness of the banking system The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.
Description and findings re EC1	The SFC has implemented a risk-based, forward-looking supervisory program. The program incorporates frequent onsite inspections both targeted and comprehensive. Annually, a supervisory plan is developed for each bank by identifying significant activities and for each activity measuring and evaluating a set of inherent risks (credit, market, operational, insurance, AML/TF, compliance and strategic). The bank's risk and governance management are evaluated (financial analysis, compliance, risk management, actuarial, internal audit, senior management and Board of Directors). A net risk score is then calculated for capital, profitability, liquidity (scoring, direction of risk and importance). Banks are then classified as N1, N2, or N3 and supervisory plans developed. The supervisory process comprehensive and involves frequent interaction with bank staff, auditors, management and as warranted the Board of Directors. Onsite loan reviews involve sampling of credit files to ensure adequate valuation and provisioning. Stress testing is employed to enhance forward-looking aspects.

	The SFC supervisory umbrella covers banks (ES[35]), financial holding companies (HFs) and financial conglomerates (CFs). An MIS based on principles, concepts, and procedures that are used to guide the supervisory process has been developed and implemented since the previous BCP assessment. A risk matrix is the key component of the SFC's Risk Based Supervision (SBR) methodology. The matrix is a summary of the assessment of the elements that comprise the Comprehensive Supervisory Framework and helps identify supervisory priorities. Likewise, it aids in allocating supervisory resources. The supervisory framework is systematic, coherent, and allows for the integration of the risks that may affect the ES/CF, through an assessment that incorporates exposure to inherent risks derived from the business model of the ES/CF, the effectiveness of its internal control to manage said risks, quality of capital, profitability, and liquidity. Based on this profile, the priorities and intensity of the supervisory work to be carried out by the SFC are established. The supervisory framework is supported by documentation such as guidelines, manuals, guides, templates, and structured processes, which allow the joint supervisory teams to carry out their supervisory work. Likewise, three levels of supervision have been determined: • Conglomerate level: includes all entities (foreign and local) that make up a CF including its HF. Its risk profile is constructed, considering the risks of the CF and their respective management, as well as the general vision of the risks of these entities. • Consolidated Level: includes CF entities with cross-border HF that operate under a supervisory environment equivalent to Colombia. Additionally, it includes all entities that make up a group of two or more financial institutions (foreign and local), but that are not identified as CF by the exclusion criteria (Decree 246 of 2018). The construction of the risk profile of these entities is determined considering the consolidation of financial and nonfinancial risks, and their respective management. The result of this assessment is the risk matrix of the consolidated entities which integrates all the significant activities (AS) of its subsidiaries, and • Individual level: it is for entities that are not part of a CF or a group of entities and do not have and are not subsidiaries. At this level, the entity's risk profile is defined, based on the evaluation of the risks associated with the activities it carries out, and their respective management. For the evaluation of the risks to which the ES/CF is exposed, quantitative and qualitative information is used, such as the analysis of vulnerabilities (Emerging Risks) that can impact the industries and the risks that are supervised by the SFC;

[35] The term ES is used by SFC to denote banks, insurance and market discipline since all fall under SFC purview. All are Entidades Supervisadas; supervised entities.

	as well as, the analysis of the business model, products and services offered, nature and strategic plan of the ES/CF. Additionally, the SFC carries out permanent monitoring through which trends are identified in the risks associated with the business and processes developed by the ES/CF, that serve as support for the rating of the inherent risks, and to determine the objectives of supervision and the allocation of supervisory resources according to the level of risk and the size, complexity, substitutability, and global interconnection of the entities. The SFC assesses the internal control system to determine the degree of mitigation of its risk exposure. This evaluation is made based on the model of the three lines of defense, and considering the principles of proportionality, nature of business, importance of supervision and complexity.
EC2	The supervisor has processes to understand the risk profile of banks and banking groups and employs a well-defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.
Description and findings re EC2	The SFC has a supervisory methodology and a risk matrix with a broad scope that allows a prospective evaluation of risks, facilitates the early identification of problems and the adoption of preventive measures. The supervision process is described below: Documenting the risk profile includes analysis of the ES risk management and the business knowledge, by understanding how they develop their business model, and to identify the AS of the ES/CF. To define AS, aspects such as the organizational structure, the business plan, the internal distribution of capital, and the strategic relevance of each business line or process, among other aspects, is considered. Once the AS have been identified, supervisory efforts focus on identifying and measuring the inherent risks of said activities, based on the definition of each risk and the criteria established for their evaluation. Based on the level of risk exposure, the SFC prioritizes areas to assess as it develops its supervisory strategy, to monitor the management of risks by ES management, and to be able to determine the net risk of each AS. The supervisory strategy also considers possible vulnerabilities (Emerging Risks) that may impact the industries to which ES lends, as well as the possible effects on financial consumers. For each ES, the SFC then designs a supervisory plan to address the highest risk issues, that is, whether to schedule onsite inspections, offsite supervision work, thematic reviews, or periodical targeted reviews. The evaluation of management determining the quality and effectiveness of the oversight functions that together constitute the internal control system, to determine if the corporate governance and control bodies carry out their tasks adequately.

	Teams forming the supervisory nucleus (NS) analyze whether risk management systems are adequately mitigating current and forward-looking risks. If the NS determines that risk management mitigates current risks, but not forward-looking arising risks, the NS may rate risk management as Needs Improvement and take preventive supervisory action. Based on the analysis, the Net Risk of the AS and its direction and importance is determined, and the Global Net Risk (Residual Risk) estimated.
EC3	The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements.
Description and findings re EC3	The SFC assesses compliance with prudential regulations and other legal requirements based on the following two aspects: • Evaluation of regulatory compliance is based on reports submitted by the ES/CF and on the statistical reports prepared by the supervisory areas. The NS prepares reports of compliance with prudential regulations not only by reviewing minimum or maximum levels as of a certain date, but also by analyzing the trends and consistency of ratios. Regulatory framework includes capital requirements at the individual, consolidated, and conglomerate level, liquidity requirements (including reserve requirements), exchange rate risk and market risk. Additionally, compliance with the limits regarding investments in subsidiaries, limits on the concentration of debtors at an individual and consolidated level, the risk indicators of the industries and the legal control indicators, such as reserves, forced investments, quotas of credit, regime of transactions with related parties, those concerning cybersecurity and the financial consumer support plan, among others. • Analysis and evaluation of the management of the ES Compliance Function. The SFC assesses the effectiveness of the Compliance Function, to conduct a review of the management of the ES, regarding compliance with laws, decrees, regulations, self-regulatory standards of the entity/industry to which it belongs, policies for disclosure of information to the market and interested parties, policies for the generation of reports and relationships with clients, guidelines and internal codes of conduct, ethics, transparency, fair treatment and financial consumer protection, applicable to the activities carried out in all the jurisdictions in which it operates. The SFC also considers results of independent reviews by external auditors that are responsible for verifying compliance with the rules and regulations (periodic or year-end financial information, risk management systems and in the formats transmitted to the SFC, among others), as well as informing the SFC about the irregularities that it identifies in the exercise of its functions, when said irregularities are material.
EC4	The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account

	cross-sectoral developments, for example in nonbank financial institutions, through frequent contact with their regulators.
Description and findings re EC4	The Directorate of Innovation and Development (DIID) produces and distributes risk analysis to supervisory units that include global macroeconomic analysis with particular attention to jurisdictions where banks carry out businesses, to enable SFC to determine possible impact on the ES risk profiles. Additionally, internal reports and studies, with the objective of identifying the macroeconomic and financial risks that may affect entities under supervision are produced, including: • Weekly Economic report: It presents the most relevant economic data at the national and international level, while monitoring the risks to which the Colombian financial system may be exposed. • Monthly Regional report: It shows the economic conditions in Central America, Brazil, Paraguay, and Peru and to keep record of any potential vulnerability that could affect Colombia´s financial stability. • The DIID, every three or six months, prepares a presentation summarizing the main risk sources and transmission channels locally and internationally that might impact Colombian ES. • Supervisory areas prepare cross sectional reports that can be use by industries or business lines of the ES, such as portfolio in the builder segment, FICs, personal over-indebtedness, liquidity flow, among others. • The SFC conducts joint stress-tests with the BR regarding the macro environment. These stress-tests are an important element for the risk analysis. The SFC also reviews macroeconomic and financial studies and presentations made by trade unions and economic think tanks such as associations, Credit rating agencies and the Central Bank, among others, whose topics are directly related to the current situation and expectations about the economy's behavior. Through the MOUs, the SFC has contacts with other Superintendencies that supervise nonfinancial entities, but that are part of the CF or support ES. That information is relevant to understand the intersectoral developments that contribute to determine the risk profile of ES/CF. The SFC has several internal work groups that provide information and statistics that complement the analysis work carried out by the NS. Some of these groups are: • Internal Financial and Technological Innovation Working Group; • Internal "PRIME" of Information Working Group (Process-Results-Innovation-Monitoring-Structuring); • "Analytical Unit" Work Teams; • Collaborative Analytics Committee; • Internal Digital Supervision Centre Working Group; and

	• Internal Green Finance Working Group. Also, the Central American Monetary Council (CMCA) prepares macro and cross sectoral analysis as well as joint meetings with the Association of Supervisors of Banks of the Americas (ASBA) where the economy and risks of the region are evaluated, aiding the early identification of problems and the adoption of corrective measures.
EC5	The supervisor, in conjunction with other relevant authorities, identifies, monitors, and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.
Description and findings re EC5	The CCSSF exchanges information regarding financial institutions that may impact system stability, including bank's problem assets and sources of liquidity. The CCSSF also encourages standardization and improvement of procedures for monitoring the financial system, while fostering a coordinated and timely response during crises. Additionally, the SFC as supervisor for insurance, banks, market discipline and also responsible for bank resolution and liquidation develops a complete overview of the financial system and works closely with the MHCP on financial issues. On a cross-border basis the SFC has signed MoU's with foreign supervisors and participates in Supervisory colleges to facilitate the exchange of information and cooperation on supervising financial institutions that operate or have cross-border subsidiaries or affiliates. Additionally, some other key objectives of supervisory colleges are to identify, monitor and evaluate the accumulation of risks, trends, and concentrations within the entire banking system of the countries in which the subsidiaries of Colombian banks operate, and among the entities that comprise it.
EC6	Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.
Description and findings re EC6	The SFC, as resolution authority, assesses the bank's resolvability where appropriate, considering the bank's risk profile and systemic importance. In the case of mechanisms aimed at the recovery of entities, within the context of the preventive supervision the SFC has various processes to restore soundness of the ES.

	Case-specific measures may involve: (i) more intensive supervision; (ii) monitoring and reviewing transactions; (iii) coordinate possible options for resolution with the bank including voluntary liquidation; (iv) order capitalizations and maintenance of solvency levels above the general minimum; (v) impose orders on good governance and risk management that impact the structure of the entity; (vi) impose restrictions on its operations; (vi) demand the adoption of measures aimed at solving the problems within specified deadlines; and (vii) requiring special audits. The Financial Stability Institute (FSI) is conducting a crisis simulation exercise (CSE) on behalf of financial authorities within six Latin American countries (Argentina, Brazil, Chile, Colombia, Paraguay, and Uruguay). The CSE aims to test the effectiveness of existing crisis management and cooperation frameworks and will be based on a constructed scenario covering the run-up to and evolution of a systemic stress situation.
EC7	The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.
Description and findings re EC7	The SFC has a framework for managing banks in times of stress, so recovery or resolution actions are taken in a timely manner. Stress test results aid SFC in identifying emerging issues and request timely action plans from banks that exhibit developing weaknesses and may be at risk of further significant deterioration or failure. These exercises were carried out in 2020 and measures have been requested from the entities. The stress results are supplemented by knowledge gained through the supervisory process and the macro environment. In the exercise of its supervisory powers, the SFC issues instructions, recommendations, and orders the ES to adopt preventive and/or corrective measures aimed at solving any situation involving excessive risks or poor governance. These actions may comprise enforcement action or recovery programs, reorganization processes, or any other of the recovery mechanisms provided for in Article 113 (EOSF). If, despite the above measures, the ES does not achieve a fundamental solution to the situation that prevents its regular operation and any of the circumstances set for in Article 114 (EOSF) occur; the SFC takes possession of the ES and within this framework, decides whether there is any other recovery alternative or whether the entity is unviable and therefore must be liquidated, this situation making up the trigger for the resolution. With banks that are part of a financial conglomerate, the trigger for resolution may arise from the fact that the cross-border controlling entity discloses information that in the opinion of the SFC will prevent it from fully performing its supervisory functions.

	Within the framework of the resolution plans, the trigger for resolution and consequent application of the strategy foreseen will be based on the presence of the circumstances making up material financial stress. To ensure the resolution decision is appropriate and timely, two procedures were established. The first begins with the SFC recognizing that the ES cannot recover; hence, the SFC must adopt some of the resolution mechanisms provided by law (Merger, Liquidation, Sale of Assets, among others). The second begins when the ES realizes it must request the implementation of any of the resolution alternatives proposed in the recovery and resolution plans, previously submitted to the SFC. In 2018 the SFC created a Resolution Mechanisms and Plans Group (GR). The GR is responsible for the process of evaluating, assessing, and proposing any resolution mechanism, based on the results of the supervision process or the concurrence of any of the assumptions raised in the Resolution Plan. Once the GR in coordination with the relevant deputy Superintendents and Delegates determines the resolution mechanism to be put in place, the GR summons the Intersectoral Resolution Commission (CRI) to coordinate the actions that would correspond to the SFC and FOGAFIN in the event of a resolution. Subsequently, the GR together with the corresponding deputy Superintendents presents the study supporting the resolution measure to the Financial Superintendent. For resolutions, the Advisory Council is always consulted. The members of the Council are independent experts in financial matters. Once the Council has issued its opinion on the resolution mechanism, and the Financial Superintendent decides which mechanism to use, the SFC implements the resolution decision.
EC8	Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.
Description and findings re EC8	Article 335 of the constitution establishes that financial activity can only be exercised with prior authorization by the SFC. In that sense, the exercise of bank-like activities by an entity not authorized to do so, may result in "illegal exercise of the financial activity." This also applies when an ES performs banking-type activities totally or partially outside the regulatory perimeter. Additionally, in Colombia all the ES are subject to the "theory of special statutes," so they can only carry out those activities that have been expressly authorized by the SFC, which means they have restrictions on commercial activities.
Assessment of Principle 8	**Compliant**
Comments	The SFC has implemented a supervision by risk approach that is supported by a broad legal framework, enforcement powers, and coordination and cooperating fora to work with domestic and foreign supervisors.

Principle 9	**Supervisory techniques and tools**. The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.
Essential criteria	
EC1	The supervisor employs an appropriate mix of onsite[36] and offsite[37] supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between onsite and offsite supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its onsite and offsite functions, and amends its approach, as needed.
Description and findings re EC1	The SFC employs a blend of onsite and offsite supervisory activities in bank supervision. The supervisory plan is based on four procedures: risk profile assessment, planning, onsite and offsite execution. The supervisory process assigns a level of supervision classification to each entity, considering its size, complexity, risk profile and interconnection in the financial system, which can be N1, N2 or N3, where N1 has the highest supervision intensity. In accordance with the "N" to which the entity belongs and considering whether or not they are part of a CF, the supervisors assigned may be defined as of exclusive dedication to a single CF or may supervise several entities. The combination between offsite and onsite supervision activities allows the SFC to build and maintain current the ES risk profile. Offsite surveillance encompasses the monitoring and analysis of financial and nonfinancial information (prudential and regulatory compliance, limits, financial statements, monitoring recommendations from previous years and evaluating the characteristics of the risk governance structure of the ES, among other things), which is supplemented by onsite examinations to give a rating of the effectiveness of the ES risk management derived from its operation. The SFC supervision program is reviewed every six months, or sooner if circumstances demand, to ensure that the supervisory strategy remains consistent with the risk profile and the environment and industry conditions in which the bank conducts its business, and onsite inspections may be performed any time during the supervisory cycle in response to new information. The ongoing monitoring enables the NS to act proactively by proposing specific supervisory actions and providing timely information to AG. The planning procedure will be detailed in the following criteria.

[36] Onsite work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

[37] Offsite work is used as a tool to regularly review and analyze the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further offsite and onsite work, etc.

EC2	The supervisor has a coherent process for planning and executing onsite and offsite activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the onsite and offsite functions.
Description and findings re EC2	The SFC has a process for planning and executing on and offsite activities, with policies and processes that establish responsibilities, objectives, and outputs, contained in the annual supervisory program (ASP). The ASP is proposed in a coordinated manner by the Institutional unit, Risk units, and the DIID, based on three pillars: • Analysis of emerging risks: For planning purposes, semiannually, the DIID presents to the institutional and risk units, a consolidation of emerging risks that may affect the Colombian financial system, focusing the review on five areas: economic, environmental, geopolitical, social, and technological. This information is complemented by DIID's periodic reports (weekly, monthly), related to the evolution of local, regional, and global financial markets. • Supervisory cycle: Based on the findings, follow-up, and evaluation of previous cycles, the JST, together with the directors and deputy Superintendents, define the monitoring priorities, considering the industry's characteristics and the size, complexity, and supervision importance of the ES. • Topics of interest: Correspond to priority exercises identified as having important effects on the ES. Among the topics assessed, the regulatory agenda is included, which incorporates regulation issued or pending of issue, with significant impacts on the ES (National Development Plan, Basel III). After approving the planning proposals through the deliberative process (Panel Review and Supervisory Committee), the ASP must be approved by the Financial Superintendent. The ASP includes all planned activities (onsite and offsite activities, horizontal reviews[38]) and details the objective of the activity, the members of the supervisory team and the number of specialists needed depending on the scope of the supervision process, the number of days needed and the expected deliverables. The ASP can be adjusted during the year, to reflect new information or results of supervisory activities. Execution of onsite and offsite examinations is performed by the NS. The main responsibilities of the NS are: (i) ensure the risk profile reflects current conditions; (ii) propose the supervision activities; (iii) execute supervisory plan; (iv) propose administrative actions or supervisory measures; (v) receive and analyze the available information from internal and external sources; and (vi) produce deliverables. The effectiveness of the supervision tools is periodically evaluated through the SFC's internal processes and with external evaluators.

[38] Horizontal peer reviews are usually carried out to assess a topic or problem in an industry. Horizontal analysis approaches are carried out through transversal exercises developed by the Institutional and Risks units according to the specialty. Horizontal reviews require a specialized or central team to coordinate the work, defining the procedures and approaches that will be used.

EC3	The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable[39] and obtains, as necessary, additional information on the banks and their related entities.
Description and findings re EC3	• To build the ES risk profile, supervisors use a number of internal and external sources. Among the sources consulted are regulatory reports filed by the ES, internal and external presentations made by the SFC and the industry, meetings with representatives of the bank, as well as reports issued by other national and foreign authorities, such as the BR, home/host supervisors, IMF, economic think-tanks, and rating agencies, among others. • The SFC collects a wide range of information in addition to monthly financial statements, including CAR, EPR, loan aging schedules, credit information by debtor, liquidity and foreign exchange positions, investment portfolio. This information is collected on a daily, weekly, monthly, quarterly, and yearly basis depending on the nature of the data. • Determining that information provided by banks is reliable relies on three processes: • SFC has issued instructions for banks to follow in filing regulatory reports and returns must be signed and endorsed by the legal representative, the accountant and the statutory auditor, seeking to guarantee the quality and governance of the information. In some cases, when requests for special reports are made, the internal auditor and/or the statutory auditor are also asked to comply with the procedures to guarantee the information's quality. • As a second layer, the SFC's systems that process information carry out automatic consistency validations. • A third validation of the information is carried out through the on-going monitoring process by the NS. Early warning indicators are shared within the NS, between the institutional unit and the risk units (Credit, Market and Liquidity, Operational, and AML/CFT) and based on the reports developed by each area along with public information provides cross-verification to validate data. Finally, the SFC may, at any time, and within the framework of consolidated supervision, require additional information necessary to assess the risk exposure of the ES, including entities not subject to SFC supervision when there are links or operations that may represent a risk to the ES.
EC4	The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as: (a) analysis of financial statements and accounts;

[39] Please refer to Principle 10.

	(b) business model analysis; (c) horizontal peer reviews; (d) review of the outcome of stress tests undertaken by the bank; and (e) analysis of corporate governance, including risk management and internal control systems. The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.
Description and findings re EC4	The SFC employs a wide variety of tools for reviewing and assessing the safety and soundness of banks and the banking system and analyzing financial and risk indicators (including individual and horizontal peer reviews); these include information on credit quality, investment portfolio, CAR, liquidity and profitability, governance structure, among others. Horizontal peer reviews are usually carried out to assess a topic or problem in an industry. Horizontal analysis approaches are carried out through exercises developed by the Institutional and Risk units. Issues recently reviewed included: over-indebtedness analysis, cybersecurity management implementation, concentration analysis of large companies, and supply chains in residential construction and individual housing sectors. In accordance with the supervisory processes, framed in the RBS, all the information collected and assessed from internal and external sources, contributes to the construction of the ES risk profile. In fact, the RBS considers the main aspects of the business approach (target customers, activities), the strategic plan, risk appetite, and the environment and industry analysis, and assesses the control functions of the activities carried out by the ES. Finally, as a result of the onsite and offsite activities, the main findings, recommendations, and conclusions are communicated to banks through a formal letter addressed to the CEO, or through meetings with senior management (AG) and permanent monitoring is carried out until the findings are corrected. In some cases, depending on the materiality of the results, it is requested that findings be read to the Board.
EC5	The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.
Description and findings re EC5	The SFC coordinates on the identification and mitigation of emerging risks in conjunction with other governmental and private stakeholders. the Superintendent

	and deputy Superintendents participate in different committees to share information and discuss issues that may affect the financial sector. As mentioned in BCP 3, the SFC is part of the CCSSF that include the MHCP, FOGAFIN and BR. Through the committees, procedures, and practices have been shared and exercises of common interest have been presented, at least twice a year, with the objective of contributing to the maintenance of the financial system's stability. Additionally, several MOUs have been signed and information has been exchanged with national Superintendencies, Cross-border Superintendencies, and other international organizations (ASBA, ASSAL, CCSBSO, etc.). Regarding stress tests, the BR and the SFC develop top-down tests**,** which complement the ES risk analysis. The BR presents its test results on a semi-annual basis, in the Financial System Stability Report, giving a global view of the effects of adverse scenarios on the Colombian banking system. The SFC periodically prepares stress tests, that aim to assess the impact of stressed macroeconomic and financial scenarios on regulatory capital and liquidity, the stability of each entity, and therefore of the financial system as a whole. These include loan portfolio deterioration/migration exercises, shocks on the investment portfolio and on liquidity, and CAR impacts. These exercises have served as additional input for the definition of supervision measures and have led to requirements on ES when the results of the tests involve breach or values close to the minimum regulatory levels. The SFC has also developed guidance for systemic banks to develop sectoral strategies to deal with possible crises. In the supervisory colleges, issues related to cybersecurity and the application of stress tests have been addressed, working groups have been established to share best practices and strengthen monitoring on several issues.
EC6	The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.
Description and findings re EC6	Internal audit is evaluated to verify that it has sufficient independence, authority, resources and that its work is carried out within the required audit quality control standards. Also, it assesses the effectiveness of its findings regarding the ES's corporate governance and risk management framework. The SFC has ongoing contact with internal audit. Several activities are carried out with the internal audit, including: • For onsite and offsite activities, work by the internal audit on different topics is reviewed and meetings held. This mainly in the case of internal audits that under the evaluation of the supervisor are rated as "adequate" or "strong." • In some cases, the SFC requests the annual internal audit plans and requests additional information if deems necessary.

	• With the adoption of RBS, the SFC holds meetings with internal auditors, mainly with banking groups, to understand their perception of the ES risks and to share the risk vision of the supervisor. This is to eliminate duplicate work and cover risk issues in the entity from two points of view (SFC, internal auditor). • If important findings are highlighted concerning risk management SFC enlists internal audit to monitor the process of correcting the weakness detected. All significant findings or recommendations for improvement of internal audit are communicated formal letters to the CEO, once the Audit Committee is aware of the findings, it communicates them to the JD. In some cases, instructions have also been given directly to the JD.
EC7	The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems, and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models.
Description and findings re EC7	The SFC maintains frequent contact with members of the Board, AG, middle management, and the Control Functions (Internal and Statutory Audit). To promote permanent discussions with the ES corporate governance, the following practices are highlighted: • There is frequent contact with senior management, with the risk units and business units, in the permanent monitoring of the administration of credit, market, liquidity, operational risks, laundering prevention, CAR, among others. • In the development of the onsite supervision exercises, meetings with AG are scheduled when the supervision process begins and ends. • Within the framework of strategic plans and even in monitoring the results of stress tests, bottom up and top down, the supervisor challenges the entity on the assumptions made in setting strategies and business models. • The supervisor has developed working meetings with AG and middle management to provide detail on supervisory practices adopted by the SFC and provide feedback on challenges they have faced in the adoption of such schemes. • Before filing an application to effect organizational changes (mergers, acquisitions, among others), AG informs the SFC of its intention, to know its opinion and move forward with the process. At the beginning and within the authorization process, many of the assumptions raised in the business strategy may be refuted. • Entities that want to rethink their business strategy ask for meetings with the Financial Superintendent, Senior Deputy Superintendents and/or Deputy

	Superintendents to inform their objectives before its implementation (for informational purposes). • During the supervision processes, in specific cases, interviews are conducted with the JD to understand its level of knowledge of the risk profile and of the entity's operation and business. Likewise, on many occasions they come to the SFC called by the Superintendent, Senior Deputy Superintendents, Deputy Superintendents and/or Directors to discuss ES relevant issues. • The complete JD and the Audit Committee attend the supervisory colleges. In case an ES has specific weaknesses, the SFC increases the frequency of meetings with middle management, AG and JD, hence focusing on those issues.
EC8	The supervisor communicates to the bank the findings of its on- and offsite supervisory analyzes in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.
Description and findings re EC8	The SFC communicates the findings of its on and offsite supervision to the bank, through an Official Letter which contains a detailed description of each of the findings identified in the development of the supervision exercise. In support of the findings detailed in the Official Letter, a supervisory report with a focus on risk is prepared. Based on this report, the Risk Matrix and the RAS is updated, where knowledge of the ES risk profile is preserved. If necessary, an official document for mandatory corrective actions is prepared (depending on the materiality and the level of non-compliance with a regulatory requirement), which is then delivered directly to the AG, requesting a response within a specific timeframe. In certain occasions, depending on the materiality of the results and the impact that corrective actions may have on the financial condition and operation of the ES, the AG and/or JD are called to the SFC, with the purpose of informing them directly on the entity's risk exposures and to request the application of corrective measures. Also, in certain cases it has been necessary to hold separate meetings with the bank's independent Board members. The follow-up to the findings is monitored through reporting requirements and meetings, in which the progress on the implementation of the corrective actions is requested. On some occasions, onsite supervision exercises are scheduled for verification.
EC9	The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.
Description and findings re EC9	Monitoring is carried out in several stages that involve meetings with the ES, progress on the action plan, implementation of corrective actions, accompanied by

	the documentation that supports its advance. In a second stage, when necessary, onsite verification processes on the effectiveness of the measures adopted are programmed. If action points are not addressed in an adequate or timely manner, procedures may be applied such as a request that SFC instructions be discussed with JD so that an effective action plan may be implemented, or a reiteration communication addressed to the Senior Management, informing about the start of an "administrative action" or a "sanctioning administrative process." In some cases, the Board and the AG have been summoned to the SFC to explain why the indicated corrections have not been adopted. The mechanism to be adopted depends on the severity of the situation. The inspection process file is closed only once the entity has remedied the weaknesses and satisfactorily fulfilled all the commitments or orders issued by the SFC.
EC10	The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.
Description and findings re EC10	Banks request meetings with the supervisor when they are considering carrying out a reorganization process or certain strategy changes, or when they know of adverse situations that affect the financial stability of the entity. These meetings are carried out with the Financial Superintendent and/or Deputy Superintendents, as well as with members of the NS. Listed companies on the stock exchange are obliged to inform the public of relevant facts. These include changes in accounting policies, capitalizations, ratings, changes of fiscal reviewer, securities issues, country code, by-laws reforms, prospects for issuance, profit distribution projects, fines, penalties, and financial statements, among others. In addition, CBJ requires entities to inform the SFC of the occurrence of events of significant disruption to operations: (i) when an ES makes modifications and/or technical or technological updates that, due to their relevance, may cause a disruption in the provision of services and affect the performance of operations, they must inform their clients and users at least eight days prior to the start of said activities; (ii) when an event occurs that suspends operations for one hour or more through one or more of the ES channels; and (iii) ES must establish policies and mechanisms through which the inconvenience caused to financial consumers will be compensated effectively as a result of the interruption in the provision of the service. CBJ establishes the responsibility of the Head of Statutory Audit to report to the SFC the occurrence of significant adverse events, which materially affect their ability to fulfill the commitments made or represent a significant risk for business continuity.

	CBJ, regarding duties and responsibilities of the ES and the SFC, establishes that an entity must inform the SFC, immediately, about any situation known to it that may affect the conditions and requirements which may impact the suitability of the JD, AG, statutory auditor, among others, within the abbreviated procedures. Also, within 45 days following a resignation, removal or vacancy, the ES or the person responsible for the process of possession (often the secretary-general) must inform of this situation to the supervisor. Article 72 (EOSF) establishes that ES, their administrators, in general, AG, tax reviewers must act within the framework of the law and must refrain from not providing to users or clients reasonable or adequate information so they can make duly informed decisions. Article 208 (EOSF) states that the reluctance to provide information will result in a sanctioning process. When an entity foresees that it will have issues meeting regulatory requirements for CAR or in the liquidity limits, it must submit an adjustment plan for SFC approval. For purposes of knowing whether the conditions of regulation and supervision equivalence of foreign holdings are maintained, they must report material changes in the regulations of the home jurisdiction, which reduces or eliminates the legal conditions under which the equivalence analysis was carried out, within 45 calendar days following the issuance of amending regulations.
EC11	The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.
Description and findings re EC11	The SFC may make use of independent third parties. The SFC carries out its supervisory function using its staff. However, in use of the functions established for the statutory auditor and following the provisions the provisions of Section 3, Article 207, Commercial Code, it corresponds to the latter collaborate with the supervisory entities when required within the framework of their legal powers, in the conditions and with the opportunity established in the corresponding administrative act. This has been done in cases where it is necessary to verify the processes carried out by the entity, seeking that the statutory auditor guarantees that they comply with the legal and statutory provisions. The SFC may order at the expense of the ES and through a duly motivated administrative act, the hiring of external auditors in any of the following events: (i) when for technical reasons of the operation, a specialized analysis of a particular issue is required; and (ii) when situations arise that allow inferring risks or circumstances that may affect the public interest and undermine stability regarding a particular entity or the financial system. These faculties have been used in the case of entities with specific weaknesses and have been asked to review the business viability and restructuring of main activities. It has served as input for the supervisory measures adopted by the SFC.

EC12	The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.
Description and findings re EC12	The supervision process is organized through an information flow that begins with the information submitted by the entities and published by third parties and ends with the construction and monitoring of the entities' risk profile. Within the supervision process, systems and technological tools for information processing are considered. The SFC's information systems allows supervisors to consult the documentation that supports the risk profile of the entity in accordance with its level of supervision, as well as observe the risk matrix that reflects through rating scales the control functions and elements: capital, profitability, and liquidity that require follow-up actions. All formal communications sent and received by ES are recorded. Data governance in the SFC is managed by the Analytics Division, an area under the DIID, which works in coordination with the analytical cells, the Digital Supervisory Center, and the IT Division. These cells are specific groups created at the level of the senior Deputy Superintendents and are responsible for receiving and transforming information into reports according to the standard needs established by the NS. This scheme has allowed to strengthen the supervisors' information analysis process, and to eliminate the operational processing burden.
Additional criteria	
AC1	The supervisor has a framework for periodic independent review, for example by an internal audit function or third-party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use and makes changes as appropriate.
Description and findings re AC1	The supervision processes have several audit processes seeking to ensure compliance with the established goals and objectives of the SFC. The SFC´s internal control unit verifies, through samples, that the documentation that supports the risk profile of the entities is developed in accordance with the provisions of the processes and procedures established by the MIS. The findings are communicated to the supervision process leader to propose corrective actions. External and Internal audits are also in place to verify and determine the ability of the SFC's management system (SGI) to ensure that the organization meets applicable legal, regulatory, and contractual requirements. This applies to the strategic, missional, support and control processes defined in the SFC's process map. At the level of the Senior Deputy Superintendents, a group was created specifically to resolve the NS's questions about supervisory methodologies. This group also evaluates the follow-up actions performed by the supervisors on the findings established in the inspection activities and presented in the corresponding deliberative instances.

	During 2016, at the request of the Financial Superintendent, the Toronto Center conducted an evaluation of the MIS, whose findings led to improvements in the supervision processes, mainly in relation to a better definition of roles and responsibilities. The Supervisory Methodologies division performs the quality review process, which aims to review the application of the MIS methodology and identify the adjustment elements and best practices that allow its continuous improvement and optimization. The last quality review process developed by this unit was in November 2019 when two control functions (Internal Audit and Risk Management) and some MIS documentation (Business Knowledge and Risk Assessment Summary) were evaluated for five of the most important banks in Colombia, findings which were input for improvements in the supervision process. To check if the supervision procedures are adequate, mainly in crisis situations, drills are regularly carried out. Among the committees where the use of this mechanism is further promoted to prove the applicability of the processes, are the FSN and the CCSBSO.
Assessment of Principle 9	**Compliant**
Comments	The SFC has an adequate array of tools and defined processes to support the supervisory process. Products and inputs were made available to assessors.
Principle 10	**Supervisory reporting**. The supervisor collects, reviews, and analyzes prudential reports and statistical returns[40] from banks on both a solo and a consolidated basis, and independently verifies these reports through either onsite examinations or use of external experts.
Essential criteria	
EC1	The supervisor has the power[41] to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography, and currency), asset quality, loan loss provisioning, related-party transactions, interest rate risk, and market risk.
Description and findings re EC1	SFC has the power to require banks to submit information, on both a solo and a consolidated basis, addressing their financial condition, performance, and risks, on demand and at regular intervals. SFC requires the disclosure of conflicts of interest policies by the financial holdings. It is also the responsibility of the financial holding to identify, permanently update and keep available to the SFC the information about its related parties, the current

[40] In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former is addressed by this Principle, and the latter are addressed in Principle 27.

[41] Please refer to Principle 2.

	exposures between them, as well as the information related to the operations carried out between the entities that conform the financial conglomerate. SFC has issued standards for regulatory reporting by issuing External Circulars with instructions. The most relevant reports are detailed as follows: • **Financial Statements:** IFRS standard (quarterly); CUIF (monthly and quarterly, on a solo and consolidated basis).[42] • **Capital Adequacy**: Before 2021: Report 110: Solvency information for adequate capital calculation (monthly and quarterly, on a solo and consolidated basis); and Report 301 "Declaration of Legal Control - Solvency Ratio" (monthly and quarterly, on a solo and consolidated basis). In 2021, those reports where replaced by Report 239 "Declaration of Legal Control - Solvency Ratio" (monthly and quarterly, on solo and consolidated basis). Web service of Capital adequacy of financial conglomerates, whose basis is given according to the HF selection (quarterly). • **Credit Risk:** Report 341 "Individual report by debtor - Active credit operations" (quarterly); Report 88 "Weekly report - active interest rates" (weekly); Report 453 "Distribution of the balance by product" (monthly); Report 454 "Amounts and number of credits approved or disbursed for vintage analysis" (weekly); Report 536 "Individual Report of Modified and Restructured Active Credit Operations" (monthly); among others (For further details regarding Credit risk information and its reports, please refer to the answer given in BCP 18). • **Market Risk:** Report 351 "Composition of the investment portfolio" (daily); Reports 468 to 472 "Valuation of derivative financial instruments" (daily). • **Liquidity Risk**: Report 458 "Contractual cashflows and standard measurement of liquidity risk" (weekly); Report 473 "Interest rate structure of balance sheet" (weekly); Reports 401 and 402 "Information related to temporary liquidity supports (ATL) (occasionally)"; among others (For further details regarding liquidity risk information and its reports, please refer to the answer given in BCP 24). • **Operational Risk:** Report 444 "Transactions through distribution channels" • **Economic Group and Related Parties:** Report 261 "Intergroup Consolidated Reciprocal Operations" (quarterly); Report 406 "Report of related parties to the Financial Conglomerate and Operations for the control of aggregate exposure limits" (quarterly); Report 403 "Report on exposure limits and risk concentration between entities of the financial conglomerate and their related parties" (quarterly). Additionally, on a quarterly basis, financial conglomerates report on their foreign subsidiaries, detailing financial information (main accounts of the financial

[42] The SFC has reports of different periodicities and topics that complement the information of the CUIF and the taxonomies. Complete information on the formats reported to this Superintendency is available to the public at this link.

	statements and balance sheet), risk management indicators and credit portfolio. In the same vein, the SFC requires the quarterly IFRS9 portfolio report, which contains information regarding exposures and provisions by portfolio, stage, number of days in arrears and economic sector. This report includes information for the Colombian Main Office and its subsidiaries.
EC2	The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.
Description and findings re EC2	The SFC provides reporting instructions that clearly describe the accounting standards to be used in the supervisory reports. SFC is entitled to issue general instructions in accounting matters, which shall be complied with by supervised institutions. In 2015 all credit institutions adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), established in Colombia by the General Accounting Office of the Nation. The SFC issued special technical standards, interpretations and guidelines on accounting and financial information and information assurance. The convergence toward IFRS standards required important changes to financial and nonfinancial institutions and to the SFC. Specifically, the SFC implemented modifications to its supervision processes, methodologies, instructions for requesting information, schemes for collecting information and information systems. The SFC also assisted banks and financial institutions in understanding migration toward IFRS standards.
EC3	The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximizes the use of relevant and reliable inputs and is consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.
Description and findings re EC3	The SFC has explicit powers to establish valuation criteria. In terms of accounting standards, consolidated statements of financial institutions must comply with IFRS valuation and accounting requirements, which include valuation of investment portfolios at Fair Value. For this purpose, financial institutions are required to obtain Fair Value from an independent price vendor (price vendors under local regulations are supervised by the SFC and have their valuation methodologies of different financial instruments negotiated in the Colombian market); when considered, financial institutions may challenge methodologies from price vendors. Financial institutions shall valuate, register, and disclose derivatives at fair value, including the impact of credit risk. As per

	individual financial statements, the aforementioned valuation principles are consistent at the Fair Value of IFRS 13. In the same vein, Fair Value measurement is systematically applied in banks for risk management and reporting purposes. In this regard, the classification of investments shall be made in accordance with the business model of each entity, complying with instructions comparable to those set forth in IFRS 9 and 13. The CBCF complements those valuation rules with instructions on risk management. In the case of investments with related parties (subsidiaries or affiliates), local regulations establish that they must be reported under the equity participation method (in compliance with instructions of Law 222). Pursuant to current instructions and IFRS requirements, financial institutions shall account the goodwill of these investments in accordance with the requirements of IFRS 3 and carry out an annual independent assessment (goodwill impairment test) to ensure its existence. Provided that the equity participation method includes within the value of the investment both the cost and the goodwill, the SFC requests financial institutions to carry an independent control of this item in order to guarantee its supervision as well as its quantification for purposes of regulatory deductions in the determination of Common Equity. Applying international accounting practices, the SFC requires entities to have valuation methodologies periodically tested and calibrated. More specifically, on in-situ process, the Credit Risk Unit verifies that supervised entities periodically calibrate their loan portfolio models. With the same purpose, the Securities Intermediaries Unit visits price vendors to supervise their valuation models; if the SFC deems the valuation methodology not appropriate, it can object it and the price vendor must modify it. Moreover, in the valuation framework, the control procedures are subject to validation and verification by the internal auditor. Among its functions, they must review the procedures adopted by the administration to ensure compliance with legal and regulatory requirements, internal codes and the implementation of policies and procedures, including the valuation framework and its control procedures. Moreover, notes to financial statements must have the opinion of the Statutory Auditor on the level of Fair Value and methodology used to estimate it. Lastly, the SFC determines whether the valuation used is reliable and prudent, otherwise it requires the bank to adjust its prudential reports.
EC4	The supervisor collects and analyzes information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank.
Description and findings re EC4	The SFC collects information on a daily, weekly, monthly, quarterly, and yearly basis depending on the nature of information and it is mostly homogeneous for all banks individually. Nevertheless, sub-consolidated entities' information is requested for consolidated information, to which the corresponding legal controls are applied. In addition, the SFC also requests information from financial conglomerates considering the size and complexity of the group, as follows:

	• Information regarding related parties and exposure limits as requested in Decree 1486 of 2018. • Financial groups with cross-border subordinates submit financial information on a quarterly basis. • Adequate capital information is submitted by the FHC on a quarterly basis and the SFC accesses this information through a web-type server. The information to be consulted by the general public can be found on the SFC website.[43] • The stress-testing and the CFEN requirements depend on the size and relevance of the entity. Entities are classified into groups, and each group has its own level of complexity. As a result, the SFC exercises its functions and powers, giving special relevance and attention to those events that, due to their nature, materiality, or circumstantial characteristics, may generate systemic risk to the financial system or seriously affect public confidence in the financial system. Ad-hoc requests vary and are usually more frequent for banks under enhanced monitoring. For example, when a risk issue is identified in an entity, additional reports are requested from it, which are more frequent than the information that is requested by rule (these can even be requested daily) and must be certified by legal representatives, and in some cases by the Statutory Auditor. On the other hand, the SFC's Risk Units require specific information to monitor and follow up potential risks in individual and consolidated banks and the whole system. Some examples of this additional information are: • Financial statement projections using different micro- and macroeconomic information. • Risk rating agency reports. • Special internal reports produced by each risk Office. • Additional information required to the supervised entities. • Daily information from Reuters. • Information from Bloomberg, among others • Complaint reports. • Statutory Auditor reports, among others.
EC5	In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data).

43 For further details related to the web-type server and its specifications, please consult this link.

Description and findings re EC5	To make meaningful comparisons between banks and banking groups, as detailed in EC1, the SFC collects data on a periodic basis from all supervised entities, including information from financial conglomerates and their related parties. Precisely, due to its powers, the SFC has issued special accounting rules with the purpose of ensuring that ES maintain records in accordance with international accounting standards[44] and publishes that information on a regular basis. For supervisory purposes and to allow comparisons between groups, the information required from financial conglomerates, submitted by financial holdings includes: • The base used to calculate the conglomerate's total and adequate capital and the related justification, which varies between CFs. • The levels of capital of financial conglomerates by means of a detailed quarterly report that is made available by each financial holding. • The list of entities of the financial conglomerate that are not subject the total capital and minimum levels of total capital required under current Colombian regulation. • The components needed to calculate total capital and the related information of the exposure limits and risk concentrations between the institutions of the financial conglomerate and between these and their related institutions. Foreign subsidiaries' information (quarterly basis) sent by the HF is detailed financial information (main accounts of the financial statements and balance sheet), risk management indicators and credit portfolio that also allows comparisons of the subordinates' performance by jurisdiction.
EC6	The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information.
Description and findings re EC6	The SFC has powers to request and receive any relevant information from banks and banking groups, irrespective of their activities, where it is believed that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. EOSF entitles the SFC to request information from banks and banking groups, with varying periodicity (individual, consolidated and conglomerates basis) and details, if needed. In this regard, the SFC may request books, accounts, records, reports, documents, and any other information related with the financial situation, the internal management of the entity, potential conflicts of interest, operations with related parties, cross-border subordinates, or investments performance, among

[44] For further details regarding the adoption of international accounting standards, please refer to the answer given in BCP 27.

	others. In general, the SFC may request information, by whatever means it deems necessary, related with any other aspect which should be clarified for supervisory purposes. The information submitted by the entities is verified during onsite and offsite visits, following the procedure defined by MIS. In December 2020, the SFC updated the MoU with the Colombian Superintendency of Companies, authority in charge of the oversight of companies that do not carry out financial activities. The Colombian Superintendency of Companies carries out supervision on over one million companies. The aim of this MoU is to reinforce the oversight capacity regarding nonfinancial affiliates of financial institutions. More specifically, the purpose of the agreement is to join efforts between both authorities, so that actions are taken and cooperation spaces are generated to achieve efficiencies in the exercise of the supervision of the financial sector, the Financial Conglomerates and the commercial companies that are part of them, as well as in the prevention, detection, and sanction of activities of illegal appropriation of resources from the public and conduct of Transnational Bribery, under the constitutional, legal, and regulatory functions assigned to each one of them.
EC7	The supervisor has the power to access[45] all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.
Description and findings re EC7	The SFC has the power to access all bank records and the entities' Board, management, and staff, for the furtherance of supervisory work. Financial books or any other document can be examined, if requested, by the SFC. Moreover, ES, its managers, Board of Directors and Statutory Auditor have a legal obligation to abstain from obstructing the supervision of the SFC. To this end, the SFC can carry out disciplinary actions due to reluctance to provide information. In addition, Article 326 (EOSF) entitles the SFC to perform onsite examinations and obtain the necessary information from persons and/or companies for the furtherance of supervisory work. These faculties enable the SFC to have full access to information of all supervised entities, including access to the entity's Board, management, and staff. Finally, the SFC has access to information of foreign subordinates of financial conglomerates. The SFC has powers to access the information through i) specific information requirements to the financial holding and ii) has signed several MoU's with financial supervisors of jurisdictions in which Colombian conglomerates carry out financial activities.
EC8	The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines that the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.

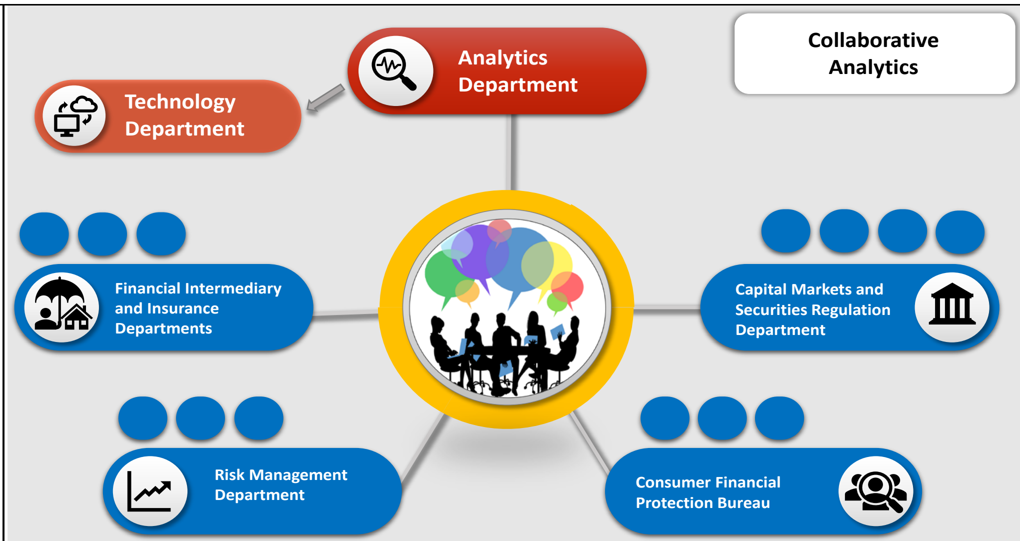
[45] Please refer to Principle 1, Essential Criterion 5.

Description and findings re EC8	The SFC has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. EOSF provides that directors of financial institutions shall refrain from not complying or delaying with instructions provided by the SFC. Moreover, the EOSF provides that directors shall comply with the duties set forth in financial regulation and shall provide accurate information to the SFC, when requested. Not complying with this duty is subject to sanctions from the SFC, pursuant to Article 208 (EOSF). In general, reports from financial institutions comply with the requested structure and period set by the SFC. It is important to note that recurrent information requests are set as annexes to the CBCF and the CBJ, thus, not complying with the structure and the periods set therein is deemed a breach of financial regulation. When an inconsistency is noted, the SFC requests financial institutions to amend the information.
EC9	The supervisor utilizes policies and procedures to determine the validity and integrity of supervisory information. This includes a program for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts.[46]
Description and findings re EC9	The work is performed by the Analytics Divisions and the NS, together with software validations and onsite examinations to complement and determine the validity and integrity of supervisory information. The analytics divisions are the result of a new collaborative analytical space, which consists in the joint work between the collaborative analytical committee and four "analytical cells." These analytical cells consist of dedicated work teams within the offices of the three Senior Deputy Superintendents and the office of the Deputy Superintendent for Financial Consumers. The aim of this scheme is to create cross-sectional data analytics products designed both to monitor and detect general data inconsistencies and to help the individual duties of each analytical cell, which are responsible for creating their own analytical products while assuring compliance with the SFC data governance guidelines.
EC10	The supervisor clearly defines and documents the roles and responsibilities of external experts,[47] including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilized for routine validation or to examine specific aspects of banks' operations.

[46] Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

[47] Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

Description and findings re EC10	In some situations, the SFC requires the Statutory Auditor to prepare additional reports by virtue of the power contained in Article 207 Commercial Code regarding collaboration with supervision authorities. Law 1328 enables the SFC to require banks to contract external experts, and the SFC evaluates the independency and suitability of those experts. As a result, in some specific situations such as merger or transfer processes, evaluation of data systems, or human resources procedures, the SFC has asked external experts for technical evaluations.
EC11	The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.
Description and findings re EC11	The SFC requires that external experts promptly bring to its attention promptly any material shortcomings identified during any work undertaken by them. It is mandatory that the Statutory Auditor present before the SFC the irregularities presented in the development of their work, rendering of reports at SFC request or, submit reports that the SA deems necessary as a result of their work. External experts have been used as a consulting team in some specific opportunities, such as the offsite procedures defined to establish the compliance level of capital requirements in 2017.
EC12	The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.
Description and findings re EC12	The SFC has a process to periodically review whether the information it receives from banks and, in general, from supervised entities, satisfies supervisory needs. A strategy aimed at generating knowledge through the advancement of data analysis by using innovative technologies based on open data, digitalization, and a focus on both internal and external users has been implemented. This strategy includes an innovative collaborative scheme which periodically analyzes if the information received from supervised entities meets the needs for effective supervision. For example, in 2017, a major template review took place, and EC 01 (2017) derogated more than 40 mandatory templates to refine the information. This process is performed by the Analytics Division, office whose responsibilities include: (i) Design the strategic guidelines regarding standards and best practices in data analytics and governance for the SFC, in coordination with the corresponding divisions; (ii) Design the data governance policies of the Superintendency; and (iii) The formulation of structural controls to validate the consistency and homogeneity of the information of ES, received or captured by the SFC. The following chart summarizes the interaction of the workgroups that make up the collaborative analytical space:

	
Assessment re Principle 10	**Compliant**
Comments	Regulatory reports are broad in coverage and SFC has authority to request additional information if needed. Assessors were provided examples of reports and onsite activities to verify and confirm data provided. The SFC also works closely with internal audit to sample and verify reports.
Principle 11	**Corrective and sanctioning powers of supervisors**. The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.
Essential criteria	
EC1	The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.
Description and findings re EC1	The SFC raises supervisory concerns with the bank's management at an early stage and requires that these concerns be addressed in a timely manner. • **Detection of problematic or risk situations:** The SFC communicates to the ES/CF administration the problems detected or situations that might compromise the stability, or put the institution at risk, and requires timely correction. As a result of the supervision process or the identification of emerging risk derived from the analysis of the context/industry and the changes in the specific conditions of ES/CF, the SFC immediately

	communicates the problems and/or situation detected to Senior Management and/or the Board of Directors. Likewise, the SFC issues communications with the results of the ES/CF's supervision, requiring the adoption of the working plans and/or the corrective measures through their administrators, Boards of directors and/or managers, as well as adopt the adjustments process and/or mitigate the risks that were identified by the SFC. Additionally, the SFC issues administrative orders to suspend the illegal practices that are unsafe or unauthorized; rectify the non-compliance with regulations or the situations that generate risk according to the supervision analysis; and apply appropriate corrective measures. • **Notification to the ES/CF:** The SFC communicates, in writing, significant issues through bank legal counsel who must then read the communication at a Board of Directors Meeting. The SFC requires a Board resolution addressing the SFC requirements and a plan to effect corrective measures. Compliance is monitored by the SFC. When issues requiring correction are not major, the SFC communicates with ES/CF managers or to a director, as appropriate. Depending on the gravity of matters requiring management attention, the communication may be from Deputy Superintendent after being reviewed by the Senior Deputy Superintendent of the Superintendent as appropriate. • **Tracking and verification of corrective action:** The SFC monitors correction through periodical reports from senior management and/or the Board Directors, or certification from Statutory Auditor. The supervisory plan will include validating the effectiveness of the actions taking by the bank. In the event of any non-compliance, the SFC might, following the guidelines envisaged in Articles 209, 210 and 211 (EOSF) advance institutional or individual sanctioning processes against their administrators, directors and/or officials and the Statutory Auditor, taking into account the scope of their roles and responsibilities.
EC2	The supervisor has available[48] an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.
Description and findings re EC2	The SFC has a range of supervisory tools available for use when a bank is not complying with laws, regulations or supervisory actions: • **Legal framework:** SFC has enforcement authority to implement preventive and corrective action when the ES/CF is non-compliant with regulations or instructions given by the SFC. The authority and supervisory tools are prescribed in EOSF, Article 326 and Article 113.

[48] Please refer to Principle 1.

	• **Supervisory Tools:** The enforcement action framework provides the SFC with broad authority and a range of supervisory tools to address unsafe and unsound banking practices. For example: i) Issue cease-and-and desist orders to suspend illegal, unauthorized and unsafe activities of the ES and to adopt the corrective measures. ii) Impose sanctions to those companies or persons that act on behalf of the ES. iii) Impose special supervision to closely monitor the ES. iv) Taking possession measures when to avoid dissipation of assets and normalize operations. v) Order to suspend any unfair competition situation among ES. vi) Employ full range of supervisory powers: onsite inspections, conduct investigations and require information from individuals, institutions or nonfinancial entities, and perform inspections when there is evidence of irregular exercise of financial activity, including in subsidiaries and other companies that might expose the ES even if those are not under the SFC scope of supervision. vii) Require increased provisions and recapitalization, even on a consolidated basis (FH/CF). viii) Impose measures, sanctions, even remove the ES directors, legal auditors, or employees, due to the violations of the law or any other mandatory regulation, or non-compliance with orders and instructions issued by the SFC. Application of the above-mentioned supervisory tools (prudential supervisory, corrective and sanctioning measures) are delegated to the Deputy Superintendent. However, depending on the risk situation, the Financial Superintendent may be the approving official. For instance, when the issues requiring attention must be addressed by the ES/CF managers or directors, the Deputy Superintendent may initiate a supervisory measure requiring, for instance, an improvement in risk management practices, or the implementation of action plans. If the matter requiring attention may impact the ES/CF financial viability, the Financial Superintendent would approve the Administrative Orders. • **Gradual and sequential application of supervisory measures from preventive to corrective**. ○ **Preventive supervisory measures:** SFC communicates matters requiring management attention through recommendations, instructions and orders that require the ES/CF to adopt, at an early stage, adjustments to correct weakness. The measures applied by the SFC are formulated considering the concentration risk level, complexity, systemic importance, risk exposure, and the overall risk profile of the bank.

	3.2 **Mid Measures before sanctioning regime**: Issue cease-and-desist orders to stop unsafe activities. Order may address unsafe related parties' operations, inadequate provisions, and in general, activities that inhibit transparency and the ability of the SFC to accurately determine the financial condition of the bank. SFC may also remove or suspend management, or statutory auditors, that are not observing their duties in compliance with corporate governance and regulation. 3.3 **Sanctioning powers:** Simultaneously and/or independently from other preventive/ corrective measures, the SFC can impose sanctions against the ES/CF, their administrators, statutory auditors, employees, and other related persons to their activity.
EC3	The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.
Description and findings re EC3	The SFC has the powers to take administrative action proactively to prevent a bank from breaching the requirements of minimum operating indicators, specifically against minimum capital, solvency and/or liquidity, loan provisions and even when the equity indicator required for is close to the minimum level (loss of equity) or when situations related to fraud or embezzlement, failures in the administration and/or resignation of members of the Board of directors of the ES/CF are identified. 1) **Credit risk:** SFC may require higher level of loan provisions, perform reclassifications and/or adjustments in the credit risk rating or suspend the use of internal portfolio rating models and use the SFC reference model, among others. This evaluation and follow-up are done through the supervisory process. However, when the ES/CF does not comply with these measures or remains non-compliant, the SFC will issue an Administrative Order to increase the level of provisions. 2) **Liquidity risk**. When not meeting regulatory requirements, the ES must submit an action plan to improve liquidity levels and include options such as reducing loans, increasing capitalization, selling assets, raising loan/deposit ratio. Based on risk, the SFC may impose different minimum limits of the IRL indicator. If the ES does not comply with these measures, the SFC may: prohibit cash market; portfolio placements, disbursements and leasing operations; making investments. 3) **Solvency**. To enhance solvency the SFC may impose operating restrictions and require submission of a capital plan addressing asset sales, reduction or elimination of new lending, issuing subordinated debt or convertible bonds. Additionally, the SFC may limit or prohibit the distribution of profits and increase loan loss provisions to cover possible losses. When the ES does not comply with these measures, or the SFC anticipates the ES will fall below the regulatory ratios, the ES must present an adjustment plan. The plan must have clear actions that permits the ES to solve this capital ratios weaknesses within

	12 months. If the ES does not comply with this plan, the SFC will issue an Administrative Order to raise the capital level. When an ES does not comply with an Administrative Order, the SFC will intervene (Taking possession measures).
EC4	The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.
Description and findings re EC4	The SFC can adopt the following measures: • **Measures adopted for prudential or preventive supervision**: As previously detailed, SFC may require action plans to correct weaknesses detected, enhance corporate governance, or suspend activities that put the stability of the ES/CF at risk, or entail a possible regulatory non-compliance. At the level of the Deputy Superintendent preventive measures and Mid Measures before implementing sanctions, include: o Recommendations/orders to correct weaknesses identified. For example, weaknesses in risk management, corporate governance, internal control system, AML/CFT risk management. o Mandating an increase in provisions. o Adopt the necessary measures to preserve capital, even above regulatory minimum and limiting dividends. • **Measures adopted in the area of corrective supervision (bank resolution):** The Financial Superintendent, after discussion with the Advisory Council of the SFC approves the resolution action plans. The ES may appeal for reversal to the Financial Superintendent, but its filing does not suspend the execution of the act, as it is of immediate application. The SFC may require the following in the recovery process: • Recapitalization. • Confirm capital valuation. • Mandatory placement of shares without subject to the right of first refusal. • Forced sale, assignment, or any other disposition of assets, whether earning or nonearning.

	• Portfolio write-downs. • Increase loan provisions. • Prohibition of profit distribution. • Creation of temporary administration mechanisms with or without legal status. • Adoption of specific programs to improve asset recovery. • Adjust liability mix. • Adjust credit activity, or of the operational or administrative structure. • Removal of administrators, and • In general, any other measure aimed at producing institutional changes to prevent future financial deterioration and improve the efficiency and effectiveness of the management of the respective credit establishment. Likewise, in the field of bank resolution, the SFC may also adopt the following resolution mechanisms: Takeover measures (bank resolution): If the recovery actions fail, the SFC may undertake a takeover intervening directly in its activities. Once an institution has triggered any of the clauses included in Article 114 (EOSF) the SFC must take immediate possession of its assets and business, after receiving the opinion of the Advisory Council of the SFC. The causes for taking possession include: suspension of payments, refusal to open its books and other documents, failing to comply with the SFC instructions and orders, persisting in conducting business in an unlawful or an unsafe manner, capital is below 50 percent of the issued capital, capital is below the minimum capital established in the law, solvency ratio is below 40 percent of the required minimum, severe inconsistencies are detected in the information submitted to the SFC or when it fails to comply with the recovery plan or the exclusion of assets and liabilities or the progressive deleveraging ordered by the SFC. The purpose of the takeover is to determine whether the ES must be liquidated or whether it is possible to place it in a condition of operability again. The SFC has two months to decide in this regard, which does not prevent it from ordering the immediate liquidation if the circumstances arise. The following measures can be used to expedite resolution: (i) Purchase of assets and assumption of liabilities and Bridge bank; and (ii) Revocation of the authorization certificate of an ES that belongs to a Financial Conglomerate. The liquidation step is transferring the business and assets of the institution to FOGAFIN.
EC5	The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.
Description and findings re EC5	The SFC is empowered to impose sanctions on directors, statutory auditor or employees. The sanctions imposed will depend on the seriousness or materiality of the normative transgression, and whether it is recurring.

	The administrative sanctions that the SFC may impose are: (a) Warning or call for attention. (b) Fines in favor of the National Treasury, whose limit will depend on whether it is a personal sanction or institutional. (c) Suspension or disqualification for up to five (5) years. (d) Removal of administrators, directors, legal representatives, or Statutory Auditors. (e) Closure of representative offices of foreign financial and reinsurance institutions.
EC6	The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.
Description and findings re EC6	The SFC has the power to adopt any of the following measures: Deputy Superintendent will apply all the preventive measures when necessary, including ceasing unsafe activities with companies outside the SFC supervisory scope. Measures may also be aimed at isolating the bank's operation from its parent, subsidiaries, or parallel banking structures if determined that the operations may adversely impact the bank, the banking system. (a) Require the fiduciary administration of the assets and business by another authorized institution. (b) Require the partial or total transfer of the assets, liabilities or contracts or the sale of its commercial establishments to another institution. o Install temporary administration mechanisms. o SFC may adopt measures requiring that management and decision-making be carried out independently of its parent and/or related parties, seeking to preserve the solvency and/or security of the bank or the banking system. With the issuance of FCL authorization, supervision and sanctioning powers were strengthened to the SFC in the field of financial conglomerates, for which it was granted the same provisions mentioned above applicable to HF. This law empowered the SFC to require HF to change the structure of the CF when it does not allow adequate disclosure of information for comprehensive and consolidated supervision, or the identification of the beneficial owner and the entities that comprise it. Additionally, it allows the SFC to revoke the operating authorization of a supervised entity in Colombia that is part of the financial conglomerate whose controlling entity is in a different jurisdiction, when it is considered that the information provided does not allow the proper exercise of supervisory functions.
EC7	The supervisor cooperates and collaborates with relevant authorities in deciding when and how to affect the orderly resolution of a problem bank situation (which

	could include closure, or assisting in restructuring, or merger with a stronger institution).
Description and findings re EC7	The SFC is member of the inter-institutional coordination bodies and instruments for the preparation and management of financial crises in Colombia such as the CCSSF (i.e., Financial Safety Net) and the CIR. The main coordination body among the authorities of the Colombian financial sector is the CCSSF. The CCSSF function are to share information and to take measures in a coordinated and timely manner, among others (e.g., do financial crisis simulation exercises). CCSSF members adopted documents outlining preparedness efforts for crisis management: (a) Recovery and Resolution Manuals, prepared by the SFC and FOGAFIN. (b) Crisis Protocol, approved by the CCSSF. (c) Policy of Crisis Simulation Exercises, approved by the CCSSF. (d) Crisis External Communications Protocol, approved by the CCSSF.
Additional criteria	
AC1	Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.
Description and findings re AC1	The SFC has a risk matrix for all different process within the SFC. Among those is the corruption risk that has within its definition unduly delaying of appropriate corrective actions. Additionally, Law 734 establishes to the SFC officials, as public servants, a series of duties and prohibitions that must be observed in the exercise and compliance of their functions. In the same way, it contemplates a series of faults in which public servants can incur and the sanctions applicable to them.
AC2	When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of nonbank related financial entities of its actions and, where appropriate, coordinates its actions with them.
Description and findings re AC2	In Colombia, the SFC is the only supervisory authority of financial and insurances institutions, and of the stock market. To that extent, it does not require to sign memorandums of understanding with other financial superintendencies to inform or coordinates its actions. Notwithstanding, SFC has signed inter-administrative agreements with the following supervisors of nonbanking entities linked to a bank or banking group, in order to share information or supervision experiences: • Superintendency of Companies • Family Subsidy Superintendency • Superintendency of Ports and Transportation • Solidarity Economy Superintendency, an entity with which it has planned the possibility of carrying out joint actions for the fulfillment of its functions and the achievement of its strategic objectives.

	• Office of National Taxes and Customs (DIAN), the Ministry of Information Technology and Communications (MinTic), and the Financial Information and Analysis Unit (UIAF). At international level, Law 1328 empowers the SFC to establish mechanisms for exchanging information with supervisory entities of other countries (please refer to the answer given in BCP 3-EC3), being able to provide confidential information as long as the receiving agency commits to keep such characteristic of the information.
Assessment of Principle 11	**Compliant**
Comments	Broad range of enforcement tools and evidenced by frequent application by SFC.
Principle 12	**Consolidated supervision**. An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.[49]
Essential criteria	
EC1	The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including nonbanking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardize the safety and soundness of the bank and the banking system.
Description and findings re EC1	The SFC maintains information on holding companies, banks and banking groups and financial conglomerates, including the business lines engaged-in, both financial and nonfinancial, and ownership levels up to ultimate beneficial owner. EOSF, Article 325, sets requirement for SFC to supervise, on a consolidated basis, compliance with prudential regulation mechanisms, with emphasis on those related to foreign branches and subsidiaries. In practice, the SFC performs inspections on local and foreign institutions and their subsidiaries that belong to conglomerates. SFC collects, analyzes, and reviews financial and nonfinancial information on an individual and consolidated basis, including on intra-group exposures, related parties and their operations. In addition, aspects of corporate governance, risk management and internal control within the conglomerates are also verified. The FCL was enacted, where (i) the definitions of Financial Conglomerate and Financial Holding Company (HF) were established; (ii) additional powers of intervention were granted to the national government; and (iii) the powers of supervision and sanction were improved. In this vein, included within the SFC's supervisory perimeter was the HF (which exercises the first level of control of the conglomerate, even, when the HF does not carry out activities of the entities

[49] Please refer to footnote 19 under Principle 1.

	supervised by the SFC) and its direct financial affiliates. Lastly, this law empowers the SFC to require any information from the cross-border HF through the ES domiciled in Colombia. There are 13 financial conglomerates: seven domestic and six with cross-border HF. The SFC has authority to: (a) Regulate the appropriate level of capital that a financial conglomerate must maintain, based on the risks assumed by its subsidiaries. (b) Give instructions to the conglomerates regarding risk management standards to be implemented by subsidiaries. (c) Define the criteria to identify related parties to manage and disclose the conflicts of interest that could arise in the operations with related parties and to limit exposure and concentration of risks. In the same way, the FCL granted powers to the Superintendency to: (a) Give instructions to the HF on risk management, internal control, information disclosure and corporate governance that the branches and subsidiaries must follow. (b) Authorize direct or indirect capital investments that the HF intends to make in entities that perform financial activities. (c) Require the HF to change the structure of the conglomerate when the existing one does not allow for (a) adequate disclosure of information, (b) comprehensive and consolidated supervision or (c) identification of the ultimate beneficial owner and the entities that comprise it; and (d) Revoke the operating authorization of a supervised entity that is part of a financial conglomerate whose controlling entity is in a different jurisdiction, when the SFC considers that the information provided does not allow the proper exercise of its supervisory functions. As a result, with the powers given in the FCL in addition to those granted by previous regulations and based on the information collected, the SFC's NS have sufficient elements to define an integral and consolidated vision of the risk profile of the conglomerate, Since 2019 the SFC has been following compliance with the implementation stage of the secondary regulation derived from the FCL, including the MGR and exposure and risk concentration limits between intra-group entities and with their related parties, through activities such as meetings with the HF and information requirements. The SFC will have a final version of the risk profile of financial conglomerates by the end of 2021.
EC2	The supervisor imposes prudential standards and collects and analyzes financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, and lending limits and group structure.

Description and findings re EC2	The SFC imposes prudential standards and collects and analyzes financial and other information on a consolidated basis for the banking group, such as regulatory capital levels, liquidity exposures, maximum limits on lending and other active credit operations, and large exposures with related or connected parties. Based on the information reported, the SFC reviews its consistency, makes cross-checks, prepares reports, performs stress tests and generates early alerts on situations that may become a risk for the reporting entity or for the system in general. To this end, observations are sent requesting the necessary adjustments for their correction, or the measures that the supervised entity and its administration must adopt and implement to normalize and remedy the situation. The information submitted by the entity, in general, is signed by: (i) the Statutory Auditor; (ii) the accountant; and (iii) the legal representative of the supervised entity, as detailed in BCP 10. The SFC issued the general rules that all ES must abide by and, as it deems necessary, may request additional information to exercise its supervisory powers on an individual, consolidated basis or at the level of conglomerates. The SFC methodology for financial conglomerates focuses on contagion, concentration, and strategic risks as well as the supervision of three specific dimensions: financial analysis, risk management and corporate governance. The main objective of the methodology is to assess: • The level of risk exposure; • The level of compliance with regulation; and • The corporate governance, to determine the risk profile of the financial conglomerate. Since 2019, the NSs began constructing the entire risk profile of the financial conglomerate to understand how it is managed by the financial holding, which has allowed it to determine the supervision strategy and intensity required to mitigate the risks involved. Lastly, it is important to note that based on the information required by the SFC as a result of the new powers in matters of consolidated supervision, the knowledge of (i) intragroup operations; and (ii) related or connected parties linked to financial conglomerates, increased, contributing to a broader vision of eventual risks that may originate in the entities that comprise the conglomerates.
EC3	The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into

	account the effectiveness of supervision conducted in the host countries in which its banks have material operations.
Description and findings re EC3	The SFC has adopted a variety of instruments to review whether the banking group is issuing adequate risk management and corporate governance guidelines in its foreign operations. These instruments include: • **The colleges of supervisors of consolidated entities:** The SFC has held 22 supervisory colleges in the last 8 years. The working meetings in the colleges of supervisors allow the SFC to determine whether the HF guidelines are being adopted by foreign branches and subsidiaries in an appropriate manner. On subsequent colleges, meetings are targeted to specific risks to aid in formulating supervisory plans. • **Meetings with senior management and the Board of directors**: When necessary, the SFC asks for meetings with the senior management of the subsidiaries and cross-border risk units if potential risks have been identified. As a result, there could be implemented supervisory decisions pertaining to foreign branches and subsidiaries, which are coordinated and implemented by host-supervisors. • **Specific requirements based on the identification of jurisdictions' vulnerabilities:** There have been some specific situations that have led the SFC to inquire about vulnerabilities in different jurisdictions. For example, recently Nicaragua faced a complex political situation, so an entity was requested to hold a meeting to inform SFC of the situation, including impact on branch or subsidiary, actions taken by parent and the supervisors, and the follow-up measures being implemented. • **Regular meetings of the Central American Monetary Council, the CCSBSO, and its committees:** The SFC, is a member of the Central American Monetary Council and the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO), and participates in monthly meetings and working groups. Topics discussed focus on consolidated and cross-border supervision, mutual assistance and information exchange, preservation and strengthening of regional financial stability. • **Training sessions for host supervisors:** The SFC has held more than 49 training sessions for host supervisors in Central and South America, on topics such as stress tests, risk management, and implementation of the conglomerates law. This has allowed the SFC to become a benchmark for supervisors where branches and subordinates are located and to share best practices.
EC4	The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct onsite examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.

Description and findings re EC4	The annual supervision plan is detailed, and the frequency of onsite visits is determined by the risk profile and the systemic importance of the foreign operation, or when there is evidence developing problems or to obtain comprehensive knowledge of the financial situation, business management or special aspects that are required. In the last five years, the SFC has carried out cross-border inspection visits to various branches and subordinates of Colombian financial groups. Examples include those made to Banco BAC International Bank in Panama; BAC San José Bank of Costa Rica; Banco de Bogotá in Panama; Banco de América Central in Nicaragua, all with the general purpose of evaluating risk management, including anti-money laundering and operative risk, and strategic planning, focused on policies and guidelines given by the matrix.
EC5	The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group and takes appropriate supervisory action.
Description and findings re EC5	The SFC has supervisory authority over banking, insurance, and securities. The FCL grants the SFC supervisory responsibilities over financial holding companies and financial conglomerates. The legal framework combined with the SFC supervisory practices provides a detailed assessment of risks and the authority to apply enforcement action as warranted.
EC6	The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that: (a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed; (b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or (c) the exercise of effective supervision on a consolidated basis is hindered.
Description and findings re EC6	The FCL empowers the SFC to request changes in the structure of the CF if it does not allow for: (i) the adequate disclosure of information; (ii) comprehensive and consolidated supervision; or (iii) the identification of the final beneficiary and the entities that comprise the CF. In addition, in accordance with Article 7, if a financial conglomerate with cross-border HF does not meet the SFC equivalence of prudential regulation and consolidated supervision, the SFC may request the necessary information from the supervised entity in Colombia to exercise consolidated supervision over it. If the information is not delivered or is unsatisfactory for the SFC, it may revoke the financial institution's authorization to operate in the country. Any capital investment in local or foreign financial institution is subject to prior authorization from the SFC. Additionally, if through supervision the SFC determines that the bank is carrying-out activities that might expose it to excessive

	risk (by itself or through one of its branches or subsidiaries) it may order the suspension of such activities or the corresponding provisions or both.
EC7	In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group.[50]
Description and findings re EC7	As detailed in operating guidelines, the NS must evaluate the financial conglomerate at its three levels of supervision: individual, consolidated and conglomerate. In each layer, the risk profile is evaluated independently, and the corresponding supervision strategies are established to mitigate the identified risks. The integral evaluation of these three supervision layers allows the supervisor to have an in-depth understanding of the existing relationship between the entities that comprise the financial conglomerate.
Additional criteria	
AC1	For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit-and-proper standards for owners and senior management of parent companies.
Description and findings re AC1	As detailed in CP 4 and CP 5, understanding corporate ownership of ES/CF, is included in the SFC's authorization process. The SFC establishes fit-and-proper standards for owners and Senior Management of all proposed ownership structures, even if those are corporate owners, throughout the authorization process, as established.
Assessment of Principle 12	**Compliant**
Comments	SFC under the Financial Conglomerates Law has supervision powers over the consolidated entity and individual subsidiaries and affiliates. The supervisory process focuses on understanding the consolidated entity.
Principle 13	**Home-host relationships**. Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.
Essential criteria	
EC1	The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.

[50] Please refer to Principle 16, Additional Criterion 2.

Description and findings re EC1	The SFC has hosted 22 supervisory colleges for ES that belong to local Financial Conglomerates, and recently have been defined as Systemically Important Financial Institutions by this SFC. The colleges facilitate information exchange, cooperation between supervisors, and the development of an effective cross-border consolidated supervision approach. During 2021 the SFC conducted the first supervisory colleges for Financial Conglomerates in which the Holdings of the CFs (Grupo Aval Acciones y Valores S.A., Grupo Bolivar S.A., and Grupo de Inversiones Suramericana S.A., and Grupo Bancolombia S.A) will/have participated. Additionally, derived from the discussion with the supervisors during the college's work sessions, the SFC requests work plans from parent companies and the NS monitors the supervisory measures adopted in each jurisdiction through working committees with the host supervisors. In supervisory colleges where the SFC acts as host supervisor, specifically in Santander, BBVA, Itaú and Scotia Bank, the SFC has contributed to a more comprehensive perspective of the foreign banks that operate in Colombia and has used such information for supervisory and planning purposes. In this context, the SFC has been able to assess the parent company's willingness and capacity to support its subsidiary located in Colombia, in aspects such as liquidity and capital, among others. Likewise, relevant information has been obtained on strategic projects (e.g., information systems, risk management) defined by the parent company to be applied by its entities. All this information allows the SFC to prioritize supervisory activities and hand out an accurate Colombian subordinate risk profile to the home supervisor. Lastly, the conclusions of these supervisory colleges, as well as the findings, recommendations and opportunities for improvement identified, are incorporated into the SFC's supervisory process. In particular, the information allows the updating of the business knowledge template by including the strategies that the parent company has for the subsidiary in Colombia. Likewise, based on the supervisory aspects agreed in the Colleges, the supervision plan is adjusted to allow the SFC to continue monitoring the entity's financial condition and its risk profile.
EC2	Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group[51] and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information.

[51] See Illustrative example of information exchange in colleges of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

Description and findings re EC2	The SFC has signed MOUs for the exchange of information, cooperation and coordination between foreign supervisors and among authorities belonging to multilateral organisms. Regarding supervisory activities over ES and cross-border establishments[52], these MOUs enable its signatories to provide relevant information that may be required within their supervisory processes, as well as, to exchange confidential information and conduct onsite inspections on a cross-border establishment or an entity that belongs to a conglomerate. In addition, in July 2014 the CCSBSO signed an MOU with the Central American Monetary Council (CMCA) for the preservation and strengthening of regional financial stability, which applies to the SFC as a member of the CCSBSO. Host and home supervisors participate in onsite inspections following the jurisdiction regulation where it will take place. The purpose of the inspections is to understand the risk management, corporate governance, and strategic planning of the subsidiary to aid in consolidated supervision. Thus, exchanged information with the host supervisor, allows the SFC to promptly take preventive or corrective measures to grant financial health and stability of cross-border subordinates and CF. The SFC has promoted and has participated in more than 49 in international internships, which constitute an additional tool to share information and relevant practical experiences for its supervisory duties. As consequence of those cooperation and information exchange compromises, the SFC officials have received training in key topics to develop and strengthen knowledge related to the financial system. Main issues discussed within host supervisors are related to the following: • Development and issuance of prudential regulation and best supervision practices, • Structure of corporate governance, risk profile of the CF[53], and jurisdictions' current regulation, • Regulation on consolidated supervision basis by jurisdiction, consolidated financial reports, and regulatory controls or limits. • Onsite supervision visits' results are shared with the host supervisor, so they can adopt preventive or corrective measures when deemed appropriate.
EC3	Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order

[52] Understood as institution supervised by the host supervisor, having one or more of the following characteristics: (i) being an affiliate or subordinate of an institution supervised by the home supervisor; (ii) being the branch, agency, or representative office of an institution supervised by the home supervisor or having signed a sales contract, to lend, perform or promote their products and/or services in the country of the host supervisor; (iii) any institution that is subject to the supervision by any of the parties of an MoU by virtue of the direct or indirect investment of an ES located in the home supervisor's jurisdiction; or (iv) any other for which a consolidated, comprehensive and cross-border supervision by the home supervisor is needed.

[53] For further details, please refer to the answer given in BCP12.

	to improve the effectiveness and efficiency of supervision of cross-border banking groups.
Description and findings re EC3	As home supervisor, the SFC includes in its Annual Planning the Emerging Risks of the foreign jurisdictions and schedules onsite and offsite supervision processes, if necessary. Cross-border inspections are coordinated with the host supervisor. Once the activity plan has been defined, particularly that related to foreign subsidiaries, it is brought before the Liaison Committee of the CCSBSO. Normally, the visit plan is shared in order to coordinate the supervision exercise. The inspection process begins with an official communication to the host supervisor, to address suggested dates, objectives and work plan for the inspection. To formally launch the onsite inspection process, there is a preliminary meeting with the host supervisors in which general information concerning the objective of the inspection is shared. In all cases, the inspection is performed with the assistance of the host supervisor, due to legal restrictions on full information disclosure. Once the onsite inspection process ends, there is a final meeting to inform the preliminary results of the inspection. In that meeting, it is assured that a copy of the inspection report, which contains the SFC's recommendations that will be shared with the entity through its financial holding and a copy of the report will be sent to the host supervisor. The SFC, as host supervisor, through the signed MOUs, assists the home supervisor to plan joint inspections and the SFC will assist in those activities. These include meetings to share perspectives about supervision, regulatory framework and consolidated supervision.
EC4	The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.
Description and findings re EC4	The SFC has signed MOUs establishing various mechanisms with other supervisory authorities to maintain ongoing communication facilitating addressing issues related to ES, cross-border establishments, and CF. The SFC's communication strategies include attending/hosting supervisory colleges, conference calls, virtual and in-person meetings with multilateral organizations, participation within the CCSBSO, and the onsite and offsite supervision processes carried out in cross-border subsidiaries of systemic banks in Colombia. Additionally, through letters or conference calls, home and host supervisors share topics of special interest in supervision as a result of particular risk situations for the conglomerates, including host supervisors from countries that do not belong to the CCSBSO.
EC5	Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the

	relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.
Description and findings re EC5	Notwithstanding the functions attributed to each of the member entities of the CCSSF, the coordination within this body has resulted in the preparation of documents and procedural guides and for the coordination of: • The Recovery and Resolution Manuals prepared by the SFC and FOGAFIN. • The Crisis Protocol approved by the CCSSF. • The Drills Policy approved by the CCSSF. • The "External Communications Protocol in Times of Crisis" approved by the CCSSF. Complementing the above, MOUs signed by the SFC with foreign supervisors, describe procedures for crisis management events. The CCSBSO established a joint committee to coordinate and manage a potential crisis, specifically, in those cases involving a financial conglomerate's subsidiaries located in Central America or Colombia. The committee issued a "Communication Protocol for Crisis Management and Entity Resolution in Problems of the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions," approved by the general assembly of the CCSBSO in 2019. This protocol guides the authorities' performance to communicate with each other before the materialization of an event in the region that could lead to situations that affect the stability of one or several entities, or the financial system. Its activation procedure includes contact points, minimum required information, possible local and regional repercussions, a communication strategy to the public, among others. Specifically, the objectives of the protocol are: 1. Operationalize what is established in the Guidelines for the "*Treatment and Evaluation of Clusters and Weak Financial Groups,"* of the Multilateral Memorandum of Information Exchange and Mutual Cooperation for Consolidated and Cross-Border Supervision among CCSBSO members (MOU 2016). Especially when in any of the countries from the region, the following are adopted: (i) Intensive Supervision Measures/Corrective Measures; or (ii) Administrative Acts of Intervention or Banking Resolution Mechanisms on intermediaries that integrate regional conglomerates or financial groups. 2. Establish for cooperation, communication and information exchange mechanisms, which will be activated when an extraordinary event occurs in any of the countries of the region that merits the activation of the protocol for crisis management and resolution." Particularly, the protocol's Principle 7 gives further detail for crisis preparedness stating that supervisory colleges and crisis management structures are different

	but complementary. The work of financial group supervisors should serve as one of the pillars for crisis management planning. To understand this principle, reference should be made to the establishment of crisis management groups in recent years, which are responsible for dealing with issues related to recovery and resolution plans in critical entities and other systemically important banks. Lastly, the CCSBSO's MOU has allowed the signatory authorities to permanently share relevant facts of interest for the region' stability, and allow decisions regarding preventive supervision measures, authority interventions, and reputational threats.
EC6	Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.
Description and findings re EC6	The SFC works with other Colombian national resolution authorities and relevant host authorities regarding resolution plans. Resolution Plans require that selected entities present an individual resolution plan which must take into account the foreign subsidiaries and all cross-border activity. The SFC requires the RP to be strategic, feasible and current, and do so, through the CBJ, in terms of conglomerates and cross-border relations, the RP must have the following: Organizational and operational structure: The organizational, operational and shareholding structure, including real beneficiaries. If the supervised entity belongs to a CF, in addition to the above, it must include the relationship of all entities belonging to the CF and its hierarchical organization, as well as the structure of the shareholding property. • Description of the resolution regimes applicable in the jurisdiction in which each CF's subsidiary is located. • The corporate governance of the ES and those that comprise the CF. • Description of the relevant agreements reached with other entities of the CF, including the quantification of exposures, services, funding, guarantees and capital flows, among to terminate said agreements others. Likewise, a description of the existing legal and operational restrictions and, those existing in relation to the free flow of resources between the entities belonging to the CF. • Identification and description of the economic, legal, operational, and corporate governance impact of any affected entity belonging to the CF, if the monitored entity enters into a resolution stage and any mitigation mechanisms proposed to reduce the impact.

	• Operations abroad: Description of the cross-border operations of the supervised entity, detailing their nature, sources of financing, main risks and supervisory authorities of said operations, within the scope of this supervision. • Resolution strategy: A strategic analysis that describes the procedure to be followed by the monitored entity in the presence of a situation of material financial stress and the entry into a resolution stage, indicating the period required for the execution of each one of the stages that constitute this procedure. This strategic analysis should indicate the way in which the stability of the entities belonging to the CF can be compromised as a result of the implementation of the resolution strategy. Domestically, the resolution authorities coordinate and guide the activities related to the Resolution Plans—RP—through the CIR—a body that also provides guidelines on the preparation, presentation, updating and adjustment of the RP. At the cross-border level, the existence of MOUs allows home and host supervisors to exchange necessary information for the viabilities evaluation of the RP that involves cross-border relations, as well as to alert about situations that may affect the entities' recovery or resolution.
EC7	The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.
Description and findings re EC7	The SFC as host supervisor requires that the cross-border operations of foreign banks be subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks. Article 7 of the FCL states that financial conglomerates with a HF constituted abroad must accredit to the SFC that they are subject to a prudential regulation regime and to a comprehensive and consolidated supervision equivalent to the one performed by the SFC.
EC8	The home supervisor is given onsite access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.
Description and findings re EC8	MOUs facilitate the exercise of the comprehensive and consolidated supervision of the CFs. Consequently, those authorities have onsite access in Colombia to the subordinates of their supervised banking groups, upon fulfillment of the obligations contained in the MoU. As home supervisor, the SFC informs the host supervisors about planned onsite visits scheduled to cross-border operations of the Colombian banks, and the results of those visits are shared with the host supervisor.
EC9	The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.
Description and findings re EC9	The SFC, as host supervisor, supervises booking offices in a manner consistent with internationally agreed standards. SFC has the legal capacity to authorize the constitution and licensing of Booking Offices and Representation Offices of

	Financial Organizations and Foreign Reinsurance. In the same way, the SFC can exercise inspection, surveillance, and control over those structures as it does with the financial and insurance sector. The CBJ defines the general instructions that Representative Offices in Colombia must follow. Those must comply with, among other, the following: • The authorized activities; • The obligations as a commercial entity; and • The duty of professional advice (give a complete information in relation to the products and services that it promotes, indicating that these are provided by the foreign institution, among others). This licensing procedure includes the verification of entities' advertising activities, which are limited to those products and services authorized by the SFC. In any case, opening a representative office, or executing a correspondent agreement to offer products, or services does not exempt foreign entities from having to comply with the Colombian regulations on public offering of securities. Finally, the current regulatory framework does not allow the constitution of Shell Banks, and these have not been presented *de facto*.
EC10	A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.
Description and findings re EC10	The SFC coordinates with domestic and foreign supervisors, before taking consequential action based on information received from another supervisor. This commitment is included in the MOUs subscribed by the SFC.
Assessment of Principle 13	**Compliant**
Comments	The SFC actively engages in collaboration with domestic and foreign authorities.

B. Prudential Regulations and Requirements

Principle 14	**Corporate governance**. The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the banks' Boards and senior management,[54] and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.
Essential criteria	
EC1	Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance.
Description and findings re EC1	Colombia has a broad regulatory framework for corporate governance, established through a wide range of laws and decrees implementing the laws, SFC circulars providing more specific instructions to the banks, and a voluntary corporate governance code - Country Code. Within this framework, there are precise and clear responsibilities for the bank and Financial Holding Companies to ensure there is effective control over the CF/bank's entire business. Articles 71, 72, 73 (EOSF) establish aspects related to the bank´s organization such as the responsibilities, obligations and suitability of the Board and senior management members. In 2014 the SFC issued External Circular 028, which published the New Code of Best Corporate Practices (Country Code) enhancing the practices of Boards of Directors through a much more detailed set of recommendations, on which stock-issuing banks are required to report annually. Although adoption of Country Code is voluntary, most banks report annually on their status regarding the Code. Once the bank adopts a Recommendation it will become compulsory incorporated in their bylaws. These recommendations serve as the basis by which the SFC conducts a full evaluation of the bank´s corporate governance and issues any recommendations deemed relevant. The Country Code Implementation Report is a fundamental tool to evaluate the corporate governance items in the Integrated Supervisory Framework. All the items in the Report complement the supervisory work evaluating the entity's performance according to the Knowledge and Assessment of the Corporate Governance of the ES. Boards are responsible for reviewing and approving corporate strategy, and monitoring its compliance; monitoring management performance, developing a risk policy and overseeing the development of a risk management function; setting performance objectives and key performance indicators, establishing the implementation and supervising the performance of the Internal Control

[54] Please refer to footnote 27 under Principle 5.

	Systems and reviewing and approving major capital expenditures and remuneration. Board of financial holding companies must ensure transparency of the organization's structure and that its strategic guidelines are complied with throughout its structure. The SFC monitors policies, procedures, and methodologies established by the ES, through supervising processes (onsite and offsite) as well as via an open dialogue with managers of those entities during different interviews and presentations.
EC2	The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.
Description and findings re EC2	The Integrated Supervisory Framework guidelines provide directions on how to verify whether the bank has adequate corporate governance practices and policies, their relevance, and their effective implementation. The guidelines address: 1. Mandate. 2. Organizational Structure. 3. Resources. 4. Methodologies and Practices. 5. Reports. 6. Supervision of the Board of Directors and Senior Management. Using the supervising processes (onsite and offsite) and the significant activities assessment, the SFC evaluates the performance of the Board of Directors and Senior Management, considering the way in which they supervise and contribute to the management of the lines of business and their risks. To verify this, the reports presented to those organs by the parties responsible for the operational and risk management as well as the internal audit, are reviewed along with the comments made by the Board or Senior Management. Comments are included in the respective meeting minutes of the Board or the committees. This evaluation is deepened through interviews done by the supervisors with the Board or the Senior Management. The evaluation includes an analysis of the structure of the corporate governance (independence, decision levels and reports, among others), as well as the practices and performance of the organs that compose the ES corporate governance. Through this analysis, the SFC verifies that the ES, has an adequate CG and the existence of appropriate policies and mechanisms for the management and control according to its structure, business, and risk profile. Deficiencies and recommendations are communicated to the ES.
EC3	The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-

	executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight, and remuneration committees with experienced non-executive members
Description and findings re EC3	As part of the SFC's supervisory work, governance structures, and processes for nominating and appointing Board members are reviewed to determine if appropriate for the bank and the banking group. Board members are appointed by the senior management. Supervisors verify that Board members have adequate skills, diversity, and knowledge, applicable for the size, complexity, and risk profile of the bank. Board members must take an oath of office at the SFC pledging to diligently manage the bank's business, comply with legal obligations, and with the rules, orders and instructions issued by the SFC. The SFC Guidelines for the evaluation of the Board of Directors, guide supervisors on how to validate the proper composition of the Board, highlighting that one of the relevant aspects for the proper functioning is the number of members (an odd number of Board members is recommended), academic profiles and experience, and the proportion of independent members (non-executive). Selection, approval, reappointment, and replacement of the Board members must be supported by internal regulations that establish profiles and qualifications to be a member and the processes of nomination and removal. Audit, risk oversight, and remuneration committees with experienced non-executive members, are required for issuing banks. The SFC considers a good practice of corporate governance the establishment of committees such as: Appointments and Remunerations, and Corporate Governance, to help the Board to ensure full compliance of its functions. If a bank does not consider one of them necessary, it must be ensured that the functions of said committees are assigned to others or assumed by the Board itself.
EC4	Board members are suitably qualified, effective and exercise their "duty of care" and "duty of loyalty."[55]
Description and findings re EC 4	Under the financial regulation (EOSF) and the Commercial law, "managers" (including Board members) must act (i) in good faith, with loyalty and with the diligence of a "good businessman" that is, one that would put a normal trader in its own affairs, which means more effort and more high demand for managers in the conduct of company affairs; and (ii) in the interest of the company bearing in mind the interest of the shareholders. In particular, the Commercial Code sets the following obligations for managers: (i) protect the

[55] The OECD (OECD glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables," 2003, www.oecd.org/dataoecd/19/26/23742340.pdf) defines "duty of care" as "The duty of a Board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the Board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule." The OECD defines "duty of loyalty" as "The duty of the Board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual Board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders."

	confidentiality of proprietary information of the company; (ii) refrain from the undue use of insider information; and (iii) except otherwise authorized by the shareholders, refrain from participating, directly or indirectly, in their own interest or in the interest of third parties, in (a) activities competing with the company; or (b) acts resulting in a conflict of interest. Regarding ES, the EOSF establishes a legal obligation for the managers to refrain from performing a series of conducts, such as: 1. Concentrate the risk of assets above the legal limits. 2. Perform operations with shareholders, related parties or people connected to them, above the legal limits. 3. Invest in companies or associations in unauthorized amounts or percentages. 4. Facilitate, endorse, or execute any practice that has as purpose or effect tax evasion. 5. Fail to provide reasonable or adequate information to the public, users or client that allow them to take informed decisions. 6. Fail to maintain accounts according to the applicable regulations, or to maintain it in such way that it is impossible to know in due course the statement of assets and liabilities or the statement of the operations conducted or to submit to the SFC false, inexact, or misleading accounting information. 7. Inappropriate use of reserved information. 8. Fail to fulfil the obligations and functions imposed by law, or incur in conducts that are prohibited, constitute impediments or inabilities related to the exercise of their activities, among others. The SFC's Authorization Committee adopted a series of objective and subjective criteria that must be considered, observing the business model, the license granted and the size of each institution for their application. For the Board Members, the evaluation in those cases is not only performed in an individual level to each member, but also on the Board as a whole, to determine if the Board meets the interdisciplinary and independence requirements to fulfil international standards as well as to assess the personal input each member contributes, that increases the quality of the company´s management. The SFC, has the authority to sanction the directors, Board members, and other managers, who are occupying positions in the ES without the authorization required from the SFC.
EC5	The supervisor determines that the bank's Board approves and oversees implementation of the bank's strategic direction, risk appetite[56] and strategy,

[56] "Risk appetite" reflects the level of aggregate risk that the bank's Board is willing to assume and manage in the pursuit of the bank's business objectives. Risk appetite may include both quantitative and qualitative elements, as

(continued)

	and related policies, establishes and communicates corporate culture and values (e.g., through a code of conduct), and establishes conflicts of interest policies and a strong control environment.
Description and findings re EC5	Financial regulation, commercial law, and the Country Code, delineate the responsibilities of a bank's Board regarding the bank's strategic direction, risk appetite and strategy. SFC procedures cover the evaluation of the Board of Directors in establishing the Board's responsibility to: 1. Approve the objectives, strategies and business plans and supervise their implementation by Senior Management. 2. Approve the implementation and supervise the suitability of the Risk Governance Structure. 3. Approve the design and implementation and supervise the performance of the Risk Management Control Function. 4. In conjunction with Senior Management and the Risk Management function, define the entity's risk appetite considering the company's long-term objectives, exposure to risk and the ability to manage it effectively. 5. Supervise and ensure the implementation of the Risk Appetite Framework, and its articulation and dissemination through the Risk Appetite Statement. 6. Supervise the company's adherence to the policies and limits established in the Risk Appetite Framework. 7. Review and approve, at least once a year, the policies, and practices for managing significant risks, and ensure that they are being applied. 8. Approve the implementation and supervise the performance of the Internal Control Systems. 9. Promote corporate culture and values. 10. Approve policies and procedures to manage and disclose conflicts of interest. The Code of Conduct states that banks must have this code as part of its internal control system. In general, Section 4.1. establishes "*The control environment is given by the elements of the organizational culture that they promote in all the members of the entity: principles, values and behaviours oriented toward control. It is the foundation of all the other elements of the SCI, since its effectiveness depends on the entities having competent personnel and instilling throughout the organization a sense of integrity and control awareness*."
EC6	The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit-and-proper standards in selecting senior management, maintains plans for succession, and actively and

appropriate, and encompass a range of measures. For the purposes of this document, the terms "risk appetite" and "risk tolerance" are treated synonymously.

	critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.
Description and findings re EC6	Banks´ Boards must oversee the senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them, as well as established fit-and-proper standards in selecting senior management and maintaining succession plans. The supervision Guide for the evaluation of the Board of Directors establishes the Board's responsibility to: • Periodically determine the number of Senior Managers, the qualifications, knowledge, skills and experience of the directors and the level of dedication available to carry out the Board's responsibilities. • Appoint the president, members of the Senior Management, and those responsible for the banks´ control functions. • Set performance and remuneration standards for Senior Management that are consistent with the long-term strategic objectives and risk levels. • Supervise the performance of the members of the Senior Management. • Ensure the existence of succession plans. Country Code recommends the establishment of a Nomination and Remuneration Committee, as well as recommends disclosing to the market the general policies applicable to the remuneration and any economic benefit granted to the Board members, the CEO, and the Auditor. During the supervision processes supervisors conduct, if necessary, interviews with the Board members and Senior Management to find out more precise information on how they work together, and how they actively oversee compliance with the law and internal regulations. Supervisors verify minutes, internal processes, the existence of leadership succession plans, among others, with the purpose of strengthening the corporate governance of the ES and issue the respective instructions.
EC7	The supervisor determines that the bank's board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.
Description and findings re EC7	The Supervisory Guide requires that inspectors evaluate whether the Board has a clear compensation system for management, consistent with the long-term strategic plans of the ES and its risk appetite. The policies established in the MAR must establish adequate incentives, in accordance with prudent risk-taking, long-term objectives and the financial strength of the entities that make up the CF. As well, the Board of Directors of the controlling or parent entity has the responsibility of establishing an adequate corporate governance structure

	and ensuring that there are appropriate management and control policies and mechanisms in accordance with its structure, business, and risk profile. The supervisor must determine the existence of such policies as well as check whether the Board effectively applies these practices, as stated in Section 4.7 of the Guideline. If the supervisor determines that the Board´s ES has no such policies or have problems with the transmission of those, the SFC can require the ES to solve the issues. Recommendations 18.19, 18.21 and 18.22 of the Country Code establish that the main goal of the Nomination and Compensation Committee is to support the Board of Directors in its advising and decision-making duties relative to the appointment and compensation of Board members and senior managers. When the ES submits to the SFC its Country Code Implementation Report, the SFC reviews all its answers and if questions arise about how the entity establishes its remuneration policies, the SFC requests the ES to clarify or support their answer.
EC8	The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (e.g., special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.
Description and findings re EC8	Supervisory procedures require a review to determine whether the Board has policies related to the Risk Governance Structure and Risk Management Policies. When analyzing those, the supervisor must consider if all the Board policies and processes grant transparency in the ES Governance. Once the supervisor has analyzed all the policies, structure, composition, functions, among others, it is necessary to evaluate the performance. To do so, the supervisor checks the effectiveness of communication of the policies and verifies that the Board oversees that all the risks are being managed. When evaluating performance, the supervisor interviews the Board members and verifies the communication of those guidelines to the committees. Supervisors review Board of Director minutes and review internal audit reports and discusses with staff during onsite visits. In the cases in which the banking group´s structure does not allow an adequate information disclosure, the SFC has requested changes in the mentioned structures. With the issuance of FCL the SFC power was strengthened, allowing it to require the FH, to change the existing structure if it prevents an adequate information disclosure, transparency for the conduct of consolidated supervision or the identification of the real beneficiaries.
EC9	The supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.
Description and findings re EC9	According to Article 326 (EOSF) members of the bank´s Board, as well as the administrators, legal representatives, reviewers Prosecutors, among others, must assume their positions before the SFC, and must meet the objective

	requirements and the subjective qualities stablished by the SCF, and **must maintain these qualities** for the entire time they serve. When a Board member does not fulfil his duties or obligations the SFC has two options: a. It can apply "moral suasion" (which means that the SFC could talk with the Bank´s owner or the President of the Board and express the reasons why the SFC considers that a certain member is not performing well its functions and ask for removal, or b. It can remove or declare the ineligibility of the member through a process of personal sanction of (i) removal; or (ii) disqualification, as provided for in Article 209 (EOSF). Removal may also be requested when the conditions exist to declare the "Vacancy" of numeral 4 of Article 73 of the EOSF, for failing to fulfil its obligation to attend the Board meetings for a period superior to three months.
Additional criteria	
AC1	Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank’s Board member or a member of the senior management.
Description and findings re AC1	According to sub-section 1.4.1.1.7, Number 1, Chapter II, Title IV Part I of the CBJ: "*Supervised entities or the official responsible for the process of possessions* **must inform the SFC, immediately**, *any situation known that affects the conditions and requirements* (...)” that were considered by the SFC at the time of the Board member or senior management possession. Additionally, it is the responsibility of the Board to periodically determine, not only the qualifications, knowledge, skills and experience of the directors and the level of dedication, but also evaluate the performance of their functions, for which the SFC recommends organizing the annual assessment of the Board of Directors, both as a collective administrative body and that of its members individually considered. This will be done through generally accepted self-assessment or assessment methodologies and may involve the participation of external advisors. Once the bank becomes aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management must follow the procedure stablished to replace that member and initiate the authorization process of the new member before the SFC.
Assessment of Principle 14	**Compliant**
Comments	The SFC has issued guidance on corporate governance, that is applicable to all banks, to ensure that Board and Senior Management establish risk assessment systems, risk appetite statements, Board committees and address duty of loyalty and ethics. An additional layer, applicable to stock-issuing banks, is provided by the Country Code that, although voluntary, is being implemented since the SFC

	has made it mandatory for banks to report annually on whether it has been adopted and to what extent.
Principle 15	**Risk management process**. The supervisor determines that banks[57] have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate[58] all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.[59]
Essential criteria	
EC1	The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that: (a) a sound risk management culture is established throughout the bank; (b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognized; (d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and (e) senior management takes the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.
Description and findings re EC1	The SFC reviews risk management from CF to the ES individual risk management level. Therefore, the assessment of the framework starts with the policies and guidelines established by the HF and how those are transmitted to the entities that comprise the CF. Supervision is carried out at three levels: conglomerate, consolidated and individual. SFC analyzes risks at bank level and how it is integrated in the exposure and risk management framework of the HF/CF.

[57] For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

[58] To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

[59] It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.

	For instance, if an EC belongs to a CF, the NSs supervision is based on the evaluation of the CF, considering the information of each of the entities that comprise it. That said, the CF must have a **Risk Management Framework (MGR)** for the risks to which they are exposed. This framework is made up of a set of policies, methodologies and controls that act in an integrated and coordinated manner to manage risk in a comprehensive way. Among the policies that must be approved by the Board are: • Encouraging an organizational culture of risk awareness in the CF; • Defining and monitoring the exposures and concentration of risks among entities that comprise the CF and with their related parties; and • Defining its risk appetite with exposure limits consistent with its business plan, risk profile and financial soundness of the CF entities. The NS assesses compliance with the risk management frameworks guidance issued by the SFC through onsite reviews, discussions with bank management and staff, reviewing and discussing internal and external audit reports and sampling internal control activities. Discussions with the Board and review of Board of Director meeting minutes ensures that the Board approves and monitors the business plan, strategy, policies, and procedures to adequately manage all risks that ES/CF are exposed to, as well as define the risk appetite framework. Moreover, the NSs determine that ES/CF have an integrated risk management framework, in which policies, procedures, exposures limits, risk appetite, among other aspects, are in place. Through onsite visits and offsite information requests, the SFC assesses whether senior management: (i) implements and monitors that the policies and the risk strategy are followed; (ii) defines the measures to be taken when internal or regulatory limits are close to be breached; and (iii) keeps the Board informed on the main results of the monitoring activities. Furthermore, existing regulatory framework requires supervised institutions to adopt a risk management framework for credit risk, market risk, operational risk, liquidity risk, and AML/CFT addressing: (i) a risk governance structure with specific responsibilities assigned to the Board, senior managers, risk management function, and internal audit function; (ii) policies and procedures for identifying, assessing, mitigating, controlling, monitoring, and reporting all risks, including prior approval by the Board; and (iii) internal limits definition aligned with the risk strategy. Additionally, banks are required to implement an internal control system which encourages organizational culture and fosters principles, values and behaviors aimed at following a sound risk control and management systems. Likewise, the NSs must supervise that the banks have business continuity plans and define corrective and preventive actions acknowledging the risk monitoring and evaluation process.

	All the above is supervised through the NS, who carries out a comprehensive and consolidated supervision. Therefore, once the risk profile is defined, the supervisor must require ES risk governance to undertake all the measures needed to mitigate the risks and prevent any negative spillover to the financial system. The scope of supervision was broadened with the Financial Conglomerate Law that allowed migration from a "legal entity" supervisory approach to a "comprehensive supervision approach."
EC2	The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate: (a) to provide a comprehensive "bank-wide" view of risk across all material risk types; (b) for the risk profile and systemic importance of the bank; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process.
Description and findings re EC2	The SFC requires the Board to approve a comprehensive and consolidated risk management system for all exposures, considering the principle of proportionality, nature of business, its size and systemic importance. SFC determines that the bank develops specific policies, methodologies, and controls in order to (i) identify the levels of current and potential risks it may face, including those related with country risk; (ii) measure, control and monitor that these risks fall within the tolerable thresholds approved by the Board; and (iii) that both (i) and (ii) are properly implemented by senior management and the risk management function. These must be part of the Risk Appetite Framework (MAR). To manage CF risks, the HF must identify and assess the exposure levels of all its subsidiaries with respect to the same counterparty, business line, geographic location, economic sector, related parties, service providers, shared service centers, and the eventual occurrence of natural disasters that may give rise to potential losses that compromise the financial stability and resilience of the CF or generate any material change in its risk profile. For the above, the HF must have a risk governance, which includes the risk management function. Among the features the SFC assesses of the risk management function are: (i) its effectiveness for anticipating, identifying, and measuring potential risks in dynamic environments; and (ii) whether its oversight function is consistent with the risk appetite statement approved by the Board of Directors. In its supervision, the SFC considers the following criteria: 1. The Board has a defined risk culture, which includes the determination of a risk appetite from which the policies, guidelines and risk limits are defined.

	2. Proactively updates its policies, practices, and limits in response to changes in the industry and in the EC's strategy, business activities and risk appetite. 3. Integrates its policies, practices, and limits to the day-to-day business activities, to the entity's strategy and to the capital and liquidity management policies. 4. Quantitative risk modelling aimed at strengthening procedures for identifying, monitoring, and mitigating risks, including early warning systems, back testing techniques and robust data bases. 5. Monitors risk exposures against approved limits and ensures that material deviations are dealt in a timely manner. 6. Proactively and effectively addresses events that may arise due to internal or external shocks, 7. Makes regular and exhaustive reports to the Board (or its committees) and AG on the effectiveness of the risk management processes and ensures problems are identified and escalated to the corresponding decision-making instances in a timely manner. 8. Participate effectively in the Board of directors' committees, 9. Ensure unity of language and understanding between the risk management function and the business areas in the day-to-day activities. This assessment acknowledges the proportionality principle, and thus, ES/CF are rated in accordance with their nature, scope, complexity, and risk profile. The rating levels corresponds to 4 buckets: (i) strong; (ii) adequate; (iii) needs improvement; or (iv) weak. Thus, each ES at the corresponding supervision level (individual and/or consolidated) must perform an assessment and prospective analysis, considering the aspects, to be able to mitigate the possible negative consequences in the normal development of its operations/activities, as well as to report to the HF. The NS must rate the risk management functions performed by each ES. That assignment must consider the effectiveness of the performance in the exercise of its functions and responsibilities, in accordance with the nature, scope, complexity and risk profile of the CF. The rating levels and criteria are akin to those for rating HF performance mentioned above. It should be noted that the NSs determine the supervisory strategies and priorities according to the supervisory importance of the ES/CFs and their risk profile. There are 3 levels of importance for ES: High (N1), Medium (N2) and Low (N3), which means that the SFC applies proportional supervisory effort to the entities. For instance, the supervisory effort is more intense in Banks with N1 of importance than with N2 or even N3.

EC3	The supervisor determines that risk management strategies, policies, processes and limits are: (a) properly documented; (b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and (c) communicated within the bank The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the bank's Board where necessary.
Description and findings re EC3	Through the NS the SFC assesses the level of compliance with the Risk Management Systems, supported by the criteria indicated in the supervisory framework. At a minimum, the HF must have the following documentation, which must be kept up-to-date and available to the SFC: (i) Risk Management Framework (MGR) handbook that includes the policies, procedures, methodologies, exposure limits and the functions assigned to the managerial bodies to manage risks; and (ii) periodic reports that allow the Board and senior management to establish and monitor the risk profile of the Bank and parent and evaluate its coherence with the risk appetite, capital levels, business plan and the conditions of the markets where it operates, as well as the measures implemented in accordance with the early warning system. Additionally, all limits, policies, procedures, and methodologies must be reviewed at least once a year and updated, when necessary, in such a way as to incorporate changes in risk appetite, business plan, risk profile, levels of capital, the applicable regulations and the situation of the economies and markets where it operates. When the Bank belongs to a CF, or for the consolidated and individual supervisory levels, the SFC requires that credit institutions adopt and document their policies (including those related to limits), processes, and procedures for the adequate management of the risks to which they are exposed, as well as, to undertake effective decisions and provide the necessary information in a complete and timely manner. The Board of the ES/CF is responsible for defining, within the risk management policies, the exceptional situations under which approved limits can be breached and if there is any other body authorized for this purpose. The NS in the supervision of the ES/CFs evaluates the coherence of policy exceptions and deviations against their risk profile and what is defined in the applicable standard (according to the risk), the hierarchical levels with approval capacity, monitoring, controls and timely communication to the AG and JD of the ES/CF for monitoring and decision-making purposes.
EC4	The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital

	and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.
Description and findings re EC4	The SFC requires the risk management supervision function to prepare and deliver periodic reports that allow the Board and senior management understand and monitor capital and liquidity levels, as well as the risk profile of the ES/CF and its consistency with the risk appetite, business plan, the complexity and diversity of the activities being carried out, the capital and liquidity levels, and the economy and markets where it operates. The NS in the development of the evaluation of the Board and senior management verifies that these corporate governance bodies constantly perform an in-depth review and evaluation of the commercial objectives and strategies, as well as the events and transactions that may pose significant risks for the ES/CF. Such review is aimed at aligning its objectives with the corresponding controls while performing an objective and regular assessment of the entity's main business activities, risks faced and how consistent the risk exposures are with respect to the defined tolerance.
EC5	The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile. The supervisor reviews and evaluates banks’ internal capital and liquidity adequacy assessments and strategies.
Description and findings re EC5	HFs must have a risk appetite statement, which must be consistent with the appropriate levels of capital and the risk levels to which it is exposed (contagion, concentration and strategic). The framework must be reviewed at least once a year or when circumstances such as capital levels, among others, requires any further review. NSTs consider the CFs, and the HFs determine a basis for the determination of the technical and adequate equity of the CF, as well as the bank and to make the corresponding deductions, to avoid double gearing. Such assessments are necessary to establish whether the CF complies with the adequate capital levels that allow it to bear the risks of the entities that comprise it. Through the MAR assessment, the NS verify that it has an integrated set of principles and measures that guide banks in determining the amount and types of risks they are willing to assume, while the MAR is forward-looking and consistent with the business plan, the capital and liquidity internal thresholds, the remuneration system, as well as the risks management framework on a business-as-usual basis. Likewise, the NS verify that the process of development and permanent monitoring of the MAR and its components (capacity, tolerance and risk appetite) are consistent and effectively disclosed to the entire entity, starting from the Board (who approves), going through the senior management (proposes and implements) toward the risk management functions (identify, measure, manage and mitigate), and conclude in the operational management

	(operations and reports); in accordance with the provisions of the risk appetite monitoring guide.
EC6	Where banks use models to measure components of risk, the supervisor determines that: (a) banks comply with supervisory standards on their use; (b) the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and (c) banks perform regular and independent validation and testing of the models The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.
Description and findings re EC6	The SFC evaluates the risk management models that the ES/CF develop internally to account for their business model, while complying with the minimum regulatory standards. Such models must be approved by the governing bodies of the ES/CF, so that they can have a complete knowledge on how the business is managed and undertake informed decisions. Additionally, the performance of these models must be internally evaluated by the risk management function through back-testing techniques. In the case of CFs, the NS assesses whether the HF designs, among other things, procedures, methodologies, controls, and early warning systems for managing CF risks (concentration, contagion and strategic). Likewise, the NSs assess that the Board through the Risk Committee, supervises the proper-implementation of such policies, procedures, and methodologies. Each risk has its own guidelines aimed at standardizing the methodologies to quantify them, the NS oversees them as a whole and the recommendations and/or supervisory measures are placed to the CRO as regard to its risk management which must be comprehensive and consolidated.
EC7	The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital, and liquidity needs and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.
Description and findings re EC7	The NS reviews bank's technological infrastructure, information systems and data architecture, and the reports produced. Banks must have a reporting system in accordance with its size, nature, and complexity, and are required to develop procedures aimed at handling and preserving the information storage while guaranteeing its confidentiality, security, quality, availability, integrity, consistency, and consolidation.

	The NSs evaluate that the risk management function prepares periodic reports that allow the Board and senior management to monitor the bank's operations and compliance with the risk appetite statement and business plan. Additionally, NSs assess whether the risk management function uses risk measurement and monitoring tools to provide early warning indicators on trends and adverse conditions that may give rise to negative effects on its risk profile, capital, liquidity and profitability.
EC8	The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products,[60] material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board.
Description and findings re EC8	Board is responsible for approving the policies, procedures, methodologies, and controls for managing the risks to which the business models/lines are exposed. SFC requires banks to have a risk committee to monitor compliance with the risk appetite statement, the risk profile, the capital, liquidity, and profitability levels, as well as, to advise the Board on operations, events or activities, including the incursion into new markets, which may affect the risk profile or which constitute deviations from the established thresholds, the business plan and/or the risk appetite. Additionally, when assessing the risk management function, NSs verify the adequacy of the policies and practices to report the results of the exposure analysis in a timely, accurate and understandable manner to the Board and senior management (risks of the entity, results of stress tests or scenario analysis, risk-return relationships, risk-appetite and limits).
EC9	The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.
Description and findings re EC9	The Risk Management function is required to: • Set clear functions and responsibilities and their interlinkages with the Board and senior management, risk committee and internal audit. • Have enough authority and hierarchy to carry out its functions and responsibilities independently, as well as to access the records, information, and personnel of the ES/CF.

[60] New products include those developed by the bank or by a third party and purchased or distributed by the bank.

	• Demonstrate independence from the operational management (day-to-day business), that is, the risk manager is not in charge of any control function or business unit. • Have all the physical, human, economic, and technological resources necessary for the development and implementation of risk systems and suitability of the qualifications and competencies of human capital to ensure the effective execution of the assigned functions. • Deliver timely, accurate and understandable reports to the JD and the AG with the results of risk exposures assessments, stress test results, vulnerabilities identified (including environmental conditions) along with recommendations for decision making according to the risk profile of the ES/CF. NSs assess whether the methodologies and practices that the Internal Audit performs allows to establish the effectiveness and efficiency of the risk management function, as well as the suitability of such results.
EC10	The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.
Description and findings re EC10	NSs assess that large banks (individual and consolidated level) that have a complex and diverse structure of businesses and operations, that are issuers or that have a systemic importance, have a Chief Risk Officer Manager (CRO). SFC requires that all decisions made by the Board in the development of its functions and responsibilities, including the appointment and removal of the CRO, must be recorded in meeting minutes. SFC has frequent contact with senior management and the risk units to discuss, among other topics, the reasons for changing or removing risk committees' members, including the Chief Risk Officer. In addition, those ES which are also securities issuers must reveal to the market the appointments, changes or removals of their senior management staff or the Board of Directors.
EC11	The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book, and operational risk.
Description and findings re EC11	The SFC has issued regulations with instructions for the proper management of the risks. However, deficiencies are noted at the individual CP for liquidity, interest rate risk, concentrations.
EC12	The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialize and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the

	adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.
Description and findings re EC12	The NS, in the evaluation of the risk management function, verifies that the risk positions are controlled against the approved limits and ensures that once thresholds are exceeded, any potential breach is dealt with is a timely manner. Additionally, Chapter 28 of the CBCF (bottom-up stress testing framework) requires credit institutions to perform stress tests at two levels: (i) internal stress tests, used for their financial planning, covering a three-year horizon of projections; and (ii) stress tests required to be submitted to the supervisor, in accordance with two macroeconomic and financial scenarios, the baseline and adverse. The latest exercise required ECs to perform a reverse stress test considering two main scenarios, as well as the adoption of recovery actions in terms of liquidity, capital, and profitability, when needed. Moreover, the SFC has a top-down stress test to assess the resilience of financial institutions against potential shocks and every six months stress test exercises are carried out by the CCSSF. Its frequency increases to a quarterly-basis when macro-financial conditions require it, as it happened during the Covid-19 outbreak. This top-down approach has allowed the SFC to: (i) prioritize supervision; (ii) require EC to strengthen their internal stress test framework; and (iii) design the measures to be adopted to withstand the shock. Based on the EC' scenarios, banks must forecast their main business lines and financial statements within a three-year horizon, assess their recovery capacity in terms of credit, market and liquidity risk, and identify their financial vulnerability in terms of capital, profitability and liquidity. Furthermore, if the adverse scenario triggers financial difficulties or regulatory breaches, they must submit a recovery plan accounting for all the actions required to mitigate the risks that arose. Even though, the NS has a supervisory guide to assess this process in ES, the SFC is currently drafting a regulation aimed at formalizing the synergies between the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the stress testing framework and the recovery and resolution plans. Coordination and information between the Supervisory units and the SFC's Resolution Group is adequate and aids in assessing the outcomes of the SFC´s stress exercises in a coordinated manner, as well as to identify those entities that may give rise to any vulnerability or may face the possibility of resolution. When the foregoing happens, the EC is monitored on a regular basis. At the same time, within the context of inter-institutional coordination, the results of the stress exercises are presented to the CIR to assess whether a recovery and resolution mechanism may be required (in accordance with the powers of each of the entities that comprise it. Likewise, in this scenario, all aspects and triggering thresholds of the resolution plans are assessed, both for their approval and activation. A recovery or a resolution measure requires, in all

	cases, to consider elements such as systemic importance and the situation of the market environment. Finally, the NS of the CFs must supervise that the risk management function, measures, controls and monitors that the risks of the CF comply with the tolerable thresholds approved by the JD, as well as identifying the situations that could prevent the HF from fulfilling its strategic plan, in order for the Board to act effectively against any event that may affect the stability of the CF.
EC13	The supervisor requires banks to have forward-looking stress testing programs, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing program and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing program: (a) promotes risk identification and control, on a bank-wide basis (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the Board and senior management; and (d) is appropriately documented and regularly maintained and updated. The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing program or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process
Description and findings re EC13	NSs must assess that the Board approves and monitors the policies and procedures for managing significant risks, while ensuring that they are being applied, including the stress test scenarios and their contingency plans. Among the aspects to be assessed about stress tests are the following: • Whether the chosen scenarios are consistent with the level of risk tolerance established by the bank. • Whether the scenarios are suitable for bank portfolios and include severe shocks and/or periods of prolonged recession. If relevant, the chosen scenarios must also include an episode of high volatility in the market or a given liquidity shock. • Whether the frequency of stress tests is enough to support timely decision-making. • Whether banks design scenarios in which their viability may be compromised. • The level of participation of the JD and AG in the stress testing program. The Board has final responsibility for such a program and must be aware of the

	main stress test results. In turn, the AG is responsible for the implementation, administration, and supervision of the program and for ensuring that the bank has adequate plans in place to face unlikely but plausible stress scenarios. After reviewing the results of the tests carried out, the NS must provide the ES with recommendations so that, they undertake the appropriate corrective and/or improvement measures to address the weaknesses or shortcomings identified in their stress testing program.
EC14	The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.
Description and findings re EC14	Regarding internal pricing, the SFC assesses the following elements: • Characteristics: Type of offered products/services, target market, jurisdictions/ countries where the product/service is offered, and comparative and/or competitive advantages compared to its peers. • Funding: Strategy for gathering resources (if they are obtained from clients of the product/service or if it is necessary to resort to resources from other areas of the entity), the product/service is a source of funds for the entity, and the pricing process of the product/services. • Strategic planning. Additionally, the NS assesses how effective the Financial Analysis function to (i) carry out independent assessments of the ordinary course of business; and (ii) produce accurate, timely, understandable, and independent operational and financial reports of the business lines and key performance indicators to the AG and the JD.
Additional criteria	
AC1	The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks.
Description and findings re AC1	The FCL requires the assessment of strategic, concentration and contagion risks.
Assessment of Principle 15	**Largely Compliant**
Comments	A broad risk management framework is in place and the SFC actively monitors and evaluates risk management at banks. Areas of further improvement are identified in liquidity, interest rate risk, concentrations, and related-party transactions. Additionally, SFC guidance is "principles-based" and relies on its staff reviewing bank risk management and determining its adequacy but does not provide benchmarks or minimum requirements for banks and SFC staff to establish clear supervisory expectations. The SFC issued a draft regulation aimed at integrating all current risk management systems in a single framework called SIAR. It considers the

	Corporate Governance principles of Basel. This framework allows institutions to have a comprehensive risk management and a wide view of all material risks to which the EC are exposed. The SIAR must be fulfilled on an individual and consolidated basis and is aligned with the MIS guidelines. This framework must be commensurate with the risk appetite, nature, size, complexity, risk profile and business model of the ES and the group (if any), as well as the economic and market environment where the ES operates. Final regulation is expected to be published in 2021.
Principle 16	**Capital adequacy**.[61] The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.
Essential criteria	
EC 1	Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.
Description and findings re EC1	The DL 2555 (2010) lays down general rules to be complied with by the banks regarding the calculation of their regulatory capital, including a CET1 ratio of 4.5 percent, a Tier 1 ratio of 6 percent, and a total capital ratio of 9 percent (DL 2555, Art. 2.1.1.1.1 and following). Those rules are detailed and specified in chapter 13.16 of the CBCF. They shall be complied with permanently, both at individual and consolidated levels, and are subject to a mandatory monthly reporting for capital ratios calculated at individual level and to a mandatory quarterly reporting for capital ratios calculated at consolidated level (CBCF, chapter 13.16). Banks that do not comply with the above-mentioned rules are subject, for each period of non-compliance, to a mandatory fine which amounts to 3.5 percent of the capital shortfall (up to a limit of 1.5 percent of the required capital). Additionally, they should explain to the SFC the reasons why they did not comply with applicable rules and what corrective measures are going to be implemented. In the case of a capital shortfall that cannot be solved in less than two months and significantly hinders the bank's operational capability, a corrective action

[61] The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

	plan is to be set up and its timely implementation is to be supervised by the SFC (CBCF, chapter 13.16). Qualifying components of capital are duly defined by the law (DL 2555, Art. 2.1.1.1.5 and following). Depending on their loss absorption capacity, they can be classified in three different elements derived from Basel III standards: Common Equity Tier 1 (or CET1), Additional Tier 1 and Tier 2 Capital. • CET1 instruments comprise paid-in shares, stock dividends, stock surplus, legal and occasional reserves, cash advances of less than 4 months aimed at increasing the capital, irrevocable subordinated debts held by the FOGAFIN with a purpose to foster the issuer's capital base, retained earnings, other comprehensive income (OCI), and qualifying non-controlling interests. The decree 1477 (2018), which entered into force in January 2021, included various modifications to the calculation of the banks' CET1. Most of them further harmonized the CET1 measurement with the Basel III capital standards (i.e., suppression of irrevocable donations and adjustment account for foreign exchange, inclusion of all current and retained profits, as well as of OCI). However, the treatment of non-controlling interests differs from the Basel III capital standards (i.e., the capital of the subsidiary attributable to the minority shareholders in excess of minimum capital requirements is recognized by the DL2555 for entities subject to prudential standards equivalent to the ones applicable to banks in Colombia, whereas the Basel III capital standards exclude the surplus CET1 of the subsidiary attributable to the minority shareholders). Similarly, cash advances[62] and liabilities held by the FOGAFIN[63] do not qualify as CET1 capital items under Basel III capital standards (the latter being more a Tier 2 instrument). • Additional Tier 1 instruments comprise qualifying non-controlling interests, paid in preferred shares, and qualifying debt instruments. Qualification criteria are broadly aligned with Basel III criteria. • Tier 2 instruments comprise qualifying non-controlling interests, mandatorily convertible bonds, qualifying debt instruments, and general provisions up to 1.25 percent of credit RWAs. Qualification criteria are broadly aligned with Basel III criteria.
EC2	At least for internationally active banks,[64] the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed

[62] These resources are paid-in and irrevocable.

[63] The subordinated bonds subscribed by FOGAFIN have the purpose of strengthening the equity of the financial entities and they must be irrevocable, represent a subordinated claim in liquidation of the bank as the other instruments of CET1, and must have a minimum original maturity of at least five years.

[64] The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalized on a stand-alone basis.

	requirements are not lower than those established in the applicable Basel standards.
Description and findings re EC2	Since 2012, Colombia has been gradually aligning its prudential regulations with the Basel III capital standards. There is no difference between internationally active banks and non-internationally active banks with regard to their capital requirements. **Definition of capital** See EC1 above. Deductions from CET1 are the following (DL 2555, Art. 2.1.1.1.11): cumulated and current losses, investments in capital, convertible or subordinated bonds of local and foreign non-consolidated financial institutions whose amount exceeds 10 percent of the bank's CET1—subject to some exceptions—net deferred tax asset, intangible assets, own shares, the non-amortized value of pension liabilities determined by an actuarial calculation, and the asset revaluation account. The decree 1477 (2018), which entered into force in January 2021, further aligned the CET1 deductions with the Basel III standards (e.g., full deduction of all goodwill and intangible assets). Nevertheless, the deduction of the non-amortized value of pension liabilities determined by an actuarial calculation, instead of net pension assets, is a deviation from Basel III standards, deemed not material by the authorities although. **Risk coverage** Since the entry into force of the Decree 1421 (2019) in January 2021, regulatory capital must be held against credit, market and operational risks (DL 2555, Art. 2.1.1.1.2). With regard to the latter, regulatory capital requirements are derived from the Basel III operational risk standardized approach. Some adjustments were introduced to reflect the specificities of the Colombian financial system. For instance, only two marginal coefficients of 12 percent and 15 percent for the calculation of the business indicator component are in force, instead of the three marginal coefficients laid down by the Basel III SA (12 percent, 15 percent, and 18 percent). At the same time, the range to which the lowest marginal coefficient applies is set at less or equal to Col$3 billion, which, given the prevailing COL/EUR exchange rate, is more conservative than what is set forth by the international standard (less or equal to EUR 1 billion). Furthermore, some simplification was introduced in the way the internal loss multiplier is to be computed, without distorting much the results. **Credit risk – RWAs** To better reflect the embedded risk of the assets, the decree 1477 (2018) introduced new rules for the risk weighting of assets. The new regime, which is enforced since January 2021, further aligns the risk weighting of assets with the Basel III standardized approach for credit risk. Nevertheless, some

	exposures receive a less conservative risk weighting than what is laid down by the Basel III standardized approach. Specifically: • Cash deposits in entities supervised by the SFC and in foreign financial entities receive a risk weighting of 0 percent, irrespective of the credit rating of those entities, whereas a 20 percent floor is laid down by the Basel III standardized approach;[65] nevertheless, the Colombian authorities consider this treatment as being prudent given that deposits come before other liabilities in case of liquidation proceedings and that those entities are subject to prudential standards; they also stress out that cash deposits account for a small part of credit institutions' total assets (2.7 percent as of June 2021) • Exposures to the Colombian government, both in local and foreign currencies, continues to receive a preferential treatment, with a risk weighting of 0 percent, although the current credit rating of Colombia (BBB- or BB+ in May 2021, depending on the credit ratings agency) would normally warrant a 50 percent or a 100 percent risk weighting; this concessionary risk weight for domestic sovereign debt is only permitted under the Basel III standardized approach for sovereign exposures denominated in the domestic currency and not for Eurobonds; the Colombian authorities mentioned that Colombian government debt denominated in foreign currencies only account for a small part of credit institution's total assets (less than 0.1 percent as of June 2021); • Assets bought to comply with mandatory investments receive a risk weighting of 0 percent, irrespective of the credit rating of the issuers; the Colombian authorities mentioned that most of those mandatory investments are supposed to benefit from governmental guarantees and that they account for a small portion of banks' assets (about 1.2 percent in June 2021); • Exposures to a clearing house is set at 0 percent, whereas a risk weight of 2 percent is laid down by the Basel framework for exposures to qualifying CCPs; this concessionary rate was applied to further incentivize the central clearing of trading transactions; Colombian authorities mentioned that this share is small for credit institutions (0.1 percent of total assets); • Risk weighs for securitizations exposures are less granular and, overall, less stringent than those laid down by the External Ratings-Based Approach; the Colombian authorities explained that securitized assets account for a very small portion (0.1 percent as of June 2021) of the total banking portfolio, which explains the smaller level of granularity. Other deviations from the Basel III standard indicated by the Colombian authorities include:

[65] Cash deposits represent 2.7 percent of credit institution's total assets.

	• Exposures to non-central government public sector entities rated between A+ and A- receive a credit risk weight of 30 percent against 50 percent in Basel III ; according to Colombian authorities, this exposure is 0.1 percent of credit institutions' total assets as of June 2021 ; this is the reason why this exposure kept the same risk weight of multilateral development banks for this category; • Unrated exposures to multilateral development banks receive a credit risk weight of 100 percent against 50 percent in Basel III; according to Colombian authorities, credit institutions do not have exposures to unrated multilateral development banks as of June 2021; • Commercial real estate with a loan-to-value ratio between 80 percent and 100 percent receive a credit risk weight of 100 percent against 110 percent in Basel III; according to Colombian authorities, this exposure represents 0.4 percent of credit institutions' total assets as of June 2021; • Specialized lending exposures rated BB- or below receive a credit risk weight of 100 percent against 150 percent in Basel III; according to Colombian authorities, this exposure represents 0.3 percent of credit institutions' total assets as of June 2021; and • Equity securities that are not deducted from CET1 receive a credit risk weight of 100 percent[66] against 400 percent (for speculative unlisted equity exposures), 250 percent (for all other equity holdings) or 100 percent (for investments in commercial entities below some thresholds[67]) in Basel III; according to Colombian authorities, this exposure represents 0.5 percent of credit institutions' total assets as of June 2021. Data obtained suggest that, taken individually, most of the above-mentioned deviations may not have a material impact on the level of credit RWA. Colombian authorities estimate that the aggregate effect of such deviations from the Basel standards represents a reduction in total capital ratio of credit institutions of less than 1 percent. In addition, the decree 1477 (2018) recognizes guarantees and other risk mitigation techniques as a way to reduce the EAD. Overall, according to the SFC, the new regulatory regime is expected to decrease the average amount of banks' RWAs between 10 percent and 16 percent, respectively at consolidated and individual basis. **Thresholds** Since January 2021, four capital adequacy ratios are mandatory:

[66] Under article 110 of EOSF, credit institutions may only participate in the capital of other companies when they have been expressly authorized by general regulations (see CP7 for more details).

[67] Beginning on 1 January 2023, investments below the threshold will be subject to the risk weights applicable for equities.

	• a CET1 ratio of at least 4.5 percent; • A Tier 1 ratio of at least 6 percent; • A total capital ratio of at least 9 percent; and • A leverage ratio of at least 3 percent. Credit institutions have to comply with those minimum capital ratios both on an individual and consolidated basis (DL 2555, Art. 2.1.1.1.4). Furthermore, the decree 1477 (2018) introduced two additional buffers derived from the Basel III capital framework: • A capital conservation buffer of 1.5 percent; and • An additional buffer of 1 percent for DSIBs; the list of DSIBs is published every year on the SFC website. The capital conservation buffer is set at 1.5 percent, against 2.5 percent in the Basel framework, to compensate for the highest total capital ratio implemented in Colombia (9 percent) as compared with the one prescribed by the Basel framework (8 percent). However, no countercyclical buffer has been introduced in Colombia because credit institutions supervised by the SFC must already calculate and set aside countercyclical provisions to cover potential future losses on their loan portfolio (CBCF, chapter 2, Art. 1.3.4.1.). Those countercyclical provisions amounted to Col$4,098,243 million in December 2020 (i.e., 10.3 percent of total credit provisions or 0.8 percent of total loan portfolio). A transition regime is laid down for the gradual implementation of the Additional Tier 1 and buffers rules over a three-year period (Jan 2021–Jan 2024). In the end of the transition period, capital requirements for a DSIB will be as follows:

	CET-T1 (in %)	**T1 (in %)**	**T1 + T2 (in %)**
Minimum	4.5	6.0	9.0
Conservation buffer	1.5	1.5	1.5
Systemic risk buffer	1.0	1.0	1.0
Total	7.0	8.5	11.5

	Banks that will not have sufficient buffers will have to submit an adjustment plan to the SFC. Until full compliance is reached, there will be some limitations on the distribution of earnings and dividends, the suspension of bonus payment or any other discretional payment to related parties.
EC3	The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g., securitization transactions)[68] entered into by the

[68] Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.

	bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.
Description and findings re EC3	Since December 2015, the SFC has had the power to impose a specific capital charge based on the assessment of the risk profile of banks (DL 2555, Art. 2.1.1.1.15). Two complementary processes can be used: 1) As part of its risk-based approach, the SFC performs an evaluation of the adequacy of supervised entities' capital, considering their risk appetite framework and their risk profile. The assessment of the SFC is based on published criteria and an internal assessment guideline. This guideline describes appropriately some aspects to be taken into account for assessment of the capital position, namely the risk appetite, the stress testing and the ICAAP. It could be complemented by a list of relevant triggers or thresholds to consider in the assessment and guidance on what supervisory actions should be considered in case some of those triggers or thresholds are reached, depending on the activities of the supervised entity. One of the possible actions is to require an additional level of capital, in case the activities and risks of the supervised entity warrant it. The SFC pays particular attention to the appropriateness of the capital to support the bank's business plan, and capital management procedures and practices (capital plan, periodic reviews, stress tests, etc.). To this aim, the SFC leverages on various supervisory tools, including: (i) periodic reports of minimum capital ratios that are elaborated both on an individual and consolidated basis; (ii) results of annual bottom-up stress tests carried out by supervised entities based on scenarios designed by the supervisor; (iii) results of onsite inspections; and (iv) results of the top-down stress test developed together with the Central Bank and presented to the CCSSF. Based on this, the SFC has ordered in the last three years an increase of capital to two supervised entities, so that they achieve a capital adequacy ratio of 12 percent. 2) The internal capital adequacy assessment process (ICAAP) of supervised entities. This process is currently at an early stage. It may leverage on a stress tests exercise which is performed every year since 2015. In 2019, instead of imposing assumptions for the base and stress scenario, the SFC required that each supervised entity define its own scenarios which would result in incompliance with their capital and liquidity targets. Due to the Covid-19 crisis, the SFC postponed the 2020 stress test exercise until July 2021. Based on this and on a complete review of international standards, the SFC is expected to identify best practices as well as the main shortcomings of the techniques being used in order to enhance its regulation. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements. Off-balance sheet items are included after the application of a credit conversion factor of 10 percent, 50 percent or 100 percent (DL 2555, Art. 2.1.1.3.5).

EC4	The prescribed capital requirements reflect the risk profile and systemic importance of banks[69] in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.
Description and findings re EC4	Laws and regulations provide for adequate capital standards. In particular, the total capital ratio should be at least of 9 percent, which is stricter than the minimum one laid down by the Basel III capital standards even if there are some differences in how it is calculated (see EC1 and EC2 above). Colombian capital standards have been further strengthened with the introduction of a leverage ratio in January 2021 and will be better differentiated based on the systemic importance of banks, with an additional capital buffer gradually required for DSIBs over a three-year period (from Jan. 2021 to Jan. 2024).
EC5	The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use: (a) such assessments adhere to rigorous qualifying standards; (b) any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor; (c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken; (d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and (e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.
Description and findings re EC5	Standardized approaches are mandatory for the measurement of capital requirements against credit, market and operational risks, unless the bank has developed internal models for calculating credit risk provisions and/or measuring market risk exposures which have not been objected by the SFC (CBCF, chap. 2 & 21). Currently, no credit institution use an internal model for these purposes.

[69] In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

	The use of internal models is subject to a prior approval of the SFC, whose assessment relies on a set of documents and on minimal quantitative and qualitative criteria defined by the SFC. For instance, in relation to market risk, those documents should describe the models used to evaluate financial instruments, the internal model for the estimation of the value at risk, back testing results for a period of six months, and information on people in charge of measuring and controlling risks. Internal models should comply with minimal quantitative criteria. The SFC has the power to require the use of the standard model when quantitative criteria are not complied with for when the internal model does not adequately measure the market risk to which the supervised entity is subject.
EC6	The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).[70] The supervisor has the power to require banks: (a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and (b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.
Description and findings re EC6	Credit institutions shall maintain adequate capital levels to cover their current and potential risks exposure related to their business activities and strategic plan (DL 2555, Art. 2.1.1.1.15). This forward-looking approach allows both credit institutions and the supervisor to prevent or correct any capital shortfall. Moreover, based on this, credit institutions shall implement a capital adequacy self-assessment following the SFC instructions. Pursuant to the results of this self-assessment or its supervisory process, the SFC is entitled to impose additional capital charges following a forward-looking approach. Moreover, entities must perform stress tests at two levels (CBCF, chap. 28): (i) internal stress tests that entities must use within a three-year horizon of projections and use them for their financial planning; and (ii) stress tests required by the supervisor (bottom-up scheme), in accordance with two macroeconomic and financial scenarios, the baseline and the adverse. Based on these scenarios, credit institutions must project their balance sheet within a three-year horizon, assess their resilience in terms of credit, market, and liquidity risks, and identify their financial vulnerability in terms of capital, profitability and liquidity. If a credit institution identifies financial difficulties from the adverse scenario, it must submit a recovery plan that incorporates actions to mitigate the risks that give rise to any potential breach to regulatory minimums.

[70] "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyzes and reverses stress testing.

	Furthermore, pursuant to the MIS framework, the SFC is required to assess credit institutions' risk appetite statement, internal capital adequacy assessment and stress test, and the synergies across these three elements. Areas of special focus are the following: (i) the stress test used to assess the capital adequacy of the credit institution and its capacity to meet on a continuous basis both the capital requirements and internal targets; (ii) Risk tolerance measures; (iii) Internal Capital Plans; (iv) The ability to gather capital to meet current and projected needs; and (v) Contingency plans in case of stressed macroeconomic scenarios. When the supervisor identifies that a credit institution does not fulfill those requirements, depending on the evaluation results, the SFC might request further measures to improve the Capital Adequacy evaluation. These might include: (i) supervisory recommendations to apply the best capital adequacy practices; (ii) meeting with the management in order to evaluate the drivers of the lacking characteristics; (iii) asking for plans to overcome lacking practices; and (iv) direct requirements to Board members to implement best practices in capital management. In addition, as noted in CP11 above, in order to maintain a capital level according to the entity risk´s profile and, when this entity is nearing the minimum capital requirements (early warning), the SFC can require to the ES to adopt the needed measures to maintain an adequate capital level. For instance, the SFC may require the implementation of contingency capital plans, such as selling loans portfolio, stopping new loans, issuing subordinated debt or convertible bonds. In the same vein, as noted in EC2 above, when an entity does not have sufficient buffers, it has to submit an adjustment plan to the SFC. Until full compliance is reached, there will be some limitations on the distribution of earnings and dividends, the suspension of bonus payment or any other discretional payment to related parties. Finally, the SFC is currently planning to reshuffle its regulation in order to promote a more inclusive approach between the stress testing framework, Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP), and contingency, recovery, and resolution plans.
Additional criteria	
AC1	For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.
Description and findings re AC1	Capital requirements are the same for both internationally active banks and non-internationally active banks. The only difference between the two, which is

	consistent with the Basel III framework, is that an additional risk buffer for domestic systemically important banks (namely Bancolombia, Banco de Bogotá, Davivienda, and BBVA) has been set.
AC2	The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks.[71]
Description and findings re AC2	Capital requirements are set both on an individual and consolidated basis. Financial conglomerates must have sufficient capital to bear the risks to which they are exposed (FCL, Art. 5). As such: 1. Supervised entities of a CF should comply with the applicable regulatory capital requirements on an individual basis; and 2. On a consolidated basis, financial conglomerates shall maintain eligible capital resources at least equal to the sum of the individual regulatory capital requirements of the different entities which are part of it.
Assessment of Principle 16	**Largely Compliant**
Comments	This core principle has been assessed based on Basel III standards. Indeed, since 2012, Colombia has been gradually aligning its prudential regulations with the Basel III capital standards. The convergence toward the international framework culminated in 2018 with the introduction of the following changes to the Colombian regime: (i) introduction of new Tier 1 and leverage ratios calibrated as per Basel III; (ii) introduction of a capital conservation buffer of 1.5 percent and of an additional buffer of 1 percent for DSIBs; (iii) modifications to the list of instruments accepted as regulatory capital to further harmonize them with the international framework; and (iv) modifications to the risk weights of assets to make them more sensitive to their credit risk. The majority of the changes entered into force in January 2021. However, Tier 1 ratio and capital buffers ratios will be progressively implemented over a three-year period (Jan. 2021–Jan. 2024). Furthermore, operational risk was introduced in 2019 and entered into force in January 2021. Despite the gradual alignment, there remain some differences between Basel III and Colombian capital requirements for banks. When translating the international principles into their regulation, authorities have made some adjustments to reflect the specificities of the Colombian financial system and some discretionary choices allowed by the Basel framework. Overall, those adjustments and choices may reduce the capital requirements and improve the regulatory solvency ratios of Colombian banks. They include: i) a few lighter risk weighting of assets, such as a zero risk-weight for cash deposits in financial entities supervised by the SFC, Colombian government debt (both denominated in local and foreign currencies), mandatory investments on financial institutions backed by the government, irrespective of the credit rating of the issuers, and exposures to a clearing house; and ii) the recognition of minority interests above minimum capital requirements as eligible capital for entities subject to

[71] Please refer to Principle 12, Essential Criterion 7.

	prudential standards equivalent to the Colombian ones. It is then recommended to complete the alignment of regulatory capital requirements with the relevant Basel III standards. Moreover, since 2015, the SFC has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile. In the last three years, as part of its regular monitoring, the SFC has ordered an increase of capital to two supervised entities, so that they achieve a capital adequacy ratio of 12 percent. The assessment of the SFC is based on published criteria and an internal assessment guideline. This guideline could be complemented to give supervisors a clear guidance on what supervisory actions should be considered in case some predetermined triggers or thresholds are reached, depending on the activities of the supervised entity. One of the possible actions is to require an additional level of capital, in case the activities and risks of the supervised entity warrant it. Furthermore, the internal capital adequacy assessment process (ICAAP) of credit institutions is currently at an early stage, at least for nonsystematic banks. A pilot exercise was launched in 2019, by which the SFC required that each supervised entity define its own scenarios which would result in incompliance with its capital and liquidity targets. Due to the Covid-19 crisis, the SFC postponed until July 2021 the submission of the stress testing results. Based on this, the SFC is expected to identify best practices, as well as the main shortcomings of the techniques being used, in order to enhance its regulation. It is important that the SFC proceeds with its draft regulation as planned so that it formalizes the need for supervised entities to have a comprehensive management approach that links together the risk appetite framework with the ICAAP, ILAAP, stress tests, and recovery and resolution plans. Supervised entities will be required to periodically report the results of those exercises to the SFC.
Principle 17	**Credit risk**.[72] The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk[73] (including counterparty credit risk)[74] on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.
Essential criteria	

[72] Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

[73] Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities.

[74] Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

EC1	Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.
Description and findings re EC1	The credit risk framework and regulation are contained in Chapter II of the CBCF. The main purpose of this chapter is to provide principles, general criteria and minimum parameters that credit institutions (CI) must incorporate to design, develop, and apply an adequate credit risk management process (SARC). The SARC is the comprehensive reference framework for credit risk (CR) management, which includes the policies, processes, procedures, and controls defined by each CI, in accordance with its risk appetite and tolerance. The SARC guidelines, allow CIs to appropriately assess, rate, control and cover the CR assumed in their operations. This framework, covers all stages of the credit cycle (granting, monitoring and recovery, including portfolio normalizations), as established in Section 1.2, Chapter II, CBCF. The SARC main elements are: • Policies and processes regarding the credit risk (CR) bank evaluation, rating, controls, and mitigation; • Organizational structure that assures a rightful segregation of functions (duties) and resolutions of potential conflict of interests; and • Loan-provisioning system and methodologies to estimate and assess (quantify) expected losses. The loan provisioning system in Law 1314 of 2009 sets the principles and regulation regarding accountability and financial information Decree 2784 of 2012 requires Colombian issuers and financial institutions to follow IFRS standards. Since January 2015, those institutions have fully adopted IFRS, including IAS 39 and in January 2018 IFRS9 was adopted for consolidated financial statements. For unconsolidated financial statements, institutions must follow the credit risk framework and regulation contained in Section 1.3.4, Chapter II of CBCF. SARC covers current and prospective elements, for assessing borrowers' risk through the cycle and enables the bank to establish risk limits and set provisions. Banks perform an analysis according to the granting process, to permanently classify and reclassify the portfolio by risk, considering the objective conditions identified, as well as the evaluation of sectorial factors, macroeconomic environment and prospective factors that could have an impact on the debtor's future evolution. Each bank defines the frequency and scope of monitoring,

	according to the portfolio's type and the exposures' materiality, and establishes the minimum criteria it must meet to perform the exposures' risk classification (Sections 1.3.1.3 and 1.3.1.5, Chapter II, CBCF). Within the SARC policies, banks must also define the collateral requirement according to the type of credit lines offered, as well as the technical criteria for their valuation, considering aspects such as: objectivity, transparency of the information sources, integrity, sufficiency and the required technical conditions of evaluators (Section 1.3.1.4, Chapter II, CBCF). Sections 1.3.2.3.1 and 1.3.2.3.2, Chapter II, CBCF, establish that the bank must incorporate macroeconomic and sectorial conditions, both in the credit underwriting and monitoring stages, to which it may be exposed or may affect the borrower risk profile or the financed projects' risk profile. SFC monitors compliance with this regulation, and through the adoption of the Integrated Supervisory Framework described in CP 8, the SFC developed templates and guides, which define the relevant aspects to take into account for the analysis, evaluation, documentation, and construction of banks' risk profile. Through supervision activities (onsite and offsite), SFC evaluates the credit risk appetite framework to determine: the technical and qualitative support considered for its definition, its reasonableness according to the bank size and risk profile; the indicators defined for its monitoring and control, and the policies and actions related to the limits established and the early warning signs. Additionally, the supervisors validate that the risk appetite framework, has management and Board approval. For subsidiaries, the supervision's emphasis has focused on validating the degree of direction and coordination given from the parent company, in terms of policies, risk appetite guidelines, measurement and control, as well as the transfer of best practices and methodologies for the CR measurement and monitoring at the different stages of the credit cycle. In supervision activities, the subsidiaries' governance structure for risk management has also been verified, including CR, and the coordination between the different governance bodies established both in the parent company and its subordinates.
EC2	The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,[75] identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.

[75] "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

Description and findings re EC2	A review of credit risk management starts with a request to the bank asking for information on the credit risk management system and the current policies. Also reviewed are Board minutes to determine Board approvals and involvement in reviewing reports from management and audit on credit activities. Also evaluated are contents of the reports and indicators for the measurement and regular monitoring of the credit risk exposure, how they are tailored for submission to the Board and senior management and how exemptions to policy are approved. Additionally, for verifying the adequate credit risk and counterparty risk management (Section 4.1 Chapter XVIII of CBCF) the SFC carries out activities to evaluate the role of the Board and the Management regarding their responsibilities and functions. Supervisors evaluate controls and monitoring, to determine whether products offered by the bank, are in accordance with the business lines and risk appetite defined by the Board of Directors. These aspects are evaluated in the supervision processes, through the verification of the banks organizational structure set up for credit risk management, and the identification of the roles and responsibilities of the management and Board in the definition and approval of the risk appetite framework, the strategic business lines and the risk management systems and policies. Additionally, the "Board of Directors Guide" and "Senior Management Guide," provide guidance for the supervisor to validate the mandate, processes, tools and performance of controls. In these guidelines, the supervisor finds the basic criteria that should be considered when determining the adequacy of management and the Board in the performance of their duties. The scope of the review may include a general review of the operation of the credit risk lines and how they are coordinated with the strategy, capital, and liquidity of the bank. Moreover, whether these are prudent under the bank's risk profile, and if they are reviewed and updated on regular basis.
EC3	The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including: (a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments; (b) well-defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures; (c) effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in

	the case of securitization exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system; (d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's Board and senior management on an ongoing basis; (e) prudent and appropriate credit limit, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff; (f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary; and (g) effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.
Description and findings re EC3	• According to the General Considerations of Chapter II of CBCF, the bank must adopt a risk management system that contains policies and processes for CR management. Additionally, the areas responsible of the CR management (senior management and internal control) must adopt the necessary mechanisms to assure the adequate implementation of such policies and processes, as referred to in Article 1.3.1, of Chapter II of CBCF. The CR management process must address organizational structure and adequate staff, with well-defined areas assigned responsibility for CR management. Bank must define internal policies to prevent and sanction possible conflicts of interest, and to control the use and reserve of information. One of the essential aspects validated during supervision processes is the consistency, updates, and proper implementation of risk management. This system compiles the policies, processes and procedures adopted by the bank for CR management and contains the responsibilities and functions assigned to each area and staff involved. The Board of Directors must approve its content and updates. Evaluating this system is essential within the activities of supervisors to assess the proper CR management. • According to Article 1.2, Chapter II of CBCF, SFC requires and verifies that the bank on an ongoing basis evaluates credit risk, both at the time of underwriting and throughout the loan cycle, including portfolio-restructuring processes. Supervisors validate that the bank has proper approval requirements, that are consistent with the levels of exposure and risk assumed. This validation is carried out through supervision activities like on site, off site or monitoring process, where supervisors evaluate the approval delegation

	levels of granting, restructuring, follow-up, and reclassification of credit exposures considering the bank´s size and complexity. • Section 1.3.1.3, Chapter II of CBCF, specifies that at credit underwriting stage the bank must consider the basic characteristics of the borrowers and the risk tolerance levels in its own policies (risk appetite framework), which allows it to discriminate among its potential borrowers. According to Article 1.3.2.3.1, Chapter II of CBCF the minimum parameters to be taken into account in the credit underwriting stage are: borrower's risk profile, evaluation of his/her payment ability, loan financial conditions, collateral, sources of payment and macroeconomic conditions that may affect the borrower's or financed project ability to repay its obligations. Paragraph b, Article 1.2.2.3.1, Chapter II of CBCF, specifies that the CI must have methodologies for segmentation and discrimination of the credit portfolios that allows to determinate the borrower's risk profile. Additionally, these methodologies contribute to the monitoring and control of portfolio's credit exposure. Collateral is considered for the estimation of expected losses, thus, it is necessary that banks have adequate policies and procedures for their classification, valuation and updating, as is described in CP 18. SFC evaluates implementation of the policies through the credit lifecycle (underwriting, monitoring and recovery). Supervisors validate the consistency of the methodologies used to measure borrower's credit risk profile, monitoring and adequate risk disclosure of credit exposures. For example, in the analysis of borrower's payment ability, supervisors evaluate the methodologies and sources of information used by the bank to determine borrower's income and expenses, as well as the inclusion in the total debtor´s exposure of contingent obligations, among others. • In accordance with the "Risk Management Guide," Paragraph b, Article 5.1, a key aspect considered by the supervisor when evaluating credit risk management is whether or not the bank submits detailed reports on a timely basis to the Board of Directors and Senior Management. These reports should include analysis of the bank's exposures to inherent risks, results of stress tests and/ or scenario analysis, risk return analysis, risk appetite and limits. To validate the effectiveness of the information systems and the quality of the monitoring reports the supervisor requests examples of these reports, their objectives, frequency, and the decisions taken based on such information. In the onsite supervision processes, it validates the degree of automation and the quality of the information used as an input and generated to monitor the indicators regarding the evolution of the exposure level and credit quality.

	• In line with letter (b), the bank must set its credit limits in accordance with its risk appetite, risk profile and capital strength. These limits and any change on them should be informed to relevant staff on regular basis. The "Risk Management Guide," lists the minimum criteria that supervisors should consider when evaluating the performance of the Risk Management function. Within these criteria are the following: a) Risk control culture, which includes the determination of risk appetite aligned with CI´s policies, guidelines, and risk limits for CR management. (b) regular updating of policies, practices, and limits in response to changes in industry and strategy, business activities and risk appetite c) Integration of policies, practices and limits to daily business activities. In the supervision processes, the SFC evaluates the suitability of the credit limits defined by the bank, as well as their follow-up and monitoring which is carried out to control their compliance and identify early warning signals. • The Board has the mandate to assign responsibilities and attributions to the relevant staff and areas in charge of credit risk management. In the supervision processes, a review of how exceptions are granted is conducted, this includes the evaluation of whether or not the bank has defined policies, limits, information systems to identify and monitor the exceptions, reports and mechanisms to validate the compliance with internal policies in this matter. • Section 1.3.2.3.2, Chapter II of CBCF specifies the minimum conditions to be considered by the bank in the development of internal models and methodologies used in the credit processes. These methodologies must be reviewed at least twice (2) a year to validate their suitability, the relevance of the variables incorporated, and tested under extreme scenarios and conditions (Stress Testing). Supervisors evaluate the consistency and maintenance of the bank´s internal models for underwriting, monitoring, and recovering stages of the portfolio, and validates among other aspects, the technical criteria supporting models, methodologies and results of back testing and proper documentation. As part of the supervisory work aimed at validating the reasonableness of the methodologies, several offsite exercises were conducted during 2020, to validate the incorporation of new information and variables in the rating methodologies, to capture the incredibly special macroeconomic and sectorial current conditions generated by the Covid-19 pandemic. Among the new information the banks have incorporated, there are, for example, the incidence of the portfolio measures applied by the bank, emerging risks which impact differently the economic sectors, variables to measure changes in the debtor income, among others.
EC4	The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk

	factors that may result in default including significant unhedged foreign exchange risk.
Description and findings re EC4	Paragraph c, Article 1.3.2.3.1, Chapter II of CBCF, regarding credit underwriting, sets the obligation for the CI to analyze current and expected repayment capacity as a key element when determining his/her probability of default. To do this, CI must consider at least the following information: Borrower´s solvency (including global exposure level, quality and composition of assets, liabilities, equity, and contingencies), as well as the historical and current payment history. Borrower´s or financed project´s cashflow, considering all possible sources of risks to which it is exposed. This implies to perform scenarios analysis using macroeconomic variables (such as interest rates, exchange rates, GDP growth. Financial and nonfinancial risks analysis, including market risk associated to possible "mismatches" of currencies, credits lifespan, interest rates, and contagion, legal, operational, and strategic risks. Chapter II of CBCF specifies that the whole CR analysis must be done not only to debtors, but also to co-debtors, guarantors, joint debtors and in general, to any individual or legal entity acting or that may act directly or indirectly as a debtor. Although this evaluation is part of the credit underwriting process, the follow up process implies a continuous monitoring and rating of the credit transactions according to the underwriting process. In the follow-up process, among the minimum information to be considered are the following: financial information or alternative information that allows knowing the financial situation of the borrower or financed project, sectorial and macroeconomic information that might affect debtors and can lead to potential changes in the loans' conditions, as it is established in Article 1.3.2.3.2 of Chapter II. Through supervision activities (on site or off site according to the annual supervision plan), the SFC evaluates the methodologies and practices used by the bank in the credit underwriting, monitoring and recovery of the portfolio. This includes the validation of all the criteria defined by regulation to analyze borrower's payment ability. Additionally, cross-sectional analyzes have been carried out to measure the debtors' level of financial burden, identify the variables that have the greatest impact on high financial burdens and generate alerts for banks with segments more sensitive to these financial burdens. This type of analysis is partnered with the banks, and some of them were required to support the methodologies and indicators used to measure their debtors' financial burden and how these indicators are used for decision-making. As part of this work, best practices were also identified, such as the use of differential levels of payment ability requirements (when defining the exposure granted to clients) according to the clients' level of financial burden.
EC5	The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.

Description and findings re EC5	Numeral 6, Article 98 of EOSF, related to conflicts of interest, states that within the business of institutions supervised by the SFC, their directors, legal representatives, auditors, and in general any staff member with access to privileged information, have a legal duty to abstain from carrying out any transactions that gives rise to a conflict of interest. The SFC will impose the appropriate penalties, in accordance with the general sanctioning regime within its competence, when a bank allows transactions that give rise to a conflict of interest.
EC6	The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities.
Description and findings re EC6	Article 122 of EOSF—sets that transactions with managers and shareholders who own five percent (5 percent) or more of the subscribed capital require unanimous vote of the members of the Board of Directors attending the respective meeting to be approved. This applies as well for those transactions with spouses and relatives of their partners and administrators within the second degree of consanguinity (parents, children, brothers, grandparents, and grandchildren), affinity (spouse's parents, children, brothers, grandparents, and grandchildren) and civilian (adoptive children and parents). The SFC, when rating the performance of credit risk management, evaluates whether the Board opines on risk exposure and suitability of credit risk management, when bank launches new products, enters new business lines or new markets.
EC7	The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.
Description and findings re EC7	Section 2.4.2, Chapter II of CBCF, provides instructions about the management and availability of information corresponding to borrower's credit files and databases including qualitative or quantitative information that support the models and methodologies adopted for underwriting, follow-up, and recovery. This information must be available to the SFC. Annex 1 of the CBCF, requires CI to periodically submit standardized information that allows access and to perform detailed analysis on credit and investment assets. Some of the more relevant templates submitted by the CI on a regular basis to the SFC are shown in the following table. The SFC has full access to staff, responsible for managing, controlling, and reporting on credit risk. Through onsite or offsite supervision exercises, supervisors have the power to request additional information, as well as request meetings, working

groups, presentations and interviews with the CI officers and responsible areas in charge of topics subject to inspection. On the other hand, regarding foreign subordinates, as mentioned in BCP 3, BCP 12 and BCP 13 regarding consolidated supervision, the Section 8, Article 326, EOSF empowers the SFC to promote mechanisms that allow information exchange with foreign supervisors, enabling confidential information sharing, with the commitment that the receiver of such information will treat it as confidential.

Format Number	INFORMATION DESCRIPTION
88	Interest rates; disbursements and fundraising
281	Active and liabilities Accounts of financial statements - weekly
322 - 323	Loan exposures and fundraising by municipality
341	Debtor Report – Individual Credit Loans
343	Sale and/or Purchase of credit loan and/or write-off of uncollectable loans
351	Investment portfolio
453	Portfolio exposures per product
454	Amount and number disbursements loans by product
455	Disbursements of mortgage loan for vintage analysis
456	Disbursements of microcredit loan for vintage analysis
457	Disbursements of personal loan for vintage analysis
466	Credit Card
507	Write-off of uncollectable loans or loans recovery
527	EPR (stress tests)
536	Modification and restructuring of loans

In addition to the official standardized templates referred to in the table above, a quarterly report was developed in March 2018, for the supervision of the portfolio's main subsidiary accounts, which is only required from banks that consolidate financial statements.

EC8	The supervisor requires banks to include their credit risk exposures into their stress testing programs for risk management purposes.
Description and findings re EC8	The SFC implemented EPR whose main objectives are: (i) identify risks that may affect the bank´s business viability; (ii) facilitate the adoption of timely decisions when it is required; and (iii) examine the bank´s consistency of capital, liquidity, assets, and liabilities. Chapter XXVIII of the CBCF establishes the objectives, characteristics, responsibilities, and reporting duties related to EPR tests. Annex 1, of the same chapter, provides the guidelines and scenarios for carrying out the respective tests. In particular, Article 4.1 of Annex 1, details the minimum aspects to be considered in the development of such tests, with respect to credit risk.

	Through supervision, it is possible to evaluate the consistency of credit risk information, forecasts and assumptions used when performing these tests. The results obtained from supervision processes are used to give feedback to the bank to strengthen its test and serve as an input in its financial planning and risk management.
Assessment of Principle 17	**Compliant**
Comment	SFC places significant emphasis on credit risk and performs onsite verification of credit files and bank analysis of borrowers' credit capacity. Assessors were provided cases demonstrating file reviews and changes required of the bank on loan classifications. Requirements explicitly addresses conflicts of interest and arms' length for related parties (EC 5) however, it does not have an all-inclusive for all transactions to be at arms' length, not just related parties. A threshold is not established as to large loans that must be approved by the Board (EC 6).
Principle 18	**Problem assets, provisions and reserves**.[76] The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.[77]
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.
Description and findings re EC1	The regulation related to portfolio classification and provisioning for individual financial statements, is contained in Chapter II, CBCF. Regarding consolidated financial statements, local regulation does not contain any specific guidelines or requirements, because in such case, banks must follow IFRS9 standards. Regulation requires CIs to formulate policies and processes to identify and manage doubtful assets; CIs must have policies and processes to manage, in a timely manner, delinquent/nonperforming loans to maximize recoveries. This implies criteria and procedures established for the following: • The execution of collection tasks and those responsible for their development; • The evaluation of loan modifications and restructuring; • The management of goods received as payment; and • The decision of loan write-offs. Chapter II, CBCF contains the minimum policies and processes to be considered by the CI when restructuring loans. Regarding policies, the CI must consider at least: (i) requirements or conditions for a loan to be restructured; (ii) mechanisms to

[76] Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

[77] Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

	identify and monitor restructured loans; (iii) the staff responsible for restructuring decisions; and (iv) mechanisms of borrowers' disclosure about the conditions for access to restructuring. Regarding the processes, CIs must consider at least: (i) the conditions to establish the actual deterioration of the borrower's payment ability; (ii) the criteria for establishing the restructuring financial viability; (iii) the rating of the restructured portfolio, and (iv) the identification and monitoring of restructured loans. Modified loans must be subject to special monitoring until the borrower makes regular and effective principal and interest payments for a period of 9 consecutive months for microcredit loans and 12 months for other portfolios (commercial, consumer and mortgage loans). Modified loans with more than 30 days in arrears must be classified as restructured loans, and CIs must establish policies and procedures for their adequate management and monitoring. The CI's portfolio must be classified and provisioned, from the moment loans are granted. In the follow-up stage, the CI must carry out continuous monitoring and rating update consistent with the underwriting process. This update implies adjustments to the ratings when new analyzes are conducted, or new information becomes available that justify such changes. The supervision of the adequate implementation of normalized portfolio management guidelines (modified and restructured) is carried out through various mechanisms such as automatic control panels, that calculate indicators such as the volume of a modified and restructured portfolio by modality, product and economic sector, its relative importance regarding the total portfolio, the percentage of modified portfolio with early arrears, the proportion of restructured portfolio with arrears greater than 30 days and its due default rating. Furthermore, through onsite visits the CIs' information systems have been validated to verify that they have marking and monitoring mechanisms for the standardized portfolio, and that the measures applied are in line with the debtor's risk profile. Among the most relevant aspects that are validated by supervisors, are the following: • That the modifications apply only to debtors with early arrears and temporary impairment of their payment ability; • The curation times (special monitoring or restructuring mark) defined in the regulation according to portfolio type; • The migration from modified portfolio with arrears (whose length of arrears varies according to portfolio type) to restructured; • The past-due default disclosure of the restructured portfolio with arrears greater than 30 days; and • That portfolio normalization is not a regular practice used by CIs to regularize the debtor's payment behavior.

	In the recovery stage, the rating must be consistent with the risk analysis. Restructured loans have special rating rules. In addition, the CI, must perform an internal alignment process, which consists of bringing the loans of the same type granted to the same debtor to the highest risk category, and reviewing the credit behavior with other entities. Individual provisions for mortgage and microcredit portfolios correspond to certain percentages given according to the rating (risk category), considering the collateral's value. General provisions are 1 percent of the total value of mortgage and microcredit loans. In the case of provisions, the COLGAP standard provides the minimum prudential aspects that CIs must address to estimate the portfolio's expected loss: i) the evaluation of potential debtors' risk profile since granting, so that from disbursement all exposures count with the provisions that are according to their level of risk, ii) the determination of default probabilities for a 12-month horizon, and iii) the integral evaluation of the debtor's risk profile that contemplates objective variables such as the loan's length of arrears and additional information such as the debtor's or financed project economic sector, the macroeconomic context, the analysis of the debtor's payment ability and financial information, among others. Annex 2, Chapter II, CBCF contains the rules for rating the restructured portfolio with special characteristics, such as business reorganizations (insolvency proceedings). Annexes 3 and 5, Chapter II, CBCF contain the "Commercial Portfolio Reference Model" and the "Consumption Portfolio Reference Model" adopted by the SFC, which provide the classification rules for the commercial[78] and consumption[79] portfolios, as follows "AA," "A," "BB," "B," "CC," and "Default."[80] These categories reflect the debt's conditions and other criteria described in the regulation. Provisions for commercial and consumer portfolios cover risks associated with expected losses, which results from the application of a formula that considers: (i) the estimated probability of default for a 12-month period, for specific segments and in accordance with the portfolio rating; (ii) exposure at default; and (iii) the loss given at default, which considers the type of collateral and the days after default. In addition, provisioning policies must consider countercyclical provision adjustments, so that in periods of credit quality improvement, higher provisions are constituted to compensate in some degree for those that should be constituted in periods of credit quality deterioration.

[78] Commercial portfolio: are loans granted to individuals or legal entities for the development of organized economic activities other than microenterprises (Section 2.1.1, Chapter II of CBCF).

[79] Consumer portfolio: are loans granted to individuals to finance the purchase of goods or payment of services for nonbusiness purposes. (Section 2.1.2, Chapter II of CBFC)

[80] For accounting and reporting purposes, the indicated risk categories are reported using an equivalence table, which is indicated in Paragraph b), Article 2.2., Chapter II of CBCF.

	Since its implementation and until the first quarter of 2020, six CIs made use of these countercyclical provisions to cover their increased provision expenses associated to higher portfolio deterioration. On the other hand, between March and October 2020, given the economic and financial stress derived from the pandemic, nine CIs have decumulated their countercyclical provisions. The accounting recognition of losses is based on the portfolio's write-off, which are assets that cannot be recovered and therefore represents a loss for the CI. Write-off must be approved by the Board of Directors according to Chapter V, CBCF. The write-off status does not relieve the CI from continuing with the portfolio's collection efforts.
EC2	The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes
Description and findings re EC2	The SFC evaluates the portfolio classification and rating processes, as well as the correct constitution of provisions on an ongoing basis. The evaluation is made by the supervisors through onsite and offsite inspections or taking into consideration the evaluation made by external auditors (statutory auditor) and the CI's Internal Audit1.[81] The general framework for CR management requires CIs to have external audits, to evaluate the quality of the CI's work. External auditors must report their findings to the SFC in the performance of their collaborative duty; particularly all relevant aspects regarding the SARC management identified and communicated to the CI management, indicating the level of incidence and nonfulfillment of the instructions given by the SFC regarding CR management. Year-end consolidated financial statements must have an opinion from the Statutory Auditor, including compliance verification with the accounting and disclosure guidelines established in IFRS9. Title 6, D2555, gives to the SFC the authority to order, through a duly motivated administrative act, the hiring of external audits, which must be paid by the CI, in any of the following events: • When, for technical reasons regarding the CI's operation or businesses, a specialized analysis of some issue is required. • When situations arise that require specialized studies, as they involve risks or circumstances that may affect the public interest, or the stability, security and confidence of the financial system and stock market, and/or the interests of financial consumers.

[81] The quality of the performance of the Internal Audit function is evaluated among other factors by its effectiveness in providing independent oversight over the quality and effectiveness of internal control, risk management, corporate governance systems and processes.

	• When situations arise that require a specialized study, as they involve risks or circumstances that may affect the stability, security and public confidence related to a particular CI. The SFC has, on rare occasions, required CIs to hire external auditors when there are facts or circumstances that require the issuance of a technical and specialized opinion, on specific aspects defined by the SFC. Through onsite and offsite supervision, the SFC evaluates: the "Internal Audit Function" performance and the follow-up process of the results and findings, to establish deviations in the application from the instructions given by the SFC and those defined by the CI management. At the consolidated level, supervision activities have been focused on validating the communication of guidelines and good practices regarding risk management policies, practices, and methodologies at the different stages of the credit cycle, from the head office to its branches and subsidiaries.
EC3	The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.[82]
Description and findings re EC3	Regarding the classification and provisioning of off-balance sheet positions, the regulation provides (Section 1.3.3, Chapter II, CBCF) the inclusion of contingent rights as part of the asset exposure. Additionally, according to the new standards for the solvency margin in compliance with Basel III, to compute the RWAs, the contingencies held by the CI (e.g., irrevocable/revocable credit letters, bank acceptances, guarantees, approved undisbursed loans, among others) are included using conversion factors defined in the regulation. For the estimation of expected losses under IFRS9 standards, the SFC has performed cross-sectional analyzes considering some domestic and foreign conglomerates. Through this work, supervisors have identified the incorporation of off-balance sheet assets when computing expected losses (e.g., suspended interests, bank guarantees, credit card quotas, revolving credit quotas, among others). Supervisors have also evaluated how internal models defined by each CI incorporate the impact of macroeconomic conditions on the determination of risk and provisions levels on loan exposures.
EC4	The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.
Description and findings re EC4	The SARC must include clear and precise policies and procedures to define the criteria by which CIs should cover CR. For this purpose, the management and control areas must adopt special policies and mechanisms for adequate CR management, from its coverage perspective through a system of provisions (General Considerations, Chapter II, CBCF).

[82] It is recognized that there are two different types of off-balance sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning), and those that cannot be unilaterally cancelled.

	Provisioning policies must explicitly consider counter-cyclical adjustments, so that in periods of credit quality improvement, higher provisions are constituted to compensate in some degree for those that should be constituted in periods of credit quality deterioration. As stated in EC1, since the definition of counter-cyclical provision, several CI have reversed this provision to meet higher provisioning requirements associated to increases in portfolio deterioration. However, the greatest use of this provision was in 2020, given the stress conditions on portfolio exposures derived from the pandemic. Clause 13 of the CE 022 of 2020 establishes the criteria to be met by the CI for reversed countercyclical provisions during this stress period. Such criteria are validated monthly by the supervisor. It is important to specify that when a CI fulfills the decumulation conditions, it has the power to decide whether to make use of these provisions or not. To determine the methodology to be applied for the calculation of these components, CIs must evaluate monthly four indicators to measure: i) deterioration (portfolio at risk provisions taken to expenses), ii) efficiency (ratio between net recovery provisions against portfolio interest), iii) fragility (ratio between net recovery provisions against gross financial margin) and iv) gross portfolio growth. To cover the credit transaction's CR, according to Sections 1.3.3 and 1.3.4, Chapter II, CBCF, the CIs SARC must have a provisioning system that reflects the borrower's CR, and provisions must be calculated based on expected losses. The results of the provisions calculated through the reference models are submitted monthly by the CIs to the SFC in the interim financial statements. In the supervision processes carried out by the SFC, the portfolio rating methodologies are evaluated (in the granting and monitoring stages) to ensure they consider risk variables such as sector, macroeconomic and market conditions, as well as whether the provisions constituted are sufficient or not to cover the identified risks and require any adjustments when necessary. Additionally, through cross-sectional analyzes, the level of credit exposure and its associated risks has been evaluated for specific sectors (for example, the analysis of the construction sector), which evaluate factors such as the sector's dynamics, maintenance and recovery of debtors, the existence of mechanisms such as extensions, exposure coverage levels regarding sales of units built, or sales of inventories built, among others, in order to determine if the risk rating and the level of provisions given to these exposures is adequate. In relation to consolidated financial statements, the SFC has carried out specific monitoring processes, to learn how CIs update some of the methodological parameters for estimating expected losses under the internal IFRS9 models. It also has performed horizontal analyzes to identify the mechanisms through which CIs incorporate macroeconomic conditions into their internal models and how these affect the estimation of provisions.
EC5	The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for

<table>
<tr><td></td><td>ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (e.g., 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (e.g., rescheduling, refinancing or reclassification of loans).</td></tr>
<tr><td>Description and findings re EC5</td><td>CBCF, requires the development of policies and procedures that allow the CI to take timely action to handle defaults. These procedures must be approved by the CI's Board of Directors and executed by the management, identifying the responsible staff and defining the criteria for: (i) the development of collection activities; (ii) restructuring evaluation and approval; (iii) management of assets received as payment; and (iv) portfolio write-off decisions.

Chapter II defines the criteria for classifying portfolio assets for each loan modality (the different portfolio types. Risk categories must reflect the borrower's financial situation, payment ability and other information that allows establishing compliance with their current and future payments.

In the borrower's creditworthiness evaluation, one of the objective criteria to determine the risk category is the number of days in arrears that a transaction reports at the time of evaluation.

These risk categories, considering the objective minimum criteria are shown in the tables below:

<table>
<tr><th>Risk Category</th><th>Mortgage Months at Default</th><th>Microcredit Months at Default</th></tr>
<tr><td>A or "normal risk"</td><td>Less than 2</td><td>Less than 1</td></tr>
<tr><td>B or "acceptable risk higher than normal"</td><td>2 to 5</td><td>1 to 2</td></tr>
<tr><td>C or "appreciable risk"</td><td>5 to 12</td><td>2 to 3</td></tr>
<tr><td>D or "significant risk"</td><td>12 to 18</td><td>3 to 4</td></tr>
<tr><td>E or "risk of default"</td><td>More than 18</td><td>More than 4</td></tr>
</table>

Additionally, restructured credit transactions that are over 90 days in arrears for mortgage loans (with the exception of restructuring processes carried out under the adoption of Article 2 of Law 546 of 1999),[83] and those that are over 60 days in arrears for commercial, consumer and microcredit loans, should be assigned risk category "D" or "significant risk."

For consumer loans (Annex 5, Chapter II), the category assignment depends on the scoring model results, which include variables such as the current default, maximum default, and annual default behavior, considering the payment history of the last 36 months, among others.</td></tr>
</table>

[83] Except for restructuring process carried out under the adoption of Article 2 of Law 546 of 1999.

	Commercial loans Risk Category / Days at default: AA — Up to 29 A — 30 to 59 BB — 60 to 89 B — 90 to 119 C — 120 to 149 D — More than 149 Default[84] is the event that a credit, according to its modality, meets at least the following conditions: (i) commercial, payment's past due more than or equal to 150 days, or if restructured, greater than or equal to 60 days; (ii) consumer loans past due more than 90 days, or if restructured more than or equal to 60 days; (iii) mortgage past due more than or equal to 180 days; and (iv) microcredit, past due more than or equal to 30 days. However, considering potential or actual deterioration of the borrower's payment ability, in order to allow them to handle their obligation adequately, the CI may modify the loan's originally agreed conditions. These changes in the conditions are catalogued as "modified" loans, and must meet the following criteria: (a) the new conditions must allow payment of the loan, (b) the risk rating will be assigned according to the risk profile observed at the time of the modification (under the conditions indicated in the EC1 of this principle), (c) these transactions will be monitored for a defined period of time according to the portfolio modality and during which effective payments to principal and interest must be made, and (d) if the modified loan shows arrears of more than 30 days, it must be reclassified as restructured. The restructuring process must also allow the borrower to meet the obligation in the face of actual deterioration of their payment ability, and the CI must have an information system that allows it to identify and monitor these credit transactions. These transactions must be classified in accordance with the risk analysis and payment ability (considering the criteria set out in EC1 of this principle). For these transactions, the rating cannot be higher than the category assigned before its restructuring. To improve such rating, a lower risk category may be assigned as long as: i) the borrower's payment ability improves, and the new situation implies an improvement in the loan's rating; ii) the borrower made regular and effective payments of principal and interest for at least six months. The CI must evaluate and re-qualify the loan portfolio in the following cases: (i) if the loans incur in payment delays after being restructured; (ii) at least twice a year in the months of May and November; and/or (iii) when it is known that the borrower is in any type of legal or administrative process that may affect their payment ability.

Nested table (Commercial loans):

Risk Category	Days at default
AA	Up to 29
A	30 to 59
BB	60 to 89
B	90 to 119
C	120 to 149
D	More than 149

[84] When the credit transaction is classified in the "default," its PD (probability of default) is 100 percent (Annexes 3 and 5 of Chapter II of CBCF).

	The SFC carries out continuous monitoring and control of the CIs portfolio rating and provisioning policies and procedures, validating the application of these regulations, to identify possible deviations in risk rating assignment and lower provisioning coverage, in order to require the respective adjustments. In relation to the restructured portfolio, the SFC has conducted regular supervisory activities to validate the proper identification, monitoring and assignment of the restructured portfolio's risk rating in accordance with the regulatory guidelines. The issuance of CE 026 of 2017 defined homogeneous rules for the CIs in relation to the authorized strategies for normalization (credit restructuring and modifications) and portfolio recovery. Since the application of this standard, the SFC has carried out different onsite and offsite supervision processes, aimed at validating the normalization policies, the processes to determine a loan modification or restructuring in compliance with the regulatory parameters, the information systems for the right marking, rating, and monitoring of these transactions, as well as the independence of the areas responsible of approval and follow-up of said loans. Additionally, along with the issuance of this regulation in November 2017, the SFC created Template 536 to require detailed information on a monthly basis on these loans, for the construction of early warning signs that allow the timely identification of possible non-compliance of the regulation and requiring any necessary adjustments. For consolidated financial statements, supervisors have validated the criteria defined by the CI for their portfolio's segmentation into stages, and how these criteria are aligned with IFRS9 standards (e.g., the number of days in arrears for a loan to be classified at each stage). Supervisors have also validated the criteria considered by CI to determine when there is a significant change in the credit risk, which implies changes in the probability of default and the reclassification of credit exposures between stages, as well as those used to define loan write-offs.
EC6	The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.
Description and findings re EC6	The SFC obtains information (reports) on a regular basis that allows it to examine the portfolio's classification or rating and provisions. Among the most used reports are the following: • Template 341 "Borrower's Individual Credit Exposure." Compiles borrower's individual credit exposure. Includes each borrower's risk category, individual and counter-cyclical provision, among others. For accounting and reporting purposes, the risk categories of the commercial and consumer portfolios. This report is submitted to the SFC and credit bureaus quarterly. • Template 453 "Balance exposure by products" compiles information about the portfolio's exposure by type of product. The CIs report the portfolio's balance by risk rating for each portfolio product and segment. The frequency of transmission of this information is monthly.

	• Template 477 "Consolidated Report on Individual Portfolio Provisions" Collects disaggregated information regarding individual portfolio provisions and their respective components. The frequency of transmission of this information is monthly. • Template 536 "Individual Report on the Modification and Restructuring of Credit information on modified and restructured loans by borrower. Includes, among other information, the loan's risk rating and provisions. • "Financial Statements" Chapters VII to X, CBCF, include information on the classification and provisions of the CIs portfolio. In the case of intermediate financial statements, the information is received monthly, and for consolidated financial statements, it is received quarterly. The SFC requests the portfolio's data files to validate the correct classification, rating, and provisioning of the portfolio. CIs must keep borrowers' credit files and the databases that support their models. These files must contain the borrower's financial and socio-demographic information; information about the collateral and other relevant data considered in the granting and monitoring methodologies. Additionally, all quantitative and qualitative information that supports the granting and monitoring models must be available for review by SFC.
EC7	The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g., if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.
Description and findings re EC7	The SFC determines through supervisory processes whether portfolio classification and provisioning are consistent with requirements. The SFC also has authority to do the following: • Order adjustments or modifications to risk ratings. • Order adjustments to the level of provisions if the provisions constituted are considered insufficient or inadequate. • Order the suspension of practices through which provisions are reversed and the rating of the restructured loans is improved.
EC8	The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realizable value, taking into account prevailing market conditions.
Description and findings re EC8	To evaluate the support and probability of realizing of each collateral, Paragraph d, Section 1.3.2.3.1, Chapter II of CBCF, establishes the minimum factors that CIs must consider regarding the collateral: nature, value, coverage, and liquidity. In addition, the potential costs to eventually sell the collateral must be estimated, as well as the legal requirements for its enforcing.

	Section III gives the instructions to determine the collateral's value at granting and its update through time, it also gives instructions related to the different valuation methods at granting and follow-up stages, as well as the appraisal's validity and updates made to the collateral's value according to each type of collateral. The SFC supervises that the CIs carry out a correct valuation and updating of the collateral in the terms defined in the regulation and verifies compliance with the collateral's suitability characteristics. In cases where collateral's value is not updated in accordance with the regulatory guidelines, they must be reclassified to the unsuitable category and cannot be considered for the calculation of the expected loss or portfolio provisions. At the consolidated level, the SFC verifies that CIs that consolidate financial statements under IFRS9 guidelines also incorporate the analysis, valuation, and design of methodologies for the purpose of considering collateral in the calculation of provisions.
EC9	Laws, regulations or the supervisor establish criteria for assets to be: (a) identified as a problem asset (e.g., a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and (b) reclassified as performing (e.g., a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).
Description and findings re EC9	The SFC has established risk categories grouping loans sharing common characteristics. These risk categories consider, for example, loans that reflect an appropriate structure and attention, up to those whose borrowers present serious deficiencies in their payment ability that may affect the collection of such loans. The number of days in arrears is one of the criteria to be considered for the rating assignment, but it is not the only one, since other risk factors are evaluated, such as: the borrower's payment ability, their level of exposure, the quality and composition of their assets, cashflow, among others. In the case of restructured portfolios, the regulation provides specific conditions for gradually assigning a lower risk rating. These conditions are: (i) it is verified that the borrower's payment ability meets the criteria for improving the rating; and (ii) regular payments of principal and interest have been made for six consecutive months. This implies that the restructured portfolio must be permanently monitored, including its rating. In the case of a modified loans, the regulation provides that the rating must be updated according to the risk analysis performed by the CI in accordance with the instructions provided in Paragraph c, Section 1.3.2.3.2.1, Chapter II, CBCF. The modified portfolio is subject to special monitoring; However, once the borrower makes regular and effective payments of principal and interest for a period of

	9 consecutive months for microcredit and 12 months for other modalities, the loan may be released from such monitoring. Regulation establishes guidelines regarding the suspension of accrual interest, according to the loans' length of arrears[85] (i.e., such interest does not affect the CI's income statement) until it is effectively collected. In line with these guidelines, once the client pays the installments in arrears, its obligation is reclassified as current portfolio, resuming the accrual of interest. In the supervision processes, the SFC verifies that the assets are qualified according to the criteria provided by the regulation. The supervisor has different strategies to verify the portfolio's adequate classification and provisioning. Through its monitoring activities, it permanently verifies the information's consistency and reasonableness, and through onsite, offsite, and cross-sectional analyzes, whose frequency is defined according to the annual supervision plan, the supervisor carries out more detailed verifications on particular institutions and portfolios or specific market segments.
EC10	The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.
Description and findings re EC10	The SFC evaluates and verifies the quality and completeness of the information submitted by CI, as well as the level of knowledge and monitoring of this information by the CI senior management. Information must incorporate at least information related to portfolio's current status, including the portfolio disaggregated by risk category, level of provisions and coverage, follow-up of portfolio's growth, disbursement evolution, past-due portfolio behavior, trends, forecasts, and the result of actions taken for its management and control. Regarding the CIs that report consolidated financial statements, the SFC has also validated the quality of report to the Board of Directors on the performance of doubtful assets and expected losses, among others.
EC11	The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.
Description and findings re EC11	Within the portfolio's monitoring and control, Section 1.3.2.3.2, Chapter II, CBCF requires CIs to carry out continuous monitoring and rating of all credit transactions in accordance with the granting process, which must be based on the borrower's risk profile assessment, their payment ability and the loan contract characteristics, which

85 The suspension of accrual interest is defined according to the loan's height of arrears by modality as follows: Commercial 3 months, Consumer 2 months, Mortgage 2 months and Microcredit 1 month.

	include, among others, the loan's financial conditions, collaterals, sources of payment and macroeconomic conditions to which the borrower may be exposed. In the supervision processes the portfolio's rating and provisioning methodologies are evaluated. Through these evaluations it has been found that CIs evaluate the borrower's quality through collective and/or individual methodologies. The latter are more commonly used to rate significant exposures in accordance with the defined thresholds by each CI. Among the common information considered in these methodologies is the borrower's financial evaluation, sectorial information, risk alerts identified by other intermediaries and other relevant information for the right risk assessment and provisioning. Additionally, CIs review at least annually the borrower's approved credit limit. This implies a complete review of the borrower's financial situation, as well as all variables that may affect their risk profile, which may result in adjustments to the approved credit limit.
EC12	The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.
Description and findings re EC12	The SFC conducts onsite and offsite analysis to evaluate and ensure a proper CR assessment, disclosure, and coverage. One of the main instruments to do this are horizontal and comparative studies to analyze the behavior of disbursements, total exposures, past due and risky portfolio trends, portfolio quality indexes and provisioning coverage, for the whole industry. These analyzes generate information by portfolio, product, activity, or economic sector, among others. This allows to obtain a consolidated vision of the behavior of the banking system and consider macroeconomic conditions that may affect credit exposures and to define early warning indicators to monitor and define actions when there are changes in the risk profile of CIs or for the whole system. As a result of these studies, CIs have been required to adjust the borrower's risk rating, provisioning and to develop strategies and action plans aimed at controlling and reducing the portfolio's impairment and promoting its sustainable growth. These results also give the supervisor inputs to define supervision programs and develop strategies to address situations of risk concentration. Some examples of these mechanisms are some supervision strategies such as Strategy 1 (2017) aimed to promptly identify deterioration processes in some CI and to define specific plans and goals to correct such tendency; and Strategy 2, which is a rating model to assess the appropriate rating revelation for commercial loans. Additionally, there have been regulatory adjustments implemented derived from supervision processes such as **CE026 of 2012**, which ordered an additional individual provision, directly related to an acceleration in the past-due portfolio's growth for consumer loans. Likewise, CE047 of 2016, incorporates an adjustment in the expected loss calculation, associated with the term of consumer loans. This

	adjustment generates a higher requirement of provisions in order to mitigate the risk associated with exposures with terms higher than 72 months.
Assessment of Principle 18	**Compliant**
Comments	The SFC works closely with external and internal audit in confirming the correct classification and provisioning of the loan portfolio.
Principle 19	Concentration risk and large exposure limits. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.[86]
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk.[87] Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured.
Description and findings re EC1	Through supervision activities, such as onsite, offsite and monitoring processes, as well as through the half-yearly reports submitted by statutory auditors, compliance with regulatory credit limits, as well as the adequate application and consolidation of direct and indirect transactions of groups of connected counterparties and all types of creditor positions, as well as transactions recorded on-balance and off-balance sheet. In addition to the limits established by Decree 2555, supervisors review the risk appetite limits defined by the CI. They also review the limits on large exposures assumed in their credit portfolios, verifying the concentration levels of these exposures in terms of products, sectors, regions and/or for individual counterparties or group of connected counterparties. This, to identify early warning indicators, promote risk diversification, and gauge the possible impact of deterioration in the credit quality of a debtor or a group of connected counterparties. In the credit cycle supervision, especially in the underwriting stage, the SFC validates the application and control of credit exposure limit policies, the exceptions regime and the formation and consolidation of group of connected counterparties. Through this kind of evaluation, the supervisor can conclude on the suitability of the CI limits to control the aggregate risk level of credit exposures, as well as on the effectiveness of the controls in relation to the limits for large exposures and on a consolidated basis; which currently cover the entire financial conglomerate exposures, in accordance with Decree 1486 de 2018.

[86] Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

[87] This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

	The SFC through inspection processes determines if the Board is aware of and evaluates the CR exposure levels and the mechanisms and strategies to control and limit large exposures. Within the set of operations that CI must consider controlling risk concentration limits, are the following: Credit transactions,[88] such as: loans of any kind; bills of exchange;[89] granting of any kind of guarantee; credit lines and letters of credit; and all those operations that, during their activity as a professional in financial intermediation, place the bank as real or potential creditor.[90] The regulation establishes credit limits: • Limit of 10 percent of the total capital for credit transactions not covered by an admissible guarantee. • Limits defined considering the type of guarantees that cover the operation. The first one corresponds to 25 percent of total capital, for Credit transactions covered with an admissible guarantee.[91] The second one, which corresponds to 40 percent of the total capital, for credit transactions guaranteed with a stand-by credit letter granted by a foreign CI. However, this limit is cut down to 30 percent of the total capital if the entity that grants the stand-by credit letter is the parent company or a subsidiary of the bank. • Other (2) limits that were defined considering the subject to whom the credit transactions is granted. The first one corresponds to 30 percent of the total capital if the borrower is a CI. The second one, corresponds to 20 percent of the total capital, if the borrower is a bank´s shareholder.[92] Finally, there is a specific credit limit for 4G road infrastructure projects, which is equivalent to 25 percent of the total capital.[93]
EC2	The supervisor determines that a bank’s information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk

[88] A nontaxable list of these operations is found in Article 2.1.2.1.6, Chapter 1, Title 2, Book 1, Part 2 of D2555.

[89] The acceptance of the bill of exchange makes the acceptor the principal obligated to pay according to Article 689 CCo.

[90] The concept of active credit operation is part of the SFC doctrine. The annex illustrates the concept: “Annex,” BCP, Principle 19 EC1, Page 17 Resolution No. 1833 of 2012.

[91] Corresponds to guarantees that have an established value based on technical and objective criteria, which are sufficient to cover the amount that exceeds 5 percent of the total capital and that offer legally effective support by granting the creditor a preference or better right to obtain the obligation payment.

[92] In cases where its participation in the bank's capital corresponds to a percentage equal to or greater than that 20 percent

[93] 4G refers to "Fourth generation of Colombian highway concessions,” is the name given to a national road infrastructure construction and improvement program for the promotion of the country's economic development.

	concentrations and large exposure[94] to single counterparties or groups of connected counterparties.
Description and findings re EC2	Through monitoring processes, the SFC validates that the CI's information systems identify and aggregate, credit exposures at an individual level and for groups of connected counterparties and allow the active management of exposures that generate risk concentrations that need close monitoring or action by the CI. Indeed, the SFC has determined through inspection processes, situations as the following: • Whether or not the CI has in place automatic controls in the software or information systems that allow it to consolidate all transactions and exposures carried out by a group of connected counterparties; • If CI considers all transactions, in which it has a creditor role; and • If CI has in place, credit limits controls that include items off-balance exposures. In conclusion, in the inspection processes, the SFC has determined for example if CI´s information systems facilitate the control of credit limits and consider off-balance exposures. The SFC has verified that CI quantifies credit exposures according to the criteria defined in Title 2, Part 2 of Decree 2555 of 2010.
EC3	The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board.
Description and findings re EC3	SFC produced the "**Risk Appetite Guide**" that contains the criteria, the supervisor must consider when evaluating the CI´s risk appetite framework. According to this Guide, the RAS must be consistent with the business plan and the capital plan and must ensure that risk exposures are consistent with the CI´s risk appetite and its corresponding limits. This guide establishes Board responsibility to participate in the definition of the risk appetite and ensure it is aligned with the CI´s business plan and capital levels. When defining the risk appetite framework, the CI must set limits related to concentrations risks According to the mentioned above, the SFC verifies through inspection processes, for example. • Levels of portfolio concentration. • Capital-planning processes, which allow the identification of the quantity, quality, and availability of resources to support business growth.

[94] The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e., it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see "*Measuring and controlling large credit exposures*, January 1991).

	The SFC also verifies that the Board is familiar with and evaluates the levels of CR exposure and proposes actions for its mitigation and proper management. The SFC verifies: 1. Portfolio's concentration levels and exposure limits, verifying the level of CR diversification by debtor, product, productive sector, among others, so that these are aligned with the risk appetite defined by the CI, in accordance with its business plan; 2. That policies and limits of exposure or risk concentration are approved by the Board and that the procedures and controls are effective in monitoring the compliance with the policies and guidelines approved by the Board; 3. Through different indicators, supervision is complemented offsite, to verify the CI levels of concentration of the different portfolios and among groups of similar institutions; monitoring of these indicators allows warnings to be identified in the event of changes in the CR levels of concentration or in the event of atypical indicators for the portfolios or institutions' types analyzed; 4. Similarly, via supervision, the SFC validates the CI tools and procedures adopted in the underwriting stage are validated to verify that exposures and limits are in accordance with those defined by the CI and approved by the Board. Other aspects that are supervised are the type, quality and frequency of the reports that are escalated to the Board to control the acceptable risk concentrations. Through supervision, it can be established whether the Board knows and evaluates the CR exposure levels and proposes relevant activities for its mitigation and adequate management; and 5. Validation of capital planning by assessing the quantity, quality, and availability of allocated resources to support the business growth. Through the half-yearly reports sent by the statutory auditors to the SFC, related to the CR management systems, the supervisors have additional inputs to verify if the CI complies the internal policies and standards, as well those defined by regulation.
EC4	The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.
Description and findings re EC4	The SFC obtains information (reports) on a regular basis that allows it to examine the risk concentration of portfolio, with the details of exposure by economic sector, geographic area and currency. Some of the most relevant reports are listed below: • Template 341 "Individual credit exposure by Borrower" CE 008 of 2005 created it.[95] It compiles individual credit exposure by borrower and portfolio. For commercial loans, it contains credit exposure by economic sector. This is a quarterly report.

[95] Modified through the following External Circulars: 021 of 2005; 039 of 2006; 048 of 2007; 035, 049 y 054 de 2009; 047 of 2010 and 016 of 2015.

	• Template 322 "Deposits and Placement by Municipality" created by CE 008 of 2005.[96] It compiles information on deposits and placements by department and municipality. This is a quarterly report. • Template 323 "Deposits and Placement by Municipality Zones" created by CE 008 of 2005.[97] It compiles deposits and placements for some of the main cities in Colombia: Bogotá, Medellín, Cali, Barranquilla, Ibague, Pereira, Cartagena, Santa Marta, Manizáles, and Bucaramanga. This is a quarterly report. • Template 453 "Balance exposure by products" created by CE 011 of 2008,[98] It compiles information credit exposure by portfolio and product. Among the product lines belonging to commercial portfolio on products corresponds to foreign currency. This is a monthly report. • "Balance Sheet" (chapters VII to X of the CBCF) besides the balance information by CI, it includes information by portfolio in local and foreign currency. In the case of intermediate financial statements, the information is received monthly and for consolidated financial statements, it is received on quarterly basis. • Regarding individual credit exposures and/or with groups of connected counterparties defined by the regulatory framework, the CI legal representatives must provide the SFC a quarterly certification of such exposures. This information serves as input to identify warning signs. Additionally, for those CI that consolidate financial statements, there is a quarterly report related to "Portfolio by Currency." The SFC for monitoring the portfolio evolution, develops follow-up indicators, creates early warning indicators and performs specialized studies and analyzes using this information received periodically. This information, which is received periodically, is used by the SFC for the permanent follow-up and monitoring of the portfolio and for the preparation of aggregate or individual analyzes. This information is used to create a dashboard, that contains monthly and quarterly indicators related to the portfolio´s concentration, as well performance indicators of portfolio compared with their peers. This information serves as an input to generate early warnings and is used to guide the onsite and offsite supervision work to identify institutions with some warning signal associated with high concentration indicators, particularly in the commercial portfolio. Regarding the 2020 situation, associated with the COVID-19 pandemic, from reports on the measures adopted by CI, it was possible to identify the CI exposures in some economic sectors that were identified as vulnerable (or more impacted by the pandemic), and in customer profiles of greater relative risk such as independent debtors. This allowed SFC to identify the CI with the highest exposures in these segments (vulnerable and independent productive sectors), and to perform

[96] Modified through the following External Circulars: 065 of 2007, 035 and 049 of 2009.

[97] Modified through the following External Circulars: 065 of 2007, 035 and 049 of 2009.

[98] Modified through the following External Circulars: 012 of 2008, 008 of 2010, 005 of 2014 and 043 of 2016.

	hypothetical portfolio rolling exercises to quantify the potential impact of such exposures on their financial statements and to request the constitution of additional prudential provisions.
EC5	In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case by case basis.
Description and findings re EC5	Regulation explicitly defines what "group of connected counterparties" means. For legal entities, the criteria include factors such as majority Shareholding, preference share and right to appoint more than half of the companies' Board members. In the case where there are mutual partners and/or directors, cross collateral, or a direct commercial interdependence between companies such as when an economic adverse situation arises for one of the companies, it could affect the other(s) related companies. As of these criteria, the SFC can determine whether a common risk exists and establish on a discretionary but reasoned basis, the composition that a group of connected counterparties should have for purposes of controlling individual credit quotas. In the case of individuals, the factors considered certain degrees of relationship such as (i) either by kinship/blood (parents, children, siblings, grandparents, and grandchildren); (ii) by affinity (the spouse's parents, children, siblings, grandparents, and grandchildren); (iii) civil (adopted children and adoptive parents); or (iv) whether the credit transaction was granted to the spouses or permanent partners. A group of connected counterparties consisting of both legal entities and individuals takes into consideration the entire interrelationship criteria previously mentioned. The SFC, has validated in its inspection processes the compositions of groups of connected counterparties, for which it has applied the criteria of the above-mentioned regulation. Regarding individual credit exposures and/or with groups of connected counterparties defined by the regulatory framework, the CI legal representatives must provide the SFC a quarterly certification of such exposures. This information serves as input to identify warning signs. The supervisor through onsite and/or offsite supervision activities, reviews the policies, procedures, information systems, criteria and controls that are established for the identification and accumulation of individual or group of connected counterparty credit transactions. This, to determine the actual CR exposure and the credit exposures used to calculate individual credit limits. When excesses in the regulatory limits are identified, the SFC issues adjustments requests and administrative measures supported through compliance reports.

EC6	Laws, regulations or the supervisor set prudent and appropriate[99] requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.
Description and findings re EC6	Decree 2555 of 2010 regulates credit limits for individual counterparties or group of connected counterparties. This chapter contemplates the requirements to be considered to control credit exposures,[100] as listed below: • Different credit limits for large exposures according to different factors, as explained in the description of EC1. • Necessary concepts for correct interpretation. For example, the concept of admissible collateral for the application of the limit provided in the second subsection of Decree. • Significant sources of credit exposures mentioned in the description of EC1 of Principle 19, which include all types of credit exposures (real and potential) and involve transactions recorded on and off balance. • An exception regime, which contains a set of transactions excluded of the limits such as: (a) Credits granted to the Nation with terms shorter than 180 days; (b) Those originated in instalment sales of property owned by the CI, which must have prior authorization of the SFC; (c) Those carried out by the BR or Fogafin, as creditors or guarantors, with CI; (d) Loans granted through credit cards to individuals, as long as the amount of the credit quota does not exceed Col$56,900,000 (current amount equivalent to Col$10,000,000 defined when this regulation was issued); (e) Credit transactions carried out with territorial entities in development of restructuring agreements according to the Law 550 of 1999 and Law 617 of 2000, if a collateral from the Nation supports the agreement. The business restructuring or reorganization agreements mentioned in these laws, regulate the processes before certain authorities, through which the debtor and its creditors seek to resolve the obligations payment when the debtor is in difficulty to comply them in a timely manner; and (f) CI´s operations originated in rediscount operations with Finagro, Findeter and Bancoldex (second floor or development banks).

[99] Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration.

[100] Credit exposures are the same credit operations or "computable operations."

	• Relevant criteria to be considered for the definition of groups of connected counterparty's conformation specified in the description of EC5. • Consolidated credit limits, regulation provides that CI that have subordinates abroad must consolidate with them all the credit transactions granted. The total capital to be considered is the corresponding to each CI, calculated based on consolidated balance sheets. In any case, Decree 1486 of 2018 mandates that the CF[101] must define credit limits related to the entities that are part of the conglomerate. The institutions that constitute a financial conglomerate are subject to the SFC inspection and surveillance, as well as its national and/or foreign financial subordinates, including all institutions abroad that exercise an activity characteristic to the institutions supervised by the SFC, and their national and foreign financial subordinates; legal entities or investment vehicles through which the financial holding company exercises control of the mentioned institutions. • Credit limits of other supervised entities, as the regulation extends the application of the rules of Article 2.1.2.1.17 Chapter 1, Title 2, Book 1, Part 2 Decree 2555 of 2020 to other entities subject to the control and surveillance of the SFC On the other hand, Article 1.3.1.2, Chapter II of the CBCF requires that the CI policies include general guidelines for setting, both the levels and exposure limits (real and potential) of the total and individual portfolio, as well limits by borrower. Section 1.3.2, Chapter II of the CBCF indicates that the CI must have monitoring systems regarding the CR administration, which involve credit limits compliance. Additionally, paragraph e), Article 1.3.2.1, Chapter II of the CBCF provides that the CI Board must require from the administration, for its evaluation, reports on a regular basis about the credit exposure levels. The SFC through inspection processes has determined that the Board knows and evaluates the levels of credit risk exposure. In conclusion, (i) there are requirements to control and limit large exposures to individual counterparties and for groups of connected counterparties; (ii) the SFC gives to the CI JD the responsibility to define policies and monitor credit exposure limits; and (iii) in supervision processes, compliance with this duty is monitored. Within the risk-based supervision framework, the SFC reviews the CI significant activities. In supervision activities such as offsite and onsite monitoring, the supervisor follows up the policies, tools/methodologies, information systems and reports that are scaled to the CI management and Board. One of the supervisory functions that are assessed as part of the CI risk profile construction, is the compliance function. Through this function, the supervisor

[101] Article 2 ley 1870 of 2017: "A CF is a group of entities with a common controller that includes two or more national or foreign entities that carry out an activity of the entities supervised by the SFC, if at least one of them exercises such activities in Colombia."

	determines the CI effectiveness to control and limit the credit exposures with one counterparty or with a group of interconnected counterparties, both for on-balance and off-balance sheet exposures. For banks with international activity, the control of concentration limits was complemented with the issuance of the Financial Conglomerates Law. In this context, the SFC supervision is carried out at three levels: Individual, Consolidated and Financial Conglomerate. To this end, the SFC has issued standards regarding the risk management and appetite framework, as well as concentration limits that financial conglomerates must adopt. Concerning concentration risk for Financial Conglomerates, in the Chapter II of the Decree 1486 of 2018, established the criteria to determine the quality of the Financial Conglomerate and Holding Company related parties. This Decree, also defined that the Holding Company must establish limits of exposure and risk concentration within its policy for exposures between entities of the Financial Conglomerate and exposures with its related parties.
EC7	The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programs for risk management purposes.
Description and findings re EC7	The SFC implemented EPR through Chapter XXVIII of the CBCF. (The general objective of these tests is to serve as a tool to: (i) identify risks that may affect the business viability of a CI; (ii) facilitate the adoption of timely decisions; and (iii) examine the consistency of the capital, liquidity, assets, and liabilities of the CI. This chapter establishes the objectives, characteristics, responsibilities, and reporting duties associated to EPR, Annex 1 of that chapter specifies that EPR are part of the CR management system and provides the guidelines and scenarios for carrying out the respective tests. In Article 4.1, Annex 1, Chapter XXVIII of the CBCF, it is mentioned that in the CI portfolio and provisions forecasts, must be considered the risk derived from the default of counterparties that may have a significant impact on their financial statements as also include the effect of adverse situations (such as the macroeconomic ones). In Article 5.4.5, Annex 1, Chapter XXVIII of the CBCF, it is also mentioned that the tests results must incorporate the effects of significant counterparties possible default on their balance sheets.
Additional criteria	
AC1	In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following: (a) 10 percent or more of a bank's capital is defined as a large exposure; and (b) 25 percent of a bank's capital is the limit for an individual large exposure to a private sector nonbank counterparty or a group of connected counterparties. Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.

Description and findings re AC1	Article 2.1.2.1.2, Chapter 1, Title 2, Book 1, Part 2 Decree 2555 of 2010 states that credit transactions made by CI may not exceed 10 percent of their total capital. It also stipulates that if the operation has an admissible collateral, the operation's amount may reach up to 25 percent of the CI total capital. An admissible collateral is defined as follow: (i) its value is established based on technical and objective criteria; (ii) provides the CI a legally effective support by giving priority to obtain a payment from the obligation; and (iii) is sufficient.[102] The regulation does not allow the existence of temporary limits or minor deviations from the limits in the context of small or specialized CI.
Assessment of Principle 19	**Materially Non-compliant**
Comments	In its supervisory process, the SFC monitors concentrations and requires detailed reports from banks. Examples of concentration analysis performed were demonstrated by the bank's' NS during discussions of this principle. The URF in 2020 developed a study regarding large exposures which includes: (i) a description of the Basel recommendation and describes the current Colombia framework; and (ii) a proposal to update the local regulations for large exposures taking as a reference the Basel framework. The document was published on the URF website. The study will be discussed with the industry during 2021. The project has the following main objectives: (i) to align the definition of exposure according to the standard; (ii) to guarantee the clear and homogeneous application of the concept of groups of connected counterparties; and (iii) to simplify the framework with fewer limits. Significant deficiencies in compliance with this principle are: Current large exposure limits are based on total capital and not on Tier I capital as required by the 2014 BCBS standard issued in 2014 (Supervisory framework for measuring and controlling large exposures). Decree 2555 recognizes guarantees and letters of credit issued by an affiliated bank as acceptable credit risk mitigation and increases the limits for those exposures. In essence, this transaction creates an exposure between related parties since if the borrower defaults, the affiliate issuing the letter of credit or guarantee would cover the loss for the other affiliated bank that funded the original loan. External Circular 013 dated 2019 and implemented by Financial Holding Companies starting in June 2021, requires the holding company in its risk management framework, to address concentration risk by geographic location, business lines, economic sector and counterparties. However, the requirements are outlined at a high level and not supported by more detailed risk-based guidance concerning enhanced risk management when concentrations exceed certain guidance thresholds. For example, defining circumstances that may make countries "connected parties" due to significant reliance on sovereign currency derived from remittances. Also, identifying benchmark thresholds above which the SFC may

[102] Decree 2555 requires that collateral cover any transaction that excess 5 percent of total capital.

	require Pillar 2 add-ons or may impose increase reporting and perform more frequent onsite reviews. Major Colombian banks have significant exposures as a percent of capital in Central America adding support for strengthening the large exposures and concentrations monitoring and requirements.
Principle 20	**Transactions with related parties**. In order to prevent abuses arising in transactions with related parties[103] and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties[104] on an arm's-length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.
Essential criteria	
EC1	Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties." This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case-by-case basis.
Description and findings re EC1	Definition of "related parties" includes subsidiaries (their Board of Directors, managers and employees), or any other party that has control over a company or that is controlled by the company, as established in Articles 261, 262 and 263, CCo. Article 261 defines subordinated entity when it is controlled over 50 percent by parent. Article 262 prohibits subordinated entity from buying shares or holding debt from its controlling parent. Article 265—related-party transactions must be at market terms. In financial conglomerates' supervision, in Article 5, FCL, the national government has the power to establish the criteria to determine who should be considered as a related party of the conglomerate and its HF. In exercising such power, the government, in Article 1, Decree 1486 of 2018, under the principles of control, subsidiary, business group and significant influence. Under the standards described, if the supervisor determines that there is relationship between the parties, exercising its discretion, the financial conglomerate must define the relationship as well.
EC2	Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favorable terms (e.g., in credit assessment, tenor, interest

[103] Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

[104] Related-party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

	rates, fees, amortization schedules, requirement for collateral) than corresponding transactions with non-related counterparties.[105]
Description and findings re EC2	If transactions with related parties are carried out on more favorable terms. Article 265, CCo, (applicable to banks), establishes that supervisors have the powers to verify transactions between the entities and related parties. If such transactions do not correspond to reality or are carried out under conditions considerably different from those of the market, to the detriment of the government, shareholders or third parties, the supervisor must impose fines and, if deemed necessary, may order the suspension of the operation. Additionally, pursuant to Article 122, EOSF, all operations with the shareholders of the CI with 5 percent or more of the subscribed capital with their administrators, as well as those carried out with the spouses and relatives of their partners and administrators, must be approved through the unanimous vote of the Board members attending the respective meeting. Likewise, these operations must be executed under the same conditions as those generally used by the entity with the general public, except those that are held with the ES' administrators to meet their health, education, housing and transportation needs in accordance with the regulations previously determined by the Board of directors for this purpose in general. Under the rules of conduct and legal obligations, according to Paragraph b, Article 72, EOSF, the supervised entities, its administrators, directors, legal representatives, external auditors and employees, must act within the legal framework and the principle of good faith. In this sense they must refrain from carrying out operations with shareholders, or with people related or linked to them, beyond the legal limits. Lastly, under the duty of transparency defined by Article 2.39.3.1.4., D2555, it is established that the development of operations in which conflicts of interest are observed, the HF and other entities that constitute the financial conglomerate must ensure that these operations are carried out under the same conditions as with the general public and at market prices.
EC3	The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related-party transactions.
Description and findings re EC3	There is no requirement that transactions with related parties and the write-off of related party exposures exceeding certain amounts be subject to prior Board approval. There is a requirement that transactions with managers and for 5 percent shareholders transactions to receive prior unanimous Board approval. Close relatives are aggregated. The conflict-of-interest definition applies to related parties. the same as to all borrowers who are privy to confidential information. However, the requirement for

[105] An exception may be appropriate for beneficial terms that are part of overall remuneration packages (e.g., staff receiving credit at favorable rates).

	prior Board approval and excusing themselves from voting should apply to all related-party transactions in which the Board member on a related party of his/hers is the beneficiary.
EC4	The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.
Description and findings re EC4	The SFC verifies the existence, adoption and compliance of these policies and best practices through the review of the information of the supervised entities, such as the Bylaws, the Board's minutes, the minutes of other committees of the entity, and the information systems that consolidate the transactions and exposures made by a group of connected counterparties. With all this, it is verified that the supervised entities measure, approve and monitor their credit exposures in accordance with the guidelines defined in D2555.
EC5	Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.
Description and findings re EC5	Related parties must comply with the general lending and concentration limits required of all borrowers. Shareholders owning 20 percent or more of bank's stock have a 20 percent of total capital borrowing limit. The SFC might require the HF to adjust its policies or limits when the supervisor considers that any of the exposures above mentioned are not being adequately covered.
EC6	The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related-party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.
Description and findings re EC6	Within the supervisory framework, the SFC may require adjustments, if it is determined the policies are not consistent with the risks associated with the risk exposures, or if a risk affects the stability of the financial system (Article 2.39.3.2.3 of D2555). In this context, the SFC evaluates, monitors and verifies periodically the policies defined by the HF and if those are not consistent, applying its corrective and sanctioning powers, the SFC might require to the HF an adjustment of the limits, or reduce the risk exposition by canceling or modifying the operation that is causing the risk exacerbation. The SFC verifies that entities have adequate policies and procedures for the identification of exposures with related parties, as well as adequate information systems for the identification and aggregation of such exposures.

	Within the evaluation of the corporate governance of the supervised entities, the policies established to avoid conflicts of interest between the entity, its managers, Board members and other key officials are verified. The procedures available to the entity for the approval of operations with related parties are also validated, instructions enshrined in the supervision guide: "Intra-group and Related party Exposures." If the SFC establishes linkage presumptions, the burden of proof is transferred to the supervised entity, in order to demonstrate that the link does not exist.
EC7	The supervisor obtains and reviews information on aggregate exposures to related parties.
Description and findings re EC7	Supervisor obtains and reviews information on aggregate exposures to related parties, as mentioned in EC6. Through the "Concentration Report," the analytical cell of Financial Intermediaries prepares an alert signal scheme for possible breaches related to exposure limits for credit risk. In this way, the Aggregated exposure to related parties is supervised by the SFC, the senior management, the Board, and the external auditor. The offsite examinations allow the SFC to monitor the information reported while generating early warning indicators that complement the specialized studies and analysis. In the inspection processes, it is verified that the information systems of the entities facilitate the control of limits, including off-balance sheet exposures, as well as verifying whether credit exposures are quantified in accordance with the criteria defined in D2555. Format 261 "Intergroup Consolidated Reciprocal Operations," created by CE 083 of 2000 of the SFC, compiles all the reciprocal operations between the parent company with each of its own subsidiaries, affiliates and national and foreign.
Assessment of Principle 20	**Materially Non-compliant**
Comments	There have been enhancements to the monitoring of related-party transactions, but the regulatory framework remains weak, and little changed from the 2012 FSAP. The SFC has not developed a consolidated and comprehensive set of guidelines, regulations for transactions with related parties. Currently, related parties are defined in various decrees, laws and limits are also addressed in various places. Related party definitions, definition of related-party transactions, lending limits, approval and write-off requirements for all related parties should be consolidated in one place. The SFC approach to principles-based supervision should not extend to permitting banks or holding companies establishing their own limits and definitions and then having SFC determine whether the established limits are adequate for the bank. The related party definitions, and requirements should be set by SFC and apply to all banks. Define aggregation rules for all related party debt and set limits for intra-group exposures. Incorporate all the elements defining related-party transaction outlined in footnote 110. The URF has a project to be discussed with the industry, which has the following objectives: (i) consolidate all exposures with subordinates; (ii) ensure the clear and homogeneous application of the concept of groups of related parties; (iii) simplify

	the scheme with fewer limits; and (iv) reduce the incidence of exceptions that can generate arbitrage and complexities in the interpretation of the rule.
Principle 21	**Country and transfer risks**. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk[106] and transfer risk[107] in their international lending and investment activities on a timely basis.
Essential criteria	
EC1	The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the bank's risk profile, systemic importance and risk appetite, takes into account market and macroeconomic conditions, and provides a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.
Description and findings re EC1	The main objective of the SFC's supervisory methodology is to identify the risk profile. The identification of the country and transfer risk management systems, does the following: • When devising the Supervisory Plan and allocating the supervisory resources (priority and intensity), the SFC considers macroeconomic conditions both locally and abroad, focusing on those jurisdictions in which national entities have cross-border investments. Country risk assessments are aimed at establishing the potential impact, at the local level, that may arise because of the materialization of a particular risk. • When the SFC approves a capital investment, the ES must submit a description of the risk management system. • As stated in the FCL, the HF must keep the SFC updated of changes in its structure, so the Supervisor can update the supervisory templates to do an effective supervision. • The CF must have a risk management framework in which the CF must identify each jurisdiction's risk profile, including its exposure to country and transfer risk, including mitigation measures and the follow-up of all foreign units.

[106] Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporate, banks or governments are covered.

[107] Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: *IMF paper on External Debt Statistics—Guide for compilers and users*, 2003.)

	With this information, the supervisor must fill and update on a timely basis all the supervisory templates. First, the supervisor will fill out the Business Knowledge Template. Such template summarizes all the supervisory actions before described to have a clear view of the banks structure and the main risks, including those related to country and transfer risks. All risk management controls are evaluated, including the **Country and Transfer Risk** when applicable. Policies and procedures are assessed under the proportionality principle. In other words, the supervisor must determine whether such policies and procedures are consistent with each institution's risk profile, systemic importance, and macroeconomic environment.
EC2	The supervisor determines that bank' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
Description and findings re EC2	The SFC verifies if the Board fulfills the following responsibilities: • Approves the implementation and supervises the suitability of the Risk Governance Structure. • Approves the design, implementation and supervises the performance of the Control Function of Risk management. • Defines, together with Senior Management and the Risk Management Function, the risk appetite of the entity, considering the competitive and regulatory environment. • Supervises and ensures the implementation of the Risk Appetite Framework. • Supervises that the entity complies with the policies and limits established in the Risk Appetite Framework. • Actively participates in the review of the issues presented by Management for approval of the Board. When the supervisor determines that the investment in foreign subsidiaries and branches can be considered as a Significant Activity (AS), the supervisor is required to assess the macroeconomic conditions of the host jurisdictions as well as to identify all the inherent risks. Then, the supervisor assesses the performance of the Board of Directors by evaluating if they determine policies and processes to properly manage each risk, including country risk and transfer risk, when it applies.
EC3	The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.
Description and findings re EC3	Supervisory procedures require the supervisor to evaluate the extent to which this function is carried out and whether each ES holds sufficient and adequate methodologies and risk management practices and policies consistent with their activities, risks, and size.

	When evaluating the performance, the supervisor must consider whether the ES monitors the risk positions against approved limits and ensures that the significant overruns be reported and managed correctly. In addition, the supervisor determines if the ES uses risk tools and information system to adequately measure and monitor, to provide early warning indicators on trends and adverse conditions, thereby proactively analyzing and following up on said situations to ensure they are treated in a timely manner. Regarding the draft regulation, ES are required to prepare: (i) internal periodic reports on the country risk profile and management, and its relation to the ES appetite risk framework. The content and frequency of these reports should reflect the needs of those who use them and the decision to be made; and (ii) a semi-annual report to be submitted to the SFC including: (a) the indicators and variables considered to carry out the country risk analysis, (b) the list of countries where financial operations are being performed and their respective rating and provision, (c) the existing policies used to set concentration limits per country, region, economic sector, and currency-level, and (d) and the stress tests results. Moreover, the ES must adopt adequate systems, including IT support and data architecture aimed at achieving a comprehensive knowledge of both country and transfer risk.
EC4	There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include: (a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate. (b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate. (c) The bank itself (or some other body such as the national bankers' association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.
Description and findings re EC4	The SFC conducts supervisory oversight to determine the adequacy of banks' setting appropriate provisions against country and transfer risk. The SFC follows option (c) of this essential criterion. The supervisory activities include the detailed evaluation of banks' management and monitoring of country and transfer risk. When evaluating the performance of the risk management function, through onsite and offsite activities, the supervisors determine if banks are monitoring developments in country risk/transfer risk and whether the bank is controlling the risk. When bank practice is judged inadequate, the risk matrix for the bank is adjusted to update the

	risk profile. The supervisors will also review provisioning and impairment and require corrective action. SFC discussed specific cases with assessors.

Article 2.1.1.3.7 of Decree 2555 of 2010 and sub-Section 2.4.4. of Chapter XIII-16 of CBCF sets forth that credit institutions must consider international risk ratings issued by a recognized rating agency when defining the credit risk weights to be assigned on borrowers'/counterparties' assets located abroad and securities issued abroad by those institutions. Moreover, risk weighted assets increase as the rating reflects more risk following the instruction in Section 4, 5, 6 and 7 of Article 2.1.1.3.2 of Decree 2555 of 2010. Particularly, assets, exposures and contingencies subject to credit risk against governments or central banks of other countries, and those guaranteed by these must fulfill the instruction in sub-Section 4 of Article 2.1.1.3.2 of Decree 2555 of 2010 which sets the following risk table:

Credit rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Less than B	No rating
weight	0%	20%	50%	100%	150%	100%

Furthermore, the risk weighted assets of credit institutions' subordinates depend on the sovereign debt rating where the subordinates are located. This is, subordinates that are located in investment grade countries can use the rating and weights defined in Article 2.1.1.3.2 Section 4, 5, 6 and 7 of Decree 2555 of 2010. But when the subordinates are located in countries that do not have investment grade, they must consider the following rule:

For countries with a sovereign rating between BB+ and B-, the exposures of the credit institution must be classified using the next risk-weighted scale from the one they would initially have, considering their rating.

For example, a counterparty rated as AAA of a subordinate in a country rated as BB+ will have a risk weighted asset of 50 percent.

Counterparty Risk Grade	AAA to AA-	A+ to A-
Issuer rating	Initial rating of the issuer	Weight that must be used after "country risk" downgrade
Weight	20%	50%

For countries with a sovereign rating between B- and CCC, the exposures of the credit institution must be classified using the second next risk weighted scale from the one that they would initially have, considering their rating.

For countries with a sovereign rating less than C, the exposures of the credit institution must be classified using the third next risk weigh from the one that they would initially have, considering their rating.

It is important to highlight that, since the SFC adopted the IRFS, IAS 36 states that the bank must determine any impairment of assets through its own models that

	must fulfill all characteristics that are specified in this rule. It applies to the capital investment in subordinates. The supervisor in the annual revision might ask to the ES to revise the provision level, when the SFC determines that it is not appropriate with the risk level.
EC5	The supervisor requires banks to include appropriate scenarios into their stress testing programs to reflect country and transfer risk analysis for risk management purposes.
Description and findings re EC5	Chapter 28 of CBCF states the rules that every ES must follow in their bottom-up stress-testing programs (EPR), following the assumptions and time horizon defined by the SFC. Pursuant to Article 4, Chapter 28 of CBCF every ES should adopt an EPR according to their size, risk-profile, business complexity, asset/liability structure, among others, and considering their business plan. Number 4.1 Chapter 28 of CBCF establishes that every ES must define methodologies that allow them to identify and mitigate their weaknesses while helping them to examine the consistency of their capital and liquidity management, according to their risk profile. Number 4.5 states that the methodology used needs to be robust in order to capture their business complexity. In that sense, when the SFC releases the macroeconomic assumptions underlying the baseline and adverse scenarios, it requires entities that have subordinates or branches abroad to consider the macroeconomic conditions of the host jurisdictions in which their investments are located. Since 2019, Circular Letter 23 of 2019 dictates new instructions about the guideline the ES must follow about the Macroeconomic scenarios. With these new instructions, the ES must select a set of variables and they must calibrate the adverse scenario with a reverse stress test, until the ES does not comply with the prudential indicators (or internal indicators), in a three-year forecast. They also must project a base scenario considering their business plan. These instructions only apply when determining the stress scenarios so the ES must keep considering their business complexity, including when they have foreign subordinates and branches. The ES must consider Country and transfer risk when the business complexity determines so. The supervisor analyzes the consistency of the stressed scenarios' results with the framework given by the SFC. When doing so he may require additional assumptions, such as the incorporation of the impact of other jurisdictions into the ES results, which might not be in the general stressed scenario. In that way, the supervisor ensures that ES are considering country and transfer risk. Since Section 4.14 establishes that the tests must have the Boards approval and, according to Article 6.6 the Board must follow the SFC's recommendations, the supervisor evaluates whether the EPR are being taken into account for risk management proposes. Regarding the draft regulation, ES must carry out stress tests at least once a year in order to assess their resilience against the increase or materialization of country and transfer risk. This frequency may increase if the economic and socio-political environment further deteriorate.

	The stress tests must: (i) consider scenarios where the economic, market and socio-political indicators are expected to affect the exposure abroad; and (ii) include a business continuity plan considering the actions that the Board and senior managers can undertake in the event the risk exposure breaches the ES internal limits. Finally, the Board of Directors and the senior managers must periodically review the results of the stress tests and must have a full understanding of the scenarios and results.
EC6	The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (e.g., in crisis situations).
Description and findings re EC6	Supervisory teams receive on a regular basis information to monitor banks' country risk. Information is received through regulatory reporting by banks, onsite visits and reviews and stress tests. Along with the supervisory activities to monitor the effectiveness of country risk and transfer risks, the SFC has established a robust cross border cooperation scheme in order to gather information on a regular basis and adopt timely actions. This information is obtained through internal reports and supervisory colleges and shows the evolution of the economic, social, and political conditions of the jurisdictions in which Colombian banks or banking groups are carrying out financial activities or have allocated their assets, in order to evaluate in a timely manner, the country and transfer risk to which the investments could be exposed. Particularly, the SFC delivers a Monthly Regional Report (For internal use only) to summarize the main trends regarding the economic environment and banking conditions in Central America, and South America (Brazil, Paraguay, and Peru). This report is built on information released by the Central Banks, host Supervisors, the Central American Monetary Council, and the Center for Latin American Studies. The regional report is published by the Research and Analysis division (*Subdirección de Investigación y Análisis)*, whose main tasks (as described in Article 11.2.1.4.17 of Decree 2555) are the following: • Carry out studies, research and other documents on economic and financial aspects related to the industries and financial conglomerates; • Design strategic guidelines with respect to standards and best practices in prudential matters, risk management, market development and other topics of interest to the SFC, in line with international developments and local needs; • Perform stress tests on the aggregate exposure of the supervised entities vis-á-vis the main risks they face; and • Draft reports on macroeconomic risks and/or specific risks to which entities and financial conglomerates under the supervision of the Superintendency are exposed to support the supervisory processes. Regarding cross-border cooperation schemes, supervisory colleges have played an important role in this regard, formalizing information sharing and assisting their members in developing a better understanding of the risk profile of the banking

	group/financial conglomerate, performing effective consolidated and cross-border supervision, and enhancing mutual trust. Regarding the power to request additional information, the Financial Superintendent and Deputy Superintendents in charge of carrying out the supervision of banks and banking groups are entitled to request reports regarding the situation of financial institutions. Such power (Article 97 of the EOSF) is ample and has been exercised permanently in situations in which financial institutions face financial stress, as those that unfolded in 2020. Moreover, bank supervisors are specifically entitled pursuant to numeral 15 of Article 11.2.1.4.33 of Decree 2555 to review documents provided by financial institutions and to request any information that allows them to assess the status of the latter.
Assessment of Principle 21	**Compliant**
comments	The SFC has addressed deficiencies noted in the last BCP review and is following the CP minimum requirements; these include establishing requirements on risk management and controls for country risk at banks and for banks to evaluate and monitor developments in country and transfer risk. A regulation has been drafted aiming at implementing best practices on country and transfer risk and is expected to be released in the third quarter of 2021. Colombian banks have significant exposures in Central America and rating of this concentrations risk is addressed under CP 19. The draft regulation covers sovereign and transfer risk management and will further enhance guidance provided to banks. It requires banks to define tolerance limits perform analysis of the macroeconomic, political, and social environment of the subsidiary institutions. Bank must have a model to manage country and transfer risk, considering: • Location of the subsidiaries; • Country risk rating; and • Provisioning framework to absorb potential losses that may arise when the countries' risk profile has deteriorated.
Principle 22	**Market risk**. The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.

Description and findings re EC1	**Prudential standards** Prudential standards with regard to market risk management processes are laid down by the chapter 21 of the CBCF. Accordingly, the SFC requires that the supervised entities implement a Market Risk Management System (SARM, for its initials in Spanish) that enables them to identify, measure, control and monitor their market risk, as well as to determine an adequate capital amount. Market risk is defined as the possibility than entities incur losses associated with a decrease in the value of their portfolios and of the investment funds they administer, as a consequence of changes in the price of financial instruments recognized in the balance sheet or off-balance. The trading book is defined as the combination of exposures, created by trading operations, that an entity has with the objective to benefit in the short term of price fluctuations, and of investments that are sensitive to variations of market factors. In consequence, the trading book covers, among others, all instruments classified as "negotiable" or "available for sale." Banks are required to implement the IFRS standards or equivalent ones for fair valuation (see CP10, EC3 for more details). Prudential standards are set for each of those components of the SARM, among which are: • an organizational directive relating to market risk and reflecting its tolerance level should be established; operational limits should be set at appropriate levels considering the risk profile of the entity; • control and monitoring processes, as well as supporting IT systems, should be proportionate to the volume and complexity of market operations carried out by the entity; and • internal and external reports should be established periodically; information to be communicated to the risk committee or the Board includes the global exposure to market risk, both under current and adverse conditions, as well as the same information detailed for each business line. Roles and responsibilities of the Board, executive management, independent risk management unit, and control bodies (including internal audit) are clearly defined and articulated. Moreover, a strict separation between front, middle and back offices is prescribed. The SFC reported to assess the correct implementation of the SARM standards at least every three to four years, or more frequently if is considered as an emerging risk or if warning signals are triggered (e.g., as a consequence of the stress tests performed). On the other hand, supervised entities shall send, on a daily basis to the SFC, several reports relating to their market activities (investment portfolio breakdown, new investments, derivative products valuation, underlying assets of derivative

products, repos and interbank operations valuation, and underlying assets of repos).

In addition to the SFC's market risk requirements, the Central Bank requires credit institutions to comply with an indicator for exchange risk, specifically for investment in subordinates abroad. It is defined as the difference between investments in subordinates abroad and their exchange hedges. The PICE, as it is called, cannot exceed 150 percent of the credit institution's total capital (Central Bank external resolution 01 (2018)).

Monitoring

The SFC has established internal committees to monitor on a weekly and monthly basis the exposure of supervised institutions to market risk. Based on the aforementioned standards, financial and economic data, and tailored-made market risk stress tests, vulnerable institutions can be identified.

Joint Supervision Teams have access to those supervisory exercises as well as other sets of indicators and calculations with a view to tracking and monitoring the exposure to market risk of credit institutions both at individual and consolidated levels. Some evidence of this was shown to the assessors. Under the MIS methodology, market risk shall be evaluated whenever a supervised institution has a significant activity in treasury operations, proprietary trading, or has an investment portfolio.

Market risk exposures

As shown in the table below, the main exposure to market risk on the part of the financial entities is concentrated on fixed income, and sovereign debt. This is particularly true for commercial banks, whereas financial corporations (kind of investment banks) are mostly exposed to stocks. Credit institutions are then predominantly exposed to changes in the interest rates, as well as changes in equity prices.

Breakdown of the Investment Portfolio as of December 2020

(balance in trillion Colombian pesos)	Commercial banks	Financial corporations	Financing companies	Financial cooperatives	Total Credit institutions
Investment portfolio	**158.74**	**18.97**	**0.48**	**0.33**	**178.51**
Sovereign bonds	75.49	4.05	0.24	0.07	79.85
Private debt	15.24	0.50	0.12	0.20	16.07
Stock	57.24	14.26	0.06	0.06	71.62
Derivative products	10.76	0.15	0.06		10.97
Total assets	729.84	22.51	12.20	4.17	768.72
Investment portfolio/ Total assets	**22%**	**84%**	**4%**	**8%**	
Regulatory capital	90.59	8.11	1.47	0.84	101.01

Source: SFC, Informe de actualidad del sector financiero colombiano.

EC2	The supervisor determines that bank' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
Description and findings re EC2	The SFC establishes that banks' Boards of Directors are responsible for the approval of policies and processes for the management of market risk, as well as the periodic monitoring of compliance with those policies (CBCF, chap. 21, Art. 6.4.1). It is requested that Boards of Directors discuss periodic reports relating to the exposure to market risk and corrective actions taken in case of limit breaches. One of the goals of the control process is to enable the quantification of market risk and its incorporation into the banks' overall risk management process. The efficiency of the Board of Directors is a focus of interest for the SFC when it assesses the risk profile of supervised entities. In this respect, the SFC has clear expectations regarding a Board of Directors' role, responsibilities and overall performance (see criteria for the Board of Directors published on SFC website). The Board should make sure that the risk-appetite framework with associated limits is effectively implemented, as well as policies and processes relating to significant risks. In this respect, the results of the stress tests and associated contingency plans are to be validated by the Board. In addition, the Board should oversee the performance of the senior management, as well as the performance of control and internal audit functions. The SFC uses different supervisory techniques to ensure that the above-mentioned requirements are effectively implemented: • onsite inspection teams can require Board's minutes to verify that the bank's Board is informed about the overall risk exposure of the bank, the decisions made regarding any special situation informed by Senior Management, and whether the Board has approved all methodologies regarding market risk; and • meetings with members of the Board, as well as senior management, can be held to find out whether policies have been properly implemented, when was the last time a methodology was approved, and the frequency of general reports on the exposure of market risk to these instances, among other aspects.
EC3	The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including: (a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management; (b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff;

	(c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary; (d) effective controls around the use of models to identify and measure market risk, and set limits; and (e) sound policies and processes for allocation of exposures to the trading book.
Description and findings re EC3	Prudential standards for market risk include various prescriptions with regard to the maintenance of a properly controlled environment (CBCF, chap. 21), among which: • a requirement to have effective information systems for the smooth functioning of the SARM and the adequate control of established policies and limits; parameters used in IT systems should be equivalent to those used in the market and periodically reviewed; when transactions are decentralized, a proper system for the consolidation of risk exposures should be in place, validated at least once a year, and tested under several scenarios of rates and prices; • the definition of loss and market risk exposures limits consistent with the risk profile of the entity; sub-limits at trader, trading desk and product levels may be established dependent on the entity's structure and authorized activities; mechanisms to adequately communicate those limits to traders should be in place; • actions to be taken in case of a limit breach and special authorizations should be included in risk management procedures; the risk management unit shall reject operations that do not comply with established policies and/or limits and daily report those rejected operations to business line and senior managements; in addition, the risk management unit shall report on a weekly and monthly basis limit breaches, unconventional operations and those with related parties; and • a daily back-testing of internal model results should be carried out; a six-month period of back-testing is necessary before the model can be used to calculate regulatory capital for market risk; in addition, the supervisory criteria for risk management request that banks develop a policy for the management of internal models, including a review of their assumptions, parameters, databases, underlying software, and their validation. These different aspects are included in an internal guideline aimed at facilitating the assessment by supervisors of how adequate the management of market risk by credit institutions effectively is.
EC4	The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modeling for the purposes of valuation, the bank is required

	to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.
Description and findings re EC4	The CBCF, Chapter I, sets the rules and minimum standards for valuation of investments in financial instruments, while Chapter XVIII sets criteria for valuation of derivatives and structured products. In order to ensure that banks have a marked-to-market portfolio, the SFC mandates that market prices of securities must be estimated and delivered to all financial institutions by one of the two authorized Market Price Providers, namely the Proveedor Integral de Precios Colombia (PIP) and Precia Proveedor de Precios para Valoracion SA (Precia –subsidiary of the Colombian stock exchange (BVC for its Spanish name)-). Market Price Providers are supervised by the SFC as well. The introduction of new valuation methodologies, or the modification to current ones, should be sent to the SFC at least 15 days before their entry into force (CBJ, Part 3, Title IV, Cap. IV, Art. 3.7). The SFC reported to review the relevancy and impact on the financial sector of each methodology it receives and can object it if it not satisfied. Thus, the SFC has issued 14 non-objection letters during the 5 first months of 2021. Valuation is reported to be performed daily for most instruments, as Precia provides reference prices for the great majority of positions held by banks (83 percent). For the nontraded instruments, the CBCF provides detailed valuation criteria, mostly based on discounted cashflows. The SFC reported to have established internal monitoring tools and dashboards that give warning signals whenever there are discrepancies in the valuation informed by a bank through a daily report of its investment portfolio and the prices provided by the Market Price Providers. These tools help the SFC in monitoring that all securities held by banks are appropriately valuated using market prices. In addition, the SFC reported to validate through onsite evaluations that institutions have proper systems to access the information needed as well as valuate, record and classify all their financial instruments on a daily basis, as required by CBCF, Chapter I.
EC5	The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.
Description and findings re EC5	Banks are required to hold regulatory capital against market risks (DL 2555, Art. 2.1.1.3.1.). The SFC has published detailed regulatory requirements for calculating the market risk capital charge (CBCF, chap. 21), which are derived from Basel II standards. Credit institutions should use a standard model, unless they have developed an internal model which has not been objected by the SFC (currently, no bank is using an internal model for the measurement of market risk used to calculate the capital required by this particular risk).

	• The standard model considers 5 market risk factors, which are calculated separately and then added to get the total risk charges for market risks: interest rates, exchange rates, price of shares, collective investments, and credit default swaps (CDS). The calculation of the risk charge for each market factor incorporates sensibility factors set by the SFC. No specific risk charge for interest rate risk is incorporated, which is less prudent that the relevant Basel II standards. However, the standard methodology provided by the SFC does not consider a correlation matrix to aggregate risk factors. Instead, it adds all relevant risk factor exposures, which is prudent. • The internal models should be based on a VaR methodology, with a confidence level of 99 percent, a 10-day time horizon and an observation period of at least one year. Moreover, the SFC requires supervised entities to adjust, when necessary, the valuation of securities classified as: i) "Available for Sale" and for which there is no market price or; ii) "Investments at maturity," in order to reflect the credit rating of the issuer (CBCF, chap. 1.8). Maximum values as a percentage of the nominal value of the security are set by the SFC, depending on the credit rating of the issuer. The performance of a technical study on the convergence to Basel III market risk standards is planned in 2021 for a possible introduction into the legal framework in 2022.
EC6	The supervisor requires banks to include market risk exposure into their stress testing programs for risk management purposes.
Description and findings re EC6	Since December 2015, credit institutions are required to have a stress testing program in place, through which they should measure, at least once a year, the incidence of different scenarios on their capital, liquidity, assets and liabilities. Scenarios are both to be designed by banks and provided by the SFC. In the latter case, market risk is explicitly included in the stress testing framework, except for small banks (i.e., whose assets are less than 2 percent of the banking sector's assets) whose main activity relates to the granting of loans. As such, (a majority of) banks should estimate the impact of the contemplated scenario on the value of their trading book instruments and derivative products. Moreover, chapter 21 of CBCF requires that minimum criteria for the use of internal models include the fact that such models should contemplate adverse scenarios. In addition, the risk management unit is required to provide the risk committee with reports on the market risk exposures of the bank, including the results of a scenario analysis. Finally, the Board is required to validate contingency plans established for each extreme scenario. To complement these requirements, the SFC has developed supervisory stress tests, where supervisors can evaluate the resilience of supervised institutions under different scenarios of price shocks in their investment portfolios. This is done depending on identified vulnerabilities of each bank and the economic and market conditions in which they operate. For example, in 2018, the SFC carried out market risk stress tests, which resulted in recommendations for some banks to define a contingency plan to be able to face adverse market developments and to make

	sure that their mitigation actions are sufficiently prudent. Moreover, the SFC can require stress-tests to specific institutions, according to the mentioned vulnerabilities and the results of the stress-test carried out by the supervisor.
Assessment of Principle 22	**Compliant**
Comments	Adequate regulatory standards are in place with regard to the management of market risks by credit institutions and the SFC supervises their implementation. Moreover, the SFC has developed a robust framework for the monitoring of market risk exposures and the identification of potentially vulnerable entities. Colombian authorities have planned to perform a technical study on the convergence to Basel III standards for market risk measurement in 2021, for a possible introduction of the new standards into the legal framework in 2022.
Principle 23	**Interest rate risk in the banking book**. The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk[108] in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.
Essential criteria	
EC1	Laws, regulations, or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.
Description and findings re EC1	**Exposure of Colombian banks to IRRBB** Since 2015, as part of its financial stability assessment, the BR has developed a methodology to measure the exposure to the interest risk in the banking book (IRRBB). Accordingly, Colombian credit institutions' net interest incomes are exposed to the risk of an increase of the interest rates. In September 2020, their assets are predominantly at fixed interest rates (53.3 percent) with an average duration slightly above 2.5 years, whereas their liabilities are predominantly at variable interest rates (44.8 percent are at variable interest rates and 42.2 percent at fixed interest rates) with an average duration of about 1 year. After an increase in 2019, the interest rate risk in the banking book on credit institutions' net interest incomes has somehow decreased in 2020, with a reduction in the duration of the assets.

[108] Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

	Regulation The SFC has not issued prudential requirements or detailed guidelines to specifically deal with interest rate risk in the banking book so far. Nevertheless, some general considerations and supervisory expectations with regard to IRRBB management can be found in public documents: • ***Comprehensive Supervisory Framework (MIS):*** IRRBB is a type of risk considered by the SFC has a risk inherent to supervised entities and financial conglomerates; • ***Risk Management***: the SFC assesses the appropriateness of the tools (e.g., duration gap) used by supervised entities to quantify their IRRBB and the potential impact on their earnings and economic capital; it also reviews if there are contingency plans in place to cope with adverse developments of interest rates; the IRRBB framework, including policies, processes and limits, should be approved by the bank's Board and its senior management; regular reporting mechanisms on this framework should be in place; • ***Risk Appetite***: to quantify their risk appetite, supervised entities can calculate their economic capital and compare it to their own funds; • ***Profitability:*** with regard to the IRRBB, supervised entities should assess if their balance sheet structure in terms of rates and maturities is consistent with their strategic plan and risk appetite. **Supervision** To facilitate its ongoing supervision of the IRRBB, the SFC has built several dashboards using information reported weekly by supervised institutions through a reporting template about "Interest rate structure of balance sheet." Then, the SFC is able to monitor the overall interest rate structure of the balance, including duration gap and asset-liability mismatches. Additionally, the SFC reported that, within the emerging risk analysis carried out while preparing the supervision plan, possible changes in the central bank's policy rate are considered to quantify the effect such scenarios may have on supervised credit institutions. For example, in the 2018 and 2019 supervision plans, changes in the monetary policy rate were considered as an emerging risk, which derived in offsite supervision exercises. Specifically, the exercise carried out in 2019 focused on a group of banks (which comprised approximately 70 percent of the industry assets) in order to evaluate the degree of development those institutions had regarding the identification, measurement, monitoring and control of IRRBB. Those exercises were aimed at mapping at that time the existing composition of the banking book, as well as identifying possible gaps within assets and liabilities, and measuring the sensitivity of Net Interest Margin and/or Economic Value of Equity to changes in the interest rate. This allowed the SFC staff to familiarize with the methodologies and processes each institution had, to monitor and control the interest rate risk in the banking book. Within the scope of this offsite supervision exercise, banks had to disclose

	how key areas of their institution were organized to develop a comprehensive risk framework, how articulated this framework was with the bank's risk appetite and how the results of sensitivity analysis were considered to assess possible changes in the commercial and/or funding strategy. The SFC reported that the main conclusion of this exercise was that all systemically important banks have implemented a robust and sound IRRBB framework, despite minor weaknesses found on a number of supervised institutions. As part of the supervision plan for 2021, the SFC intends to focus on medium and small banks to assess and evaluate the overall interest rate risk management process and related policies, in a context of historically low interest rates and low economic growth. Like the 2019 strategy, the aim is to map the interest structure of the supervised banks and the degree of sophistication these institutions have regarding the management of interest rate risk. Additionally, the SFC seeks to understand how well-prepared the institutions were to face the more than 200 basis points reduction in the central bank's interest rate during the pandemic in 2020. Choosing medium and small banks, as well as financing companies and financial cooperatives lies on the fact the SFC identified as an emerging risk possible gaps in the management of interest rate risk in these institutions.
EC2	The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.
Description and findings re EC2	As mentioned earlier, IRRBB is taken into account when a supervisor assesses the bank's risk management function. In doing so, the supervisor must determine whether a bank's strategy, policies, and processes for the management of interest rate risk have been approved by the Board or the delegated instance and are regularly reviewed by this body. Through the supervision exercises mentioned in EC1, the SFC required banks to disclose their governance framework used to manage the IRRBB, the degree of involvement of the bank's Board and the procedures to approve all relevant policies and strategies. The SFC reported to have found that: (i) Boards of Directors are responsible for approving policies and processes regarding management of interest rate risk; (ii) internal committees such as Asset-Liabilities committees, made up of members of the areas associated with risk management, are responsible for monitoring compliance with these provisions; (iii) policies and processes are periodically reviewed by senior management; and (iv) decisions about structural changes in strategy are communicated to operational areas for implementation.
EC3	The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including: (a) comprehensive and appropriate interest rate risk measurement systems;

	(b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions); (c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff; (d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary; and (e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.
Description and findings re EC3	As part of their regular assessment of a bank's risk management function, supervisors should determine if the entity has adequate calculation methodologies of its exposure to IRRBB, as well as appropriate reporting mechanisms to the Board and senior management. Through the supervision exercises it carried out in 2018 and 2019, the SFC reported that it required information related to IRRBB management processes and limits. It then was able to evaluate the following aspects: • the systems on which the IRRBB is built and their robustness; • whether or not there were reviews of internal models by approbatory instances, such as the risk committee of the Board; • how the limits regarding interest rate risk are established, and their relationship with the business model and market expectations; • which area carries out constant monitoring of the risk; • reporting obligations to senior management and the Board and how this framework is articulated with the bank's risk appetite; and • the strategies resulting from the analysis of sensitivity exercises on the interest rate risk.
EC4	The supervisor requires banks to include appropriate scenarios into their stress testing programs to measure their vulnerability to loss under adverse interest rate movements.
Description and findings re EC4	So far, the stress testing program (EPR) developed by the SFC does not explicitly refer to IRRBB and does not make mandatory the inclusion of scenarios to measure banks vulnerability to loss under adverse interest rate movements. Nevertheless, as part of the 2018 supervisory exercise, the SFC reported that it required banks to estimate the impact of a flattening and steepening of the yield curve on the banking book. Additionally, in the 2019 offsite supervisory exercise, it was mandated by the SFC to estimate the impact of a parallel rise in 200 basis points in the yield curve. In both cases, the impacts of these scenarios were evaluated as changes in the Net Interest Margin and Economic Value of Equity of

	institutions (when banks were able to compute this measure), compared to profits and capital. Additionally, within the scope of the 2021 supervision exercise, it is expected that medium and small banks would be required to conduct stress tests on the banking book to assess and measure their vulnerability to losses under adverse interest rate movements. Furthermore, during the aforementioned supervision exercises, the SFC reported to have had access to several internal stress-tests calculations, including the main approaches, assumptions, and metrics. Recommendations of improvement were given, when necessary. In fact, the SFC found minor inconsistencies in scenarios used by entities, particularly related to identification of rate sensitive assets/liabilities or impact of changes in interest rates on both sides of the balance sheet. As mentioned, the SFC sent tailored made recommendations to optimize their scenarios and improve the quality of internal exercises to accurately measure potential vulnerabilities.
Additional criteria	
AC1	The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardized interest rate shock on the banking book.
Description and findings re AC1	As part of the objectives of the different supervision exercises carried out in 2018 and 2019, the SFC reported to have required institutions to estimate the effect of shifts from the yield curve considering idiosyncratic characteristics of each bank. However, as mentioned in EC1 and EC4 above, there are currently no prudential requirements relating to the IRRBB measurement by banks, including through standardized stress testing exercises, and its periodic reporting to the SFC.
AC2	The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.
Description and findings re AC2	As part of the supervision exercises carried out, the SFC reported to have asked banks to calculate metrics regarding interest rate risk in the banking book expressed in terms of both profits and losses and total capital, as well as to indicate the results of stress-tests and sensitivity analyzes either on the net interest margin and/or economic value of equity. According to the SFC, its new regulation on ICAAP (see CP16) will encompass both Pillar 1 and Pillar 2 risks, including the IRRBB.
Assessment of Principle 23	**Materially non–compliant**
Comments	There have been clear progresses since the 2012 FSAP in the supervision of the IRRBB. Most notably, the SFC has carried out several offsite exercises and some onsite inspections since 2018, which enabled it to better supervise how Colombian largest banks and some medium-sized and small entities manage their IRRBB. Such exercises are still to be completed for medium-sized and small credit institutions. Accordingly, a transversal exercise is planned in 2021, with a focus on medium and small banks, as well as financing companies and financial cooperatives that have

	not been previously evaluated.[109] Indeed, the SFC has identified as an emerging risk possible gaps in the management of interest rate risk in these institutions. So far, the SFC has not issued prudential requirements or detailed guidelines to specifically deal with interest rate risk in the banking book and how it should be measured, managed and reported.[110] In addition to regular supervisory exercises and given the average duration mismatch between the assets and liabilities of credit institutions, the issuance of such prudential requirements and detailed guidelines is important to have clearly established risk management expectations for credit institutions to adequately manage their IRRBB. Moreover, the mandatory stress testing program (EPR) does not explicitly refer to the IRRBB. Rightly, the SFC now considers establishing a formal standard on IRRBB, through the issuance of an External Circular in the second half of 2021. The proposal is aimed at complementing and modifying the existing stress testing program (CBCF, Chap. XXVIII), as well as the current requirements for the management of market and liquidity risk (CBCF, chap. XXI and VI). The contemplated methodology considers both earnings-based measures and changes in the Economic Value of Equity (EVE), pursuant to the BCBS principles.
Principle 24	**Liquidity risk**. The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.
Description and findings re EC1	The Colombian regulatory framework for liquidity risk management has gradually converged toward Basel III liquidity standards. In this respect, there is no difference between internationally active banks and other banks. The Colombian regulatory framework for liquidity risk management is made up of several elements described below.

[109] The results and recommendations of the exercise are expected to be presented in November 2021.

[110] According to the SFC, it has provided instructions to credit institutions included in the offsite supervision exercise for the mapping of balance sheet positions and the calculation of risk indicators, which has been a reference model for entities that do not have models to manage this risk.

	Liquidity Risk Indicator (IRL for its initials in Spanish) Supervised entities are required to calculate and report weekly to the SFC a short-term liquidity risk indicator. The IRL is the ratio between liquid assets and net cash outflows. It is calculated over periods of 7 and 30 days and should be at least 100 percent. Enhancements to the IRL were made in 2018 and implemented in Q1 2019, with the adoption of an external circular by the SFC (External circular 009-2018). Accordingly, one of the main changes consisted in differentiating the assumed run-off rates by type of depositor in accordance with Basel III. In addition, the haircuts of some liquid assets not accepted by the *BR* in relation to its repo transactions were updated to better reflect their credit rating (a haircut of 15 percent was established for those securities with a credit rating of AA or above, while the haircut for securities with a rating between A+ and BBB- is 20 percent, and 50 percent for securities with a rating lower than BBB-). While the IRL standard shares common features with the Basel III liquidity coverage ratio (LCR) standard, there are still some differences. The main differences between the two standards are the following: **Liquid Assets** (i) Liquid assets are divided into HQLA and other liquid assets (equivalent to level 2 assets under the LCR standard), the latter being limited to 30 percent of total liquid assets (instead of 40 percent under the LCR standard), which is prudent; • Investments in debt instruments issued by banks or their affiliates and investments in open collective investment funds without commitment for permanent stay are included in other liquid assets for the IRL calculation, whereas they are not eligible under the LCR standard; however, this difference is not deemed to have a significant impact since 96 percent of total eligible assets are made of HQLA according to the SFC; • RMBS are excluded from the liquid assets under the IRL standard, although they can be included under the LCR standard subject to conditions and a haircut; in fact, the SFC considers that they do not have sufficient liquidity; here, again, the impact is deemed not material given the low level of securitization of the credit portfolio of banks (see CP16); ***1. Relating to the Haircut Rates*** o a haircut of between 2 percent and 7 percent is to be applied on domestic sovereign debt under the IRL standard, whereas such a haircut is not contemplated by the LCR standard—a haircut of 20 percent is to be applied for those securities with a rating between A+ and BBB- under the IRL standard, although a 50 percent haircut is laid down by the LCR standard;

	○ non-investment grade securities are eligible with a 50 percent haircut under the IRL standard although they are not eligible under the LCR standard, • Equivalent foreign currency assets are eligible with no limit under the IRL standard provided haircuts for both liquidity and foreign exchange risk (12.5 percent for USD, 11 percent for EUR, and 13 percent for other currencies) have been implemented, whereas, under the LCR standard, where the sovereign has a non-zero percent risk weight, domestic sovereign or central bank debt securities issued in foreign currencies are eligible up to the amount of the bank's stressed net cash outflows in that specific foreign currency, stemming from the bank's operations in that jurisdiction. Even if IRL does not consider a limit for those securities, they represent less than 1 percent of liquid assets according to the SFC. **Net Cash Outflows** • Regulatory run-off factors applied to different types of depositors have been adjusted to reflect the market conditions prevailing in Colombia between 2011 and 2017; thus, they are not strictly aligned with those laid down by the LCR standard and are somehow less conservative (e.g., deposits of supervised financial institutions receive a run-off factor of between 28 percent although a 100 percent is laid down by the LCR standard); • Regulatory run-off factors have to be complemented by run-off factors experienced by credit institutions since 2011; • In the absence of precision in the regulation, drawdowns of off-balance sheet commitments are to be calculated by each credit institution; the SFC is considering the introduction of a standard methodology for their calculation as one of the possible improvements of the IRL standard; • Performing contractual inflows from retail, small business and corporate customers are to be fully included under the IRL standard, with an adjustment by NPL ratio, while they have to be halved under the LCR standard because it is assumed that the bank will continue to extend loans to customers to maintain commercial relationships; the SFC explained that it assesses weekly the impact of new disbursements as part of its IRL stress testing exercise; • Term deposits, either assets or liabilities, maturing within the calculation period are assumed not to be renewed under the IRL standard, while they are to be treated as demand deposits under the LCR standard. ***2. Individual Exposure Index (IEI) and Consolidated Exposure Index (IEC)*** In its quality of monetary and exchange authority, the central bank has developed two indices of mandatory compliance relating to FX risk at short term: the Individual Exposure Index on the Short-Run (IEI) and the Consolidated Exposure Index (IEC). The methodology for the computation of those indices is equivalent to the IRL methodology: it consists in estimating the difference between Liquid Assets and Net Liquidity Requirements in each

	significant currency, including the Colombian peso (the amount of inflows that can offset outflows being capped at 75 percent of total outflows). The IEI is calculated as the sum of the net position in each significant currency, after the net position in each significant currency has been expressed in U.S. dollars. The time horizon for this calculation is 7 and 30 days. Additionally, to calculate the IEC, the institution must first estimate the IEI and then add all the net negative positions (in U.S. dollars) of their subordinates both inside and outside Colombia. The time horizon for the IEC is 30 days. The idea behind this ratio is that the consolidating institution should have sufficient liquid resources to cover the liquidity need of its subordinates. ***3. Net Stable Funding Ratio (CFEN)*** A longer-term liquidity indicator (CFEN, for its initials in Spanish) similar to the Basel III Net Stable Funding Ratio (NSFR) has been introduced by the SFC in 2019 (External Circular 19-2019). The CFEN is being applied in stages, beginning at 80 percent of target in March 2020 and reaching 100 percent by March 2022 for banks with assets greater than or equal to 2 percent of total banking sector's assets (for smaller banks, those thresholds are 60 percent and 80 percent, respectively). It has to be reported on a monthly basis to the SFC. Although the CFEN standard is broadly aligned with the NSFR standard, there are some differences. First, the CFEN ratio is to be calculated on an individual basis only, although the NSFR ratio should also be calculated on a consolidated basis. The SFC is analyzing to require a calculation of this ratio on a consolidated basis. The other main differences between the two standards are the following: **Available Stable Funding** • Retail deposits are considered as 95 percent stable under the CFEN standard, although the NSFR standard differentiates between stable and less stable deposits and lays down stricter rules for the latter; nevertheless, deposits of foreign persons are only included for 25 percent of their accounting amount under the CFEN standard; there is no such specific treatment for deposits of foreign persons in the NSFR standard; • Corporate deposits are included for 90 percent of their accounting amount under the CFEN standard, based on the stability identified for this category in Colombia, against 50 percent under the NSFR standard; and • A transitory regime is applied where demand and term deposits of less than six months of financial institutions and collective investment funds are included for 25 percent of their accounting amount, before being completely excluded from March 2022 in compliance with the NSFR standard.

	Required Stable Funding • For derivative products with a positive value, they can be netted against collateral posted for variation margin purpose under the CFEN standard, whatever form of collateral (i.e., securities or cash), whereas the NSFR standard restrict the netting to cash collateral; however, the SFC highlighted that in the Colombian derivatives market, most of the collaterals constituted as variation margin are in cash and government bonds that have a high liquidity; and • 5 percent of the total amount of derivative products with a negative value has to be included in the calculation of the required funding calculation under the CFEN standard; the NSFR standard has no such provision. ***Other requirements: SARL*** Prudential standards with regard to liquidity risk management processes are laid down by the chapter 6 of the CBCF. Accordingly, the SFC requires that the supervised entities implement a Liquidity Risk Management System (SARL, for its initials in Spanish) that enables them to identify, measure, control and monitor and mitigate their liquidity risk. The SFC reported to assess the correct implementation of the SARL standards at least every three to four years, or more frequently if is considered as an emerging risk or if warning signals are triggered (e.g., as a consequence of the stress tests performed). See the following EC for more details about those prudential standards and the supervision of their implementation. ***Supervisor's monitoring tools*** Banks are required to send periodically to the SFC several reports, so that the SFC can monitor their liquidity risk profile and dynamics. Such reports and information include: • Details of contractual cashflows and liquid assets for the calculation of the IRL under the standard approach (periodicity: weekly and monthly); • Details of available stable funding and required stable funding for the calculation of the CFEN (periodicity: monthly); • Information on deposits and money market operations (periodicity: daily); • Short-term exposure ratios for Intermediaries in the Currency Market (IMC). The assessors were shown both system-wide and individual dashboards that have been developed by the SFC to monitor the liquidity position of supervised banks. In addition, the SFC has performed various top-down liquidity stress tests commensurate with its analysis of emerging risks. Based on it, the SFC can ask potentially vulnerable institutions to provide it with more frequent or detailed liquidity reports or perform off- and onsite supervision exercises. The consolidated supervision is done through planned onsite and offsite supervision processes. Cross-border inspections are coordinated with the host supervisor. In addition, the

	consolidated supervision includes periodic meetings with internationally active banks, periodic meetings and information sharing with the Liaison Committee of the CCSBSO and the analysis of reports stating their internal assessment of the liquidity risk exposure within their subordinates and how this affects their overall standing regarding liquidity risk as well as other types of risk. ***Other supervisory actions*** When a bank does not comply with minimum thresholds set for the IRL or the CFEN, it is required to inform without delay the SFC of this situation. It should also explain why the liquidity indicator has decreased and what corrective measures are going to be taken so that the IRL exceeds the regulatory threshold within 30 days, or that the CFEN exceeds the regulatory threshold within 6 months (can be extended to 9 months if motivated). When no adjustment plan is communicated to the SFC, when the SFC objects the bank's adjustment plan or when the adjustment plan did not achieve its objectives, the bank is not allowed to: • Be involved in money market operations; • Engage in new loans (including leasing operations); • Invest in financial instruments or make new acquisitions; and • Increase credit cards' limits (only for a breach of CFEN). In addition, when the non-compliance with those standards persists, the SFC can take administrative measures against the bank.
EC2	The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.
Description and findings re EC2	The chapter 6 of CBCF specifies that credit institution's SARL should be commensurate with its structure, as well as with the complexity, nature and size of its activities. Both on- and off-balance sheet risks should be within the reach of the SARL. In the same vein, the SFC and credit institutions should consider their systemic importance and their role in the financial system. In accordance with this, credit institutions are segmented into two groups depending on their share of total banking sector's assets. Smaller credit institutions are subject to lighter CFEN and stress testing requirements.
EC3	The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance.
Description and findings re EC3	Credit institutions are required to implement an appropriate liquidity management framework called SARL (CBCF, chapter 6). This framework should help credit institutions to take adequate measures to mitigate their liquidity risk, including the maintenance of a well-sized pool of liquid assets. The liquidity risk should be measured thanks to internal models approved by the SFC and which include stress scenarios. Limits commensurate with the results of the stress tests and the entity's

	structure should be defined and monitored. Credit institutions should have sufficient liquidity, including a pool of liquid assets, to match their liquidity needs in a time of crisis. Policies and processes for the smooth functioning of the SARL are required, including policies for the determination of limits and policies for the mitigation of the liquidity risk. Those policies, as well as contingency plans, should be validated by the banks' boards. Components of the SARL should be implemented at both individual and consolidated levels. Thus, the stress tests analysis is to be performed from each business line, portfolio and entity, up to the financial conglomerate as a whole. Moreover, the liquidity risk of both individual entities and financial conglomerates should be actively controlled. Through the analysis of the Board's minutes, as well as face-to-face interviews with relevant staff, the supervisor can establish if the policies, reports, general framework, contingency plans, among others, have been approved by this body and what have been the statements made by this body regarding the implementation of such policies and guidelines, as well as the overall liquidity position of the bank. The supervisory criteria for liquidity management are published on the SFC website.
EC4	The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including: (a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards; (b) sound day-to-day, and where appropriate intraday, liquidity risk management practices; (c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide; (d) adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and (e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.
Description and findings re EC4	Banks are required to have an appropriate and controlled liquidity risk environment. Thus, (a) when reviewing banks' liquidity risk management policies and practices, the SFC pays particular attention to the fact that they are consistent with the banks' risk appetite framework and statement;

	(b) the liquidity risk management unit is required to inform daily the bank's senior management and relevant committees of the evolution of the liquidity risk; (c) banks should have information systems enabling them to manage effectively their SARL; in particular, an adequate information system for the quick consolidation of distinct inflows and outflows should be in place and validated at least once a year; (d) banks' Boards are ultimately responsible for the monitoring of the implementation of the SARL, as well as the evolution of their liquidity risk profile; they receive monthly reports about liquidity risk exposures and shall give their opinion when abnormal situations arise; they shall also review the results of the stress tests and approve contingency plans; and (e) banks' liquidity risk management policies and processes should be regularly updated to reflect both their changing risk profile and external developments in the market. The SFC reported to carry out its supervision through the analysis of relevant documentation such as manuals and policies regarding liquidity risk, evidence on the compliance of these guidelines, as well as onsite evidence such as live tests of systems and reports, evidence of communication between key areas, among other aspects. The assessors were shown relevant examples of recommendations made to strengthen the liquidity management framework of several banks.
EC5	The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g., credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include: (a) an analysis of funding requirements under alternative scenarios; (b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress; (c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits; (d) regular efforts to establish and maintain relationships with liability holders; and (e) regular assessment of the capacity to sell assets.
Description and findings re EC5	Chapter 6 of CBCF includes a general requirement for credit institutions to design a SARL integrated with the management of the others risks that can have a direct or an indirect impact on the liquidity risk management strategy. Credit institutions are also required to implement policies regarding their access to funding and the diversification of their funding sources. The funding strategy must be reviewed periodically by the executive management.

	In addition: (a) credit institutions shall measure their liquidity needs resulting from the projection of outflows and inflows at different time horizons under normal and stress conditions; they shall establish limits so that available liquidity or the pool of liquid assets outmatch liquidity needs in a time of stress; (b) the liquidity risk management unit shall monitor that there is an appropriate balance between the bank's operations and the level of available liquid assets; and (c) concentration limits are to be set up and monitored, including by counterparty, economic sector, instrument, tenure and currency. As mentioned before, criteria against which the SFC assesses the efficiency of banks' liquidity management framework are published on the SFC website. According to those criteria, the SFC values in particular that there are liquidity risk policies and practices in place which promote a diversification of funding sources, as well as the maintenance of market access and relationships with funds providers. It also assesses the sufficiency and adequateness of the pool of liquid assets, and the sufficiency of liquid resources to support the bank's business plan. This is done by the analysis of relevant documentation including manuals regarding the management of liquidity risk, the risk committee, and Board's minutes as well as with interviews with senior management and other relevant staff of the bank. The internal guideline to be taken into account by supervisors when assessing the capital, profitability and liquidity of credit institutions also stress out that the reputation and the capital position of an entity may affect its liquidity position and that, consequently, stress scenarios designed for the management of capital and liquidity should be complementary.
EC6	The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.
Description and findings re EC6	Banks are required to maintain and review, at least once a year, liquidity risk mitigation mechanisms, among which are contingency plans. Those plans should be based on the results of the stress tests, should contemplate additional collateral needs resulting from a variation of market prices and include, among others, some of the following funding sources: • investors for the banks' debt instruments and term deposits, with an estimation of the related amount and time needed to collect the funds;

	• money market financing, including through repos, with an estimation of the related amounts, collateral and counterparties who might be willing to provide financing under the contemplated scenario; • new and/or rollover of deposits and other credits the banks have; • disposal of assets and loans, with an estimation of possible losses the bank might occur; • liquidity support from the parent entity, shareholders or other related parties, with an estimation of the opportunity and maturity of those funds and the related cost; and • possible liquidity support from the BR, and related requirements, costs, opportunity and maturity of those funds and the related cost; it is specified that it is a last resort recourse financing since BR's contingent facilities do not constitute a committed line of credit. In addition, those plans should include a communication plan to the supervisor and the public in general, clear processes for the prioritization of actions and clear lines of responsibility for the activation of the contingency plan and the setting up of the crisis management group. The SFC reported to have issued requirements to several credit institutions regarding the enhancing and testing of their liquidity contingency plans, due to weaknesses found by supervisors. Within the requirements are clear actionable plans to enhance the liquidity position, modification of strategies on the procurement of certain funding sources, and its soundness, among other aspects. The assessors were shown some examples of such requirements.
EC7	The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programs for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.
Description and findings re EC7	Entities should include stress tests with crisis scenarios under reasonable assumptions, the crisis scenario may be related to a market and general crisis, idiosyncratic crisis, or both. In addition, liquidity risk limits and contingency plans should respectively be consistent with and leverage on the results of the stress tests (CBCF, chapter 6). On top of those internal liquidity stress tests, whose frequency should be consistent with banks' liquidity risk profile, banks have to annually run stress scenarios provided by the SFC, which include a liquidity risk component. Thus, since 2015, banks have to implement a stress testing program (EPR, for its initials in Spanish) whose objective is to measure the effects of stress test scenarios determined by the SFC on their capital, liquidity, assets and liabilities. Liquidity stress tests are aimed at enabling banks to identify and measure exposures to future liquidity crises under different time horizons, including the measurement of

	possible impacts on banks' cashflows, liquidity position, earnings, profitability and solvency. The results of liquidity stress tests shall be used by supervised institutions in assessing the viability of their business plans and shall be taken into account to take relevant decisions with regard to risk management (CBCF, chapter 28). More precisely, banks' Boards and executive management are required to actively discuss the results of the stress tests and the associated corrective actions.
EC8	The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cashflow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.
Description and findings re EC8	The central bank has set a number of general rules and prudential indicators aimed at limiting foreign exchange liquidity risk and open foreign exchange positions (see Administrative Act DODM-361, (2018) and external resolution n01 (2018)). For instance, liabilities in foreign currency should have a longer maturity than the assets in the same currency they finance. The SFC is in charge of monitoring the compliance with those indicators for all institutions which are considered Foreign Exchange Market Intermediaries (IMC in Spanish), including credit institutions. • As mentioned in EC1 above, the IEI estimates the total exposure to short-term foreign exchange risk, expressed first in a set of currencies, to then compute the indicators in U.S. dollars. This methodology allows the SFC to monitor liquidity needs in each significant currency individually. • Through the IEC, the SFC monitors that a bank has sufficient excess liquidity to cover any liquidity shortfall in both its Colombian and foreign subsidiaries, as to calculate this index the bank should add its own IEI with any net negative position of its subsidiaries. • Currency mismatches are controlled at individual or at consolidated levels by the IRC+ and IRC- indices. These indices separate positive and negative net positions in different currencies, which allows the SFC to identify significant exposure (either on long or short positions) from all IMC institutions and possible currency mismatches. • Additionally, all IMC institutions shall disclose their net foreign exchange position (PP), spot foreign exchange position (PPC) with maturities shorter than 3 days, and gross leverage position in foreign exchange (PBA). As opposed to the IEI and IEC (which focus on liquidity requirements in foreign exchange), the PP, PPC and PBA focus on the level of exposure to foreign currencies.

	• Finally, with the PICE ratio (see CP 22), the SFC keeps track of the overall investments in subordinates, as a proportion of total capital, by each IMC. On the other hand, the SFC requires that cashflow mismatches for foreign currencies in aggregate shall be monitored and associated limits shall be set. Those limits shall take into account, among others, the banks or financial conglomerate's ability to transfer liquidity from one currency to another across jurisdictions and legal entities (CBCF, chapter 6). The SFC reported that, as part of its assessment of supervised entities' liquidity modelling, it takes into account their strategy regarding liquidity in foreign currency and how they are incorporated into operational limits. In practice, it did not observe a high level of liquidity risk in foreign currency.
Additional criteria	
AC1	The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.
Description and findings re AC1	There is no regulatory requirement in the SARL related specifically to the management of the level of encumbrance of assets and the setting of appropriate limits. However, two regulatory constraints are put on banks' encumbered assets. First, through the CFEN ratio, the SFC requires banks to fund 100 percent of all assets encumbered for a period of more than one year and 50 percent of high quality assets encumbered for a period of between six months and one year. This sets a limit on the banks' ability to hold encumbered assets as the funding required is higher than that of unencumbered assets. Second, through the IRL ratio, encumbered assets are not considered part of the High-Quality Liquid Assets, which puts another layer of restriction to holding encumbered assets.
Assessment of Principle 24	**Largely compliant**
Comments	The SFC has developed both system-wide and individual dashboards, as well as other supervisory tools, to enable it to monitor on an ongoing basis the liquidity position of banks. There is also a comprehensive framework in place for credit institutions to manage their liquidity risk, including their foreign exchange currency. This framework requires the calculation and monitoring of several liquidity ratios, including a short-term liquidity ratio (IRL) which has been further aligned with the LCR standard in 2018 and a structural liquidity ratio (CFEN) derived from the NFSR, which has been introduced in 2019. Several regulatory parameters used in the computation of those ratios are not totally aligned with those prescribed by the Basel III standards or are not determined yet. For example, most run-off factors receive a more favorable

	treatment than the ones prescribed by the LCR standard. Colombian authorities explained that those parameters were designed to reflect the market conditions in which banks operate and the behavior of their clients. Nevertheless, this reduces the comparability between the subsidiaries of financial conglomerates, where different liquidity metrics can be used depending on the jurisdictions where subsidiaries are established. It is then recommended to further align the local LCR and NSFR ratios with international standards and, as already envisaged by the SFC, to require the NSFR ratio to be also calculated at consolidated level.
Principle 25	**Operational risk**. The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk[111] on a timely basis.
Essential criteria	
EC1	Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase). Since 2007, the SFC requires banks to have an appropriate operational risk management framework (SARO, for its initials in Spanish) in order to identify, evaluate, monitor and control this risk efficiently (CBCF, chapter 23). The SARO should be commensurate with bank's strategy, structure, size, social object, and support activities irrespective of if they are performed directly or through third parties. It includes mandatory processes for the identification, assessment and control of operational risks to which a bank is exposed, with a view to determining the residual risk profile of the entity. In this context, one of the objectives of the monitoring process is to ensure that residual risks are within established risk tolerance levels. The SFC reported to assess the operational risk management framework through a combination of onsite inspections,[112] whereby the JST team evaluates the management performed by the entity thanks to the information provided, interviews and tests, and offsite supervision exercises, using tools to measure inherent cyber risk and the maturity of Information Security, Cybersecurity and Business Continuity management. When situations arise that could increase operational risk, such as the merger of entities and the transfer or acquisition of business units of other entities, a particular follow-up is carried out to verify the way in which they identified and

[111] The committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

[112] Six onsite inspections in credit institutions included this topic in 2019.

	controlled the risks of the process. Faced with unforeseen events, such as natural disasters, disturbances of public order, health problems, terrorist acts, among others, the SFC remains in contact with the entities to establish their capacity for operational resilience and the effectiveness of the controls established for those scenarios. In this respect, the SFC has been proactive in 2020 in giving specific instructions to supervised entities so that they strengthen their operational risk management during the pandemic and in following up on the implementation status of the actions. Additionally, the SFC informs the monitored entities about the cyber threats that could affect them and asks that they report it if they suffer an incident, in which case, if the service is affected or the security of the information is compromised, they are subject to an inspection visit. All the supervisory activities described above serve as input to update the rating of the entity's risk profile.
EC2	The supervisor requires banks' strategies, policies and processes for the management of operational risk (including the banks' risk appetite for operational risk) to be approved and regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively.
Description and findings re EC2	The SARO framework requires the Board of Directors to play an active role on the overall operational risk management strategy, including: (i) establish policies concerning the SARO; (ii) approve the operational risk manual and their updates; (iii) rule and monitor the institution's operational risk profile; (iv) establish adequate procedures concerning the operational risk profile, in line with banks' risk tolerance; (v) get informed and take action, as necessary, upon periodic SARO reviews provided by the CEO and the internal and external auditor; and (vi) provide the resources needed to implement and maintain the SARO in an effective and efficient manner. The SFC reported to pay attention to the fact that the Board of Directors has pronounced itself on each of the points contained in the periodic reports presented by the administration and the committees. Besides, the SFC verify that there is an adequate report to the Board of Directors on matters of interest in operational risk and that it is provided with training, especially in matters of information security, cybersecurity, and management of business continuity.
EC3	The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.
Description and findings re EC3	Senior management is in charge of the effective implementation of the SARO and related policies and processes (CBCF, chapter 23, §3.2.4.2). Accordingly, it should: • Monitor the effective implementation of the strategies and policies approved by the Board and support the cultural changes needed in this respect; • Establish, update and present to the Board an operational risk manual; • Make sure that a proper operational risk management division is in place;

	• Make sure that controls operate effectively, and risk events are correctly registered; • Adopt appropriate measures to maintain the bank's risk profile in line with the tolerance level approved by the Board; • Approve business continuity plans and make sure that sufficient resources are in place to manage them effectively; and • Evaluate the reports sent by the operational risk management division and communicate relevant aspects of the SARO, including preventive and corrective actions, to the Board at least twice a year. Through onsite supervision exercises, the SFC assesses the effectiveness of the performance of the risk management function considering, among other criteria, that the entity: • Has a defined risk culture, which includes determining a risk appetite from which policies, guidelines and risk limits are derived; • Integrates its policies, practices, and limits into the daily activities of the business; and • Monitors risk positions against approved limits and ensures that breaches are dealt with in a timely manner. Likewise, the SFC relies on the evaluations carried out by the internal audit (AI for its initials in Spanish) on the effectiveness of operational risk and cybersecurity management.
EC4	The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.
Description and findings re EC4	Banks are required to define, implement, test and maintain a process to manage business continuity, encompassing elements such as prevention and emergency response, crisis management, contingency plans and the ability to resume normal operations. The business continuity and recovery plans are required to be tested to ensure that they are effective, adequately well-known, and should cover all risks that could potentially affect operations, an action plan in case of failures, alternative solutions for business continuity, as well as alternatives for resumption planning. They should be commensurate with banks' structure, size, business activities, as well as support activities, including outsourcing (CBCF, chapter 23, §3.1.3.1). The BR periodically summons banking establishments to participate in application tests and cash provision simulating a high-impact event that affects the normal operation of the systems. On top of onsite missions, the SFC carried out in 2018 and 2019 its first transversal assessment of the degree of maturity of banks' continuity management. This

	assessment was based on information requests made to credit institutions and was facilitated by the development of a dedicated questionnaire. The answers to this questionnaire were reviewed by operational risk experts in the NS. Recommendations were made to strengthen the strategies and effectiveness of banks' controls, in especial: • Evaluate the possibility of migrating the main and alternate processing centers to facilities that comply with the guidelines established in the ANSI/TIA 942, TIER 3 or higher technical standard or any other internationally recognized standard that provides, at least, a level of availability of 99.99 percent; • Locate the main and alternate data processing centers in such a way that the same event does not simultaneously affect the operation of the two facilities; • Execute tests of critical services functional, comprehensive, and simultaneous, affecting technological platforms, human resources, physical infrastructure, third parties and increasingly demanding operations, in order to assess the suitability and scope of the continuity strategies implemented; • Operate in the alternate processing center during periods that allow verifying the adequate execution of the processes associated with the critical services of the entity; and • Define and execute a continuity test schedule that includes the operation from the Alternate Operation Center (CAO) of all critical processes identified in the BIA; the tests must consider cyber-attacks, natural disasters, lack of human resources, and process failures. The SFC plans to perform this transversal supervisory exercise every two to three years in order to be able to evaluate the improvements of bank's business continuity management. The SFC reported to complement this transversal supervisory exercise with onsite missions on risk management where the disaster recovery and business continuity plans are reviewed in detail. With regard to the management of the Covid-19 crisis, the SFC published in March 2020 a transitory external circular (n°008-2020) requiring the supervised entities to establish a contingency plan with short and medium term actions, so that those entities are able to continue to provide financial services. In this respect, the supervised entities have been required to enhance their IT infrastructure and controls and make sure that they have an adequate capacity to support an increase in dematerialized processes and transactions. Based on the answers provided by the supervised entities and automated controls (see EC 7 below), the SFC concluded that they have implemented actions plans that enabled them to continue their operations during the COVID-19 crisis.
EC5	The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected

	business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.
Description and findings re EC5	**IT policies, processes, and infrastructure** Requirements relative to IT policies, systems and security management constitute a comprehensive framework which has been progressively extended by the SFC (CBJ, part 1, title 2, chapter 1 and CBJ, part 1, title 1, chapter 4). Banks are required to establish, implement, document and communicate IT policies and define the underlying necessary resources, processes, methodologies and controls. In addition, information security policies, whose one of the main objectives is to protect data confidentiality, are mandatory. Prudential requirements should be included in banks' policies and processes on information management. Among others, banks should then: • have hardware, software and telecommunication systems, as well as adequate processes and controls, which enable them to provide customer services and manage information with appropriate security and quality; • take appropriate steps to ensure minimum services to customers and have appropriate IT support; • have separate development, testing and production developments for their software programs; and • implement a system for the analysis of IT vulnerabilities including penetration tests; a consolidated report of vulnerabilities should be produced automatically at least twice a year and remedial actions should be taken. One of the significant activities to be assessed when determining the risk profile of a credit institution is the technology management. The analysis includes the following topics: the inherent risk, the effectiveness of the controls, the conclusions and recommendations derived from the study performed. In addition, the adequacy of the IT systems used in relation to each significant activity should be assessed. **Cybersecurity** Given the increase exposure to cyber risks brought about by the recent boom in the digitalization of financial services, the greater interconnectivity between agents, and the massive use of electronic channels, the SFC has published in 2018 specific requirements relating to the management of cybersecurity (CBJ, part 1, title 4, chapter 5). Supervised entities should have appropriate policies approved by the Board, procedures, technical and human resources to effectively manage cyber-security risks. This includes policies and processes relating to prevention, detection, management and communication, and recovering from a cyber-attack. In particular, supervised entities are required to test their business continuity plans under a cyber-attack scenario and should have a dedicated unit for cyber-security management. Based on information provided by supervised entities at end 2019, the SFC concluded that 60 percent of the questioned entities comply with all the supervisory requirements it published in 2018, 37 percent comply with between 70 percent and

	99 percent of those requirements, and 2 percent comply with less than 70 percent of those requirements. Through information requests made to credit institutions, the SFC has reviewed in 2020 the degree of maturity of banks' cybersecurity and in 2018 and 2021 their inherent cyber risk profile. It has designed well-crafted tools to facilitate these reviews. Once the information has been analyzed by the operational risk experts within the NS, recommendations were issued to improve the entity's performance—examples of which were shown to the assessors—and the implementation of action plans is monitored to address these recommendations. In addition, the SFC has carried out in 2020 a pilot exercise using a market tool, by which it was able to identify vulnerabilities on the website of banks and other supervised entities and make relevant recommendations to correct them. This exercise should be renewed and expanded in 2021 with another market tool. Similarly, the SFC has published in 2019 requirements for entities that make use of cloud computing services (see external circular 005 (2019)) and has reported to have controlled, through information requests made to credit institutions, core and accounting processes taken to the cloud. To be able to enhance its capacities, he SFC has increased its team of experts in cybersecurity, business continuity and project management. Those experts have been working on new regulations and guidelines and give support to onsite inspection teams.
EC6	The supervisor determines that banks have appropriate and effective information systems to: (a) monitor operational risk; (b) compile and analyze operational risk data; and (c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk.
Description and findings re EC6	There is a general requirement for supervised entities to have information systems in place to ensure the smooth functioning of their SARO. Information systems must be commensurate with supervised entities' size and activities (CBCF, chapter 23, §3.2.7). Appropriate information systems and processes must be in place so that the entity is able to: • monitor periodically its operational risk profile, as well as its exposure to losses; • compile the necessary information to feed the register of operational loss events, under the coordination of the Operational risk unit; minimum data to be recorded in this register has been enhanced with the adoption of the external circular 025 (2020); and • report, at least twice a year, to the Board of Directors about the evolution of the operational risk, the residual exposure of the entity to this risk, as well as preventive and corrective actions that have been implemented.

	The SFC reported that, as part of its assessment of the risk management function and other supervisory exercises, it assesses the technological resources and the reports presented on the management of operational risk and cybersecurity to the senior management and the Board. More specifically, it ensures that entities have: • the necessary IT tools to support the identification, measurement and documentation of the risks of the entity, the recording of events, the accounting disclosure and the generation of reports, among others; • adequate processes for reporting events, monitoring action plans, sufficient and competent human resources for the administration of the SARO; and • a culture for adequate risk management. The SFC reported to have made recommendations to some supervised entities in order for them to have adequate IT systems supporting all steps of operational risk management (identification, measurement, control and monitoring, as well as the maintenance of a register of operational loss events, indicators and action plans). In addition, with the publication of the external circular 025 (2020), it required supervised entities to enhance their recording of events by including new data on those events.
EC7	The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions.
Description and findings re EC7	Several communication channels for the reporting of potential and realized operational risk events to the SFC are in place: (a) When events occur that caused unavailability of the channels, banks report the incident by telephone to the Office for Operational Risk and Cybersecurity and then report it to riesgooperativo@superfinanciera.gov.co (CBJ, Part I, Title II, Chapter I, §2.3.3.1.23); (b) Subsequently, the entity is required to report, among other aspects, the causes of the event, the impact, the materialized risks, the violated controls, the information provided to financial consumers, the Internal Audit report on the event and the activities carried out to fix the incident; (c) The supervised entities shall send a quarterly report about the monthly availability of the distribution channels of their products (local branches, website, etc.) and the methodology used to calculate it (CBJ, Part I, Title II, Chapter I, §2.3.3.1.22); (d) The supervised entities shall send to the SFC a risk analysis prior to providing services to customers through a new distribution channel (CBJ, Part I, Title II, Chapter I, §2.3.4.10); similarly, they shall send specific information to the SFC prior to using cloud computing services (CBJ, Part I, Title I, Chapter VI, Section 6); (e) The value of operational risk events and the expenses derived from their attention shall be reported monthly to the SFC in the expense accounts of the income statement (CBCF, Chapter 23, §3.2.8.3); and

	(f) The Statutory Auditors are required to report to the SFC the existence of relevant risks that are not being adequately administered by the management of the entities and that in their opinion have a significant impact on the development of its corporate purpose (see BCP 27 below). Moreover, the SFC mentioned that sometimes the supervised entities approach it to report on the launch of new products and services that do not require authorization but that they consider important to inform the supervisor. The SFC is able to check the information reported to it by supervised entities, or the lack of reporting, thanks to an automated test it carries out daily on the availability of their websites, the review of claims brought by dissatisfied clients, the quarterly review of operational losses reported by supervised entities, and the review of operational events registers.
EC8	The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management program covers: (a) conducting appropriate due diligence for selecting potential service providers; (b) structuring the outsourcing arrangement; (c) managing and monitoring the risks associated with the outsourcing arrangement; (d) ensuring an effective control environment; and (e) establishing viable contingency planning. Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank.
Description and findings re EC8	Minimum requirements for outsourcing are established by the SFC as soon as the outsourced activities relate to distribution channels for the provision of financial services (e.g., branch networks, internet) or entail access to confidential information (CBJ, part 1, chapter 2, title 1, §2.3.6). Those minimum requirements are: • define criteria and procedures for selecting potential service providers and outsourced activities; • include in the legal agreements provisions related to levels of service and operation, confidentiality over information, property rights, restrictions in the software program which is used by the service provider, norms with regard to physical and IT security, processes to be implemented when there are evidences of alteration or manipulation of systems or information, processes and controls over the communication and destruction of the information used by the service provider; supervised entities should establish and communicate to its internal audit department processes to check the compliance with those minimum legal agreement clauses; • require that service providers have duly documented contingency and business continuity plans; supervised entities should check that those plans are

	compatible with the provisions of legal agreements signed with their service providers; • have processes in place for the physical identification of service providers; and • implement robust encryption mechanisms for the exchange of confidential information with service providers. Moreover, the SFC added in July 2020 new requirements to the SARO related to the risk management of outsourced activities. Supervised entities should then: (i) carry out a risk assessment to determine what activities or processes to outsource; (ii) understand what operational risk stems from the outsourced activities and processes; (iii) include risks associated with the outsourcing in their risk strategy; and (iv) determine what outsourced activities and processes are deemed critical. For critical outsourced activities and processes, supervised entities should also: • define criteria and procedures for selecting potential service providers; • include in the legal agreements' provisions related to the obligations of the parties, service levels (including in case of an emergency), how risks that can affect the service provider's compliance with its contractual obligations are managed, and the confidentiality of the information; • manage the risks associated to the outsourced activity, in particular when the third party provides the service to several entities; • have in place adequate processes to monitor the service provider's compliance with its contractual obligations; and • include the review of the outsourced activities in the scope of work of the risk management and internal audit functions. Banks outsource most frequently IT support services, communication and network services, datacenters management, IT security services, cash transportation, credit scoring services, and collection services. With regard to the Covid-19 crisis, the SFC observed that some of those outsourced activities were put to the test with the increase of transactions in digital canals. The SFC reported to assess how supervised entities manage the risks linked to outsourced activities through onsite visits. Moreover, the SFC has held meetings with banking service providers to better know what types of services are typically offered and has visited some installations of IT service providers to better know under what conditions those services are offered. Finally, it has launched in 2021 a transversal supervisory exercise whereby it assesses how banks check the operational and financial performance of critical service providers in the context of the pandemic and has reported to have sent relevant recommendations to the entities that have been assessed so far.
Additional criteria	

AC1	The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (e.g., outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities).
Description and findings re AC1	The SFC has developed a tool for the identification and evaluation by the supervised entities of their service providers. With such a tool, the SFC is reportedly able to identify the common points of exposure to operational risk that may affect supervised entities, such as trading systems, trading clearing and settlement systems, interbank transfers through Swift and CUD, infrastructure providers, custodians securities, centralized securities deposits, securities transporters, payment gateways, cloud service providers, data processing centers, cybersecurity and data processing service providers, call centers, ATM providers, servers, equipment or communications links, workstations, software, and core systems. The SFC reported that, even though third parties that provide services to banks are not supervised entities, it has held meetings with some of the most relevant providers to gain a first-hand perception of the ability to simultaneously provide their services to several supervised entities. It also recommended credit institutions to carry out tests on their continuity plans together with their critical suppliers, so as to improve their degree of maturity in business continuity management.
Assessment of Principle 25	**Compliant**
Comments	Since 2018, the SFC has enhanced its framework for the management of operational risk by supervised entities. Those enhancements include instructions given to banks and other financial institutions to strengthen the information security, cybersecurity, performance of the operations, recording of operational events and outsourcing management. In the same vein, the SFC has developed tools and launched, in 2018 and 2019, its first evaluation of the degree of maturity of banks' cybersecurity and business continuity management. A new measurement is planned in the second half of 2021. Moreover, the SFC has been proactive in 2020 in giving specific instructions to supervised entities so that they strengthen their operational risk management during the pandemic and in following up on the implementation status of the related actions.
Principle 26	**Internal control and audit**. The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent[113] internal

[113] In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

	audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address: (a) organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g., clear loan approval limits), decision-making policies and processes, separation of critical functions (e.g., business origination, payments, reconciliation, risk management, accounting, audit and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and (d) safeguarding assets and investments: including physical control and computer access.
Description and findings re EC1	Supervised entities are required to have an internal control system (SCI for its initials in Spanish) commensurate with their size and activities (CBJ, part 1, title 1, chapter 4, §1. & 2.). The SCI should achieve the following objectives with a reasonable level of assurance: (i) improve the efficiency and effectiveness of the entity's operations; (ii) prevent and mitigate frauds (both internal and external); (iii) ensure an adequate management of risks; (iv) strengthen the reliability and opportunity of the information produced by the entity; and (v) ensure that norms and regulations are duly complied with. Banks' Boards are explicitly responsible for the definition and approbation of general policies related to the SCI, as well as the monitoring of their implementation (CBJ, part 1, title 1, chapter 4, §6.1.1.). It is the responsibility of senior management to implement Boards' strategies and policies related to the SCI (CBJ, Part 1, Title 1, Chapter 4, §6.1.3.). Among the main requirements of the SCI, there are: (a) the determination of an organizational structure with clear levels of authority and responsibility; requirements with regard to the organization structure are further detailed in the different risk management frameworks issued by the SFC (SARC, SARM, SARL, SARO and SARLAF); for instance, the SARM requires

	supervised entities to have separate and independent front, middle and back offices; (b) the need to have accounting policies and processes, as well as a proper monitoring and control of those accounting processes (including processes for the validation of data quality, inventories and analyzes of the entity's assets); and (c) the need to implement control activities across all business areas, operations and processes, including IT controls, access restrictions, physical controls, and segregation of duties. The SFC reported that it assesses the internal control system and internal audit in each onsite and offsite supervision exercise. More specifically, its risked-based supervision methodology includes an assessment of the bank's supervisory functions (Board of Directors, Senior Management, evaluation of operational management and risk management, financial analysis, and compliance) in order to determine the bank's risk profile. This assessment is carried out both at bank's level and for each one of its significant activities (performance). The supervisor assesses, among others, that the bank has an organizational structure that allows adequate governance, the existence of policies, procedures, and guidelines necessary to carry out the assigned roles, ensuring adequate internal control and monitoring by the Internal Audit.
EC2	The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units.
Description and findings re EC2	Supervised entities must ensure that their staff involved in trading activities, risk management and control, *back office*, accounting and audit of financial market operations have a deep knowledge of negotiated products, as well as of administrative and operational processes linked to the SARM (CBCF, chapter 21, §6.1.2.). In particular, staff involved in risk monitoring and control activities should have a deep knowledge of how financial markets work, as well as a good command of risk valuation methods and information tools. Remuneration and training policies should ensure that staff involved in risk monitoring and control activities and in back office activities have sufficient capacity to perform their tasks. The unit responsible of the market risk management (i.e., middle office) shall report twice a year to the risk committee (or the bank's Board) the entity's market risk exposure, limit breaches, and operations that it has objected because they were not aligned with the SARM requirements. The SFC reported that it assesses both bank's operational management, control and supervisory functions through onsite and offsite supervision exercises. Operational management is the one responsible for the day-to-day operations and the controls used to manage the different risks of the significant activities. Supervisory

	expectations with regard to the bank's supervisory functions are public: financial analysis, compliance, risk management, internal audit, senior management, and Board of Directors. The evaluation includes the compliance with supervisory criteria and the effectiveness of the bank's supervisory function.
EC3	The supervisor determines that banks have an adequately staffed, permanent and independent compliance function[114] that assists senior management in managing effectively, the compliance risks faced by the bank. The supervisor determines that staff within the compliance function is suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function.
Description and findings re EC3	There is no specific requirement in the SCI standard for banks or in another regulation to have a segregated compliance unit or specific criteria relating to the staffing, permanency and independency of the compliance function. In the absence of a prudential requirement for banks to have a segregated compliance unit, the SFC indicated that, in practice, compliance function is ordinarily assumed by the legal department in small entities. However, bigger entities have put in place dedicated compliance units, which can be called "Regulatory Control" or "vice presidency for Legal and Regulatory Compliance." There are a number of legal, regulatory and supervisory expectations regarding the compliance function. First, Directors shall promote the strict observance of regulatory and statutory provisions (Art. 23, Ley 222/95). The compliance with regulatory provisions is also part of the mandatory opinion delivered by the statutory auditor of credit institutions (see CP 27 below). In consequence, Directors shall put in place a structure, procedures and processes enabling the compliance with relevant regulations within the entity. Moreover, the CBJ includes several provisions relating to the compliance within supervised entities (CBJ, part 1, title 4, chap. 5): • the SCI should aim to ensure the compliance with the norms and regulations applicable to the organization (§2.5); • risk management is a fundamental element of the SCI to achieve compliance with laws, norms and regulations (§4.2.11); • the Board should analyze the reports prepared by the "compliance official" (§6.1.1.1.14), whose functions relate exclusively to the AML/CFT risk (see CP29); and

[114] The term "compliance function" does not necessarily denote an organizational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

	• the Internal audit is responsible for assessing the quality and adequateness of the systems established to ensure the compliance with laws, regulations, internal policies and processes (§6.1.4.2.2.5.3.3). In addition, the SFC has published on its website the criteria against which it assesses, on an ongoing basis, the effectiveness of supervised entities' compliance function. Those criteria include the adequacy of the organizational structure (the head of the compliance function should have sufficient authority within the organization and a direct access to the Board or related committees, the compliance function should be independent from business areas), the adequacy of resources and staff for the performance of compliance functions, and the adequacy of the oversight by banks' Boards and executive management. Published criteria are completed by detailed internal guidelines which aim at facilitating the assessment by the SFC of the entities' compliance function. To assess the effectiveness of the compliance function, the SFC can initiate the following actions: • discuss with management and Board members, including with the head of the compliance function; • review the entity's practices to detect and resolve deficiencies with regard to compliance with laws and applicable standards; • review independent reports on the compliance function; and • review the exchanges between the entity and control organisms.
EC4	The supervisor determines that banks have an independent, permanent and effective internal audit function[115] charged with: (a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and (b) ensuring that policies and processes are complied with.
Description and findings re EC4	The SFC has published regulatory requirements according to which the internal audit function is to be effective, and add value to the organization, by assessing and enhancing the efficacy of the risk management, controls and corporate governance processes (CBJ, title 1, chapter 4, §6.1.4). As such, the internal audit is required to present, at least annually, a report summarizing the effectiveness of the internal control and risk management systems in place, including comments on the quality of the compliance systems, as well as other systems and procedures relative to the banks' activities. This report shall also provide a view of recommendations made to address significant deficiencies, and the implementation status of those recommendations.

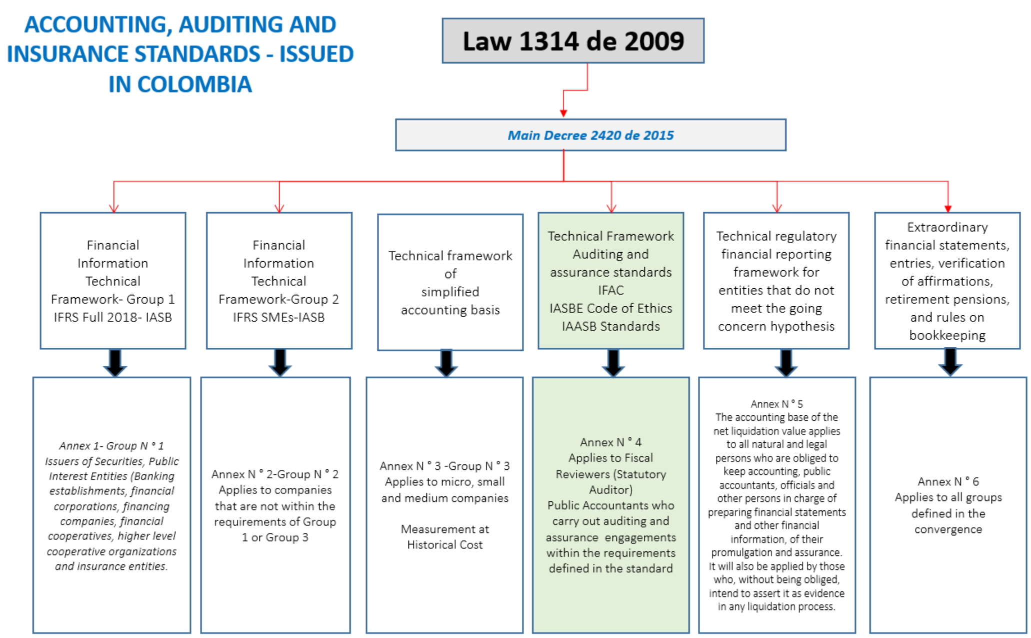
[115] The term "internal audit function" does not necessarily denote an organizational unit. Some countries allow small banks to implement a system of independent reviews, e.g., conducted by external experts, of key internal controls as an alternative.

	Supervised entities' internal audit function is one of aspects that the SFC formally assesses at least every four years as part of its risk-based approach. It has published on its website the criteria against which it assesses the effectiveness of supervised entities' internal audit function. To perform its assessment, the SFC can initiate the following actions: • discuss with management and Board members, including with the head of the internal audit and external auditors; • review how the Audit Committee manages significant findings and associated measures implemented by the management; • review internal audit's practices and reports; and • review the audit plans and working files. Thus, in 2020, the SFC reported to have assessed the different components of the internal audit function and their effective implementation based on meetings with 35 entities. This work enabled the SFC to improve its rating of supervised entities' internal audit function in 31 percent of the cases, and to promote the transition from compliance audits toward risk-based audits. Once supervised entities have robust internal audit functions, the SFC is increasingly keen on working "hand in hand" with internal auditors, requiring them to provide it with information and to conduct verifications on matters of supervisory interest. In addition, the SFC reported that it holds meetings with the internal auditors of the supervised entities at least once a year. During those meetings, internal auditors present the results of the work carried out during the last year and the audit plan for the next one.
EC5	The supervisor determines that the internal audit function: (a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence with reporting lines to the bank's Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes; (d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the bank; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions.

Description and findings re EC5	The responsibilities and activities of the internal audit should be formally defined and approved by the Board, with specific agreements with senior management relative to its functions, responsibilities and its role within the organization (CBJ, title 1, chapter 4, §6.1.4.2.). An Audit Committee has to be set up and placed under the authority of the Board. It should supervise the internal audit activities and functions, ensure internal audit's independence and that it has adequate resources to perform its duties. When the management has accepted some residual risks that the internal auditor considers disproportionate, it should discuss this issue with the executive management or, in case the issue is still not resolved, with the Board. The executive management should grant the internal audit access to data, personnel and any other relevant information for the performance of its duties. The internal audit is required to annually prepare an audit plan based on a risk assessment in order to prioritize its activities, taking into account the operations and relationship with other affiliates. The internal auditor is also required to be knowledgeable and prepared to adequately perform its assigned responsibilities. There is no explicit mention in the SCI standard with regard to the training of internal audit staff, the necessity for the internal audit function to be kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes, and to its authority to assess outsourced functions. Nevertheless, those aspects are included in the SFC's assessment criteria relating to internal audit. Those criteria are published on the SFC website. One of the SFC's priorities for 2020 was to put the stress on the strengthening of supervised entities' internal control functions, with the assessment of their corporate governance structures and the appropriate supervision of the internal audit function (see EC4 above).
Assessment of Principle 26	**Compliant**
Comments	Regulatory standards, to be updated in the first half of 2022, are in place with regard to the internal control and audit functions. Supervisory criteria against which the SFC assesses banks' supervision functions, including the compliance and internal audit, are published on its website. The SFC meets periodically with internal auditors and follows up on the results of the internal audits performed in different areas. In addition, the SFC has carried out in 2020 a dedicated exercise with 35 credit institutions in order to assess the different components of their internal audit function and their performance.
Principle 27	**Financial reporting and external audit**. The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.

<table>
<tr><td>EC1</td><td>The supervisor[116] holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data.</td></tr>
<tr><td>Description and findings re EC1</td><td>Since December 2015, credit institutions are required to prepare and report their financial statements pursuant to applicable IAS and IFRS standards (law 1314 (2009) and DUR 2420 (2015)). International standards are incorporated into Colombian legislation through a dedicated annex to the DUR 2420. So far, this annex has been updated annually to take into account the modifications to applicable IAS and IFRS standards, as well as to incorporate new standards. The last update was made in December 2020 (decree 1432 (2020)) and a new one, which aims at incorporating the last version of the Code of Ethics, is expected at year-end 2021.

The following chart gives an overview of the Colombian regime relating to financial reporting and auditing:



Source: Colombian authorities.

On top of international standards, prior to issuing the financial statements, management is made responsible by the Colombian legislation for ensuring that five conditions are met (DUR 2420 (2015), annex 6, Art. 3):

(i) existence: the assets and liabilities registered exist at the time of the reporting period and that all the transactions up to that date are registered;

(ii) integrity: all the economic events up to the cutoff date have been recognized;</td></tr>
</table>

[116] In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

	(iii) rights and obligations: assets represent potential future economic benefits (rights), and liabilities represent potential future economic losses (obligations); (iv) valuation: all the items have been recognized at the appropriate amounts; and (v) presentation and disclosure: the economic facts have been correctly classified, described and revealed. In addition, credit institutions are required to maintain proper recordkeeping of their operations, including information on date, origin, description and involved accounts (DUR 2420 (2015), annex 6, Art. 7). Considering that the accounting process depends on information systems, the SFC has published detailed requirements relative to IT systems and controls of the accounting data to ensure that it is adequate and reliable (CBJ, part 1, title 2, chapter 1 and CBJ, part 1, title 2, chapter 4).
EC2	The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.
Description and findings re EC2	All entities supervised by the SFC must have a statutory auditor (*revisor fiscal* for its official name) appointed by the Meeting of Shareholders (EOSF, Art. 79). These entities are required to establish financial statements at least once a year, which must be presented with the opinion of the statutory auditor (Code of Commerce, Art. 445 and 446). Since January 2016, credit institutions' statutory auditors shall perform their duties pursuant to applicable international auditing and assurance standards (law 1314 (2009) and DUR 2420 (2015)). As for IAS/IFRS standards, international auditing standards are incorporated into Colombian legislation through a dedicated annex to the DUR 2420, which is regularly updated.
EC3	The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.
Description and findings re EC3	As mentioned in EC1, the IAS/IFRS framework is the reference used for credit institution's financial reporting. There is one significant difference: when establishing their individual accounts, credit institutions should not follow principles laid down by IAS 39 and IFRS 9 relating to the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments (DUR 2420 (2015), Art. 1.1.4.1.2), but instructions imparted by the SFC. • According to chapter 1 of the CBCF, financial instruments can be classified into three categories based on IAS 39 provisions: held for trading (with a fair value through profit and loss valuation), available for sale (with a fair value through other comprehensive income valuation) and held to maturity (with an amortized cost valuation). Credit derivatives should be valued daily at their fair value.

	• With regard to credit risk measurement, the SARC prescribes individual provisions against both incurred credit loss and a possible credit risk deterioration (i.e., counter-cyclical provisions). In consequence, the Colombian regime for loan loss provisioning is not totally aligned with IFRS 9 impairment provisions. On the one hand, the inclusion of macroeconomic variables under IFRS 9 increases the provision requirements, especially in consumer loans. However, within the range of measures it took in the context of the Covid-19 crisis, the SFC allowed credit institutions to make "aggregate additional provisions" in 2020 and 2021, as well as "accrued interest provisions," which contributed temporarily to narrow this gap. On the other hand, Colombian banks shall add up counter-cyclical provisions to their individual provisions for credit loss. The SFC has carried out a comparison exercise between the COLGAAP and IFRS in 2020 and informed the assessors that it does not consider that the differences between the two sets of standards as being material. Nevertheless, the URF and the SFC have in their work plan for the next two years the removal of those remaining deviations from the IFRS standards for individual credit institutions. Compliance with SFC's requirements on the classification, measurement and accounting of financial instruments for the purpose of establishing individual financial statements, is to be checked by the bank's external auditors (CBCF, chapter 1, Art. 9.1). More generally, as mentioned in EC2 above, the bank's external auditors are required to consider the International Standards on Auditing (ISA) when performing their duties, including the ISA 540 on "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures." The SFC reported it rigorously reviews reports elaborated by financial institutions and, through its assessment of their financial analysis and compliance functions, make sure that the information provided is in accordance with that audited by the statutory auditor. To this purpose, it hired in 2014-2015 KPMG and Los Andes University (a recognized local University) for training supervisors in charge of the supervision of financial institutions in IFRS related matters. Since then, supervisors have benefited from continuous training in IFRS. Additionally, since 2015, the SFC modified the scheme for collecting information from financial institutions, adapting it to IFRS. This scheme allows controlling all incoming information and rejecting reports that deviate from the requested standards. In this respect, the SFC informed the assessors that, in some instances, it sanctioned entities which failed to correct deficiencies in their regulatory reporting process.
EC4	Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit.
Description and findings re EC4	As mentioned in EC2, banks' statutory auditors are required to follow the ISA when performing their duties, including ISA 200 on "Overall Objectives of the Independent Auditor" and ISA 315 on "Identifying and Assessing the Risks of Material Misstatement."

	On top of international standards, SFC has established additional obligations for statutory auditors with regard to its supervised entities (CBJ, part 1, title 1, chapter 3, section 3), elaborating and making precisions on articles 207 to 209 of the Code of Commerce. This standard is partly outdated and the SFC has a plan to update it, together with the SCI standard, in the first half of 2022. Among others, statutory auditors are required to: (a) express their opinion regarding the quality and reasonableness of the financial statements and other accounting information; to this end, external auditors must gather sufficient evidence of the operations performed; (b) verify throughout the year the criteria and procedures used to carry out the accounting, the management of accounting records, books, archives and other documents, not only with regard to the entity, but also with regard to the resources of third parties that it administers; (c) verify periodically the existence of assets, the adoption of adequate measures for the protection of the capital and whether or not these are commensurate to the risks assumed; (d) evaluate the internal control system of supervised entities, including the systems for the management of risks; and (e) report irregular acts or material deficiencies in supervised entities' SAR to their representatives or decisions making bodies and, in case those deficiencies are not adequately addressed, they shall be reported to the SFC.
EC5	Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, nonperforming assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting.
Description and findings re EC5	As mentioned in EC4, the CBJ establishes the general functions of the statutory auditor covering, among others, the review of the adequacy of internal control systems and their compliance with SAR regulations. In addition, statutory auditors are required to report to the SFC: • at least twice a year, their work relating to the compliance of the supervised entity with SARC instructions (CBCF, chapter 1, section 9); SARC includes instructions on loan classification and provisioning; and • any material deviation with regard to the way the supervised entity classifies, valuates, and accounts its investments in financial instruments (CBCF, chapter 1, section 9). Some aspects of this EC are not specifically covered, in particular the derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles.
EC6	The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence or is not subject to or does not adhere to established professional standards.

Description and findings re EC6	The SFC authorizes the appointment of statutory auditors by supervised entities (EOSF, Art. 326.2). In this respect, it makes a fit & proper test, including the suitability, experience, and possible conflict of interests of the candidate, as well as its human and technical resources to perform its functions. The objective requirements and the subjective qualities must be maintained during all the time that they serve as auditors. Specifically, the SFC has rejected the appointment of nine statutory auditors over the last five years, mainly because of a lack of availability or a lack of experience. Additionally, the SFC has the power to remove and impose sanctions on statutory auditors who fail to comply with their duties and the law (EOSF, Art. 208 & 209).
EC7	The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.
Description and findings re EC7	Supervised entities are required to include in their contract with statutory auditors' provisions by which the individual persons performing the audit must rotate at least every five years. Then, the auditor cannot return to audit the same entity for a minimum period of 2 years (CBJ, title 1, chapter 3, section 3, Art. 3.3.1.4.2). On average, the SFC mentioned that statutory auditors rotate every four years and has made recommendations in relation to a few exceptions where the statutory auditors were in place for more than five years. In addition, the Colombian Code of Best Practice of Corporate Governance recommends that the corporation sets a maximum contract term with the auditing firm that ranges between 5 to 10 years, in order to avoid excessive proximity with such a firm and/or its teams, and to safeguard its independence (recommendation 29.9). The SFC reported to assess on a yearly basis the compliance with the provisions of this Code.
EC8	The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.
Description and findings re EC8	The SFC mentioned that meetings with the statutory auditors are common in the course of the supervisory work. The SFC may call these meetings at any time, especially when the supervised entity carries out a restructuration or important operations with other entities. In addition, supervisors may also meet with statutory auditors when they want to discuss any material information regarding banking operations. In addition, the SFC increasingly requests the direct involvement of statutory auditors in a number of supervisory matters, such as the verification of the correct implementation of the new regulations on capital adequacy, or when it requires adjustments in the disclosure of risks or accounting records of a supervised entity.
EC9	The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make

	any such reports in good faith cannot be held liable for breach of a duty of confidentiality.
Description and findings re EC9	External auditors have the duty to report to the supervisor matters of material significance (Code of Commerce, Art. 207.3). Reporting requirements vis-à-vis the SFC are further detailed in the CBJ. They include: • the reporting of crisis situations, which can materially affect the supervised entity's ability to perform according to its commitments or its business continuity; auditors who make any such reports cannot be held liable for breach of a duty of professional secret (CBJ, title 1, chapter 3, section 3, Art. 3.1.3); • the immediate reporting of material deficiencies in supervised entities' SAR, in case those deficiencies are not adequately addressed by supervised entities' representatives or decisions making bodies (CBJ, title 1, chapter 3, section 3, Art. 3.1.8); • the reporting (directly or through a request to the bank's administration to report to the SFC) of any additional information necessary for him to understand properly the bank's situation (CBJ, title 1, chapter 3, section 3, Art. 3.1.10.5); and • the annual communication of a report where the external auditor should include its main observations with regard to the audited accounts, observed weaknesses and their significance, as well as comments and conclusions from the bank's administration and from himself (CBJ, title 1, chapter 3, section 3, Art. 3.3.3.4).
Additional criteria	
AC1	The supervisor has the power to access external auditors' working papers, where necessary.
Description and findings re AC1	The supervisor has the power to access external auditors' working papers, where necessary. In fact, it is clearly stated that although the evidence obtained in the development of the audit work and the work papers are the property of the statutory auditor, they must be made available to the SFC, as well as electronic documentation, files and user manuals, when this authority requires it in the exercise of its legal powers (CBJ, Part I, Title I, Chapter III, Art. 3.3.2.3).
Assessment of Principle 27	**Compliant**
Comments	International accounting and auditing standards are in force in Colombia. Accordingly, since December 2015, credit institutions are required to prepare and report their financial statements pursuant to applicable IAS and IFRS standards. There is one significant exception: when establishing their individual accounts, credit institutions should not follow principles laid down by IAS 39 and IFRS 9 relating to the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments, but instructions imparted by the SFC. The Colombian regime for loan loss provisioning is then not totally aligned with IFRS 9 impairment provisions. The main difference lies with the introduction of

	macroeconomic variables for loan loss provisioning under the IFRS 9 standard, which, all other things being equal, increases the provision requirements. The Colombian Public Accounting Technical Advisor (CTCP for its initials in Spanish) plans to review in 2021 this exception to the IAS/IFRS framework. The assessors welcome this initiative and recommend removing the last exception to the international accounting framework or, at least, complement the forward-looking approach in the loan loss provisioning at individual level under the COLGAAP by the introduction of macroeconomic variables. It is also recommended that, as part of the planned update of its standard on statutory audits, the SFC consider: • completing its requirements relating to the perimeter of the statutory audits of credit institutions; and • strengthening its requirements on the independence of statutory auditors of credit institutions, for instance by imposing a mandatory firm rotation.
Principle 28	**Disclosure and transparency**. The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.
Essential criteria	
EC1	Laws, regulations, or the supervisor require periodic public disclosures[117] of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed.
Description and findings re EC1	As mentioned in CP 27, since December 2015, credit institutions are required to prepare and disclose their financial statements pursuant to applicable IAS and IFRS standards, including the Conceptual Framework for Financial Reporting and the IAS 1 on "Presentation of Financial Statements." On top of international standards, as mentioned earlier, Colombian laws and regulations require credit institutions to publish their financial statements at least once a year. The financial statements must be signed by the accountant and the legal representative to certify that they are prepared pursuant to the principles stated in the law, with regard to the existence, integrity, valuation, presentation and disclosure of accounting information. In addition, they shall be reviewed by an external auditor, who shall express its opinion on the fairness of financial statements, the compliance with legal norms and the effectiveness of the risk management frameworks, and shall include, among others, notes to the financial statements, supporting schedules, and accounting policies and methods.

[117] For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.

EC2	The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance and remuneration. The scope and content of information provided, and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank.
Description and findings re EC2	Most of disclosure requirements mentioned in this EC, in particular those related to financial statements, related parties, and risk management strategies and practices, are addressed by the IAS/IFRS framework that is in force in Colombia. On top of those international standards, the CBCF, both in its chapters related to financial statements, financial instruments, and those related to the different SAR, contains detailed provisions on the scope and content of information to be disclosed. Thus, the audited financial statements must include quantitative and qualitative information on the bank's performance and policies (CBCF, chapter 9). These include: • balance sheet, profit and loss statement, changes in own funds and statement of cashflows; • the notes to the financial statements, which must reveal, among others, accounting policies and methods, the maturity of assets and liabilities, the composition of cash and equivalent, the composition of the loan portfolio, sales and/or purchases of assets, labor benefits, probable contingencies, transactions with related parties (including assets and liabilities as well as income and expenses on transactions with shareholders who own more than 10 percent of shares and Board members and managers); • disclosures on risk management for each significant risk associated with the entity's business; • disclosures on governance, which include information regarding whether the Board and other government bodies are adequately informed about their responsibilities and if they determine the policies and risk profile of the institution; whether the Board receives adequate and timely reports on all risks, violations to limits, unconventional operations and operations with related parties; whether the areas of internal control and risk management have adequate technology and infrastructure; whether risk methodologies identify risks appropriately; organizational structure; human resources, verification of operations; audit; and compliance with laws and regulations; and • disclosures on law requirements, including the compliance of entities with solvency ratios. All entities have to publish their financial statements, notes and the opinion of the auditor on their website, within one month after their approval (CBCF, chapter 9, Art. 2.4). The information is published at an appropriate level of disaggregation, as evidenced in the institutions' annual reports.

EC3	Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.
Description and findings re EC3	The IAS 24 and IFRS 12, which are in force in Colombia, require reporting institutions to disclose all material entities in the group structure. On top of those international standards, the SFC requires supervised entities to disclose, in the notes to the financial statements, the name and localization of its subsidiaries and associates (CBCF, chapter 9, Art. 2.2.1). In addition, reporting institutions who publish consolidated financial statements shall disclose in the notes to the consolidated financial statements the name of subsidiaries which are included in the consolidation perimeter, their social object, and the total amount of their assets, liabilities and capital (CBCF, chapter 10, Art. 7.1).
EC4	The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards.
Description and findings re EC4	The SFC can publish or order to publish the financial statements of its supervised entities, as well as the adjustments o rectifications it might require (EOSF, Art. 326, §2k; Art. 97, #3). Indeed, individual financial statements of supervised institutions are available on the SFC website. The SFC mentioned it continuously checks that the supervised entities comply with disclosure standards (IFRS standards and the XBRL language) when reporting their information through predefined templates. The evaluation of the financial statements includes an analysis of consistency of the figures and of the adequate disclosure of information. As a result of this review, the SFC reported to have required some entities to modify the notes to their financial statements. Similarly, the SFC can publish or order the publication of financial indicators of these entities. Indeed, the SFC discloses to its users (both internal and external, the latter also includes the general public) relevant indicators to assess the financial condition of the supervised institutions. Finally, the SFC can impose sanctions for violations to the disclosure standards, including inaccurate and untimely information (EOSF, Art. 326, §6d and of (EOSF, Art. 209d). While most of supervised institutions shall in general not request the SFC's approval of their financial statements before they are published, this supervisory approval is required in some cases (Decree 089 (2008)), such as: (i) when the entity is in operation for less than three years; (ii) when there has been a merger, acquisition, segregation, or sale of assets or liabilities; (iii) when the entity has been subject to some of the SFC's preventive measures laid down by the law; (iv) when during the course of the year, the SFC has required corrections to their financial statements; and (v) when the SFC has detected a deterioration of the entity; among others.
EC5	The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal

	aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).
Description and findings re EC5	In addition to the publication by banks of their audited financial statements on an annual basis, the SFC releases on its website a broad range of comparable bank by bank monthly financial information, including detailed financial statements presented on the basis of the Chart of Accounts issued by the SFC (*Plan Unico de Cuentas*), as well as balance sheet and profit and loss indicators, balance sheet structure and various indicators that reflect the principal aspects of banks' risk profile and operations, such as their solvency ratio, composition and quality of their credit portfolio, composition of their investment portfolio, among others. The SFC also publishes a monthly report on the Colombian financial system where it provides aggregate information on the banking system's profits, assets (including information on their quality and provision coverage), liabilities, capital ratios and liquidity risk indicator. Overall, the information published by the SFC is appropriate to facilitate public understanding of the banking system and the exercise of market discipline.
Additional criteria	
AC1	The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.
Description and findings re AC1	Since 2015, banks are required to disclose relevant financial information in accordance with the IAS/IFRS standards, including the IFRS 7 on disclosures related to financial instruments, which includes dedicated sections on credit, liquidity and market risk disclosures. As mentioned in EC2, the SFC has also published its own disclosure criteria for the entities it supervises. In addition, as indicated in EC5, the SFC publishes on its website a broad range of information relating to the financial situation and risks of the supervised entities. It includes the breakdown of revenues and costs, as well as the breakdown of the investment portfolio, of the credit portfolio and of other assets.
Assessment of Principle 28	**Compliant**
Comments	Since December 2015, credit institutions are required to prepare and disclose their financial statements pursuant to applicable IAS and IFRS standards, with the exception of IFRS 9/IAS 39 provisions on the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments, which are not applicable to banks' individual financial statements. On top of international standards, Colombian laws and regulations require credit institutions to publish their financial statements at least once a year. The audited financial statements include quantitative and qualitative information on the bank performance and policies and are checked by the SFC. Moreover, the SFC publishes a broad range of reports on its website which facilitate public understanding of the banking system and the exercise of market discipline.

Principle 29	**Abuse of financial services**. The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.[118]
Essential criteria	
EC1	Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.
Description and findings re EC1	Anti-money laundering and anti-terrorist financing responsibilities, are addressed in CBJ 029 of 2014 and the EOSF. D2555, establishes the duties, responsibilities and powers assigned to the Office of the Senior Deputy Superintendent for Supervision of money laundering and financing of terrorism risk. The decree establishes the specific functions and powers assigned to the two Technical Departments for Money Laundering and Financing of Terrorism Risk and to the Legal Department. Additionally, Law 1121, 2006 includes financing of terrorism as a criminal activity, and makes it mandatory for banks to take the necessary steps to prevent such activities and to report them to the financial information and analysis unit (UIAF) and/or other competent authorities. SFC, through onsite and offsite supervision processes, monitors compliance. Failure to comply with the provisions regarding prevention and control of money laundering and financing of terrorism, will result in the imposition of the corresponding administrative sanctions. In 2017/ 2018, the IMF, in coordination with FATF, carried out an evaluation of ML/FT prevention system, as part of its fourth round of mutual evaluations, which evaluated the financial system, and the regulatory and supervisory structure (SFC). As a result of this evaluation, the Mutual Evaluation Report of Colombia "IEM Colombia 2018" was published, in which the satisfactory results of technical compliance and effectiveness in the implementation of the 40 FATF recommendations can be observed.
EC2	The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity and reporting of such suspected activities to the appropriate authorities.
Description and findings re EC2	ML/TF is incorporated into the risk matrix for banking supervision planning. Corporate governance requirements and Board of Directors responsibilities and risk management required by SFC aids in monitoring and maintaining ethical standards.

[118] The committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIU), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8, and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

	The requirements of knowledge of your client (KYC) and reporting of suspicious transactions, among others: (i) **<u>Articles 102 to 107, Chapter 16, Part 3, EOSF</u> – "Prevention of Criminal Activities,"** through which the credit institutions are obligated to establish control mechanisms, including KYC policies, as well as the identification and report of cash operations and suspicious activities before the UIAF; and (ii) **<u>Chapter 4, Title 4, Part 1, CBJ</u> "Instructions relating to money laundering and financing of terrorism risk management**." In September 2020, the SFC updated the Money Laundering and Financing of Terrorism Risk Management System (SARLAFT) through the issuance of CE 027 of 2020, whose purpose is to promote innovation and financial inclusion, through the development of technologies that make ML/TF risk management more robust, as well as improve the instructions related to the management of this risk in accordance with international standards. Credit institutions will have a period of one year from issue date to implement the SARLAFT adjustments. Before the issuance of SALAFT 4.0, the regulatory modifications were published for comments from interested parties by the SFC from February 13 until March 6, 2020, with comments received from the different associations that group the credit institutions. Through the aforementioned rules, SFC requires the credit institutions to design and implement a Money Laundering and Financing of Terrorism Risk Management System (SARLAFT), which is composed of two phases, the first, corresponds to the risk prevention, whose objective is to prevent the introduction of resources from the activities related to money laundering and/or financing of terrorism into the financial system; and the second, refers to the risk control. Its main purpose is to detect and report the operations that are intended to be carried out or have been carried out, in order to try to give the appearance of legality to operations related to this kind of crime. SARLAFT is implemented through the stages and elements (Articles 4.1. and 4.2), the former corresponds to the systematic and interrelated phases or steps by which credit institutions shall manage money laundering and financing of terrorism risk (identification, measurement, control and monitoring), and the latter includes the components by which the management of this risk is organized and methodically structured (policies, procedures, documentation, organizational structure, internal and external audit, technological infrastructure, information disclosure and training). Specifically, regarding the prevention and detection of activities allegedly related to the crime of money laundering and financing of terrorism, and its corresponding report to the competent authorities, SARLAFT states the obligation for credit institutions to establish their own internal policies and procedures to detect and report internally any unusual transaction and also those that have been classified as suspicious. For the latter, institutions must also report them immediately to the FIU and to other competent authorities.

	The proper functioning of the stages of the SARLAFT and its instrumentation through the elements that make up the system are part of the objectives of the supervision processes planned and carried out by the SFC.
EC3	In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank.[119]
Description and findings re EC3	In compliance with FATF Recommendation 2, related to national cooperation and coordination for the prevention of money laundering and financing of terrorism, by Decree 3420, 2004, the Inter-institutional Coordination Commission for the Control of Money Laundering was created (CCICLA), whose main function is to formulate the government's policy against ML/TF. Based on the provisions of the national policy against money laundering and against the financing of terrorism—Conpes 3793, there is an informal procedure established in joint agreement with banks, to have their Legal Representatives, Control Bodies and/or Compliance Officers have a direct communication with the Financial Superintendent or the Designated Superintendents, to inform of events or situations that once identified by their respective risk management systems (SARLAFT), may affect the stability, not only of the institution, but of the Colombian financial system. Evidence is left in support of these cooperation meetings through attendance formats that are part of the SFC's Integrated Management System. According to their relevance, these situations are communicated by the SFC to the competent authorities in the matter, following the regular conduits. Therefore, the SFC takes the corresponding administrative measures based on the powers described in EC1. When necessary, the SFC works in coordination with the Police, the Attorney General's Office, and the credit institutions, to identify and collect sufficient evidence to judge possible criminal activities. Finally, in addition to the above, the SFC supported by the faculties described in EC1, and in the events in which it considers relevant to the ML/FT resolution, formalizes the information gathering carried out through the fulfillment of the information requirements necessary to evaluate the management carried out in such events by the credit institutions.
EC4	If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.

[119] Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national center, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

Description and findings re EC4	Based on Article 209 of the Colombian Constitution and Article 3, Law 1437, 2011, the SFC reports to different public entities, including the UIAF, suspicious transactions identified in the exercise of its functions. In order to strengthen national cooperation with the competent authorities, in July 2015 the "*Inter-administrative Agreement between the Financial Superintendency of Colombia and the Office of the Attorney General of the Nation*" was signed, the objective of which is to carry out actions and create spaces for cooperation in search of the efficiency in the investigations and/or administrative and judicial actions that they must carry out in the exercise of their functions and for the achievement of their objectives. In the same way, in November 2015 the "*Inter-administrative Cooperation Agreement signed between the Ministry of Foreign Affairs, the General Prosecutor's Office of the Nation, the Financial Superintendency of Colombia and the Financial Information and Analysis Unit UIAF*" was signed for compliance effective of the resolutions issued by the National Security Council of the United Nations (UNSC) in relation to the financing of terrorism and proliferation of weapons of mass destruction. In October 2016, the "*Inter-institutional Agreement on Technical Cooperation*" was signed between the SFC and the UIAF, in order to exchange information that serves as the input for the objectives of supervision and identification of ML/FT typologies, respectively. Based on this agreement, monthly the Deputy Superintendent for money laundering and financing of terrorism risk holds a meeting with the Director of the UIAF, aimed to follow up on common issues. Likewise, periodic meetings were established between the Financial Superintendent and the Director of the UIAF in order to share information on relevant situations that may affect the behavior and stability of the financial system. Similarly, on October 29, 2019, a memorandum of understanding was signed called "*Pact of Financial Supervisors for Cooperation, Exchange of Information and Compliance with FATF Standards in the Fight against ML/FT/FPADM*," between the SFC, the Superintendency of Solidarity Economy, the Directorate of National Taxes and Customs DIAN, the Ministry of Information Technology and Communications MINTIC and the UIAF, in order to have a formal tool for cooperation and the exchange of information necessary for the prevention of these financial crimes. As a complement to the above , it is important to indicate that the SFC has signed MoU´s with national and international authorities in order to establish an information exchange channel that provides support in investigations related to these crimes. In recent years, two-way information exchanges have been made effective between the Office of the Deputy Superintendent for ML/FT Risk, the General Prosecutor's Office of the Nation and the National Police, through the sending of results of the supervision exercises to the SARLAFT carried out, as well as in joint planning of supervision exercises with objectives focused on cooperation in the investigations carried out by these authorities.

EC5	The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements: (a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks; (b) a customer identification, verification and due diligence program on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant; (c) policies and processes to monitor and recognize unusual or potentially suspicious transactions; (d) enhanced due diligence on high-risk accounts (e.g., escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons); and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.
Description and findings re EC5	Article 102, EOSF establishes the obligation of the credit institutions to design and implement control mechanisms aimed at the prevention of criminal activities, within which due diligence in the clients' knowledge (CDD), is related. The CDD process and documentation requirements include (i) procedures to know the customer; (ii) methodologies to know the customer; (iii) the procedures to know the customer in financial conglomerates; (iv) the simplified know your customer procedures; (v) the procedures to be applied in the case of clients with characteristics of Politically Exposed Person (PEP); (vi) the minimum periodicity of updating of customer information; (vii) the client's special knowledge rules for the product of accounts for the management of political campaign resources, additionally; and (viii) the obligation to consult binding and/or restrictive lists. Regarding the essential elements of CDD management program, on a group-wide basis, regulation (CBJ): (a) Established the policies that the risk management system must have, within which the definition of more stringent linking guidelines is required, in case of identification of greater degree of exposure to ML/TF risk;

	(b) Required information to know the client in a permanent and updated manner, requiring the identification, knowledge and verification of the information of the same in order to fully identify it. As well as the duty of knowledge of the final beneficiaries of corporations; (c) Required banks to adopt mechanisms that allow them to carry out an adequate identification and analysis of unusual transactions and determination and reporting of suspicious transactions. Obligation to carry out permanent monitoring of the transactions carried out by customers, is established; and (d) Actions to be implemented by banks, either individually or consolidated, to mitigate major ML/TF risks identified in the development and execution of their business objectives. Minimum parameters to design and implement procedures aimed at KYC for current and potential customers, and procedures for updating information (least every three years); the periodicity of updating of this information should depend on the ML/TF risk profile of each client. For customers that expose the bank to a higher risk, the updating of the data must be at least, annually. In the event that a client is classified as high risk by the entity and its information has not been updated in more than one year, the bank must update the data within the month following the change of categorization. (a) More stringent requirements for Political Exposed Persons (PEP). (b) A minimum period of five years from the date of last registry, following the same guidelines of the mentioned Article 96, EOSF, is required for CDD information. The Office of the Deputy Superintendent for ML/TF Risk performs the supervisory plan on ML/TF. Through a blend of onsite/offsite activities, SFC reviews the role of the Compliance Officer as well as the design and implementation of the policies and procedures defined by the Board. To verify the effectiveness of the implemented procedures, the supervisory team executes walk-through tests to the functionalities of the technological tools that support the execution of the SARLAFT procedures, focusing test activities on the appropriate parameterization of said tools according to with the established policies, as well as the evaluation of the results obtained from the application of information analysis techniques and/or methodologies. The description of the supervision procedures of the delegation are found in Chapter 4 of the document "*ML/FT/PWMD risk management in the Colombian Financial Sector*," published on the SFC website. During the years 2013 to 2016, the Office of the Deputy Superintendent for ML/TF Risk was in charge of carrying out onsite supervision procedures for all credit institutions (25 in 2016/26 in 2019), completing the cycle of supervision in this type of entities. Since then, supported by the SFC's risk-based supervision methodology, onsite supervision has been carried out in those institutions where a greater exposure to ML/TF risk is perceived, with the objective of evaluating the effectiveness of the risk management function as part of the closing of the supervision cycle. In case of identifying regulatory breaches, the necessary sanction

	measures are taken, in accordance with what is described in EC8 of this BCP. from the mandate given by the Board of Directors to the Compliance Officer to carry out its work.
EC6	The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include: (a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and (b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.
Description and findings re EC6	Now, by the Article 1.16., Chapter 4, Title 4, Part 1, CBJ and with the objective of unifying concepts, SARLAFT defines the "Transnational Correspondent," where the existence of a contractual relationship that implies the presence of a client, is evidenced. Additionally, although the status of a client acquired by the "Represented Institutions" in the Transnational Correspondent implies the complete application of the procedures related to the Customer Knowledge Mechanism, as part of the scope defined by the SARLAFT for these matter (Article 4.2.2.2.1.2.4., Chapter 4, Title 4, Part 1, CBJ), particular mechanisms of control are established for this type of activity in order to identify them and know, among others, the nature of their business and the respective adoption of controls related to the Risk of ML/FT. For further detail regarding the MIS, please refer to the answers given in BCP 8, and to the answers given in BCP 9. Likewise, the regulation regarding the "Offering of Foreign Financial Services in Colombia" (Part 4, D2555), contemplates specific rules within the framework of the correspondent's contract and/or the authorization to open representative offices, tending to verify the suitability, responsibility and character of the institution abroad, as well as the standard of supervision to which it is subject in its country.
EC7	The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.
Description and findings re EC7	The SFC established the Comprehensive Supervision Framework (MIS) as a risk-based supervision methodology. The MIS contains the detailed standards and criteria to carry out the consolidated supervision of the credit institutions regardless of the jurisdiction in which they operate. For each financial entity or conglomerate, there is a risk matrix in which the entity's ML/FT Risk Profile (unique) is kept up to date, composed by its inherent Risk assessment of ML/FT and by each one of its Supervisory Functions (SARLAFT). 1) **Inherent Risk ML/FT:** Specifically, the objective is focused on the estimation of a rating (unique and consolidated) that indicates the level of exposure to the inherent

	risk of ML/FT of each one of the credit institutions, based on the assessment of the vulnerability of the activities that develops (not only the significant ones) and their respective particularity understood as the composition of the activity with respect to the three remaining SARLAFT risk factors (customers, distribution channels and jurisdictions). For the assessment of the inherent ML/FT risk, the results of the National Risk Assessment in force in the country are taken as information inputs. **Vulnerability to ML/FT:** Vulnerability to ML/FT crimes are related to the propensity of a risk factor (customers, products, distribution channels and jurisdictions), to their own and/or natural characteristics of existence and/or operation, to the achievement and/or materialization of the ML/FT risk. The vulnerability of each of the risk factors involved in SARLAFT is calculated by incorporating the following parameters: 1. *Vulnerability of the Product Risk Factor (Activity, Business Line, Business Unit or Process):* This vulnerability is understood as the possibility that said product is prone to the achievement and or materialization of the ML/FT risk due to its own and/or natural characteristics of constitution and operation, and regardless of the supervised entity that develops it and the characteristics of the risk factors that acquire and/or operate it. 2. The Office of the Deputy Superintendent of ML/FT risk carries out an assessment of the Vulnerability of each of the products (activities, business lines, business units or processes) of the different credit institutions, according to the natural characteristics of their operation. 3. This assessment is obtained from a qualitative analysis and tabulation of variables that indicate the existence or not of said vulnerability in each of the activities (FATF recommendations, typologies of ML/FT, supervisor experience, complaints, consultations, reports from other Offices of SFC, among others). To this end, the Delphi method is applied, as a systematic and structured qualification technique, which is based on opinions based on a panel of experts. 4. *Vulnerability of the Client Risk Factor (Economic Activity/Occupation):* This vulnerability represents the possibility that said activity or occupation of the client is prone to the achievement or materialization of the ML/FT risk, either because of its own and/or natural characteristics of existence, or because of its conditions and operating limits in the country. 5. *Vulnerability of the Jurisdiction Risk Factor (National (Departments)/ International):* This vulnerability refers to the possibility that a jurisdiction (at national or international level) is prone to the achievement and/or materialization of ML/FT risk, due to its own and/or natural location characteristics and its ML/FT source crime materialization statistics. The calculation of this vulnerability allows the construction of geographic risk maps. 6. *Vulnerability of Distribution Channels Risk Factor:* This vulnerability refers to the possibility that a customer linking channel and/or transactional vehicle of the products, is prone to the achievement and/or materialization of the

	ML/FT risk, due to its own and/or natural characteristics of constitution, operation and functioning and regardless of the supervised entity that implements them. 2) **Supervision Functions**: The MIS methodology relies in the evaluation of the governance structure of the ML/FT Risk. In the case of SARLAFT, there are five supervisory functions incorporated (ML/FT internal risk audit, ML/FT risk management, Compliance, Senior management, and Board of Directors or equivalent organ). The application of supervision procedures "Onsite" and "Offsite," allows each of the control functions to be assessed in accordance with the provisions of Chapter 4, Title 4, Part 1, CBJ emphasizing the following five aspects: 1. *Customer knowledge:* Corresponds to the implementation of procedures aimed at obtaining an effective, efficient and timely knowledge of current and potential customers, as well as the verification and confirmation of the *information collected and its supports*. 2. *Segmentation of risk factors:* It refers to the process by which the elements based on the recognition of segmentation variables or significant differences in characteristics, are separated. In other words, in order to detect unusual transactions, the usual parameters of the transactions carried out are determined and compared with those that the clients carry out. 3. *Red flag signs:* Taking into account the concept and purpose of the segmentation of risk factors, the warning signs refer to the facts, situations, events, amounts, quantitative and qualitative indicators, financial reasons and other information that the entity determines as relevant, to infer in a timely and/or prospective manner the possible existence of a fact or situation that escapes to what the entity, in the course of its management of the ML/FT Risk, determines as normal. 4. *Identification, analysis of unusual transactions, and report of suspicious transactions*: In response to the concept of warning signs, this aspect refers to the methodologies implemented by the credit institutions in order to analyze and identify the possible unusual transactions of their clients, that is, those that are not related to their economic activity, or those that do not fit in the normal parameters set by the entity. In other words, all those transactions for which the entity has not found a reasonable explanation or justification. Similarly, it contemplates the respective suspicious transaction report to the competent authorities, in this case to the UIAF. 5. *Risk matrix—SARLAFT Stages:* This aspect corresponds to the design and implementation of the stages (identification, measurement, control, and monitoring) that make up the SARLAFT; as well as the matrix that consolidates the results obtained in each of them. Its usefulness is that it allows permanent control and monitoring of the system.

	Finally, through the execution of supervision processes which are planned annually according to the risk-based supervision methodology of the SFC, a verification of regulatory compliance is carried out regarding the SARLAFT and the effectiveness of the procedures that make up said system. According to the supervision measure taken in each case, the implementation of the respective adjustments is periodically monitored until a 100 percent implementation certification is required, signed by a Legal Representative, the Compliance Officer, and the Statutory Auditor.
EC8	The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.
Description and findings re EC8	The SFC has enforcement powers, both regulatory and criminal prosecution, to take action against any supervised entity that does not comply with the obligations regarding prevention of criminal activities, as stated in Article 107, EOSF, and in Paragraph s), Article 50, Law 964, 2005. Sanctioning is further detailed under CP 11.
EC9	The supervisor determines that banks have: (a) requirements for internal audit and/or external experts[120] to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports; (b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported; (c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; and (d) ongoing training programs for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.
Description and findings re EC9	(a) To ensure an adequate prevention of ML/FT risks, pursuant to Article 102, EOSF, credit institutions are required to establish independent ongoing control and audit mechanisms, to aid in prevention, and monitoring of criminal activities. SARLAFT requires that banks maintain adequately staffed, independent, external and internal auditors (referred as Control Bodies) to perform an assessment on the risk. Additionally, CBJ requires quarterly and semi-annual evaluation reports to the Board of Directors and the Compliance Officer addressing the deficiencies, gaps and weakness that may exist in the content, control and operations of the SARLAFT, as well as the responsibility to report to the UIAF suspicious activities. The results of these reports can be requested at any time by the SFC to verify compliance of the regulation. (b) Pursuant to Article 4.2.4.3, Chapter 4, Title 4, Part 1, CBJ, credit institutions are required to nominate an AML/CFT compliance officer to verify the proper

[120] These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

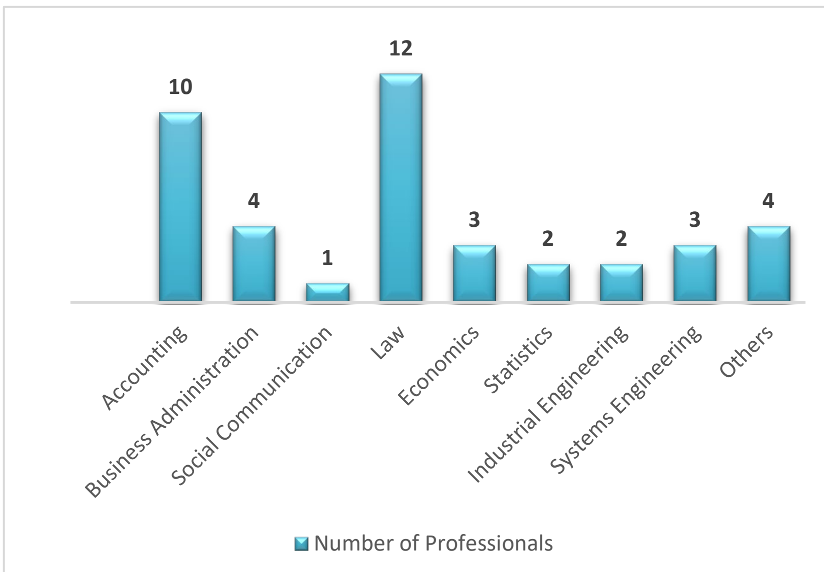
	implementation of procedures regarding anti-money laundering requirements. In addition, Compliance officer's responsibilities include the obligation to communicate to the UIAF any suspicious activities detected by the SARLAFT through the whistleblower channels arranged for this purpose. Individuals selected for the aforementioned position must obtain prior approval of the SFC's Appointments Committee. (c) Banks must conduct an enhanced due diligence on employees, clients, partners, vendors and third-party service providers which include having information related with personal and business details, financial status, certifications and consulting information about sanction lists, law enforcement lists and PEPs relationships. (d) Banks are required to conduct training on AML/CFT directed to employees, Board members and third parties to raise awareness of AML/CFT legislation, policies and procedures implemented within the organization and the obligations and responsibilities thereunder, as well as the ML/FT risks relevant to the entity. Credit institutions should provide an AML/CFT training tailored to the specific needs of the business. Content of such training should address, among others: (i) entity's policies on prevention model and risk management of ML/FT (SARLAFT); (ii) risks to which the entity is exposed; (iii) typologies and potential instances of ML/FT in the business; (iv) warning signs to detect unusual and suspicious transactions; (v) procedures for reporting unusual transactions; (vi) roles and responsibilities of the Compliance Officer, employees, senior managers and Board of directors and (vii) penalties for AML violations. Banks should ensure that ML/FT training is provided to all new employees in a timely manner and to all employees and third-parties at least on an annual basis. Ongoing training shall be provided and updated regularly to reflect current developments and changes to laws and regulations. Also, credit institutions exposed to a higher level of ML/FT risk or have a greater exposure to constantly evolving ML/FT risks should provide training at more frequent and regular intervals if necessary. To ensure and evaluate proper compliance of ML/FT regulation, during the onsite or offsite reviews, the SFC reviews files and training records to perform an overall assessment of the general ML compliance requirements, including the test of policies and programs, the supervisory team executes walk-through tests to the functionalities of the technological tools that support the execution of the SARLAFT procedures, focusing test activities on the appropriate parameterization of said tools according to with the established policies, as well as the evaluation of the results obtained from the application of information analysis techniques and/or methodologies. The description of the supervision procedures of the delegation are found in Chapter 4 of the document "ML/FT/*PWMD risk management in the Colombian Financial Sector*," published on the SFC website.
EC10	The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilize adequate management

	information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities.
Description and findings re EC10	One of the elements that are part of the SARLAFT refers to the Disclosure of Information (Article 4.2.7., Chapter 4, Title 4, Part 1, CBJ), which urges the credit institutions to design and implement an effective, efficient and timely report system that sets out the internal and external requirements and procedures for reporting unusual transactions and disclosure of information to competent authorities, including appropriate channels of communication between the compliance officer, employees, Board of Directors and third-parties. In addition, another element that is part of the SARLAFT refers to the Technological Infrastructure that supports the execution of the procedures of SARLAFT (Article 4.2.6., Chapter 4, Title 4, Part 1, CBJ), which establishes that the credit institutions, in accordance with their activities, operations, risk and size, must implement technological systems to optimize and guarantee an adequate management of ML/FT risk. Technological systems should allow the possibility of capturing and periodically updating the information of the different risk factors, consolidating the operations of the different risk factors in accordance with the criteria established by the entity, the centralization of the records corresponding to each one of the risk factors and in particular to each of the clients and the automatic generation of internal and external reports, different from those related to suspicious transactions, without prejudice that all reports to the UIAF can be sent electronically.
EC11	Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.
Description and findings re EC11	Pursuant to local regulations, Article 42, Law 190, 1995, Article 102 and 105, EOSF and Article 4.2.7.2.1, Chapter 4, Title 4, Part 1, CBJ states that members of credit institutions who report suspicious activities in good faith cannot be held liable. Additionally, to facilitate the filing of complaints to those who detect possible irregularities within the credit institutions, through CE 007, 2019, the SFC issued an instruction in relation to the communication channels and special tools that the credit institutions must have for their reception and processing, establishing that credit institutions must have internal policies and procedural manuals on the reception and treatment of complaints that provide, among others, the following elements: protection of complainants in good faith against retaliation and confidentiality of complaints, and the identity of the complainants.
EC12	The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes.
Description and findings re EC12	From a regulatory perspective, in order to assure and promote a consolidated supervision of the financial institutions, Article 45 of Law 510 of 1999 and Article 22 of Law 964 of 2005 allow the SFC to enter into cooperation agreements and mechanisms for information exchange for investigating criminal activities or

	transactions, including AML/CFT matters, with local and international supervisory agencies, and international organizations. The SFC has cooperated and collaborated with foreign supervisors under the MOUs, International Internships and Supervisory Colleges detailed in EC2. Moreover, it has participated actively in the meetings, assemblies and working groups of the technical committees assessing Money Laundering and Financing of Terrorism (AML/CFT) issues, including (for further detail regarding Cooperation and Collaboration, please refer to the answers given in BCP 3): **Pacts and Cooperation Agreements** SFC has signed an Inter-Administrative Cooperation Agreement with the Ministry of Foreign Affairs, Attorney General Office and the UIAF, through which it seeks to ensure compliance with recommendations 6 and 7 of the International Financial Action Group (FATF). Said agreement aims to articulate, join efforts and comply with the obligations described in Article 20, Law 1121, 2006 and all international obligations assumed by Colombia related with AML/CFT and the prohibition of financing the proliferation of weapons of mass destruction. Likewise, on November 7, 2019, the SFC subscribed the Pact of Supervisors of designated nonfinancial businesses and professions sector (DNFBPs) and the Pact of Supervisors for the Real Sector, whose objective is to allow cooperation, exchange of information and compliance with the standards of the International Financial Action Group (FATF), against ML/FT and proliferation of weapons of mass destruction. **Memorandums of Understanding** The SFC has signed the following bilateral or multilateral cooperation agreements or arrangements with foreign authorities, which include aspects related to ML/FT risk. MoUs have helped shared with assessors, cases of sharing information on sanctions and results of examinations. MoU´s can be consulted on the SFC's website,[121] or by accessing directly the link Signed-MoU´s. **Supervisory Colleges** In 2016, the central theme of the Colleges of Supervisors held and led by the SFC was the ML/FT Risk Management, in which the different supervisors presented the detail of the risk profile they perceive in each jurisdiction and the main opportunities of improvement to attend. The history of supervisory colleges can be consulted in the SFC's website,[122] or by directly accessing the link Colleges. For more details on the supervisory colleges executed, please refer to Annex BCP 3–4 "Supervision Colleges." **CCSBSO—Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions**

[121] Path "*NUESTRA ENTIDAD/Relaciones internacionales/Memorandos de Entendimiento suscritos por la SFC*".

[122] Path "NUESTRA ENTIDAD/Relaciones internacionales/Colegios de supervisores."

	From 2015, the SFC, through the Deputy Superintendent for ML/FT Risk performs the coordination work of the ML/FT Prevention Committee, whose objective for planning 2015-2019 was to identify and measure the risk of ML/FT at the region and promote best practices for mitigation. For planning 2020-2024, the SFC will continue coordinating the actions of the committee, this time with the objective of promoting the best practices of regulation and supervision of AML/CFT and Anti-proliferation of weapons of mass destruction risks in the regional banking sector.
EC13	Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks.
Description and findings re EC13	By end-2020, the Office of the deputy Superintendent of AML/CFT had 41 officials and 1 trainee dedicated to the supervision of SARLAFT in the banks, according to the profiles described below.  Of these professionals, 24 have specializations and 4 have master's degrees. From 2016 to 2020 there was an increase in the number of supervisors assigned to the Office of the deputy Superintendent of AML/CFT. Such increase is equivalent to 39 percent (from 25 in 2016 to 41 in 2020), aspect which is reflected in the coverage and scope of the supervision processes. Additionally, the Office of the deputy Superintendent of AML/CFT has the following professional profiles: • Delegated Superintendent; • Director; • Advisor; • Specialized professionals; • University professionals; • Technicians; • Executive secretaries; and

	• Administrative assistants. On the other hand, 63 percent of the professionals attached to the Office (26 officials) are assigned to technical areas (including the FATF Group), while 24 percent (10 officials) are part of the Legal Directorate. Decree 2399, 2019, which came into effect on January 1, 2020, modified the structure of the SFC and strengthened the composition of the Office of the deputy Superintendent of AML/CFT, by creating an additional Technical Directorate, in charge of supporting the supervision of the banks in compliance with the regulations stipulated in the SARLAFT. As a result of this modification, there are seven positions to be supplied in the Office (from which, three positions have been provided already), thus evidencing the growth trend of the area. Regarding the information that the supervisor regularly provides to banks, related with the risks of money laundering and the financing of terrorism, we can find the following: 1. **Meetings (officials' functions manuals):** When it is necessary, the officials of the office of the deputy Superintendent of AML/CFT carry out meetings with the credit institutions´ guilds or Board of Directors in order to provide a feedback of the main weaknesses found in the respective supervision. 2. **Committee of Compliance Officers and Responsible Officials:** Since September 22, 2020, the SFC created this committee as an instance of coordination, cooperation and exchange of experiences and best practices in ML/FT risk management, which has featured the presence of officials of Superintendencies from international jurisdictions. 3. **Circular Letters and External Circulars**: The SFC has issued several Circular Letters (CC) and External Circulars (CE), by means of which instructions are provided or clarified to the credit institutions in relation to the administration of ML/FT risk.
Assessment of Principle 29	**Compliant**
Comments	**Regulatory Modifications to SARLAFT** From February 13 until March 6, 2020, the SFC published for comments from interested parties a project to update and improve the regulations of the SARLAFT (Chapter 4, Title 4, Part 1, CBJ), which purpose was to promote innovation and financial inclusion, through the development of technologies that make ML/FT risk management more robust, as well as improving the instructions related to management of this risk in accordance with international standards of the subject. The most relevant changes were communicated through the External Circular 027, September 2, 2020. The implementation of the adjustments made to the SARLAFT, by the credit institutions, will have a one-year term.

SUMMARY COMPLIANCE WITH THE BASEL CORE PRINCIPLES

Core Principle	Grade	Comments
1. Responsibilities, objectives and powers	C	Comprehensive framework for banking regulation and supervision. Supervisor invested with a broad range of preventive and corrective powers and exercises them.
2. Independence, accountability, resourcing and legal protection for supervisors	LC	Supervisor endowed with separate legal status and administrative and financial autonomy, as well as adequate financial and human resources. Formal safeguards could be strengthened to ensure that its independence is not threatened.
3. Cooperation and collaboration	C	SFC supervises the bulk of the financial system, and a network of committees has been established to ensure collaboration with other parties.
4. Permissible activities	C	Permissible activities clearly defined by law. Proactive supervisor in countering non-authorized operations, in especial the numerous illegal deposit taking activities.
5. Licensing criteria	C	Well-designed process for the authorization of new credit institutions, based on a complete set of criteria. Clear technical studies which support the licensing decisions.
6. Transfer of significant ownership	C	Well-designed authorization process applied to any acquisition of 10 percent or more of the shareholding in a supervised entity.
7. Major acquisitions	C	Well-designed authorization process supported by thorough analyzes.
8. Supervisory approach	C	Well-defined approach grounded in set policies and procedures and monitored through onsite and offsite activities.
9. Supervisory techniques and tools	C	Risk-based approach processed through a risk matrix, risk-rating system for significant activities.
10. Supervisory reporting	C	SFC collects a broad range of bank information that enables early identification of early trends and risks.
11. Corrective and sanctioning powers of supervisors	C	Complete range of enforcement tools is available to the SFC.

Core Principle	Grade	Comments
12. Consolidated supervision	C	Facilitated by the fact that SFC supervises banks, insurance securities and conglomerates.
13. Home-host relationships	C	MOUs, supervisory colleges and regional associations form part of fluid exchanges of supervisory information.
14. Corporate governance	C	A comprehensive framework is in place supported by SFC-issued guidance to banks and supervisory staff.
15. Risk management process	LC	Risk management requirements, and internal control processes are defined in the guidance. Some risk areas are rated less than compliant.
16. Capital adequacy	LC	Adequate capital adequacy framework, progressively aligned with the Basel III capital standards. The remaining differences could be further reduced. Effective supervision in place. Improvements of the regulation of the internal capital adequacy assessment process (ICAAP) planned.
17. Credit risk	C	Adequate guidelines and requirements are in place.
18. Problem assets, provisions, and reserves	C	Banks filing consolidated financial statements are now following IFRS on provisioning.
19. Concentration risk and large exposure limits	MNC	Focuses mainly on direct connected lending and lacks comprehensive guidance on concentrations (geographic, industry).
20. Transactions with related parties	MNC	Framework should be consolidated to include limits, definitions and process requirements.
21. Country and transfer risks	C	There are no detailed requirements for risk rating and provisioning transfer and country risk.
22. Market risk	C	Adequate regulatory standards in place regarding the management of market risks. Effective monitoring and supervision.
23. Interest rate risk in the banking book	MNC	No prudential requirements issued so far, but the supervisor is planning to issue a formal standard on IRRBB in the second half of 2021. Several offsite exercises have been carried out since 2018, enabling the supervisor to get more familiar with how Colombian largest banks manage their IRRBB.

Core Principle	Grade	Comments
24. Liquidity risk	LC	Comprehensive framework in place for credit institutions to manage their liquidity risk, including in foreign exchange currency. Several regulatory parameters used in the computation of the liquidity ratios are not completely aligned with those prescribed by the Basel III standards or are not determined yet. Active monitoring of the banks' liquidity by the supervisor.
25. Operational risk	C	Enhanced framework for the management of operational risk by credit institutions. Active supervision which focused in 2018 and 2019 on the degree of maturity of banks' cybersecurity and business continuity management, and in 2020 on the strengthening of banks' operational risk management during the pandemic.
26. Internal control and audit	C	Clear regulatory standards in place. Supervision focused in 2020 on the assessment of the different components of banks' internal audit function and their performance.
27. Financial reporting and external audit	C	As of December 2015, credit institutions prepare and report their financial statements pursuant to applicable IAS and IFRS standards, except for the establishment of individual financial statements where there are derogations related to the loan portfolio and its impairment, as well as to the classification and measurement of financial instruments. Internal Standards on Auditing have also been introduced in Colombian law.
28. Disclosure and transparency	C	International disclosure requirements are in force. Credit institutions are required to publish their financial statements with accompanying notes at least once a year. A broad range of reports are published on the supervisor's website.
29. Abuse of financial services	C	Strong procedures are in place.

RECOMMENDED ACTIONS AND AUTHORITIES' COMMENTS

A. Recommended Actions

Recommended Actions to Improve Compliance with the BCP and the Effectiveness of Regulatory and Supervisory Frameworks	
Reference Principle	**Recommended Action**
Principle 2	Specify in the law that the Superintendent is appointed for a minimum term and is removed from office during his/her term only for reasons specified in it. Strengthen formal safeguards to prevent SFC staff from being involved in lawsuits for actions taken and/or omissions made while discharging their duties in good faith and any potential interference in the SFC's decision-making process.
Principle 6	Describe in an internal guideline the minimum criteria to be analyzed in each case.
Principle 7	Consider lowering the 100 percent cumulative limit on banking investments in authorized financial subsidiaries and some real sector companies and/or conditioning the above-mentioned investments to a prior supervisory approval.
Principle 15	Develop additional guidance to support the "principles-based" approach to communicating supervisory expectations.
Principle 16	Consider removing the remaining deviations from international standards on capital adequacy (i.e., credit risk weighting of some assets, treatment of minority interests as eligible capital). Complement the internal guideline on the assessment of capital to give supervisors a clear guidance on what supervisory actions should be considered, including an increase of the capital requirements, in case some predetermined triggers or thresholds are reached. Proceed with the planned new regulation aiming at formalizing the need for supervised entities to have a comprehensive management approach that links together the risk appetite framework with the ICAAP, ILAAP, stress tests, and recovery and resolution plans.
Principle 17	Amend regulation to clarify the loans must be made at market terms. Establish requirement that loans above a certain threshold must be Board approved.

Principle 19	Increase guidance on concentrations (geographic, industry, sourcing, supply lines). Eliminate intra-group guarantees or letters of credit as risk mitigant to increase limits.
Principle 20	Develop comprehensive related-party transaction framework.
Principle 23	Proceed with the planned regulation on IRRBB pursuant to the applicable Basel III standards.
Principle 24	Consider readjusting or determining some parameters used in the computation of the local LCR and NSFR ratios and requiring the local NSFR ratio to be also calculated at consolidated level.
Principle 28	Consider strengthening the requirements relating to the forward-looking approach on loan loss provisioning and, more generally, reviewing the exception to the application of IAS 39 and IFRS 9 standards. Consider completing the regulatory requirements relating to the perimeter of the statutory audits of credit institutions and the need to have a mandatory firm rotation.

B. Authorities' Response to the Assessment[123]

1. The Colombian authorities – the Ministry of Finance (MHCP), Banco de la República (BR), the Guarantee Fund for Financial Institutions (FOGAFIN), the Financial Regulatory Unit (URF), and the Financial Superintendency of Colombia (SFC) thank the members of the FSAP Mission for their dedicated and thorough work in the framework of the Colombian Financial System assessment, in a challenging context characterized by virtuality, which did not pose a limitation for addressing the different topics under evaluation, not only with the financial authorities, but with the participation of the industry, sectors, academia and the different actors of interest for the mission.

2. As a result of this exercise, the progress made by Colombia in the different topics examined since the last assessment (2012 - 2014) is highlighted, recognizing the country's commitment to consolidate the recommendations indicated in which adherence to the policies, regulation, methodologies, and supervisory practice on the financial system is evident to the highest international standards.

3. Notwithstanding, for the Financial Superintendency it is of the greatest relevance to highlight certain elements that, although within the framework of the assessment, were in the process of maturing, they undoubtedly constitute important advances to consider in

[123] If no such response is provided within a reasonable time frame, the assessors should note this explicitly and provide a brief summary of the authorities' initial response provided during the discussion between the authorities and the assessors at the end of the assessment mission ("wrap-up meeting").

light of the recommendations and valuations indicated in the document regarding risk management.

4. First, regarding Principle 15, the implementation of the SFC Integrated Supervisory Framework—MIS—employs a risk-based supervision approach, which has allowed the SFC to obtain a comprehensive view of the risks to which ES are exposed, their correlations and their impact on capital, liquidity, and profitability. This Framework has a preventive approach that seeks to anticipate emerging risks, the evaluation of which is carried out periodically to identify and adjust supervision priorities, efficiently allocating human, technical, technological, and budgetary resources.

5. The procedures for the application of the MIS have been formalized through supervisory guidelines that provide additional guidance to supervisors without restricting their expert judgment but complementing it. Guidelines, which in most cases are public, facilitating the understanding of the supervised industries of the supervisor's expectations.

6. Regarding the proportionality inherent in the supervision process, it is highlighted that the risk assessment is adjusted to the nature, size, and complexity of each industry/institution/financial conglomerate, recognizing its specificities.

7. Along these lines, recognizing that the supervision exercise has led to the consolidation of the comprehensive risks analysis by the supervised entities, the SFC issued in 2021 the Comprehensive Risk Management System - SIAR - which seeks to complement the instructions regarding risk governance structures, management practices, preparation, and presentation of risk reports.

8. In relation to liquidity risk management (Principle 24), the SFC has made significant progress in the framework of liquidity risk management since the last FSAP by implementing an IRL and a CFEN that reflect the Basel principles, while recognizing the nature and dynamics of the Colombian financial system. The latter is recommended by the Basel standard, which allows the authorities to implement certain indicator parameters in a way that recognizes the idiosyncrasies of the jurisdiction where the financial entities operate (Paragraph 70, Basel III).

9. In terms of the comparability of the indicators in different jurisdictions, we deem them comparable since they represent the liquidity buffer that the entities would have, considering the characteristics of the jurisdiction where they operate. In that sense, the fact that the run-off factors are calibrated using historical data of demand deposit behavior does not affect the comparability of the indicator.

10. The regulation and supervision of liquidity risk in Colombia have taken into account the expansion of the banking sector to other countries. In this sense, risk indicators such as the IEC and IEI have been introduced to reflect the behavior of the liquidity risk abroad, and

consolidated supervision that monitors the liquidity risk management in the parent company and its subordinates.

11. Additionally, to perform these analyzes, it is important to consider how liquidity works within the financial groups at a consolidated level, where it is observed that the financial subordinates outside Colombia have an independent liquidity risk management scheme from the support of their parent company and there is not a high level of operations between the parent company and its subordinate.

12. In this sense, the prudential short-term liquidity indicator (IEC) takes into account this nature, where the liquidity of the parent company is only affected if there are potential liquidity defects of the subordinates. In the same vein, the implementation of the consolidated CFEN is being analyzed.

13. Although there are differences in certain parameters of the local regulatory indicators and those established in Basel III, they are framed within the nature of the Colombian financial system and consider how banks liquidity risk management works individually and on a consolidated basis. Therefore, prudential standards and the supervision of this risk are effective.

14. Regarding Principle 25 on Operational Risk, the SFC assesses the availability of the ES' websites/App, the level of exposure of the platforms used to operate on the internet (cybersecurity profile), and how the entities verify that critical third parties have the financial and operational capacities to provide their services under the conditions expected by the ES.

15. On the other hand, the SFC has coordinated the Cybersecurity Work Sub-group of the Central American Council of Superintendents of Banks, Insurance, and Other Financial Institutions (CCSBSO), and in 2020 that of the Pacific Alliance, where it has led the development of initiatives to improve cybersecurity management in these two regions, including the following: the preparation of a guide for the management of cybersecurity incidents in cloud architecture, simulation of cyber incidents that severely affect countries' financial systems, terms of reference to develop or acquire a platform for the exchange of information on cyber incidents, development of a methodology to determine the critical cyber-infrastructure of the financial sector, and training and cybersecurity awareness sessions for supervisors and senior management of banks of the countries in the region.

16. Regarding Principle 23 on the Banking Book Interest Rate Risk (IRBB), the SFC has issued guidelines for its management, which have been made known to the supervised entities through our website and can be consulted at: https://www.superfinanciera.gov.co/inicio/nuestra-entidad/marco-integral-de-supervision-10085454 documents related to Risk Management, Profitability and Risk Appetite. The foregoing is complemented by the work carried out by the SFC regarding the definition of the regulatory framework based on the convergence to the International Basel Standards.

17. Finally, the authorities reaffirm their commitment to continue advancing in the implementation of the recommendations, best practices and robust standards that continue to consolidate the robustness, resilience, and credibility of the Colombian financial system.