



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Resource Library

2000

2000 FOGAFERIN Management Report

FOGAFERIN

<https://elischolar.library.yale.edu/ypfs-documents/10253>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.



FINANCIAL INSTITUTIONS GUARANTEE FUND

MANAGEMENT REPORT

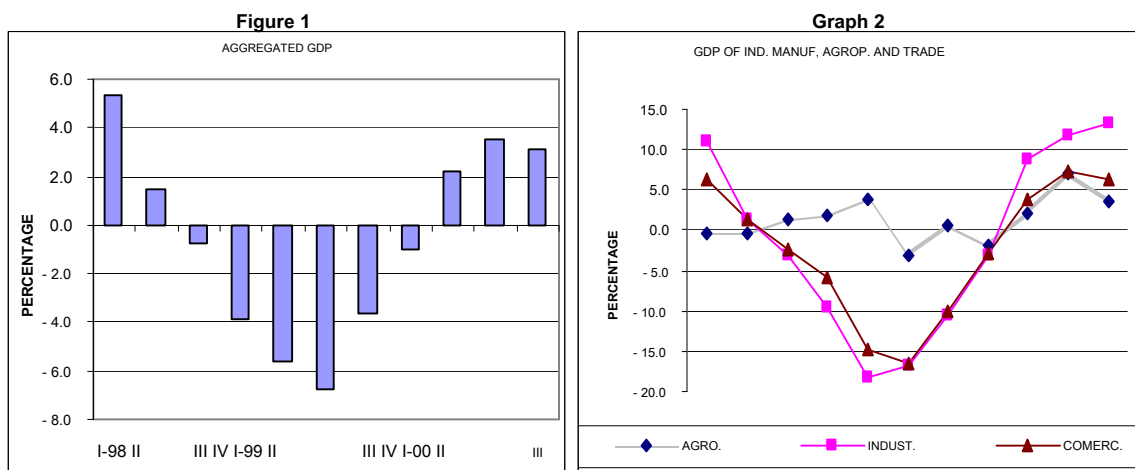
2000

1 THE COLOMBIAN ECONOMY IN THE YEAR 2000

The country's economy during the year 2000 was characterized by taking off which generated a reduction in unemployment.

The production data available at the end of 2000 confirm the reactivation process of the Colombian economy. The behavior of the gross domestic product in the third quarter showed a growth of 3.12%, while the corresponding accumulated in the first three quarters stood at 3.0%, with which it is expected that annual growth may exceed the goal.

After six quarters of continuous contraction, aggregate economic activity found the main drivers in sectors such as manufacturing, agriculture and commerce. The annualized quarterly variation of these three branches of economic activity is observed in graph 2. The manufacturing industry ¹it grew in the third quarter of 2000 compared to the same period of 1999, by 13.2%, agriculture by 3.6% and commerce by 6.4%.

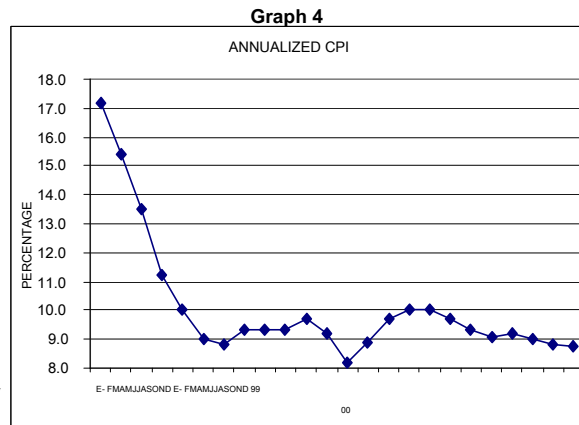
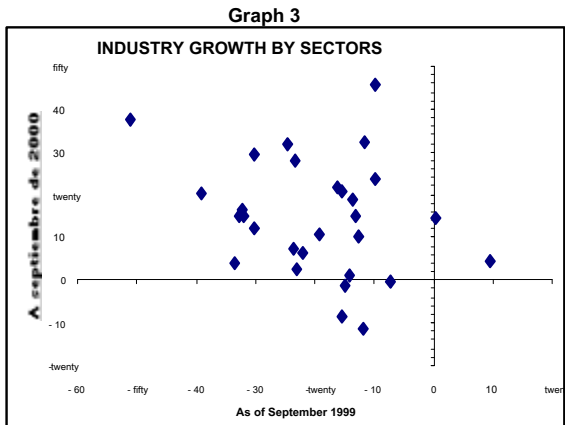


SOURCE: Economic Situation Indicators, DEE, DNP. November 2000.

This process of reactivation of the economy was characterized by three distinctive features. In the first place, the dynamics of foreign trade, which, in October 2000, registered a growth of 17.9% in total exports in dollars compared to a year ago and an accumulated surplus in the trade balance of close to \$ 2,030 million. Although oil revenues contributed more than \$ 3,773 million, non-traditional exports (industrial and agro-industrial) represented 47.3% of the total, growing at a rate higher than 16.5% in the accumulated of the year. Secondly, it is worth noting the leading role played by the manufacturing industry, driven by the dynamics of exports, in increasing production. The accumulated real growth up to September of industrial production without coffee threshing was 11.5%. In fact, in September 2000, 25 of the 29 segments showed positive growth compared to the previous year (see graph 3)

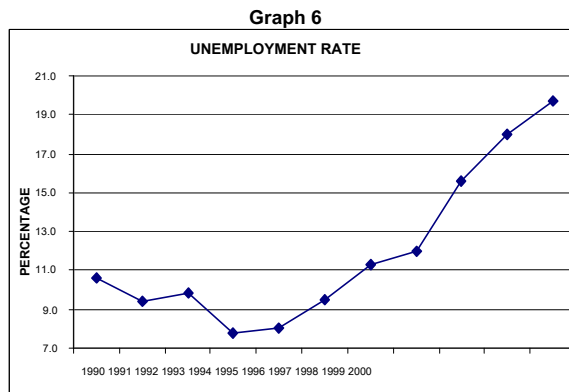
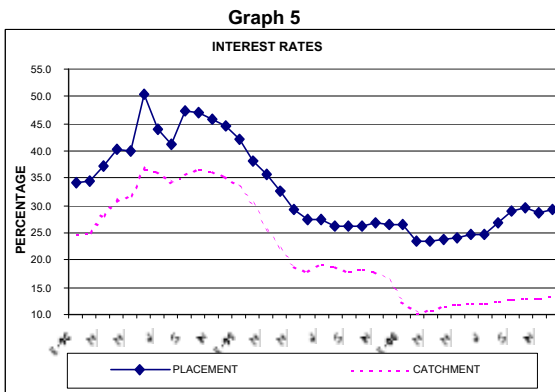
¹ With coffee threshing.

two/. Third, it should be noted that the reactivation of domestic production has not generated pressure on prices. In effect, inflation continued its downward scale, standing at 8.75% at the end of the year, lower than the 9.2% in 1999 (Graph 4).



SOURCE: DANE, Anif and Banrep República.

In addition to the advances in inflation in 2000, others were presented that could have positive implications for this year: *i)* The greater competitiveness in the terms of trade, caused by an annual devaluation against the dollar of 18.9% at the end of the year and of 18.5% on average ³¹; *ii)* A lower level of the DTF interest rate, which ended 2000 at 13.35%, that is, 4.2% in real terms, lower than the average rate observed in the last decade of 6.7%, *iii)* A consolidated public deficit of 3.6% of GDP, which implies compliance with the goal agreed with the IMF, compared to a deficit of 5.4% in 1999.



SOURCE: Banrep República and DANE.

^{two} / The sectors that registered negative accumulated variation in the current year, up to September 2000, were: Food, beverages, metal products and coffee threshing.

³¹ / With this devaluation, the representative exchange rate of the market closed the year at \$ 2,229.18 with a real devaluation of 8.95%. Net international reserves closed at US \$ 8,832.5 million.

The unemployment rate fell to 19.7% last December compared to 20.5% in September -the highest since this statistic was produced in the country-, although the level is still very high when compared to the average annual rate observed from 11.2% from the last decade.

Regarding the financial sector, which will be analyzed in detail in the next section, an improvement is observed in the levels of solvency and coverage of the portfolio. However, the economic activity of this sector, according to the measurement carried out by DANE, registered a decrease of 5%, caused in part by the still high volume of non-performing assets and a lower growth in the productive portfolio.

With regard to economic policy measures, it should be noted that measures were taken to achieve fiscal stability in the medium term. Indeed, throughout 2000 a new tax reform was approved in which the following aspects are highlighted: the increase from 2 per thousand to 3 per thousand of the tax on financial transactions, the increase by one point in the VAT rate when going from 15 to 16%, the audit benefits for the reorganization of assets owned abroad, the incentive for scientific and technological development, some measures aimed at curbing smuggling and evasion and the benefits for the financial sector derived from the deduction for provisions ^{4/}. It is estimated that this reform will generate tax revenues equivalent to 1.8% of GDP this year.

In addition, the reform of the transfer regime to territorial entities was approved in the first legislative round ^{5/} which consists of replacing the concepts of fiscal position and municipal participation on the current income of the Nation ^{6/}, by a general system of participation of the territorial entities that transfers the same income that they receive today, but under a new scheme of a single resource pool whose annual readjustment involves inflation plus a differential percentage, for the years 2002 to 2008 ^{7/}.

The Banco de la República, for its part, changed its strategy regarding the management of monetary policy, by including in its considerations not only the behavior of monetary aggregates, but also employment and growth conditions. Until last September, the Board of Directors of Banco del República had defined a monetary program based on a trajectory of the monetary base that was considered congruent with the achievement of present and future inflation goals, and with the rest of the program. macroeconomic of the Government.

The review of the monetary strategy adopted as of that month seeks to clarify the policy decision process, emphasizing that the evaluation of the indicators and

^{4/} SOURCE: Law 633 of 2000, Tax Reform Year 2000, Executive Summary. KPMG, Taxes and local services. Colombia, January 2001.

^{5/} It is expected that in 2001 there will be approval in the second round of the reform of the transfer regime and the presentation to Congress of the project to reform the social security regime.

^{6/} The current transfer system consists in that the one for the departments is equivalent to 24% of the current income of the Nation, while that of the municipalities is 22%.

^{7/} Legislative Acts Nos. 12 and 120 of 2000 of the Senate and the House of Representatives, respectively.

Forecasts of inflation and other economic variables are as important as the behavior of the monetary base with respect to its reference trajectory. On the other hand, the reform introduces some changes in the level and moving average of the reference trajectory of the monetary base and considers the following elements for decision-making: *i)* Inflation target, *ii)* Evaluation of the general state of the economy, trends and prospects for inflation and the unemployment situation and *iii)* Monitoring of the behavior of the amount of money with respect to previously defined reference values to be conducive to achieving the inflation target.

2 EVOLUTION OF FINANCIAL INSTITUTIONS IN THE 2000

2.1 Main Financial Variables

Results

During the year 2000, the financial system recorded accumulated losses of \$ 1.5 trillion. Commercial bank losses amounted to \$ 1 trillion, representing 69% of the system's losses. Finance corporations lost \$ 395 billion, commercial finance companies \$ 79 billion, while mortgage banks lost only \$ 307 million.

The public financial system recorded losses of \$ 0.8 trillion, a figure substantially lower than the \$ 1.96 trillion in 1999. Financial entities with foreign capital were not immune to the problems faced by the country's financial system, since they had losses of \$ 485 billion in 2000, mainly due to the reorganization process carried out by Banco Ganadero, increasing the amount compared to 1999 when they had losses of \$ 286 billion.

Despite these results, the losses for the year 2000 were substantially lower, 43%, than those registered a year ago, which were \$ 2.7 billion.

Table 2.1
FINANCE SYSTEM
STATEMENT OF INCOME

\$ MILLION

	JUN. 99	DEC. 99	JUN. 00	DEC. 00	GROWTH% 99 - 00
FINANCIAL INCOME	11,516,100	20,789,307	8,406,663	15,852,968	- 23.74%
FINANCIAL EXPENSES	8,221,637	14,474,677	4,946,360	9,071,076	- 37.33%
NET FINANCIAL MARGIN	3,294,463	6,314,630	3,460,303	6,781,892	7.40%
LAB AND ADMTV EXPENSES	2,883,121	5,513,346	2,783,144	5,373,330	- 2.54%
Personal expenses	1,252,326	2,294,502	1,164,560	2,173,716	- 5.26%
Administrative expenses	1,630,795	3,218,844	1,618,584	3,199,614	- 0.60%
MARG OP BEFORE PROV	411,342	801,284	677,159	1,408,562	75.79%
NET PROVISIONS	1,359,997	3,322,069	2,307,802	2,206,950	- 33.57%
Provisions	1,994,052	4,752,993	3,271,825	4,032,852	- 15.15%
Recoveries	634,055	1,430,924	964,023	1,825,902	27.60%
OPERATIONAL MARGIN	(948,655)	(2,520,785)	(1,630,643)	(798,388)	- 68.33%
NON-OPERATIONAL	(34,097)	124,105	(64,136)	(308,293)	- 348.41%
INFLATION ADJUSTMENTS	(23,985)	(109,538)	(83,370)	(111,515)	1.80%
UT. BEFORE TAX	(1,006,737)	(2,506,218)	(1,778,149)	(1,218,196)	- 51.39%
PROFIT (LOSS)	(1,103,881)	(2,731,303)	(1,948,868)	(1,537,799)	- 43.70%

SOURCE: Bank Superintendency Database

Assets

In December 2000, credit institutions, excluding special official institutions, consolidated assets of \$ 80.6 billion with an annual variation of 0.5%. 75.8% of the assets of the financial system at the end of 2000 were concentrated in banks, 11.4% in financial corporations, 8.5% in entities that grant mortgage loans and 4.2% in commercial financing companies. Banks substantially increased their participation compared to that of 1999 of 65.1%, largely due to the conversion of Granahorrar and Colmena into banks.

Of the total value of assets in the financial system as of December 2000, \$ 17 trillion belonged to public financial entities, that is, \$ 1.75 trillion less than a year ago, while \$ 15.1 trillion belonged to foreign financial entities.

At the end of 2000, the loan portfolio reached the amount of \$ 44 trillion compared to \$ 47 trillion in 1999. This reduction corresponded to the lower portfolio registered by public financial entities, which went from \$ 10.1 trillion to \$ 7.1 trillion in said period.

The composition of the portfolio registered an annual fall in outstanding loans of the 4.7% and of the non-performing portfolio of 24.8%. This significant reduction in the past due portfolio is the result of the reorganization process initiated in the entities. The 74.8% of the portfolio is concentrated in commercial banks, 10.4% in mortgage banks, 12.0% in financial corporations and 2.8% in commercial financing companies.

Table 2.2
FINANCE SYSTEM
BALANCE SHEET

AMOUNTS IN MILLIONS OF PESOS

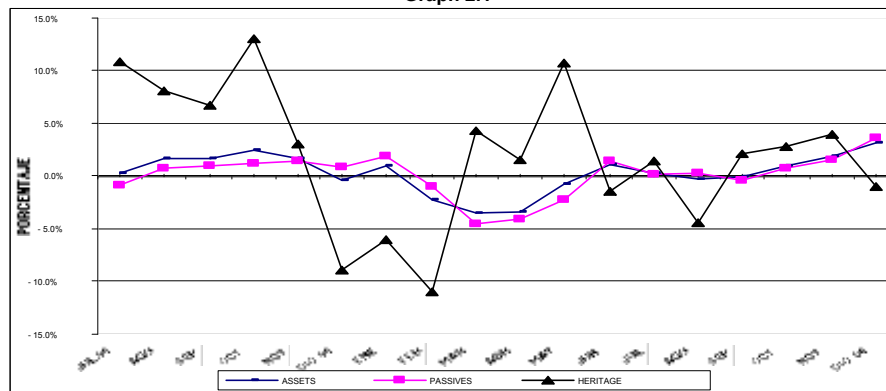
	JUN. 99	DEC. 99	JUN. 00	DEC. 00	CREC. % DEC.99 - DEC.00
ACTIVE	77,747,651	80,240,693	78,903,367	80,618,413	0.5%
INVESTMENTS	8,313,810	12,104,856	14,534,034	17,192,741	42.0%
PURSE	50,004,938	48,659,276	45,383,800	44,612,153	- 8.3%
Current	45,319,299	44,052,487	42,860,672	41,985,323	- 4.7%
Overdue	7,211,824	6,909,677	5,089,667	5,198,888	- 24.8%
Portfolio provisions	2,526,185	2,302,888	2,566,539	2,572,058	11.7%
ASSETS REC PAYMENT	1,851,491	1,677,356	1,478,618	1,437,402	- 14.3%
PROPERTIES AND EQUIPMENT	4,030,107	3,835,649	3,775,762	3,724,635	- 2.9%
OTHER ASSETS	5,367,012	4,722,699	4,695,009	4,100,286	- 13.2%
PASSIVE	69,957,351	71,173,876	70,127,845	71,182,124	0.0%
DEPOSITS AND DEMAND	47,445,683	49,253,411	48,561,832	50,473,404	2.5%
HERITAGE	7,790,289	9,066,812	8,775,528	9,436,289	4.1%
SOCIAL CAPITAL	2,527,862	3,018,264	3,473,515	3,131,763	3.8%
BOOKINGS	4,826,912	6,216,782	5,695,419	5,952,586	- 4.2%
SURPLUS	3,588,842	3,309,649	3,577,947	3,213,283	- 2.9%
PREVIOUS EXERC	(2,070,435)	(1,188,561)	(2,519,238)	(1,835,092)	54.4%
EXERCISE RESULTS	(1,103,888)	(2,289,322)	(1,462,115)	(1,026,251)	- 55.2%

In 2000, there was a change in the composition of the asset structure, which is explained by the drop in the loan portfolio of 8.3% and an increase in investments of 42%. In these terms, the loan portfolio lost 5.3 points in participation in assets compared to December 1999, while investments channeled that proportion, passing its participation from 15.1% to 21.3%.

Goods received in payment also lost their share with respect to assets, going from 2.1% in December 1999 to 1.8% in December 2000. These non-performing assets registered a decrease of 14.3% in the analyzed period.

In the consolidated financial system, these non-performing assets fell from \$ 1.7 trillion in 1999 to \$ 1.4 trillion in 2000. Public financial entities contributed \$ 492 billion to this reduction.

Graph 2.1



Passives

The amount of liabilities of the financial system stood at \$ 71 trillion at the end of 2000, showing a practically zero annual variation of 0.01%. Of this figure, \$ 15.6 trillion belonged to the public financial system.

The value of deposits and receivables for the system went from \$ 49 billion to \$ 51 billion, showing a growth of 2.5% in the year. Deposits and receivables from public financial entities at the 2000 cutoff were \$ 9.6 trillion .

The main deposits represented in checking accounts and savings accounts, presented an annual increase of 39% and 56%, respectively, while the CDT only did so by 5%. The increase in deposits in checking accounts and savings accounts is partly explained by the reclassification of savings accounts and CDTs in constant value, to deposits in pesos due to the modifications introduced by Law 546 of 1999.

Compared to the composition of the main liabilities with respect to 1999, the deposits and enforceabilities of the financial system maintain their participation at 70.9% at the end of 2000. 77.6% of these liabilities are held by commercial banks and 10.8% are held by commercial banks. mortgage banks.

Heritage

The equity of credit institutions was \$ 9.4 trillion at the end of 2000 with an annual growth of 4.1%. The equity of public financial entities went from \$ 1.7 trillion to \$ 1.4 trillion.

The monthly dynamics of equity that is observed in graph 2.1 partially responds to the capitalization of public sector entities by Fogafin and to the capitalizations made in the private sector through loans made to its shareholders.

However, the amount of capitalization that was registered in the credit intermediaries for a gross value of \$ 3.2 trillion was offset by the write-offs and write-offs carried out in both public and private entities and the increase in the level of provisions.

2.2 Financial Indicators

Past due portfolio

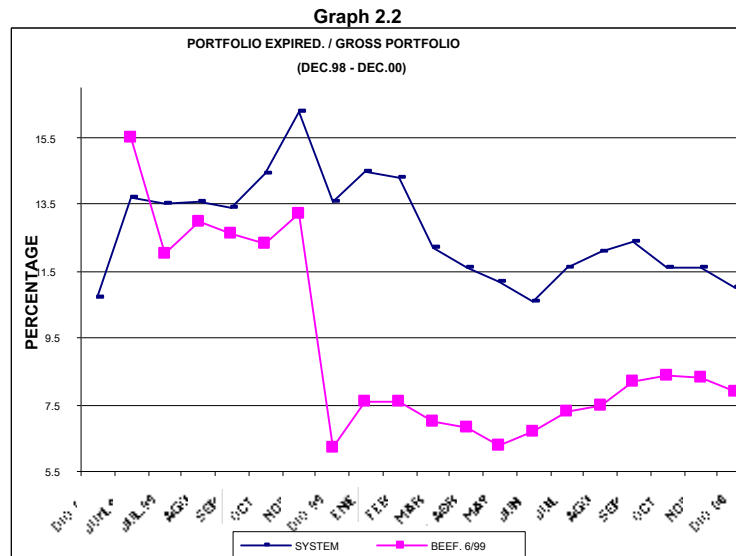
The overdue portfolio indicator as a proportion of the gross portfolio that had been increasing as of the last quarter of 1998, registered a downward trend as of the second quarter of 2000, standing at 10.6% in June and 11.0% in December, thanks to the measures aimed at cleaning up and strengthening the assets of the entities.

As can be seen in graph 2.2, the greatest recovery of the indicator was concentrated in private entities that took advantage of Resolution 6 of 1999, reaching an average level of 7.5% during 2000, a figure 1.9 points higher than that registered 5.6% by foreign banks.

Portfolio coverage

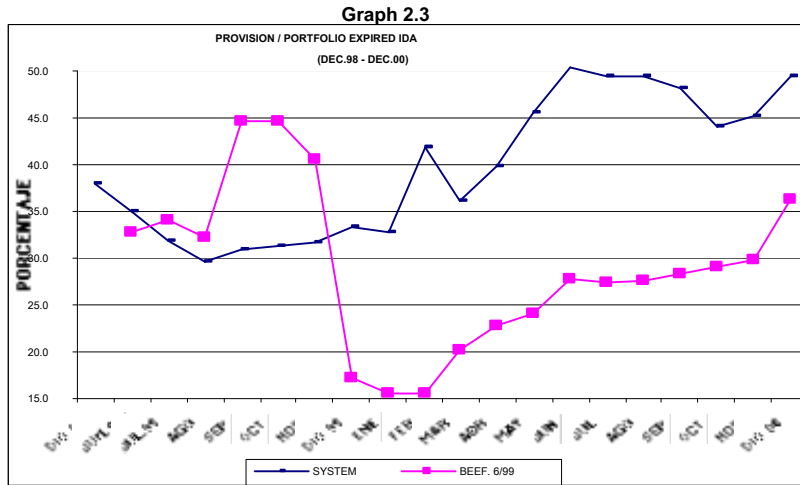
With the deterioration in the quality of the loan portfolio since the end of 1998, the indicator dropped substantially, since between December 1998 and August 1999, the percentage dropped from 37.9% to 29.7%. However, provisions received a boost from the last quarter of 1999, to the point that at the end of the year they came to represent a third of the past due portfolio.

During 2000, the financial system indicator continued its upward trend due to the higher volume of provisions and the lower volume of non-performing portfolio, since the public and private entities that submitted to the requirements



of the aforementioned Resolution 6 of 1999, they punished unproductive assets. The entities that accessed the Fogafin loans stand out. In september 1999, the latter presented a ratio of 44.7% between provisions and past due portfolio. From then on, and as a consequence of the sanitation effect, the aforementioned indicator decreased so that in February 2000 it was

of 15.6%, to later increase it to 36.3% at the end of the year, 13.2 points below that reached by the system.



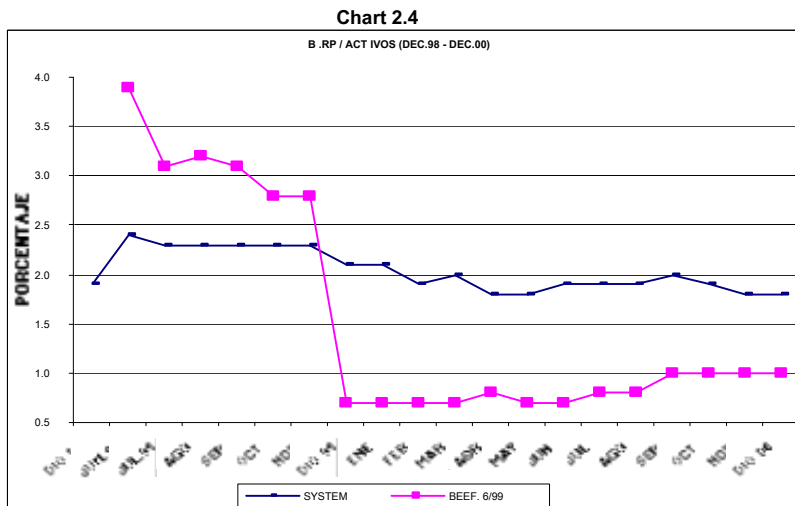
Goods Received as Payment Dation

Goods received in payment of payment represented 1.9% of the total assets of the financial system at the end of 1998. During 1999 there was a continuous increase, surpassing 2.4% in June of said year, to later decrease to 2.1% in January of

2000. Since then, the indicator has been between 2.0% and 1.8%, a figure that closed the year. In the entities that accessed the Fogafin loans, the assets received in payment of payment exceeded 3.9% of assets in June 1999, higher than the 2.4% corresponding to the system. During the second semester, this relationship showed a downward trend, reaching the level of

0.7% in December 1999, an indicator that remained until June 2000. This fall originated as a result of the write-off of non-earning assets of the capitalized entities who removed them from the balance sheet, to be replaced by productive assets such as bonds. of Fogafin. At the close of

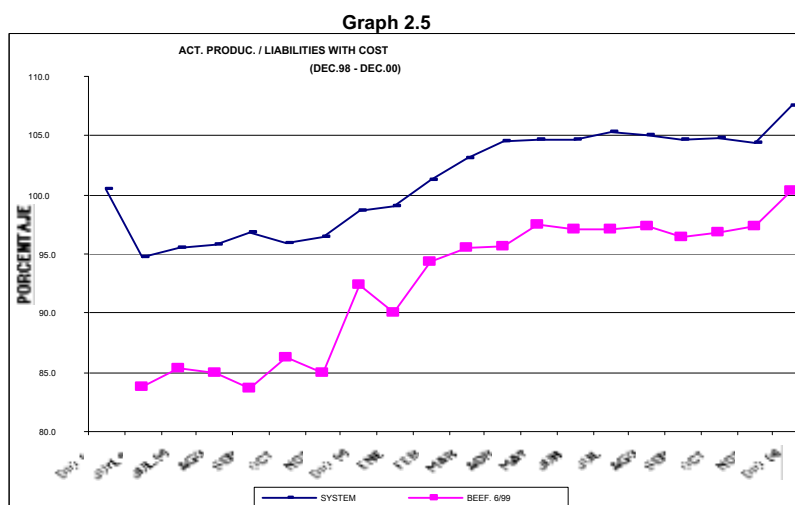
2000, the indicator was 1.0%. In public entities the indicator was 1.6% at the rate of 1.1% in foreign entities.



Balance Sheet Structure

The recovery of productive assets originated in the policy measures adopted by Fogafin allowed the relationship between productive assets and liabilities with cost to maintain a growing trend during 2000, which is reflected in the financial system as a whole. The balance sheet structure of financial entities went from 98.6% in December 1999 to 107.5% in December

2000. In the entities that accessed the Fogafin loans, the indicator went from 92.4% to 100.4% in the same period.

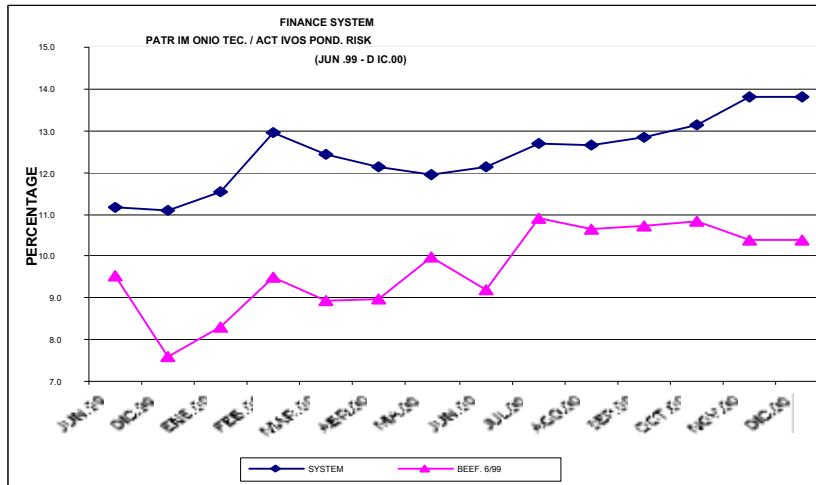


Solvency Margin

After a decrease in the solvency ratio of financial institutions observed between 1998 and the first half of 1999, throughout 2000 the indicator steadily improved, going from 11.11% in December 1999 to 13.80% in December 2000.

In figure 2.6. It can be seen how the rebound of the indicator in the first quarter of 2000, given especially by private banking, was deteriorated by the reduction in the equity accounts of public financial entities, and in particular, by the losses that had been recorded in the last two years.

Chart 2.6



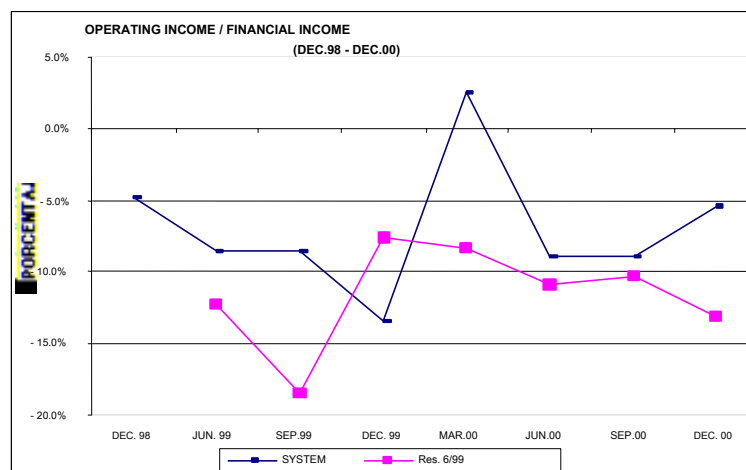
Components of the result

Despite the decrease in the dynamism of financial income and the presence of a low capacity of most of the entities to reduce administrative and labor expenses in a scenario of lower growth of productive assets, a negative operating margin of less than registered one year ago. However, the operating margin before amortization and depreciation for the period was positive by \$ 243.7 million.

The trajectory of the operating result after amortization and depreciation in relation to financial income was negative both for the financial system and for the entities that accessed the Resolution 006 credits. the the

Graph 2.7 shows a certain recovery of the indicator for the system in the first quarter of 2000 despite a significant increase in provisions for entities such as the BCH, which in this period began to transfer assets and liabilities to Bancafé. the

Chart 2.7



Special mention should be made of the financial intermediation margin, which registered sustained growth throughout the year 2000. From 33.2%⁸ registered in December 1998, went to 37.2% in December 1999, to maintain its upward rhythm and to settle at 66.2% in December 2000. With the net financial margin achieved at the end of 2000, administrative expenses and work of the period.

General Results

The National Government's policy aimed at strengthening the financial system has managed to avoid a systemic crisis of incalculable dimensions, given a massive consolidation and capitalization effort, as well as the intervention of the weakest entities and less participation of the State.

Likewise, the own initiative of private entities that without resorting to the support of the Fund, decided to clean up their financial statements and strengthen the equity of the entities, has generated a process of recovery of the system that is manifested through the substantial improvement of the main financial indicators. Such an upturn makes it possible to foresee a process of consolidation of the Colombian financial sector that will motivate and contribute to the growth of the economy during 2001 and onwards.

Therefore, it is important to observe the progress of the system indicators during 2000, whose portfolio quality^{9/} managed to improve by more than two percentage points at the same time as its coverage^{10/} it was located at 50%. Similarly, the balance sheet structure^{eleven/} it increased by about ten points, that is to say that the productive assets of the system adequately cover the obligations. The

⁸ As a proportion of financial income.

⁹ Overdue portfolio over gross portfolio

¹⁰ Provisions on past due portfolio

^{eleven} Productive assets over liabilities with cost

asset strength indicator ^{12/} expresses a substantial reduction in the level of risk, to the extent that the sector's equity supports non-performing assets. Operational efficiency shows a significant improvement since as of December 2000 the generation of the financial business (financial margin) supports all associated expenses.

Table 2.3

FINANCE SYSTEM LEADING INDICATORS		
INDICATOR	Dec-99	Dec-00
PORTFOLIO QUALITY	13.6%	11.0%
PORTFOLIO COVER	33.3%	49.5%
BALANCE STRUCTURE	98.6%	107.5%
HERITAGE EXHIBITION	106.4%	89.3%
BRP / ASSETS	2.1%	1.8%
SUFFICIENCY MG FIN.	120.5%	96.4%

¹² Non-performing assets on equity

3 STRATEGY FOR THE SOLUTION OF THE CRISIS OF THE FINANCIAL SECTOR

The difficulties evidenced in the Colombian financial system during the second half of the 1990s led to the financial crisis of 1998-1999. The deterioration of the sector, exacerbated by the performance of the economy at the end of the decade, was manifested mainly by the sharp fall in portfolio balances (-5%) during 1999 and an accelerated deterioration in its quality to reach levels of 16% of overdue portfolio over the total portfolio in the month of November.

The program to rescue the financial system developed in 1999 by the National Government through Fogafin, made it possible to stop the collapse of numerous entities and at the same time eliminate the potential systemic crisis to which the national economy was facing. The intervention of the weakest and most vulnerable entities, the opening of capitalization lines aimed at strengthening private financial entities and the support and dismantling of public banks were the pillars of the Government's policy.

As a result of the deterioration of the financial sector and the systemic risk inherent to it, the National Government, through Fogafin, implemented a series of bank rescue measures through a strategy that balanced two fundamental objectives, namely: to control moral hazard and minimize the direct administration of the State, within the parameters of speed and sufficiency that this type of situation requires.

In this sense, the main measures of the strategy developed by the Government comprise: the economic emergency at the end of 1998, the reorganization and capitalization processes of public, private and cooperative banks, and Laws 546 and 550 on housing and economic intervention. respectively.

The following refers to the themes that Fogafin has developed directly.

3.1 Private Capitalization Line

3.1.1 Operations carried out

As of the start-up of the Fund's capitalization line through Resolutions No. 006 and 011 of 1999, aimed at strengthening private entities complemented with the actions carried out in the public sector, the national financial system has managed to stabilize and shows signs of recovery.

The credit institutions that availed themselves of the support granted by the Fund during 1999 and 2000 represent 8.5% of the assets of the financial system as of December 2000, among which are six banks that constitute the

9.4% of the banking sector ¹³, a finance corporation and four finance companies. These entities have \$ 4.8 billion of liabilities with the public equivalent to 8.9% of the financial sector and a portfolio balance that amounts to \$ 4.4 billion.

In particular, during 2000 the Fund supported three entities whose assets as of December 2000 were \$ 642 billion. The opening of a second round of strengthening for those entities that came to the Fund line in 1999, allowed to grant Banco Superior shareholders a second long-term loan

for \$ 39 billion and short-term for \$ 1.8 billion, under the same initial conditions. Additionally, Credinver SA and Confinanciera SA commercial financing companies accessed the capitalization line for the first time, with long-term loans for \$ 2 and \$ 3 billion, respectively.

In total, within the private capitalization line, FOGAFIN granted loans for \$ 779 billion, of which \$ 228 billion correspond to short-term and \$ 549 billion to long-term loans. The short-term loans have already been fully paid to Fogafin with the exception of the amount corresponding to Megabanco. With the above, a capitalization of \$ 1.3 billion pesos was achieved.

Table 3.1

CAPITALIZATION LINE - RESOLUTION 006 OF 1999 (millions of pesos)			
Entity	FOGAFIN credits		Total Capitalization 2 /
	Short term	Long term	
COLPATRIA	38,110	174,001	269,565
SUPERIOR 1 /	8,806	85,047	118,894
CREDIT	-	59,965	74,957
INTERBANK	1,016	42,181	58,638
COLOMBIAN UNION	1,803	25,532	32,706
COFINORTE	-	19,752	47,694
COLTEFINANCIAL	9,104	19,348	39,706
MULTI-FINANCIAL	-	2,863	4,802
CREDINVER	88	2,050	2,737
CONFINANCIAL	-	3,129	3,129
SUBTOTAL	58,927	433,868	652,828
MEGABANCO	170,920	115,247	661,792
TOTAL	229,847	549,115	1,314,620

1 / Banco Superior accessed the second round of the capitalization line on May 25, 2000. 2 / Corresponds to the total capitalization including shareholders' resources.

3.1.2 Evolution of the private capitalization line

The entities that availed themselves of the credit line available in the Fund presented a recovery trend during 2000, bringing their indicators closer to those of the rest of the private entities. Taking into account that these entities

¹³ Includes mortgage banks

They had a weaker and more vulnerable financial structure than the rest of the system, the benefits of the support program are evident.

In terms of portfolio, its quality improved by 50%, going from 15.5% in June 1999 to 7.9% in December 2000, while the rest of the private system has shown a slight deterioration, reaching 9.3%. However, it is noteworthy that the entities with Fogafin loans presented between December 1999 and December 2000, a deterioration in the portfolio, going from a quality of 6.2% to

7.9%, mainly as a result of the weakness of Interbanco, whose portfolio quality amounts to 22.5%, an issue that will be described later.

Regarding portfolio coverage, this indicator reflects the effects of the write-down carried out, since it reduces the level of overdue portfolio and therefore presents a lower coverage than the rest of the system. However, between 1999 and 2000 the group of entities managed to double their level of coverage, which represents an important effort in terms of protection of the entities.

The weak balance sheet structure of these entities before strengthening, has managed to recover by continuously rising during 2000 and going from 84% at the end of the first half of 1999 to the balance level of 100.4%. Excluding Megabanco, this indicator improves even more, standing at 107%.

This favorable evolution responds to consolidation and capitalization processes similar to those carried out by the entities of "Resolution 006", carried out by some private credit institutions during this year.

Likewise, the ratio of non-performing assets to equity of the group of eleven entities shows a notable improvement, falling from a maximum of 177% in November 1999 to 95% in December 2000, thus increasing its equity support. The goods received in payment of payment went from being 3.9% of assets in June 1999 to 1% in 2000, that is to say half the indicator of the rest of private entities.

Operational efficiency shows a significant recovery, given that the ratio of operating expenses to financial margin fell from 143% in September 1999 to 108% in December 2000. Although the indicator is far from the private system (85%), the improvement behavior is associated with the adjustments made by the entities once they acquired commitments with the Fund, through the execution of administrative restructuring plans and reduction of expenses.

The following table presents the main indicators of the Resolution 006 entities in comparison with the rest of the private financial system.

Table 3.2

LEADING INDICATORS						
INDICATOR	JUNE 1999		DECEMBER 1999		DECEMBER 2000	
	RES 006	REST SYSTEM PRIV	RES 006	REST SYSTEM PRIV	RES 006	REST SYSTEM PRIV
PORTFOLIO QUALITY	15.5%	9.2%	6.2%	10.6%	7.9%	9.3%
PORTFOLIO COVER	32.7%	33.9%	17.2%	35.2%	36.3%	56.4%
BALANCE STRUCTURE	83.8%	101.8%	92.4%	103.3%	100.4%	113.6%
HERITAGE EXHIBITION	143.3%	68.4%	98.7%	83.4%	95.2%	80.8%
BRP / ASSETS	3.9%	1.8%	0.7%	1.9%	1.0%	2.1%
SUFFICIENCY MG FIN.	125.8%	78.8%	107.7%	91.2%	108.5%	84.8%

Annex 1 presents the main variables of the entities that accessed the credits of Resolution No. 006 and their main indicators.

3.1.3 New support measures

During 2000, the Fund had a package of new support measures for the entities that resorted to the capitalization line, among which are the granting of guarantee capital and liquidity operations through the purchase of bonds and portfolio repos. The main purpose of these measures was to provide liquidity to the entities that had accessed the credits of Resolution 006 and to prevent their liquidity situation from deteriorating as a result of INTERBANCO's intervention to administer.

3.1.3.1 Guarantee Capital

In accordance with the provisions of the capitalization line, in relation to the term that the shareholders of the entities had to capitalize that corresponded to them, the Board of Directors of the Fund approved the possibility of granting credits to shareholders for the amount of the guaranteed capital or the time that shareholders had to capitalize. The only entities that accessed these support were Banco Superior for \$ 8 billion and Megabanco for \$ 20 billion, which has already been canceled.

3.1.3.2 Repurchase of Bonds

Within the Fund's strategy to design liquidity-generating instruments for the entities that used the line, it ordered the repurchase of the long-term Fogafin Bonds (10 years) subscribed by the entities that availed themselves of the Resolution 006 credits. The first buyback was made in October 2000, for \$ 86 billion, complemented by a second round in January 2001 for \$ 59 billion.

3.1.3.3 Portfolio purchase operations with repurchase agreement (Portfolio Repos)

As an additional measure of liquidity, the Board of Directors of the Fund authorized portfolio purchases with three-month repurchase agreements, renewable only once and at a DTF yield. The portfolio repo operations carried out during 2000 are as follows:

Table 3.3

Portfolio Repos 2000		
	Date	Amount
Colpatria	Jul-00	47,804
Colpatria	Oct-00	50,000
Cofinorte	Sep-00	4,650
Interleasing	Dec-00	8,357
TOTAL		110,811

3.1.4 INTERBANK

The deterioration of Interbanco's performance indicators, the growth of the overdue portfolio, the reduction of productive assets, and the consequent erosion of equity due to consecutive losses, are elements that led to the taking of possession by the Banking Superintendency of the July 4, 2000.

At the end of 1999 and at the beginning of the year 2000, the performance indicators were not met, which made it necessary to look for alternatives within which the following were considered:

- Request the entity to make efforts aimed at a rapid growth of the portfolio. However, under the macroeconomic environment of the early 2000s, it was still dangerous for the entity, with a high risk of further worsening the deterioration of its assets.
- The Guarantee Fund explored the possibility with the Bank's administration to carry out an operational and administrative reorganization plan, with the consequent effect on the staff and branch network. At that time they reached the sum of 440 employees in 19 offices. Bank management declined the measure.
- That the Bank abide by Resolution 011 of 2000: It should be added that before the takeover, the shareholders had total freedom to decide on the viability of their respective institutions. In this sense, the alternative of availing themselves of resolution 011 of 2000 was proposed. However, and given the deterioration of assets, Interbanco shareholders did not express their will to avail themselves of said resolution since it implied significant capitalization efforts, guarantee commitments and other requirements that they were not willing to take on.

The situation worsened in mid-2000, as market perception for many reasons (including management problems) led to a massive withdrawal and general distrust of the financial institution. One of them arose as a result of an error on the part of Interbanco of having paid a Repo one day after its expiration.

It should be noted that this measure was taken by the Superintendency consequently with the commitment according to which the entities that accessed the line established in Resolution 006 of 1999, were not going to be intervened for settlement purposes while the granted credits were in force.

Fogafin's Board of Directors proceeded to take the following measures in order to solve the particular problem that the entity had been facing, in particular in relation to the situation of illiquidity and the solvency margin:

or Grant liquidity support up to \$ 260 billion through mutual loans
with or without warranty.

or Grant capital guarantee up to \$ 116.4 billion which was estimated on the basis of of endorsements not only to Interbanco's assets but also to those of its subsidiaries, to meet the solvency margin of the consolidated group and in order to ensure Fogafín's participation with a minimum of 78% of the capital.

As of December 31, 2,000 liquidity support for \$ 187 billion and guarantee capital for \$ 103 billion have been granted.

Regarding Interbanco's future strategy, initially it was decided to follow an asset sale program, under a scheme similar to that adopted for the FES. However, the Board of Directors of the Fund at a meeting on October 5, 2000, considered that the possibility of achieving the sale of Interbanco as an ongoing entity should first be exhausted. Given the reduction in the value of Interbanco's assets, the sale is being reconsidered as an ongoing entity and therefore other alternatives are being evaluated.

3.1.5 MEGABANCO

Megabank that is the product of the integration of Banco Coopdesarrollo, Bancoop, Coperativas Cupocrédito and Coopsibaté was supported by Fogafín through disbursements for \$ 481 billion, of which \$ 191 billion were granted with resources from the financial transaction tax given its character as a cooperative financial institution. Notwithstanding the foregoing, it was necessary for a process to take place that would convert the entity into a public limited company in order to facilitate its viability. In this process, the Central Cooperativa, the main shareholder of the public limited company bank, assumed the debt with Fogafín that had been granted with the financial transaction tax, leaving the bank with \$ 290 billion.

During the year, the entity made great efforts to improve the financial situation, among which the capitalization of \$ 100 billion stands out, which resulted in a reduction of the guarantee capital from \$ 184 billion to \$ 111 billion in December 2000. The bank it reduced its network of offices from 280 to 205 and its staff from 4,500 to 3,000.

Notwithstanding the foregoing, Megabanco presented losses in 2000 of \$ 46 billion, which forced the continuation of support from Fogafín. On December 27, 2000, the Board of Directors of the Fund granted an extension of the term for six months for the payment of the Bridge Loan in charge of the Central and the interest accrued pending payment was capitalized. In addition, it approved a guarantee capital to Megabanco for a further six months conditional on the Central's commitment to capitalize Megabanco during 2001 by \$ 61 billion and the development of new steps to obtain a strategic partner. With the approval of the Board of Directors, the Fund purchased from Megabanco during the month of January 2001 the account receivable in its favor and at the expense of the Central, for \$ 53 billion to cover the imbalance of the transfer of assets and liabilities from Banco Coopdesarrollo to Megabanco. Lastly, the Board of Directors of the Fund requested the hiring of a firm to evaluate the bank's business plan and give an opinion on its viability.

The Fund carried out a financial evaluation of Megabanco, based on the projections that the latter prepared and according to which the new performance goals were determined. The parties signed the amendment to the agreement on December 29, 2000, establishing new financial performance goals with monthly monitoring of the same.

3.2 Public entities

3.2.1 Strategy for public entities

The objectives pursued by the public banking capitalization strategy that has been developing since 1999 are: (i) eliminate the systemic risk that it generates, (ii) reduce the fiscal cost, (iii) clean up and restructure the entities so that recover their viability and guarantee the protection of the savings of the public entrusted to them in the cases that are not viable and, finally, (iv) privatize the entities whose sale is viable, with the exception of the Agrarian Bank, given its special role as financing entity of the agricultural sector. In entities in which its sale to the private sector is not feasible, a gradual dismantling process will be carried out, guaranteeing the protection of public savings.

In developing their powers, the National Government and Fogafin designed a strategy for the consolidation and strengthening of the assets of the public bank that follows the guidelines of the private capitalization line. This strategy was applied to three of the four public credit institutions (BCH, Granahorrar, Bancafé and Banco del Estado-Uconal).

The process through which the strategy was fulfilled is:

- **Sanitation.** To strengthen the balance sheet of public entities, unproductive assets were written off in accordance with the criteria defined in Resolution 006 of 1999 for the private sector or the assets were sold to the CISA, which is the “collector” entity that Fogafin defined for the effect. The international auditing firms that were hired in each of the cases established the provisions that must be made or the assets that must be sold to CISA, following the parameters of the aforementioned resolution.
- **Patrimonial strengthening.** After the financial reorganization, Fogafin issued bonds or invested the resources from the financial transaction tax to capitalize the entity until reaching the minimum solvency margin required by legal regulations in the cases of public entities that were considered viable or for guarantee public savings in the cases of those institutions that were not considered viable. When bonds are issued, the national budget assumes the cost of the operation through a future term commitment that covers the service of the bonds up to a value of \$ 4.95 billion.
- **Disposal of non-performing assets.** To recover the highest possible value of non-performing assets, organizational structures and processes have been defined and implemented that allow the sale and normalization of non-performing assets of the public bank. As part of this strategy, Fogafin decided

advance the purchase of the Central de Inversiones - CISA, which should be in charge of directly or indirectly managing the unproductive assets of the public bank.

- **Administrative restructuring of entities.** In preparation for their sale, the entities that have been financially sound and whose privatization has been determined as viable, undergo a process of administrative restructuring, the main objectives of which are: (i) to seek a reduction in administrative and personnel costs, (ii) avoid the deterioration of its assets and (iii) maximize its sale value. In the rest of the entities, programs are being carried out to reduce costs in the context of the clearing program.

- **Sale of entities.** Fogafin hires investment banking firms to privatize healthy banks whose sale is viable, with the exception of Banco Agrario de Colombia and BanEstado.

Within the aforementioned strategy, in the case of the Central Mortgage Bank, it was decided, in addition to writing off non-performing assets, transferring productive assets and liabilities with the public to Granahorrar, reducing operating costs, generating economies of scale.

In the case of BanEstado, it was decided to follow a similar strategy but transferring its productive assets and liabilities with the public to Bancafé after having carried out the write-off of non-performing assets.

El Banagrario is the only financial institution that the National Government will have in the future and through which it will direct the policy to support Colombian agriculture. For this purpose, in addition to ordinary banking operations, the Banagrario has “shields” that will allow it to ensure that resources are properly directed.

To cover the total amount of the capitalization required by the entities, there is the issuance of bonds by Fogafin with the support of the National Government and the resources from the financial transaction tax of two per thousand.

The process of restructuring the public bank has involved disbursements of \$ 4.8 trillion ¹⁴ (see table 3.4), which have resulted in the recovery of its assets and the improvement of its main indicators as detailed below.

¹⁴ The following sources have been used to finance the disbursements: bonds for \$ 4.1 trillion, an economic emergency for \$ 0.6 trillion and another \$ 0.1 trillion.

Table 3.4
Thousands of millions

Public Entities - Disbursements			
DECEMBER 2000 (millions of pesos)			
	Cash	Bonds 1 /	TOTAL
BCH	140,800	1,150,700	1,291,500
BANESTADO	417,000	823,100	1,240,100
BANCAFE	-	870,000	870,000
CISA - BANCAFE	-	267,280	267,280
CISA - BCH	-	253,650	253,650
GRANA SAVE	60,226	271,971	332,197
IFI	-	400,000	400,000
AGRARIAN BANK	-	150,000	150,000
FES	45,000	-	45,000
TOTAL	663,026	4,186,701	4,849,727

3.2.2 Evolution of Public Banking

The quality of the portfolio shows a break in its harmful trend as a result of the sanitation operations, going from an indicator of 29% in 1999 to 24% in 2000.

Additionally, it is worth highlighting the increase in the coverage levels of the portfolio, which grew from 29% in December 1999 to 37% in December 2000. The foregoing shows how the support provided to the sector has allowed a portion of the resources are intended to hedge the risk of the portfolio. Similarly, there is a significant reduction in the proportion of goods received in payment against assets, going from 2.6% to 1.1% during the same period.

The relationship between productive assets and liabilities with cost registers a constant improvement, increasing from 76% in June 1999 to 89% in 2000. Similarly, non-performing assets went from being 4 to 1.8 times their accounting equity. However, it is expected that with the culmination of the public banking reorganization processes, these indicators will experience an even greater improvement, which will necessarily lead to a recovery in the profitability margins of the entities that are not subject to the withering process. .

The consolidation and capitalization processes in the public financial sector have allowed the recovery of its assets, going from - \$ 0.82 trillion in June 1999 to \$ 0.95 trillion in 2000, thus restoring equity support to savers in the public financial sector.

Given the strict administrative and personnel restructuring process that has been carried out in public entities, there is a relative improvement in their operational efficiency. In June 1999, for every \$ 100 generated, \$ 367 was needed to operate, while in December 2000 this ratio was reduced by 67% and equivalent to \$ 119.

The following table presents the main indicators of public banking in comparison with the rest of the financial system.

Table 3.5
(Percentage)

LEADING INDICATORS						
INDICATOR	JUNE 1999		DECEMBER 1999		DECEMBER 2000	
	PUBLIC	REST	PUBLIC	REST	PUBLIC	REST
PORTFOLIO QUALITY	28.3%	10.1%	29.3%	10.1%	24.8%	9.0%
PORTFOLIO COVER	36.4%	34.1%	28.9%	36.1%	37.2%	54.4%
BALANCE STRUCTURE	76.1%	99.3%	85.0%	101.8%	88.7%	111.6%
HERITAGE EXHIBITION	- 402.9%	75.0%	240.4%	84.5%	180.0%	79.1%
BRP / ASSETS	3.3%	2.2%	2.6%	2.0%	1.1%	1.9%
SUFFICIENCY MG FIN.	365.6%	84.0%	331.7%	92.2%	118.9%	92.4%

3.2.3 Complementary support for public banks.

Due to the high volume of Fogafin Bonds that public banks have, the Board of Directors of Fogafin decided to support the entities to solve the liquidity problem that they introduce by approving portfolio purchase operations with a repurchase agreement for a value of \$ 250 billion, quota which was later expanded to \$ 350 billion. This line was accessed by Bancafé, Granahorrar and FES for a value of \$ 200, \$ 50 and \$ 58 billion respectively.

3.2.4 Dismantling of the Public Bank

The capitalization efforts of the official financial sector have been aimed at strengthening the process of dismantling them, on the policy of reducing the participation of the State in the administration of financial entities. In this sense, the results are overwhelming in terms of reduction of government entities. Additionally, the development of aggressive administrative and personnel restructuring processes has contributed to the work of reducing the participation of the State in this sector.

Of seven existing banking entities in 1998 they were reduced to six in 1999 and practically today only three public entities remain in operation, given that the BCH went into liquidation and FES are in the process of withering away. The level of assets managed by the State fell 15% between 1999 and 2000, going from \$ 17 to \$ 13 trillion. In the same direction, the number of employees has decreased by 22% and that of offices by 8%, thus consolidating the process of gradual dismantling of public banking.

Table 3.6
(Millions and percentage)

DISASSEMBLY PUBLIC BANKING												
ASSETS AND DEPOSITS (in constant 2000 pesos) DECEMBER 1999												
DECEMBER 1998			DECEMBER 1999			DECEMBER 2000 3 /			98 - 00		99 - 00	
(millions of pesos)	Assets	Deposits	Assets	Deposits	Assets	Deposits	Assets	Deposits	Act.	D.E.P.	Act.	D.E.P.
BANCAFF 1 /	6,132,120	3,960,031	BANCAFF	5,533,602	3,006,167	BANCAFF	5,746,457	3,360,879	-6%	-51%	4%	12%
AGRARIA BOX	2,873,136	2,087,163	AGRARIO 2 /	3,471,154	2,113,125	AGRARIO 2 /	3,272,574	2,179,391	14%	4%	-6%	3%
GRANA SAVE	2,152,928	1,466,932	GRANA SAVE	2,377,814	1,792,709	GRANA SAVE	4,167,952	2,624,273	94%	79%	75%	46%
FES	518,008	277,306	FES	358,449	223,418							
BCH	3,598,872	1,403,609	BCH	3,656,481	1,368,555							
CONDICION	1,023,049	795,098	BANESTED	1,664,025	838,167							
UCONAL	970,943	251,765										
TOTAL	17,268,856	10,241,905	TOTAL	17,061,525	9,342,142	TOTAL	13,186,984	8,164,544	2.7%	-20%	-2.3%	13%

1 / Includes Concasa.

2 / Additionally, there is an account receivable from the Nation for \$ 1.2 trillion.

3 / Entities in the process of withering: Banestado and BCH with assets of \$ 1.1 trillion.

Table 3.7

DISASSEMBLY PUBLIC BANKING										
EMPLOYEES AND OFFICES										
ENTITY	JUNE 1998		DECEMBER 1999		DECEMBER 2000		98-00%		99-00%	
	Employees	Offices	Employees	Offices	Employees	Offices	Empl.	Office	Empl.	Office
BANCAFF 1 /	9,628	508	7,045	370	4,688	283	-51%	-44%	-33%	-24%
AGRARIA BOX	8,111	918	4,790	690	4,502	698	-44%	-24%	-6%	1%
GRANA SAVE	2,823	164	2,075	141	2,117	141	-25%	-14%	two%	0%
FES	653	55	618	14						
BCH	2,796	136								
CONDICION	2,430	99								
UCONAL	1,381	64								
TOTAL	27,822	1,904	14,528	1,215	11,307	1,122	-59%	-41%	-22%	-8%

1 / Includes Concasa

Annex 2 presents the main variables of assets and liabilities and the main indicators of public banks.

3.2.5 Privatization of public financial entities

Following the guidelines established by the National Government, in 2000 the Fund invited international investment banks with a recognized track record to submit proposals for the privatization of Granahorrar and Bancafé.

For the privatization of Bancafé, the Fund hired the services of a joint venture formed by BNP Paribas and Corfivalle to provide advisory services to carry out the privatization of this entity.

Bancafé's definitive sale process is expected to culminate in the third quarter of 2001.

3.3 Conclusions

Despite the fiscal and private capital efforts, aimed at avoiding a financial crisis with greater repercussions on the economy, and the evident

recovery compared to 1999, the financial system still has capitalization problems that will be solved with a new capitalization line that Fogafin is currently designing.

However, the rescue policy applied by the Government has not only prevented a systemic crisis but has also guided the financial system, through support to the most vulnerable entities, towards a stabilization path that allows sustaining the economic recovery process.

The commitment of private capital on the viability of the entities that availed themselves of the Fund's support and the reduction in the direct participation of the State in the administration of financial entities, allow clarifying the short and long-term horizon of the financial system in Colombia.

4 ACTIONS DEVELOPED IN PUBLIC BANKS

4.1 CENTRAL MORTGAGE BANK

4.1.1 Assignment of assets and liabilities.

Taking into account the definitions regarding the unfeasibility of the Central Mortgage Bank, especially the order issued by the Banking Superintendency on January 26, 2000, this entity proceeded to transfer assets and liabilities to mainly Granahorrar and to a lesser extent to Bancafé and Banagrario, a process in which there was close support from the Fund.

The total assignment amounted to \$ 1.6 billion, of which \$ 1.5 billion corresponded to Granahorrar, Bancafé \$ 59 billion and Banagrario \$ 2 billion.

Within this process, the Superbank ordered it to suspend both the fund-raising and placement operations.

Given that the level of productive assets was lower than the liabilities with the public, it was necessary for Fogafin to intervene so that these assignments were made in a balanced manner. In this sense, the entity required capitalizations of \$ 1.3 trillion, of which \$ 550 billion were contributed in 1999, in compliance with the capitalization order issued by the Superbank and \$ 741 billion in the year

2000. Of these last contributions, \$ 600 billion were made with Bonds Fogafin Capitalization Public Banking and \$ 141 billion in cash, in order to meet liquidity requirements.

Additionally, in order to recover part of the resources delivered, the Fund acquired the Central Investment Company - CISA, a BCH subsidiary, to be in charge of normalizing the unproductive portfolio and mobilizing the assets received in payment.

In this vein, the BCH sold all non-earning assets other than its own assets and the assets necessary to cover the pension liability for \$ 258 billion (\$ 196 billion in portfolio and \$ 62 billion in assets) to CISA.

4.1.2 Dismantling of the organizational structure.

As part of the dismantling process, actions related to the removal of employees and the closing of offices were carried out.

With regard to employees, as of December 1999 the BCH had 2,184 employees. In February 2000, simultaneously with the transfer, it was necessary to launch a voluntary retirement plan, which was used by 1,801 employees. In October, the plant was also reduced by 175 more employees, between authorized layoffs and a retirement plan.

Regarding the offices, as of December 1999 the BCH had 127 offices, including 5 regional ones. Of these, Granahorrar received 10 as part of the assignment, leased another 2 and Banagrario proceeded to lease 8. The others were closed and their assets and liabilities transferred to the beneficiary entities of the assignment.

4.1.3 BCH liquidation

As the final phase of the process, the National Government proceeded to decree the liquidation of the entity through Decree No. 20 of 2001. The tasks that the Bank is responsible for carrying out consist of the disposition of its own assets to meet the obligations with the employees, the suppliers and with control institutions. Additionally, it must carry out the work aimed at establishing the autonomous patrimony that allows the attention of the pension obligations and subsequently carry out the process of substitution of the pension liability. It currently has 208 plant employees, among which the retirement of 125 and the lifting of union jurisdiction for the rest are being processed. Additionally, it has 4 offices that corresponded to the old regional offices.

4.2 BANESTED

Within the strategy that the National Government has been advancing around the problems of public banking to reduce the fiscal cost that it generates through the reduction of its size and after the Bank's difficulties were determined, the assignment of productive assets and liabilities with the public to Bancafé and Banagrario.

To Bancafé, liabilities with the public (including ordinary bonds) were transferred, offset by assets represented in the portfolio and capitalization bonds from public banks for a value of \$ 940 billion, on June 30, 2000. Additionally, a transfer of assets and liabilities to Banagrario for a value of \$ 7 billion due to the fact that Bancafé did not have offices in some municipalities of the country in which Banestado operated, on July 7, 2000.

In the transferor entity the liability with Fogafín remained, the receivables with rediscount entities that could not be subject to the assignment, the labor liability and the fines imposed by the control bodies.

Once the transfer was made, the gradual retirement of 1696 employees was carried out. Additionally, the branches owned by the Bank (56 branches) were closed.

As a result of the assignment, the current activities of the BanEstado focus on the collection of the portfolio and the administration of the goods received in payment, both those that are registered in memorandum accounts as a result of the reorganization, as well as those that are kept within of the balance sheet.

4.3 GRANA SAVE

Based on the guidelines set for public banks seeking its reduction and privatization, on September 13, 1999, the Board of Directors of the Fund approved the transfer of the productive portfolio and most of the liabilities with the public of the BCH to Granahorrar, and agreed to complement the restructuring and capitalization of the latter to bring it to adequate solvency in order to put it up for sale.

In compliance with the order issued by the Banking Superintendency, on January 26, 2000, the BCH was transferred, with which most of the assets and liabilities were transferred to Granahorrar. The assignment of productive assets and liabilities with the public from BCH to Granahorrar for an amount of \$ 1.5 trillion was intended to take advantage of synergies and reduce the cost of managing these assets and liabilities.

In order to comply with the strategy, Fogafín, in order to restore its assets and meet liquidity needs, capitalized Granahorrar by \$ 250 billion in 2000, which was financed through the issuance of public bank bonds. Additionally, it was granted liquidity support in July 2,000 for a value of \$ 50 billion, in portfolio repos with a repurchase agreement.

Notwithstanding the foregoing, there was a mismatch in the transfer of assets and liabilities of the BCH to Banco Granahorrar for \$ 228 billion originated by the lower amount of assets transferred versus liabilities. In order to cover the difference, the BCH made a sale to CISA of the non-performing assets. With the proceeds of the sale, the BCH canceled Granahorrar with Bonds Capitalization Public Banking for \$ 196 billion on December 11, 2,000 and \$ 32 billion on December 28 of the same year. Given that this entity did not carry out the reorganization, the solvency index of the entity as of December 2000 was 23.2%, higher than the rest of the system.

4.4 BANCAFE

As of the capitalization by Fogafín in September 1999, the entity initiates an adjustment plan that considered the administrative restructuring and the honesty of the financial statements.

4.4.1 Administrative Restructuring

In January 2000, Bancafé hired McKinsey for professional advice in order to carry out the evaluation of the branch network, the redesign of the portfolio normalization area and the Activity Value Analysis. The progress made in each of the three chapters raised is presented below.

1. Branch network. The analysis and evaluation process concluded with the reduction of the network in 95 offices. For this purpose, it was considered essential to formulate a deposit retention plan, a personnel retirement plan (650 employees) and the

liquidation of lease contracts in order to proceed with the delivery of the properties.

Simultaneous to this process, the size of the remaining offices was redefined and the number of regional offices was reduced.

- two. Value Analysis of AVA Activities. The analysis of the procedures in the General Directorate and the regional operating areas (USAS) was carried out.
3. Redesign of the Standardization area. The definition of the new structure of the Asset Standardization Vice Presidency is being advanced in order to turn it into a recovery area.

It above led to a significant reduction in administrative and personal, profits that are expected to be captured in 2001 due to the severance expenses incurred. In Table 4.1. the actions taken to reduce the entity's expenses are summarized.

Table 4.1
Spending Rationalization

ENTITY	EMPLOYEES	OFFICES	REGIONAL	USES
Sep-99	7,300	390	10	10
Aug-00	5,850	296	6	6
Dec-00	4,800	280	6	4

4.4.2 Assignment of Banestado Assets and Liabilities.

In order to continue with the strategy of dismantling the public banking system, Bancafé received assets and liabilities for \$ 1 trillion during the year 2000, of which \$ 940 billion corresponded to the transfer of BanEstado and \$ 60 billion to the BCH.

Table 4.2
Assignment of Assets and Liabilities

Thousands of millions

ENTITY	PASSIVE	ASSETS				TOTAL
		PORTFOLIO	BONDS	CxC	OTHERS	
BANESTADO	938	746	135		57	938
BCH 1/	60	17		43		60
TOTAL	999	763	135	43		998

1 / The account receivable will be dismantled once the portfolio is delivered.

With these operations the advantages listed below were obtained:

- The receipt of portfolio A, B and C with mortgage guarantee (including accounts receivable), allowed to increase the volume of productive assets in a

fast. Given the current situation, it would be impossible to reach this amount of the productive portfolio through new placements.

- Receiving deposits from the public for an approximate value allowed it to expand its customer base.
- Rational use of the installed capacity of the entity, since no additional costs will be incurred for the administration of said assets and liabilities.

4.4.3 Sanitation Operation

In October 2000, the entity's reorganization and strengthening operation was carried out, which involved the disbursement of resources for \$ 0.5 billion in 2000 for a total disbursement including the resources capitalized in 1999 of \$ 1.1 billion. As a transitory measure and to maintain the level of solvency at the levels required by law, a guarantee capital was granted which after the reorganization amounts to the sum of \$ 200 billion.

Strategy

Bancafé's consolidation and strengthening strategy was based on the general principles of Resolution 006 of 1999, that is, on the withdrawal of the entity's non-performing assets. As of September 2000, the book value of non-performing assets was \$ 0.9 trillion, with a gross value of \$ 1.3 trillion.

The operation included the purchase of non-performing assets for 66% of their book value, with Bancafé having to make a global provision for the equivalent of a third of the value of the assets to be cleaned up. fifteen

Once the accounting operation was carried out, Bancafé sold to the Central de Inversiones SA (hereinafter CISA) non-earning assets for \$ 0.6 billion, who canceled it as follows:

- 50% on the transaction date, through the delivery of Public Banking Capitalization Bonds, issued by Fogafin, which came from the capitalization that Fogafin made to CISA for the same value.
- The remaining 50% will be paid in facilities with the proceeds from the recovery of non-performing assets acquired by CISA.

Once the sale operation was carried out, Fogafin capitalized Bancafé in the amount necessary for its solvency margin to be placed at 10% and as

^{fifteen} The new value of the assets to be cleaned up will be \$ 0.6 trillion and will result from the following operation:

Value as of May 2000	\$ 0.9 billion
Provision of 1/3	- \$ 0.3 billion
New book value	\$ 0.6 billion

Complement granted a guarantee capital for \$ 200,000 million. As a prerequisite for the operation, a performance agreement was signed.

Given that the volume of Bancafé's Public Banking Capitalization Bonds amounts to approximately \$ 1.6 billion, it was necessary for Fogafín to support its operations by granting it liquidity with portfolio purchase operations with a repurchase agreement for \$ 200 billion.

4.5 FINANCIAL FES

4.5.1 Officialization

As a consequence of the situation of patrimonial deterioration and financial structure presented by the Foundation for Higher Education FES Compañía de Financiamiento Comercial, it was considered necessary, on the part of the Banking Superintendency, to carry out the assignment of all the assets, liabilities, contracts, commercial establishments and debtor and creditor contingencies, to a public limited company of a financial nature, in order to apply the rescue measures established by the Organic Statute of the Financial System.

Thus, on June 30, 1999, Fogafín complied with the capitalization order for \$ 45 billion issued by the Banking Superintendency and breached by the FES Foundation, consisting of capitalizing the transferee company Estelar SACFC (today Financiera FES SA) in said amount.

When carrying out the assignment, an accounting difference between assets and liabilities of \$ 33 billion was recorded in the balance sheet of Financiera FES as of June 30, 1999, a figure that was recorded in an account payable to the Foundation, while through a process of due diligence and study of figures by the Banking Superintendency established its real value.

The Banking Superintendency carried out the corresponding studies and analysis to establish the assets, liabilities and contracts that due to their nature, origin of resources and destination were not part of the assets of Financiera FES and consequently ordered their return in September 1999. Likewise, it ordered to make provisions on the assets transferred for \$ 16 billion, thereby reducing the value of the account payable to \$ 17 billion.

In order to establish in the most transparent and timely manner, the amount that the Financier must pay to the FES Foundation for the operation of total transfer of assets, liabilities, contracts and commercial establishments to the FES Financial, a court of arbitration in accordance with the clauses contained in the total assignment contract.

4.5.2 Guarantee Capital

The Financiera FES maintains within its structure a high volume of non-performing assets, which consume its assets and deteriorate its financial indicators.

These assets, inherited from the financial business of the FES Foundation, represent almost a third of the company's total assets.

In this way, the entity continues to present losses due to the provisions required on the unproductive portfolio and the goods received in payment, the costs generated by the fines imposed by the defects in the solvency relationship and the decrease in income due to the reduction of interest rates. interest. These situations generate a solvency ratio lower than that established by the legal provisions and an equity loss such that its net worth is reduced to below fifty percent 50% of the subscribed capital, which places it in cause of dissolution.

In order to solve such financial problems of the Financier, the Fund initially granted guarantee capital for an amount of \$ 28 billion, later, it increased the amount of the guarantee up to \$ 46 billion and extended the term until February 28, 2001.

4.5.3 Disassembly Process

The entity's analysis led Fogafin's management to conclude that Financiera FES is not viable. Among the observed factors, the following stand out:

- It maintains a high level of non-performing assets that generate a high volume of provisions.
- Its assets continue in a process of constant deterioration, reflected in the delinquency rate of the portfolio and the increase in assets received in payment.
- Its administrative structure is deficient with expenses higher than the financial margin generated by the entity.
- It has a negative equity for which Fogafin has found it necessary to make contributions of guarantee capital to maintain its solvency and avoid the cause of dissolution.
- It presents a high loss of deposits and consequently a high liquidity risk.
- The entity does not generate interest for a potential investor due to its size, the fact that it serves unattractive market niches of great diversity, its operational and technological structure, and its financial deterioration. Added to this is the uncertainty arising from the contingent liability for the transfer of assets and liabilities of the FES Foundation.

To carry out the dismantling of the entity, the Fogafin Board of Directors has basically defined the strategy in two stages:

- Operations for the sale of productive portfolio: This stage had a first phase, which consisted in offering to all interested financial entities, the portfolio of Financiera FES. In this phase, the sale of \$ 27 billion was achieved, which was paid by absorbing liabilities, \$ 21 billion and cash, \$ 6 billion. In a second phase, it is intended to place some other promissory notes of the entity through direct sales.

- Assignment of the productive portfolio and liabilities for direct capture from the public: Once the direct sales process has concluded, the assignment of the residual productive portfolio will begin with the respective deposits from the public that remain in force.

In accordance with the entity's flow of resources needs and with the aim of avoiding a possible default during the execution of the strategy, the Board of Directors of Fogafín authorized the administration to provide Financiera FES with liquidity through the purchase of its non-performing assets at their book value as long as the company is obliged to respond for the difference between this value and the one obtained in their recovery. So far, \$ 10 billion has been disbursed in the execution of this program.

Notwithstanding the foregoing, in the course of the asset sale operations there were withdrawals of deposits that caused Fogafín, through the portfolio purchase line with a resale agreement, to disburse \$ 58 billion during the last three months of the year.

4.6 INSTITUTE OF INDUSTRIAL PROMOTION

In August 1999, Fogafín carried out the first capitalization operation to the IFI for \$ 100 billion. In December 1999, Law 550 of 1999, following the recommendation of CONPES, authorized an additional capitalization of \$ 300 billion. Before carrying out this capitalization, a process similar to that carried out in the first-tier public banks was carried out, in such a way that in April 2000, it was decided to clean up and strengthen assets accompanied by an administrative, operational and financial restructuring plan, that would allow the viability of the Institute.

In the reorganization process, the IFI made provisions for its impaired assets for \$ 253 billion and proceeded to write them off, which was offset by the capitalization of \$ 300 billion. Additionally, the IFI signed a performance agreement with Fogafín, in which it committed to the exclusive concentration of its operations in a second-tier bank, the sale of investments and the recovery of assets received in payment and the mobilization of non-performing assets. It should also improve the financial ratios related to financial income, operating expenses and provision expenses.

After the consolidation and capitalization in April 2000, the result of the IFI operation showed losses of \$ 59 billion. The quality of the portfolio has deteriorated and demanded \$ 34 million in provisions. The IFI's sources of funds have been rebuilt, with interbank funds gaining share, thereby deteriorating the entity's liquidity gap. The financial margin is fully absorbed by expenses.

The IFI requested the review of the performance agreement based on the deviations in the macroeconomic variables, the presence of new contingencies of loan portfolio losses and investments compared to those recognized during the reorganization process. For this purpose, it presented to the Fund the projections for the

next four years, the future sustainability goals and the rethinking of the agreement.

The projections include the disbursement of loans only in the second floor with the funds generated by the recovery of the portfolio, the sale or assignment of the first floor portfolio in legal currency and short-term CDT. Regarding the unproductive unproductive portfolio, it is proposed that it be handed over to administration and the disposal of nonproductive assets and investments. In addition, administrative restructuring and the reduction of liquidity, exchange, interest rate and operational risks are incorporated.

On January 25, 2001, the Board of Directors of Fogafin authorized the modification of the agreement, including the dismantling of the first-floor portfolio within the schedule that will be approved by the Fund. The administration must commit to the disposal of investments in accordance with the program presented by the IFI and approved by the Fund and to design and execute a program for the recovery of unproductive assets cleared, which may include the alternative of delivery in administration or the sale thereof. The execution during the first quarter of 2001 of the administrative and personnel rationalization plan must be part of the new agreement.

5 RECOVERY OF ASSETS ORIGINATED BY THE PUBLIC FINANCIAL INSTITUTIONS

5.1 Recovery of assets through Central de Inversiones.

The quality of the assets of public financial entities suffered a significant deterioration in the period 1997-2000 (Annex 3).

The volume of such assets implied the need to design and implement a scheme for their recovery within the framework of the following objectives:

- Advance recovery efforts through one or more entities specialized in the administration, standardization and commercialization of non-performing assets
- Ensure the establishment of homogeneous policies and strategies for the administration, standardization and realization of non-performing assets. Structuring a scheme that allows obtaining economies of scale.
- Streamline the decision-making process.
-
- Strengthen the negotiating position in the normalization and sale of assets.
- Apply effective management control and results measurement mechanisms.

In accordance with the foregoing, in September 2000 Fogafin acquired the 99.99% of the shares in Central de Inversiones SA -CISA, in order to use said entity as a vehicle for the recovery of non-performing assets of financial entities of a public nature.

The shares in CISA were acquired from Compañía Central de Seguros SA and from BCH for \$ 6 billion. In addition to the advantages represented by the acquisition of an entity that had already been carrying out work aimed at recovering assets but on a smaller scale, this sale also represented advantages for the sellers. By virtue of this sale, the first entity liquidated an investment whose value had not been recognized by the private investor who finally acquires it during the privatization process. For its part, the BCH sold an asset that was subject to the attention of the pension liability under its charge.

As of the date of purchase of CISA, a process began to optimize the structure and processes of the entity, in order to adapt it to its new task given the volume of assets that would be transferred.

In the months of October and November, Fogafin capitalized CISA by \$ 267 billion (corresponding to 50% of the purchase value of the assets), in development of the Bancafé clean-up scheme. With these resources, CISA acquired an unproductive loan portfolio and assets received in payment from Bancafé for a gross value of \$ 1.1 billion and \$ 179 billion, respectively.

This operation has allowed Bancafé to transfer the risk of the operation and realization of its non-performing assets and for its administration to focus all efforts on adding value to the banking business, in order to optimize the entity's sale value.

In December Fogafín again capitalized CISA, this time for the value of \$ 253 billion, resources destined to the purchase of loan portfolio and goods received in payment originated by BCH, for a value of \$ 1 billion and \$ 186 million, respectively.

In addition to the stated objectives, these operations carry additional benefits. The transfer of non-performing assets from Bancafé reduced the cost of the entity's reorganization and allows the Colombian State to fully perceive the economic value of the assets, since if they had been kept in the originating entity's equity, the final buyer of the same would have recognized a lower value.

The disposal of BCH's assets, for its part, allowed the entity to meet the liability arising from the mismatch of the asset and liability assignment transaction entered into with Granahorrar, at the same time that it will expedite the dismantling and final settlement of said entity.

Fogafín has permanently monitored CISA in order to guarantee the good performance of the entity.

5.2 Sale of assets of Financiera FES SA

Fogafín's Board of Directors approved the strategy to seek the sale of the loan portfolio and / or the assignment of assets, liabilities and contracts of Financiera FES SA in order to start the dismantling of operations due to the financial non-viability of the company. entity.

In development of the foregoing, the administration of Financiera FES sent an invitation to submit offers to 61 entities in September 2000, for whom a data room was provided with all the information related to the portfolio and liabilities with the public, after signing the respective confidentiality agreements.

Once the offers received on October 31, 2000 had been evaluated, the entity's management accepted the sale and assignment of the portfolio in the amounts described below:

Table No. 5.1
(Millions \$)

December 2000

PORTFOLIO TYPE	BOOKS VALUE PORTFOLIO SOLD	SALE PRICE / BOOKS VALUE	UTILITY
Portfolio A and B Credit card Portfolio A	16,319,891,189	105.01%	681,098,236
and B Consumption	8,419,517,029	101.15%	95,377,823
Portfolio A Commercial	1,950,763,731	100.00%	-
TOTAL	26,690,171,949		776,476,059

The administration of Financiera FES, with the support of Fogafin, took additional steps to carry out direct sales of the portfolio that continued to be held by the entity. Within this process, it received offers that were not accepted due to the price offered and the conditions established by the bidders.

As part of the dismantling strategy and with the purpose of meeting the liabilities with the public and the obligations contracted with the Banco de la República, the Board of Directors of Fogafin authorized on December 13, 2000 the execution of contracts for the purchase of unproductive assets. of Financiera FES with a repurchase obligation by said entity, at its net book value. The operation stipulates a period of 60 days, within which Financiera FES will try to sell the assets that are the object of the operation to third parties in order to buy them back from Fogafin. These operations will have an approximate value of \$ 87 billion.

5.3 Disposal of capital investments of public financial entities in companies of the real sector

The Ministry of Finance and Public Credit asked Fogafin to design the program for the disposal of capital investments from public financial entities in companies in the real sector.

In developing this program, the following steps were taken:

- Meetings with the administrators of all public financial entities that have capital investments in companies in the real sector, in order to obtain the relevant information of each of their shareholdings and to know the opinion of the administration regarding the sale potential of each of them.
- Identification, by the entities, of the characteristics of each of the investments, in order to select those that, due to their current conditions, are more relevant and likely to be disposed of in the short term (Annex 4). Regular meetings with representatives of public financial entities and the Ministry of Finance
- and Public Credit, aimed at coordinating the disposal program and seeking mechanisms to streamline

procedures and minimization of costs associated with the application of legal procedures.

- Follow-up of the contacts made by the public financial entities to carry out the marketing investigations aimed at identifying the interest of the market in the acquisition of the shares.

- Review of the common terms of reference, to be used by public financial entities when so required within the selection and contracting processes of firms specialized in the assessment and sale advisory processes.

The activities detailed here will allow financial entities to carry out the steps to dispose of those capital investments that have the potential for sale, which will be included in the disposal plan for the fiscal year 2001. This program will be presented by the Ministry of Finance and Public Credit to the Congress of the Republic in compliance with the provisions of Article 8 of Law 226 of 1995.

5.4 International mortgage securitization

In order to develop a model to provide liquidity to the mortgage portfolio originated by financial institutions and reduce interest rate risk, a project was started to establish the viability of carrying out a first mortgage securitization issue in international markets, at starting from the mortgage portfolio owned by Fogafin.

In this vein, an invitation was extended to international investment banks with recognized experience to present their proposals for structuring an international securitization.

Based on the proposals received, detailed work was carried out to analyze and define the financial and operational viability of the structures acceptable to international investors, as well as the capacity for future replication by private financial institutions established in Colombia. This work was carried out with the support of the Ministry of Finance and Public Credit.

At the end of 2000, the risks associated with the operation were being evaluated in order to establish the convenience of hiring the services of one of the invited firms and proceed with the operation.

6 PORTFOLIO MANAGEMENT

6.1 Economic Emergency Operations

6.1.1 Relief for home debtors

Decree 2331 of November 16, 1998 or economic emergency, issued by the Ministry of Finance, ordered the adoption of measures to restore economic balance and mitigate the delinquency of the portfolio of debtors of mortgage loans for housing. The regulation sought, in turn, to prevent the deterioration of the past due portfolio indicators of the credit institutions that financed these activities. Fogafin was assigned the task of implementing a debtor relief plan, for which two phases were contemplated: Phase 1 or Economic Emergency Relief and Phase 2 or Additional Relief.

Phase 1 or Economic Emergency Relief

Its objective was to grant loans to individual debtors of mortgage loans with interest rates more favorable than those existing in the market. For day-to-day debtors, the relief consisted of a decrease in the monthly installment, while the delinquent debtors were offered to solve the delinquency of the portfolio and prevent the loss of the home.

During the first phase of relief, credits were granted for the sum of \$ 224 billion, which benefited approximately 65,000 families. The balance pending collection of these credits as of December 31, 2000 amounts to \$ 194 billion, of which 80% is current.

In 2000, Fogafin established an action plan aimed at controlling the process carried out by the credit institutions, who are in charge of managing this portfolio by virtue of the management contract that the Fund signed with each of them, especially those related to with the management of billing, collection, collections, payments in payment and information reported to control entities. To support this plan, visits were structured to each of these entities, of which 40% were made. Due to portfolio indicators, priority was given to public banks.

Phase 2 Reliefs or Additional Reliefs

Decree 688 of April 20, 1999 empowered the Fund to grant a second phase of relief to debtors who were current and in arrears. An automatic interest rate reduction program was developed for debtors who were up to date. Debtors in default received loans with interest rates more favorable than those of the market to catch up and access the benefit of the interest rate reduction.

For current debtors, benefits were granted for automatic interest rate reduction during the year 2000 for a value of \$ 14 billion to complete \$ 139 billion in the term of the program. For debtors in arrears, the amount of the counterpart credit granted to credit institutions was \$ 108 billion and the balance at the 2000 accounting closing amounted to \$ 52 billion. It should be noted that during this period prepayments for \$ 38 billion have been made.

6.1.2 The credit for dations in payment

A second tool designed as support for debtors was the one contained in article 14 of Decree 2331 of 1998, according to which credit institutions had to accept obligatorily the offers presented by debtors so that their property intended for housing was received at title of dation in payment and, in this way, the totality of the sums owed to the financial institution for the mortgage loan will be canceled, as long as the value of the debt exceeds the commercial value of the property.

Once the credit applications submitted by the entities with their proper supports had been verified, loans were granted to four entities (Interbanco, Colpatria, Colmena and Bancafé) for a value of \$ 9 billion, equivalent to 384 grants.

Through External Circular 005 of 2000 issued by the Fund, the deadline for submitting credit applications was extended to June 10, 2001 as it has not been feasible to meet the deed requirements.

6.1.3 Unemployment Insurance

Decree 2331 of 1998 established that Fogafín would take out insurance for debtors of social interest mortgage loans that would protect them from paying one or more installments if they lost their jobs.

Subsequently, in Decree 213 of 1999, the Government formulated the conditions for such contracting, in the sense that Fogafín would sign with an insurance company a collective unemployment policy for debtors of social interest mortgage loans that had been or were granted by credit institutions. The tender was awarded in August 1999 to a temporary union of insurance companies made up of La Previsora, Colseguros and the Central de Seguros.

The temporary union of insurance companies requested the Fund to pay premiums for unemployment insurance during the year 2000 amounting to \$ 11 billion corresponding to the period between October 1999 and December 2000. The first term of the term expired. program and in relation to what is established in the terms of reference of the tender that originated the contracting of the aforementioned insurance, a reduction of the rate for the calculation of the premium and improvement in the conditions was achieved as a condition for the extension for 2001 .

As of December 31, 2000, 1,469 claims had been attended for an amount of \$ 1,873 million.

6.2 The portfolio managed by Granahorrar

The Granahorrar portfolio was acquired by Fogafin in the development of the asset purchase contract with a repurchase agreement signed with Granahorrar, an operation that remained firm in the event of the cessation of payments incurred by said entity.

The value of the portfolio was \$ 500 billion, an amount that corresponded to 134% of the total loan for the purchase of the portfolio with a repurchase agreement granted by the Fund to that entity (\$ 373 billion).

In order to manage said portfolio, on January 8, 1999, a portfolio management contract was signed between Fogafin and Granahorrar.

During the year 2000, the Fund structured a new follow-up plan to what was agreed in the portfolio management contract and to the procedures designed by Granahorrar. This plan included a visit to the entity to control the processes of:

- OR Billing
- OR Collection
- OR Application of payments
- OR Transfer of funds
- OR Interest on arrears
- OR Collection management
- OR Portfolio rating and evaluation
- OR Administrative
- OR Generation of information required by different entities
- OR Database update
- OR Sipla
- OR Control of the administration, disposal, accounting and sale of assets received in dation in payment

From the visit carried out in June 2000, an action plan was agreed to optimize the portfolio management processes, and among the most important advances on the aspects to improve found, the following can be highlighted:

- Structuring of a collection shock plan, with attractive incentives to promote portfolio recovery.
- Restructuring of the collection area.
- Expansion of collection management coverage by hiring external agencies specialized in the subject.
- Execution of the Bank's legal collection policies, regarding the sending for judicial collection of credits with four installments in arrears.
- Appointment of an internal person in charge within the entity to manage the managed portfolio.
- Monitoring the billing process.

- Contracting, through outsourcing, of the custody and conservation of the guarantees.

Additionally, the portfolio management control was continued, through the verification of the information contained in the movement formats designed by Fogafín and presented by Granahorrar.

The Fund developed new periodic reports (monthly and quarterly) to exercise greater control over performance commitments, which include, among others, the following aspects to evaluate:

- Control in the collection process and management
- Control in billing and collection processes
- Control of goods received in dation in payment

Total portfolio collections for the year 2000 amounted to \$ 104 billion, of which \$ 11 billion correspond to cancellations for goods received in payment, the remaining \$ 93 billion are listed in table 6.1. These collections are composed as follows:

OR Capital worth \$ 16 billion

OR Capital for reliquidation Law 546 of 1999 for a value of \$ 80 billion

OR Interest worth \$ 8.6 billion.

Taking into account the amortizations made and the variation of the UVR, the balance of the portfolio was \$ 434 billion at the end of the year 2000.

Table No. 6.1
(Figures in billions)
Results of the portfolio managed by Granahorrar
in 2000

MONTH	Monthly portfolio balance year 2000	Total portfolio collection 2000
Jan-00	527,275	7,240
Feb-00	528,984	7,031
Mar-00	478,971	7,596
Apr-00	473,961	6,651
May-00	476,321	9,920
Jun-00	470,370	9,530
Jul-00	463,952	9,226
Aug-00	452,845	9,190
Sep-00	447,178	8,411
Oct-00	444,111	5,599
Nov-00	439,293	7,290
Dec-00	434,951	5,527
Total 2000		93,210

Additionally, due to the particular problem that the amortization system called "O" presented as a result of the changes introduced by Law 546 of 1999 in the amortization systems, it was necessary to give instructions in terms of reducing interest rates and expanding of terms that allow the obligations to be amortized taking into account the debt / guarantee ratio and the cost that the aforementioned modification represented for Fogafin. The approximate cost was \$ 8.6 billion.

6.3 Assets received in dation in payment of the portfolio managed by Granahorrar

During the year 2000, from the portfolio of the Fund managed by Granahorrar, 255 properties were received in dation in payment for a value of \$ 11 billion. With the processes underway, it is estimated that for 2001 the total of properties will amount to 426.

Due to the fact that the Fund does not have the administrative and operational capacity with national coverage to manage the aforementioned assets, the Fogafin Board of Directors approved an agreement for the management and marketing of such assets with Central de Inversiones SA

7 DEPOSIT INSURANCE AND GUARANTEE COST

7.1 Entities registered for deposit insurance and guarantee cost

At the end of December 31, 1999, there were 120 entities registered in the Fund, paying a premium for deposit insurance or guarantee costs. During 2000, there were mergers and interventions that reduced the number to 108.

TO

The respective changes as of December 31, 2000 are detailed below:

Table No. 7.1
NUMBER OF ENTITIES REGISTERED

ENTITY TYPE	Do not ENTITIES	REDUCTION BY		INCREASE FOR INSCRIPTION	Do not ENTITIES
	ENROLLED As of DEC 31, 1999	MERGER AND / OR TRANSFOR MATION	LIQUIDATION	ME TRANSFOR MATION	ENROLLED AL 31 DEC / 00
BANKS	28	0	0	two	30
CORPORATIONS FINANCIAL	eleven	0	two	0	9
COMPANIES OF FINANCING	37	4	two	1	32
CORPORATIONS SAVING	5	3	0	0	two
CAPITALIZERS	6	0	1	0	5
FUNDS PENSIONS	8	two	0	0	6
FUNDS BASKETS	8	two	0	0	6
INSURERS OF LIFE	17	0	0	1	18
TOTAL ENTITIES	120	eleven	5	4	108

As of December 31, 2000, of the 108 registered entities, 78 contribute to the deposit insurance and 30 of them contribute for the cost of the guarantee, as indicated below:

Table No. 7.2
ENROLLED BY DEPOSIT INSURANCE

ENTITY TYPE	No OF ENTITIES
Banks	30
Financial corporations	9
Savings and Housing Corporations	two
Trade finance companies	32
Capitalization companies	5
TOTAL ENTITIES REGISTERED	78

REGISTERED BY COST OF GUARANTEE

ENTITY TYPE	Do not give ENTITIES
Pension funds	6
Severance funds	6
Life insurance companies	18
TOTAL ENTITIES REGISTERED	30

7.2 Collections

During the year 2000, a total of \$ 145 billion was collected from deposit insurance premiums, presenting an increase of only 3.7% compared to the previous year, mainly explained by the low growth of deposits, 3%. (Table 7.3)

Regarding the cost of the guarantee, there was a collection of \$ 12 billion with an increase of 28.2% compared to 1999, explained by the good dynamics presented by the investments of the pension funds.

Table No. 7.3.

Deposit Insurance Premium Collections 1993-2000

YEARS	TOTAL COLLECTION (millions of pesos)	VARIATION
1993	14,937	
1994	21,897	31.78%
nineteen ninety five	31,197	42.47%
nineteen ninety six	38,199	22.44%
1997	45,714	19.67%
1998	75,205	64.51%
1999	140,504	86.82%
2000	145,702	3.70%

Warranty cost collection 1995-2000

YEARS	TOTAL COLLECTION (millions of pesos)	VARIATION
nineteen ninety five	1,760	
nineteen ninety six	3,326	88.97%
1997	4,725	42.06%
1998	7,035	48.88%
1999	9,749	38.57%
2000	12,497	28.19%

7.3 Refund of deposit insurance premiums

With the issuance of Resolution No. 001 of August 6, 1998, the system for refunding premiums for deposit insurance to registered entities was regulated. The first refund was applied to the premiums paid during the period between October 1, 1998 and December 31, 1999. For the

Indeed, the Fund issued Circular Letter No. 0401 of January 21, 2000, which establishes the operating procedure to access the refund, in accordance with the provisions of the aforementioned resolution.

Below are the amounts returned by type of entity in February 2000, which represented \$ 68 billion, that is, 38% of the total premium collected:

Table No. 7.4

ENTITY TYPE	No. OF VR ENTITIES.	RETURN (Millions of pesos)
Banks	22	50,674
Financial corporations	6	4,701
Savings and Housing Corporations	4	10,883
Companies of financing commercial	22	2,186
TOTAL	54	68,444

7.4 Modification of the Deposit Insurance scheme

With Resolution No. 5 of November 27, 2000 issued by the Board of Directors of the Guarantee Fund, regulations were issued on deposit insurance, which include three relevant aspects:

7.4.1 Modification of the deposit insurance premium settlement fee

The deposit insurance rate was increased taking as a fundamental criterion that Fogafin needs 6 years to have liquid reserves for 5% of the deposits and under the consideration that it was necessary to strengthen finances to attend to the vulnerable cases that still remain within of the financial sector.

In accordance with the decisions adopted, the financial entities registered for deposit insurance will settle the respective premium under the following rates:

Application period	Rate
As of January 1, 2001 (0.6%) annually	As of January 1,
2002 (0.5%) annually	As of January 1, 2007 (0.3%)
annually	

The premium corresponding to 2001 is higher than the one set as of 2002, in order to offset the impact that the return of premiums produces this year on Fogafin's finances.

7.4.2 Expansion of deposit insurance coverage

The coverage on deposits and fund-raising covered by the deposit insurance was expanded, by establishing that the maximum insured value went from \$ 10 million to \$ 20 because the real value of the coverage had deteriorated since since 1988 it was not subject to modification . With this modification, practically \$ 4 billion of deposits are incorporated to have coverage for the entire deposit made. ¹⁶

7.4.3 Modification of the annual premium refund system

Given that the technical analyzes determined that the repayment system based on the indebtedness ratings had great difficulties, the premium repayment system was modified, which will function as of 2002, under the criteria established in the third article of Resolution No. 5 of 2000.

The return of premiums will be based on the rating made by the Fund of each of the financial entities, for which purpose it will use the leading performance evaluation indicators established by the Banking Superintendency based on the internationally known CAMEL system.

7.5 Payment of deposit insurance and subrogated credits

In 2000, the deposit insurance payment was advanced to the creditors of the entities in liquidation, Leasing Selfin, Banco Selfin and Corporación Financiera de Occidente, in proportions of 99.7%, 98.1% and 99.1%, respectively, on the authorized value to this end. Likewise, during the same year the payment process to the creditors of eight entities in liquidation intervened during 1999 and whose payment process began in that year was continued.

Table No. 7.5.

<i>Deposit insurance payment</i>			
ENTITY ON SALE	VR. PAID 2000	CUMULATIVE TOTAL	
		VR. PAID	VR. ACCUMULATED
	(millions of \$)	(millions of \$)	%
Capitalizing			
Grancolombiana	313	7,387	93.21
Heritage Leasing	5	1,473	95.90
Andean Bank	1,500	13,033	96.11
Pacific Bank	759	10,644	95.81
Selfin Bank	4,832	4,832	98.15
Corfipacifico	506	9,437	98.64
CFC Bermudez & Valenzuela	5,039	17,537	99.51
CFC Findesarrollo	1,226	3,066	99.74
CFC Pacific	1,070	2,337	100.00
CF West	216	216	99.08
Li and s to AND s x in is g tea S or and n If d in Educible 25%.	3,498	3,498	99.69
TOTAL	18,964	73,460	97.45

It is noteworthy that with the payments made by deposit insurance to the creditors of the 11 intervened entities mentioned, a coverage of 97.5% of the total payments authorized for this concept was achieved. It should be noted that some creditors do not come to collect for different reasons, especially because the sums that correspond to them are sometimes very small.

Table No. 7.6.

<i>Payment of subrogated credits</i>			
ENTITY ON SALE	VR. PAID 2000 (millions of \$)	CUMULATIVE TOTAL	
		VR. PAID (millions of \$)	VR. ACCUMULATED %
Capitalizing			
Grancolombiana	2,909	2,909	62.82
Strength	2,932	10,186	67.99
Arfin Financial	0	5,725	100.00
Financauca	750	4,423	96.50
TOTAL	6,591	23,243	77.86

Likewise, during the year 2000, the process of canceling the balance of subrogated credits continued, as the pertinent resources were received from the liquidations. However, as in the payment of deposit insurance, those who did not come to claim the payment were mostly creditors with reduced authorized sums, who choose to accumulate the partial payments of subrogated credits, to make the collection when the value is more significant. (Table 7.6)

8 SETTLEMENTS

During 2000, Fogafín complied with the monitoring of 43 entities intervened by the Banking Superintendency, for which it developed management commitments that evaluate the agility in the recovery of portfolio, sale of assets, reduction of costs and payment of debts. The total number of intervened persons is summarized in tables 8.1 and 8.2.

The decrease in assets was due, in addition to the adjustments originated by the accounting purification, to the collection and provision of portfolio, to the appraisals made on the goods, to the acceptance and sale of goods received in payment and the realization of the own assets.

On the other hand, the variation in liabilities is mainly due to the payment of receivables and the adjustments for their recognition.

During 2001, the Fund will monitor 36 entities, which together reflect a total of assets for a value of \$ 1.4 billion and liabilities for \$ 2.6 billion. These liquidation processes have 158 offices and are attended by 1,469 employees.

8.1 The results in the year 2000

During this year, positive results were obtained, among which it is worth mentioning:

- Of a total portfolio of \$ 2.1 billion, \$ 388 billion were collected, equivalent to 18% of it, 132% more than what was collected in 1999.
(See table No 8.3).
- The payment of receivables amounted to \$ 364 billion, with which 30% of the total liabilities of the entities in liquidation were met as of December 31, 1999. (See table 8.4.)
- Administrative expenses originated and paid during the year 2000, which amounted to \$ 66 billion, decreased by 43% compared to those registered during 1999. (See table No 8.5).
- Assets were sold for \$ 21 billion, equivalent to 9% of the balance of the assets available for sale as of December 31, 1999, including the assets of the entities intervened during the year 2000. (See table 8.6).
- Of 991 offices, 833 were closed, equivalent to 84%. (See table 8.7).
- 464 of the 1,933 existing officials were separated, which is equivalent to 24%. See table No 8.8.
- Of 12 entities in forced administrative liquidation, which as of December 31, 2000 would have had more than ten years of having started the liquidation process,

The legal existence of 6 of them ended and the final accounting closing of one, which is equivalent to 58%. See table No 8.9.

8.2 Monitoring mechanisms

In order to examine the efficiency and effectiveness of the liquidator's activity, Fogafin carried out the follow-up through the following mechanisms:

- Subscription of performance commitments by the liquidators, through which the agility in the recovery of the portfolio, sale of assets, cost reduction and payment of debts was evaluated.
- Documentary monitoring, through which a permanent examination of the information provided on the progress of each liquidation process was carried out, related to the administrative, legal, financial situation, internal control, operating systems and processes and the general work plan of the liquidator and the controller.
- Field monitoring: Special or general visits were made in order to evaluate the progress of the commitments acquired by the liquidators in the work plan, as well as the development of the liquidation process in accordance with the law.
- Work Meetings: Regular meetings were held with the liquidators and controllers in order to evaluate the liquidator's performance.

8.3 Support and monitoring tools for liquidators and controllers

In order to help improve the management of settlements, during the year 2000 the following documents were prepared:

- Liquidator and controller fees and management premiums for entities in liquidation, approved by the Board of Directors on April 10, 2000.
- External Circular No. 004 of 2000 "General preliminary concept for selection of appraisal firms".
- Supervision of the entities taking possession and entities in liquidation, aimed at strengthening the function of fiscal auditor or comptroller in the intervened entities.

Frame No 8.1

(Millions \$)

ENTITIES INTERVENED IN 2000.			DATE INTERVENTION	No. CREDITORS	TOTAL ASSETS DEC / 00		TOTAL LIABILITIES DEC / 00	
1	Corporations Financial	Financiera Corporación of the Occidente SA	15 February	415	32,562		73,674	
two		Finance Corporation of Transporte SA (*)	October 12	(**)	54,586		30,966	
3	Companies Insurance	Seguros Atlas SA	February 28	679	16,679		24,084	
4		Seguros de Vida Atlas SA	February 28	9,079	25,034		40,035	
5	Capitalizing	Capitalizadora Aurora SA (*)	September 6	662	11,619		17,279	
ENTITIES INTERVENED IN 1999					TOTAL ASSETS DEC / 00 DEC / 99		TOTAL LIABILITIES DEC / 00 DEC / 99	
1	Fiduciaries	Cáceres and Ferro	May 13	970	1,082	2,680	1,207	1,133
two		Banco Andino Colombia SA	May 20	6,125	109,435	246,256	232,838	347,051
3	Banks	Banco del Pacífico SA Banco	May 20	4,007	81,652	172,048	177,030	240,060
4		Selfin	July 16	1,972	19,179	34,145	39,493	56,082
5	Corporations Financial	Financiera del Pacífico SA	May 25	2,243	22,773	46,233	106,227	130,125
6	Cooperatives	Coofindes SA	June 23	20,458	3,425	8,288	5,017	8,543
7		Arkas Ltda.	July 1	20,404	4,127	9,718	19,624	20,140
8		CFC Pacific	June 30	604	8,122	22,261	34,716	39,536
9	Companies Financing	Bermúdez and Valenzuela	June 30	356	18,467	48,025	27,991	56,396
10		Financiera de Desarrollo SA Findesarrollo	July 22	twenty	6,888	18,445	7,754	16,056
eleven	Companies Specialized in Leasing	Leasing Selfin	July 21	702	16,379	28,268	18,364	30,395
12	Anonymous society mixed economy of the national order	Agrarian Credit Fund	November 19	34,859	859,968	(***)	1,503,675	(**)
ENTITIES INTERVENED IN 1998					TOTAL ASSETS DEC / 00 DEC / 99		TOTAL LIABILITIES DEC / 00 DEC / 99	
1	Companies insurance	Insurance carrier Grancolombiana SA	February 27	6,221	15,197	23,855	31,887	37,737
two		Insurance carrier Grancolombiana de Vida SA	February 27	6,981	6,136	15,039	13,138	20,654
3	Capitalizing	Capitalizadora Grancolombiana SA	February 27	23,304	15,738	26,633	23,948	33,863
4	Cooperatives	Financial Cooperative Andean COFIANDINA	July 15	428	9,473	18,346	11,188	22,708
5		Cooperative Financial Box - CREDISOCIAL	July 29	5,250	18,846	34,351	54,455	68,563
6		National Cooperative Financial - FINANCOOP	Sept. eleven	3,343	2,041	2,900	9,067	9,600
7		Financial Cooperative Coopiantioquia	October 6	4,501	5,049	7,364	8,642	10,712
8		Cooperativa Especializada de Savings and Credit - COEMSAVAL	October 6	4,428	16,693	24,498	42,249	50,820
9		Financial Cooperative Solidarity	October 6	235	12,656	31,328	16,000	41,509
10		Financial Cooperative Cooperferias	October 6	1,537	2,425	3,141	5,392	6,095
eleven		Financial entity Cooperativa Construyecoop	December 11	12,193	20,433	35,912	42,615	61,948
12	Companies Leasing	Leasing Patrimonio SA	December 7	39	7,699	15,515	20,646	23,759

(*) It has financial statements as of the date of intervention.

(**) It is in the process of recognition and qualification of credits.

(***) The entity does not have final financial statements, since it is in the process of finalizing the assignment of assets and liabilities with Banco Agrario, as well as, the opinion of the comptroller at June 25, 1999 is pending adjustments. It should be noted that the financial statements for the year 2000 are provisional.

Table No 8.2

Do not	ENTITIES INTERVENED BEFORE 1998	
1	BANKS	Banco Nacional SA
two	INSURANCE COMPANIES	Insurance Colombia SA
3		Universal Insurance SA
4	COMPANIES OF FINANCING COMERCIAL Financiera Industrial SA	La Fortaleza SA
5		Unión Financiera SA
6		Financiera Colombia SA
7		Financiera Industrial SA
8		Promoting SA
9		Financiera Arfin SA
10	TRUSTEES	Scala Sociedad Fiduciaria SA
eleven	CORPORATIONS FINANCIAL	Corfiantioquia SA
12		Cofinatura SA
13		Corporación Financiera de la Sabana SA
14	LEASING COMPANIES	Leasing Financiera Cauca SA

Table No 8.3
PORTFOLIO COLLECTION

(Figures in millions of \$)

ENTITIES	TOTAL PORTFOLIO A DECEMBER 31, 1999	COLLECTION YEAR 2000	%
Intervened before 1998 Intervened	26,340	2,436	9%
in 1998	146,802	53,744	37%
Intervened in 1999	1,925,111	322,749	17%
Intervened in 2000 (*)	56,633	9,096	16%
TOTAL	2,154,886	388,025	18%

(*) For those intervened during 2000, the period is established from the date of intervention until December 31, 2000.

Table No 8.4
PAYMENT OF CREDITS

(Figures in millions of \$)

ENTITIES	TOTAL LIABILITIES DEC / 99 (*)	PAYMENTS MADE YEAR 2000						TOTAL PAID	
		FOSADEC		SURE OF DEPOSITS		ENTITY		VALUE	%
		VALUE	%	VALUE	%	VALUE	%		
Intervened before 1998 Intervened	47,893	-	0%	-	0%	10,873	2.3%	10,873	2.3%
in 1998	328,081	46,613	14%	318	0%	70,139	twenty-one%	117,070	36%
Intervened in 1999	792,880	-	0%	18,430	two%	212,820	27%	231,250	29%
Intervened in 2000 (**)	38,259	-	0%	216	1%	4,596	12%	4,812	13%
TOTAL	1,207,113	46,613	4%	18,964	two%	298,428	24%	364,005	30%

(*) Includes non-mass liability, mass, unclaimed true liability and monetary impairment.

(**) Entities intervened in 2000: Date of intervention

Table No 8.5
REDUCTION OF ADMINISTRATIVE EXPENSES

(Figures in millions of \$)

ENTITIES	TOTAL SPENDS TO DEC / 99 (*)	TOTAL EXPENSES TO DEC / 00	REDUCTION	%
Intervened before 1998 Intervened	4,736	2,987	1,749	37%
in 1998	28,869	13,978	14,891	52%
Intervened in 1999	83,205	46,009	40,196	48%
Intervened in 2000	NA	3,061		NA

(*) For those intervened during 2000 (date of intervention)

NA: Does not apply

Table No 8.6
SALE OF ASSETS

(Figures in millions of \$)

ENTITIES	TOTAL PROPERTIES, PLANTS AND EQUIPMENT	SALES YEAR 2000	%
Intervened before 1998 Intervened	7,159	2,837	40%
in 1998	54,800	10,121	18%
Intervened in 1999 (*) Intervened	161,547	8,211	5%
in 2000 (**)	17,164	544	3%
TOTAL	240,670	21,713	9%

(*) Does not include information from the Caja de Crédito Agrario, Industrial y Minero by how much there is no appraisal of the assets owned by the intervened.

(**) For those intervened during 2000, the period is established from the date of intervention until December 31, 2000.

Table No 8.7
OFFICE CLOSURE

ENTITIES	TOTAL OFFICES TO DEC / 99 (*)	CLOSED OFFICES YEAR 2000	% VARIATION
Intervened before 1998 Intervened	4	two	fifty%
in 1998	87	38	44%
Intervened in 1999	885	782	88%
Intervened in 2000 (*)	fifteen	eleven	73%
TOTAL	991	833	84%

(*) For those intervened during 2000 (date of intervention)

Table No 8.8
REDUCTION OF THE NUMBER OF EMPLOYEES

ENTITIES	TOTAL EMPLOYEES RETIRED STAFF TO DEC / 99 (*)	YEAR 2000	% VARIATION
Intervened before 1998 Intervened	83	27	33%
in 1998	668	281	42%
Intervened in 1999 (**)	923	- 35	- 4%
Intervened in 2000 (*)	259	191	74%
TOTAL	1,933	464	24%

(*) For those intervened during 2000 (date of intervention).

(**) The increase in the number of employees is due to the increase in the personnel plant of the Agrarian, Industrial and Mining Credit Fund in 323 officials.

Table No 8.9
TERMINATION OF LEGAL EXISTENCE AND ACCOUNTING CLOSURE

Do not.	Entities	Date Resolution
1	Insurance Colombia SA	August 31, 2000
two	Financiera Industrial SA	January 12, 2000
3	Unión Financiera SA	January 31, 2000 June
4	Financiera Colombia SA	9, 2000
5	Corporación Financiera Antioqueña SA	February 2, 2000
6	Corporación Financiera de la Sabana SA	September 8, 2000 Banco Nacional SA
7		Accounting Close Dec / 00

9 FINANCIAL RESULTS

9.1 The financial structure

The situation and composition of the resources available to Fogafin as of December 31, 2000 is shown in the following table:

Table No. 9.1

Fund Balance 2000

BALANCE SHEET AS OF DECEMBER 31, 2000			
(in billions)			
ASSETS		LIABILITIES AND EQUITY	
Support operations	3,026	Issued titles	5,414
Investments and repos	1,184	CAF credit	219
Accounts receivable (Nation) Portfolio	2,994	Other passives	232
Granahorrar	413		
Others	42	PASSIVES	5,864
		HERITAGE	1,795
TOTAL ASSETS	7,659	LIABILITIES AND EQUITY	7,659

9.2 The asset

The Fund's assets totaled \$ 7.6 trillion during 2000, a figure higher than the total assets of 1999 by \$ 2.4 trillion, which means a percentage increase of the 46.2%.

The asset structure during 2000 was substantially modified by the volume of support provided, both to private bank shareholders and to public banks. The balance for support operations was \$ 3 trillion, an amount higher by \$ 0.7 trillion than the one registered at the end of 1999.

Similarly, the account receivable from the Nation rose considerably, derived from the loss due to valuation of public entities capitalized with resources from the issuance of bonds, whose source of payment was contemplated in the commitments of future validity of the General Budget of the Nation and its corresponding financial cost, going from \$ 1.2 billion in 1999 to \$ 3 billion in the

2000.

9.3 The liability

Liabilities during 2000 increased 53.1%, going from \$ 3.8 trillion in 1999 to \$ 5.8 trillion, as a consequence of the issuance of Fogafin securities to finance support operations. Indeed, at the end of 2000, issues represented 92% of total liabilities.

9.4 Heritage

At the end of 2000, the Fund's equity registered a balance of \$ 1.8 trillion, which compared to the equity of December 31, 1999, of \$ 1.4 trillion, reflected an increase of 27.6%. This increase was the result of profits of \$ 272 billion that left the year and the revaluation of equity of \$ 120 billion. The following table details the results of the exercise:

Table No. 9.2

Income Statement of the Fund

INCOME STATEMENT 2000 -1 999		
(in billions)		
	2,000	1,999
Operational Income	1,296	938
Operational Expenses	(753)	(367)
Operational utility	543	571
Provisions, depreciation and amortization	(147)	(135)
Operating Income, Net	396	436
Non-Operational Result	(5)	1
Inflation Adjustments	(119)	(109)
Result of the exercise	272	328

Operating income in 2000 amounted to \$ 1.3 billion, a figure 38% higher than that registered in 1999. The increase was the result of transfers made by the Nation, which amounted to \$ 700 billion from 2000.¹⁷ while in 1999 they were \$ 131 billion.

Operating expenses increased by \$ 386 billion, from \$ 367 billion in 1999 to \$ 753 billion in 2000. This was due to the cost of financing

¹⁷ 216 billion effectively transferred by the Nation with resources from the CAF loan and \$ 484 billion correspond to the loss due to the valuation of public entities capitalized with resources from the bond issuance, whose source of payment was contemplated in the future validities of the General Budget of the Nation and its corresponding financial cost

of support operations, through the issuance of securities and foreign credit interests.

For its part, net operating profit in 2000 amounted to \$ 396 billion, an amount \$ 40 billion lower than in 1999. This was the result of the need to assume a higher financial cost to leverage support operations.

Inflation adjustments applied in accordance with current regulations presented a negative effect on the financial statements for a value of \$ 119 billion.

The profit obtained of \$ 272 billion belongs to the respective funds and, therefore, the equity reserve of each of them is increased as follows:

Table No. 9.3

Earnings per Fund 2000

Increase in reserves by fund (in billions)	
Reservation Administrator	9
Reserve Deposit Insurance Reserve	250
Pension Fund Reserve Cessation	7
Fund Reserve Public Banking Fund	8
	(two)
Fogafin Utility	272

On the other hand, the situation and composition of the resources available to the autonomous Economic Emergency patrimony administered by Fogafin by legal mandate, as of December 31, 2000 is shown in the following table:

Table No. 9.4

Balance of the 2000 Economic Emergency Fund

BALANCE SHEET AS OF DECEMBER 31, 2000 (in billions)			
ASSETS		LIABILITIES AND EQUITY	
Relief portfolio and support operations Investments and	446	Issued titles	397
repos	534	Other passives	8
Others	8		
		PASSIVES	405
		HERITAGE	583
TOTAL ASSETS	988	LIABILITIES AND EQUITY	988

Among the assets, the value of the loans granted to finance the portfolio of reliefs to the debtors of mortgage credit and the support operations carried out with the cooperative sector stands out. Additionally, it is convenient to highlight the large volume of investments that it presents as a consequence of the fund that had to be constituted at the end of 1999 to protect the debt service of the Bonds issued to protect the operations of support to the mortgage debtors and the resources of the public banking and cooperative sector funds. With respect to 1999, the Fund's assets decreased from \$ 1,066 billion to \$ 988 billion as a consequence of the reduction in the balances of the mortgage portfolio.

The results obtained in 2000, in the autonomous patrimony are presented in Table No. 9.5:

Table No. 9.5

Economic Emergency Results Statement

INCOME STATEMENT 2000	
(in billions)	
	<u>2,000</u>
Operational Income	152
Operational Expenses	<u>(64)</u>
Operational utility	88
Provisions, depreciation and amortization	<u>(147)</u>
Operating Income, Net	<u>(59)</u>
Inflation Adjustments	<u>0</u>
Result of the exercise	<u><u>(59)</u></u>

This fund presented a loss of \$ 59 billion mainly as a result of the provision for \$ 141 billion that had to be made as a result of the liquidation process of the BCH and the evaluation of the non-recoverability of the capital advances made to that entity in the year 2000. It should be noted that by virtue of the subsidies that must be granted, the logic is that the Emergency Fund generates losses.

In 1999, a profit of \$ 439 billion was obtained mainly as a consequence of the transfer of \$ 929 billion made by the Ministry of Finance for the financial transaction tax (2 per thousand).

9.5 Evolution of the investment portfolio

The portfolios managed by the Guarantee Fund of financial institutions are made up of fixed rate TES with maturity not exceeding one year in accordance with the policy set by the entity's management.

Therefore, the behavior of the primary and secondary market for this type of securities is highlighted, which influences the profitability of the portfolio.

9.5.1 Primary Market

In accordance with the goals proposed by CONFIS and what was observed during the year 2000, the behavior of the deposits made by the Nation can be summarized as follows:

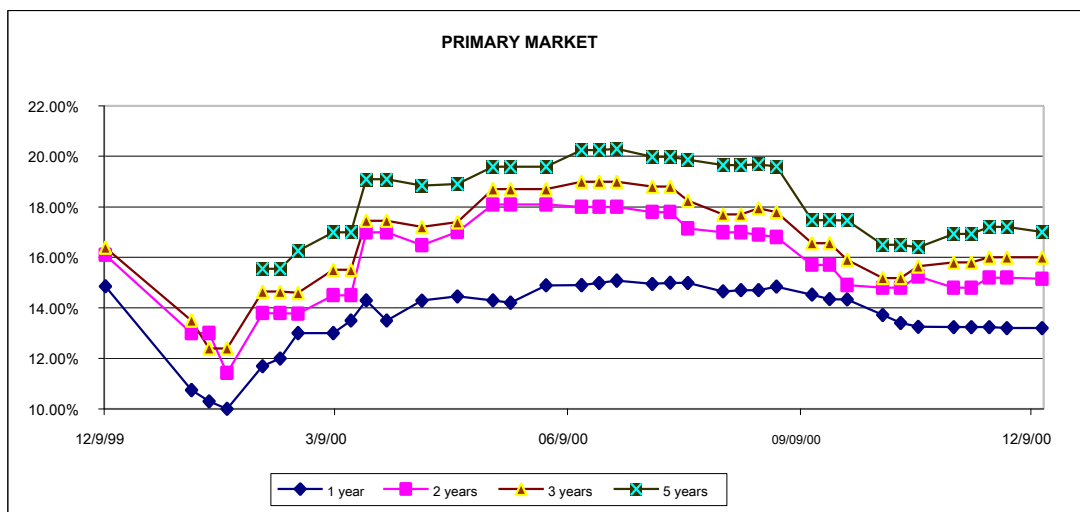
	GOAL CONFIS	OBSERVED
AUCTIONS	3.90	4.73
AGREED	6.50	5.58
FORCED	1.03	1.06
Other		0.01
	11.43	11.39

Figures in billions of pesos

With the above, it is concluded that the Ministry of Finance has achieved the fundraising goal.

During the year 2000, the rate of the TES with a maturity of one year offered through the auction mechanism, went from 10.75% EA in the first auction of the year, to 15.08% on June 28 to later gradually decrease to close the year at levels of 13.20%, as observed in Graph No. 1.

Graph N° 9.1

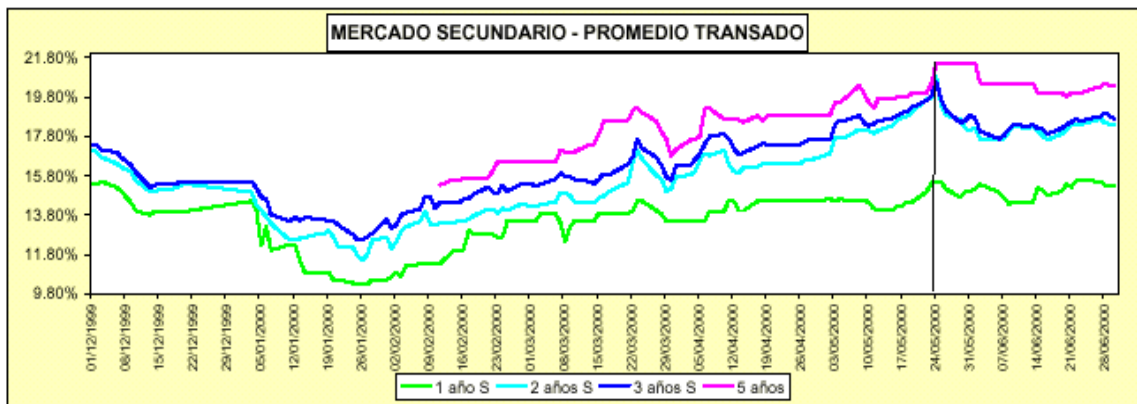


Fogafin made a significant amount of investment through the agreed investment modality, which was made based on the rates determined by the CETES curve, which generally remained above the trading rate in the secondary market.

9.5.2 Secondary Market.

The secondary market for TES was characterized by an increase in rates in the first part of the year, a behavior that follows that observed in the primary market in such a way that at times the trading rates of short-term TES were above of the rates of the securities of issuers rated as AAA. This situation was generated by the wide supply in the market from the official sector and the increase in the amounts delivered through auctions in the primary market, as well as the pressure generated by the gradual increase in the rates of the Banco de la Republic.

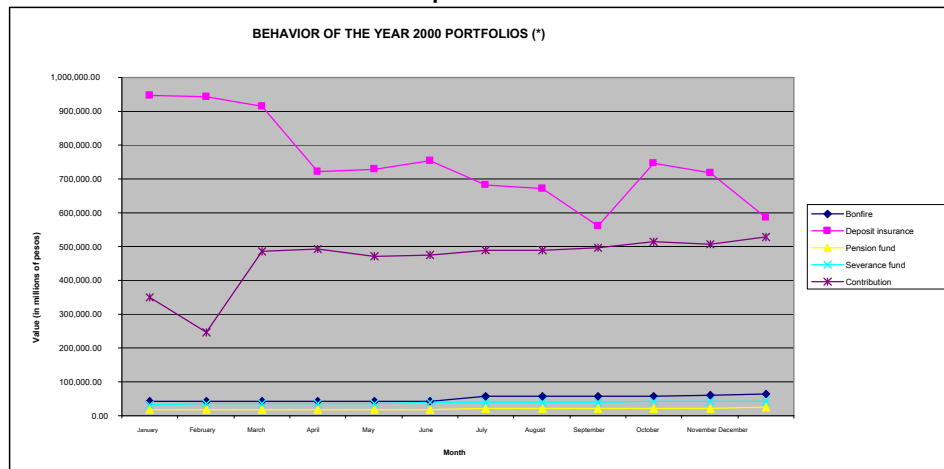
Graph N° 9.2



9.5.3 Return on the Investment Portfolio.

The following graph shows the behavior of the portfolios managed by Fogafin during the year 2000.

Graph N° 9.3



(*) It does not include ARP and FOREC portfolios due to its size, the contribution portfolio is consolidated

The increase in the rate in the primary and secondary market translated into a drastic drop in profitability for the second month of the year. It should be noted that the fall indicated in the emergency portfolio is not observed given the transfer of \$ 259 billion made by the General Treasury of the Republic.

The following table shows the effective monthly profitability obtained for each of the portfolios managed by Fogafin¹⁸ during the year 2000:

	Sure Deposit	Contribution	Pensions	Severance	Bonfire	ARP	Public banking	Reliefs	Solidarity	FOREC
January	70.56%	60.45%	61.40%	66.60%	55.41%					
February	0.23%	0.61%	- 0.58%	4.04%	2.53%	-5.45%				
March	18.75%	16.01%	18.30%	15.99%	17.34%	20.32%				
April	15.67%	14.84%	15.35%	14.41%	14.67%	16.07%				
May	25.28%	18.01%	22.95%	20.02%	22.13%	27.35%				
June	18.23%	24.91%	19.74%	22.46%	17.28%	17.49%				
July	24.07%		25.17%	29.08%	21.95%	22.31%	29.42%	29.38%	29.25%	
August	10.94%		12.19%	13.37%	11.46%	13.00%	14.31%	14.22%	14.14%	
September	15.91%		17.38%	18.92%	17.75%	17.58%	20.86%	20.76%	20.53%	
October	13.73%		13.31%	15.69%	13.14%	16.79%	18.20%	17.70%	17.47%	25.98%
November	16.71%		15.22%	14.44%	15.47%	15.29%	14.28%	14.47%	14.43%	9.81%
December	21.47%		19.10%	18.50%	19.87%	18.46%	18.22%	18.46%	18.29%	15.49%

The activities that affected the position of the main portfolios managed by Fogafin, the deposit and contribution insurance portfolio, are summarized below:

- Deposit insurance portfolio:

The deposit insurance portfolio began in 2000 with \$ 791 billion and ended with \$ 585 billion despite collections from deposit insurance premiums and the transfer of resources by the Ministry of Finance from the CAF for the equivalent to US \$ 100 million (\$ 215 billion). In this way, it is evident that Fogafin had to liquidate part of its investment portfolio due to the disbursements that it made during the year 2000.

The disbursements made are summarized as follows: during the first quarter of the year, the deposit insurance premiums were returned for \$ 68 billion, portfolio purchases were made with a resale agreement with Bancafé for a total of \$ 200 billion, with Granahorrar for \$ 50 billion and with the FES for \$ 58 billion. Additionally, disbursements were made through portfolio purchases with a repurchase agreement and mutual from INTERBANCO for a value of \$ 189 billion. The Class B Fogafin Bonds corresponding to series 1, for a value of \$ 113 billion and commercial papers for \$ 44 billion, matured. Lastly, it is worth highlighting the repurchase of the Fogafin Bonds capitalization line carried out in October for a value of \$ 87 billion.

¹⁸ It should be noted that the portfolio identified in graph 3 as contribution corresponds to the sum of the public banking, relief and solidarity portfolios which were created only as of July as separate funds within the Economic Emergency Fund.

- Contribution portfolio:

The contribution portfolios began in 2000 with \$ 330 billion and ended with \$ 530 billion as a result of the transfer of the tax on financial transactions carried out by the General Treasury of the Republic in February for a value of \$ 259 billion. However, after the transfer and during the year 2000, part of the contribution portfolio was liquidated in order to pay the yields corresponding to the bonds issued for relief to mortgage debtors and to provide support to public banking entities. It is worth mentioning that as of June they were separated into independent portfolios,

9.6 Bond Issues

During the year 2000, issues were made for the capitalization of entities in the public and private financial sector, as well as for reliefs for entities with mortgage loans. Table 9.4 shows the amounts placed and to be placed at the cut-off of the year 2000 for each type of title.

Table No. 9.7

SECURITIES ISSUED BY FOGAFIN-DICIE MBRE 31 OF 2000				
NAME	BALANCE IN CIRCULATION PLACE	FOR AUTHORIZED	TOTAL	OBJECT OF THE ISSUE
1.General Financing Bonds:				
a) First Tranche: BONDS FOGAFIN CLASS A		500,000	500,000	Obtain the resources that FOGAFIN may require for the fulfillment of its corporate purpose.
b) Second Tranche: FOGAFIN CLASS B BONDS	435,000		500,000	
Subtotal	435,000	500,000	1,000,000	
2.Line Bonuses Private Sector Capitalization: FOGAFIN BONDS- Capitalization Line / 1	459,020	1,454,664	2,000,000	Obtain the resources required by FOGAFIN for the financing of the capitalization credit line, with which it is sought to strengthen the assets of the credit institutions.
3 Relief Bonuses II Stage				
a) Debtor Bonds Mortgages in arrears (6 months): FOGAFIN BONDS Debtor Line Mortgages in arrears	101,939	41,776	150,000	Obtain the resources required by FOGAFIN to finance the credit line through which financial entities granted credit to mortgage debtors who were in default.
b) Interest Rate Relief Bonds (3 points): FOGAFIN BONDS Line for debtors Mortgage-Reduction Rates	63,782	56,218	120,000	Obtain the resources required by FOGAFIN to finance the credit line for the extension of the automatic interest rate reduction, with which it was sought to continue favoring the debtors of the Upac system.
Subtotal	165,721	97,994	270,000	
4.a) FOGAFIN Mortgage Relief Bonds - ECONOMIC EMERGENCY				
A SERIES	209,693	56,668	280,000	Obtain the resources required to finance the credit line through which the financial entities granted credit to the mortgage debtors who were beneficiaries of the relief program established in Decree 2331 of 1998
SERIES B	3,060			
C SERIES	10,579			
b) Loss Relief Bonds BRDP: LOSS RELIEF BONUSES BRDP FOGAFIN	8,732	211,268	220,000	To finance the losses of the credit establishments caused by the goods received in payment, as established in Decree 2331 of 1998 and Res. 003 of 1998 and 005 of 1999 of the Board of Directors of FOGAFIN
Subtotal	232,064	267,936	500,000	
5.Line Bonuses Public Sector Capitalization: CAPITALIZATION BONDS PUBLIC BANKING FOGAFIN / 2	4,033,538	873,120	4,950,000	Obtain the resources required by the Financial Institutions Guarantee Fund to finance the capitalization of public financial entities
TOTAL	5,325,343	3,193,714	8,720,000	

The balance of bonds in nominal value ¹⁹ went from \$ 3.6 trillion to \$ 5.3 trillion, with an increase of \$ 1.7 trillion pesos, mainly represented by the increase in Capitalization Bonds for Public Banking of \$ 1.6 trillion.

On the other hand, part of the purchase commitment established in the inter-administrative contract signed with Banco de la República was fulfilled as a result of the BCH dismantling process through the repurchase of Bonds Capitalization Public Bank Fogafin - Series 2 for initial nominal value of \$ 43 billion pesos and a cost value of \$ 48 billion.

During the year, Bonds Fogafin Capitalization Line were placed, destined to Private Banking, for \$ 30 billion. The financial conditions of the Fogafin Bonds - Capitalization Line were modified as of February 2000 in order to improve the liquidity situation of the entities that resorted to Resolution 006. This modification was made by providing the bondholders with a composition of securities maturing on November 24, 2002 and 2009 so that the average life of the securities was reduced from 7 to 5 years. On October 2, 2000, the securities maturing in 2009 were repurchased for a nominal value of \$ 86 billion.

As a complement to the long-term disbursements of the capitalization line, \$ 44.4 billion were placed in commercial papers whose maturity was on November 19, 2000, for which reason these documents no longer exist in circulation.

On April 21, 2000, \$ 65 billion of the general financing bonds called Class B Fogafin Bonds matured.

The main movements of bonds issued against the Economic Emergency Fund are summarized as follows:

On June 23, 2000, \$ 8.7 billion in nominal value of Loss Relief Bonds - BRDP Fogafin were placed to the entities that had made the request for relief for this concept.

Of the Bonds Fogafin Line for Mortgage Debtors destined to the reduction of the interest rate, \$ 30 billion were placed in nominal value.

9.7 Public Bank Capitalization Bond Auctions

The Financial Institutions Guarantee Fund considered it convenient to start selling the Public Banking Capitalization Bonds, as a complement to the Public Banking strategy, in order to meet the liquidity needs of public banks and develop a market for these securities.

The mechanism envisaged for the sale of the securities, which would ensure the best placement, at the best price in the market, was the Dutch auction.

¹⁹ Not including the capitalized interest on the Public Bank Bonds.

The process began in March 2000 with the sale of the titles with a two-year term. In November, after considering that the market was mature enough, it was decided to continue with auctions for the four-year securities.

Below is a summary of the auctions carried out during the year 2000:

Table No. 9.8

Series 1

thousands of millions

DATE AUCTION	MINIMUM RATE	MAXIMUM RATE	CUTTING RATE DTF	CUP OF COURT	AMOUNT DEFENDANT	VALUE COST APPROVED
14-Mar-00	11.24%	15.45%	1.00%	11.92%	68.72	27.12
04-Apr-00	12.41%	13.96%	1.51%	13.03%	66.12	27.10
18-Apr-00	12.72%	14.19%	1.08%	12.72%	60.70	5.01
02-May-00	13.15%	14.20%	1.49%	13.25%	29.50	14.05
20-Jun-00	14.00%	15.51%	1.89%	14.18%	64.79	26.75
04-Jul-00	14.29%	15.54%	1.95%	14.29%	57.00	18.91
18-Jul-00	14.00%	15.51%	1.95%	14.26%	56.50	27.96
18-Jul-00 *	14.26%	14.26%	1.95%	14.26%	27.00	14.01
01-Aug-00	14.22%	14.64%	1.80%	14.40%	110.50	28.13
01-Aug-00 *	14.40%	14.40%	1.80%	14.40%	30.30	30.51
15-Aug-00	13.98%	14.59%	1.53%	14.10%	70.00	28.35
15-Aug-00 *	14.10%	14.10%	1.53%	14.10%	5.00	4.94
05-Sep-00	14.46%	14.93%	1.70%	14.63%	45.00	17.87
19-Sep-00	14.90%	15.31%	Desert	Desert	70.00	0
03-Oct-00	14.64%	14.87%	1.63%	14.79%	56.00	28.82
17-Oct-00	14.59%	14.72%	1.54%	14.66%	37.00	27.25
31-Oct-00	14.65%	16.00%	1.55%	14.77%	80.00	29.14
31-Oct-00 *	14.77%	14.77%	1.55%	14.77%	8.28	8.40
14-Nov-00	14.80%	14.94%	1.53%	14.80%	42.07	13.94
05-Dec-00	14.86%	14.98%	1.49%	14.86%	34.00	23.98
WEIGHTED AVERAGE			1.69%	TOTALS	1028.48	402.24

Series 2

thousands of millions

DATE AUCTION	MINIMUM RATE	MAXIMUM RATE	CUTTING RATE DTF	CUP OF COURT	AMOUNT DEFENDANT	VALUE COST APPROVED
21-Nov-00	15.60%	16.57%	2.25%	15.66%	190.00	39.68
12-Dec-00	15.80%	16.01%	2.24%	15.89%	65.00	60.01
WEIGHTED AVERAGE			2.25%	TOTALS	255	99.69

In total, liquidity has been generated through the auctions for a value of \$ 502 billion, which has fundamentally benefited BANCAFE (86%) given the

priority that has been established by the privatization process that is underway.

9.8 Flow of Funds

Below is a summary of the main income and cash outflows for the year 2000, of the resources of the deposit insurance and of economic emergency.

9.8.1 Deposit Insurance Funds Flow Income

The income structure of the Fund for the year 2000 is mainly represented by the resources transferred by the National Treasury for \$ 216 billion. These resources, transferred in October to strengthen the Fund's financial position, represent 23% of total income in 2000. The collection of the deposit insurance premium amounted to \$ 146 billion, representing an increase in nominal terms. of only 4% compared to 1999.

The recoveries of the Granahorrar portfolio for \$ 118 billion and the operations to support financial entities (Megabanco, Banestado and others) for \$ 114 billion, represent 24% of the income structure of the year 2000. Income from support and loans granted to private sector financial entities, amounted to \$ 126 billion^{twenty}. With respect to the loans granted under the guidelines of Resolution 006 of 1999 of the Board of Directors of Fogafin, the recovery for this concept was 19% higher than what was contractually foreseen.

In this way, cash income in the year 2000 amounting to \$ 949 billion is reduced by more than 64% with respect to that observed in 1999 (\$ 2.65 billion). This variation is mainly explained by the loans granted the previous year by the General Treasury of the Nation and credits with the Andean Development Corporation - CAF - and by the issuance of bonds and commercial papers by the Fund as a source of resources.

Expenses

Cash flow expenditures for the year 2000 amounted to \$ 1.3 trillion. These are mainly represented by the support operations that were granted to Bancafé, FES and Granahorrar and the support to Interbanco after taking office for their administration.

These operations totaled \$ 490 billion, representing more than 37% of total deposit insurance cash outflows.

To provide liquidity mechanisms to the private banks that accessed the capitalization line, Fogafin repurchased part of the Fogafin Bonds in October

^{twenty} Includes income from loans granted under Resolution 006 of 1999 and Resolution 004 of 2000 of the Board of Directors of

Fogafin.

Private Banking maturing in 2009 for \$ 87 billion. Thus, the total debt service of these bonds in 2000 amounted to \$ 210 billion.

Another liquidity mechanism consisted of portfolio operations with a repurchase agreement (REPO) between Fogafin and private entities for a value of \$ 112 billion.

The refund of the deposit insurance made between the month of February and March of 2000, amounted to \$ 68 billion, equivalent to 47% of the total collection of premiums during 1999. This high percentage of repayment, taking into account the weakness of the entities of the system in 2000, evidenced the need to modify the insurance system deposits, in order to strengthen the deposit insurance reserves and be able to meet future needs of the financial system.

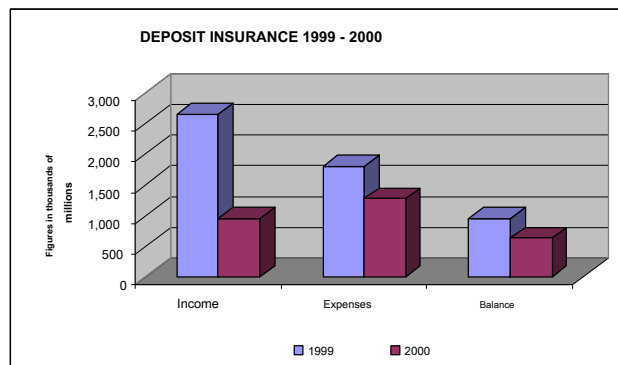
Other important expenses correspond to the debt service of the loans with CAF for \$ 18 billion and the service of the loan with the General Treasury of the Nation for \$ 162 billion. The latter is equivalent to the amortization of capital and payment of interest corresponding to the replacement of the debt with the General Treasury, with the general financing bonds for \$ 500 billion, which are recorded as a deposit insurance expense.

The debt service of the Fogafin Capitalization Public Banking Bonds amounted to \$ 108 billion, not counting the repurchase of the Bonds made to the Banco de la República. This expense does not represent an expenditure as such for the fund, as these resources are transferred by the General Treasury to the Fund, in accordance with the provisions of the inter-administrative contract between the Ministry of Finance and Fogafin, protected by the commitment of future validity of the national budget to protect the interest and principal service of these bonds.

Final balance

Taking into account the income and cash expenses for the year 2000, the deposit insurance ended the year with a balance in its reserves of \$ 585 billion ^{twenty-one}, which means a nominal drop of 35% compared to 1999.

Graph N° 9.4



^{twenty-one} This figure represents 1.2% of the system's deposits.

9.8.2 Flow of funds from emergency economic resources Income

The transfer of the General Treasury of the Nation, in the month of March for \$ 260 billion, represented the most important item of the income of the economic emergency fund. This transfer corresponds to what is stipulated in Decree 2331 of 1998 in accordance with the provisions of the Constitutional Court in ruling C-136/99.

Likewise, the income from the support derived from the aforementioned decree amounted to \$ 72 billion distributed as follows:

Upac debtor support (vis - no vis): The recovery of disbursed support worth \$ 208 billion was \$ 40 billion including principal and interest.

- Upac debtor support (6 months past due): The recovery of support for the financing of delinquent debts up to six months whose disbursement was \$ 108 billion was \$ 32 billion including principal and interest.
- BRDP Supports: It includes the support granted to the entities financial resources to finance the losses originated in the acquisition of the goods received in payment in payment, which amount to \$ 8.7 billion. Income from this type of support amounted to \$ 1 billion.

Expenses

The most important expenditure corresponds to the support granted to the public bank for \$ 141 billion, which was used in its entirety to capitalize the BCH.

Debt service for debt support with bonds, the payment in each of these items is summarized below:

1. Debt service support debtors with bonds:

- Debtor support bonds (3 points): Comprises the debt service of the bonds issued to alleviate the interest rates of Upac's debtors between September and December 1999 for \$ 59 billion maturing in November 2001. The service of this type of bonds in 2000 was \$ 7 billion.
- Debtor support bonds (6 months): Debt service of the bonds issued to finance debts in arrears for up to six months for \$ 103 billion maturing in August 2002 and 2009. The service of these bonds in 2000 was \$ 13 billion .
- Upac debtor support bonds (vis - no vis): Debt service of the securities delivered for a value of \$ 228 billion to support these debtors with

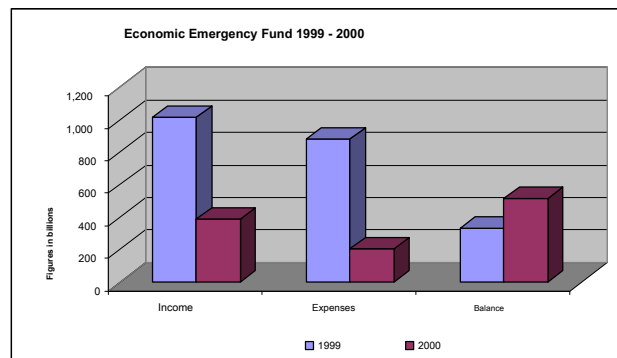
amortization at maturity according to series. The amount of the service for these bonds was \$ 43 billion in 2000.

- Loss relief bonds Assets Received in Dation in Payment: Debt service for \$ 9 billion at the rate of CPI (goal) + 5 payable half-year in arrears and semi-annual amortization over 10 years. The servicing of these bonds was \$ 1 billion in 2000.

Final balance

The final balance of the economic emergency fund in 2000 was \$ 517 billion.

Graph N° 9.5



9.9 Agreements with multilateral organizations.

9.9.1 International Monetary Fund

The following is a description of the goals agreed with the International Monetary Fund for the year 2000 and the results of Fogafín's effective cash operations.

Table No. 9.10
GOAL AND EXECUTION
(In billions of dollars)

Year 2000	Obs.	Goal	Difference
Total revenue	531	431	100
Current Income	337	272	65
Capital Income	194	159	35
Total Expenses and Net Loan	543	849	(306)
Current expenses	481	815	(334)
Transfers	62	3.4	28
Balance	(12)	(418)	406
Financing	12	418	(406)

The deficit goal for Fogafin within the program agreed with the IMF for the 2000, it was \$ 418 billion. However, the deficit was much lower, registering only \$ 12 billion (see table No. 9.10), mainly explained by higher current income received and lower spending than initially projected, which positively contributed to the fulfillment of the total goal.

Total revenue

Revenues increased compared to what was projected due to amortizations of the Granahorrar portfolio that were higher than projected; payments for support operations, among which those of BanEstado and Megabanco stand out.

Within the category of portfolio returns, it is important to note that this amount corresponds to both the performance of the deposit insurance portfolio and the economic emergency portfolio, which presented a higher balance at the beginning of 2000 due to the fact that there were no expenses for investment operations. support that had originally been estimated.

Total spends

The most important difference with respect to the goal set for the year 2000 corresponds to the interests of the Private Banking and Public Banking Capitalization Bonds. These bonds, indexed to the DTF rate, presented coupon payments lower than those initially projected due to the lower interest rates that occurred during 2000, whose average did not exceed 12.26% ea compared to the originally projected (16%). Another item that explains the decrease in expenses

It is the lowest deposit insurance payment that was presented of \$ 20 billion compared to the initially projected of \$ 100 billion.

Additionally, not all the expenditures that had been estimated at the beginning were presented for transfers to the public bank charged to the Economic Emergency Fund.

Financing

The financing of the deficit recorded by Fogafin in 2000 was financed fundamentally with a charge to domestic bond issues. It should be noted that this deficit is recorded by the methodology of cash operations carried out, which is not contrary to Fogafin having recorded profits.

9.9.2 Other multilateral organizations

Within the framework of the agreements signed by the National Government with the Multilateral Organizations, the following are the progress corresponding to the activities carried out by Fogafin during the year 2000:

- The Government, through Fogafin, has presented substantial progress in the strategy of dismantling the public bank. Of the eight public entities that operated in the first half of 1999, only four are currently operating: Bancafé, Granahorrar, FES and Banagrario. Through Decree number 20 of January 12, 2001, the liquidation of the BCH was ordered, a process that has been carried out since its publication on January 15, 2001.
- Likewise, CISA's strategy to normalize non-performing assets of public entities is being developed and a significant recovery from the sale of these assets is expected at the end of 2001.
- With regard to the privatization processes of public entities, the valuation of Bancafé by BNP Paribas has been carried out in a consortium with Corfivalle, and its sale is expected to take place in 2001.
- In order to strengthen the Deposit Insurance reserves, the National Government transferred to the Fund in October \$ 216 billion from the loan with CAF. To continue preserving the stability of the financial system and to meet future needs, a disbursement is expected in the second semester of 2001 of the equivalent in pesos of US \$ 100 million from the disbursement of credits contracted with the BiD and the World Bank for the strengthening of the financial sector.
- In accordance with the financial reform introduced through Law 510 of August 3, 1999, Fogafin's accounting was structured separating the management of the Fund's resources. In accordance with the provisions of Article 31 of the aforementioned Law, it was necessary to constitute totally separate reserves with the

income generated by deposit insurance activities, the cost of guaranteeing pension funds, the cost of guaranteeing severance funds and insurance companies. In addition to this, and for greater clarity in the management of the resources destined to the sanitation of the Public Banking, the fund was constituted to administer the resources invested in the public banking with charge to the future validity that the Ministry of Finance approved in 1999 .

- Regarding the implementation of the institutional strengthening plan, the Fogafin Board of Directors, by virtue of the new functions and operations assigned to the Financial Institutions Guarantee Fund, approved the new organizational structure of the entity in its session of December 22, 1999. In this sense, the new structure of the Fund is made up of:

Total by areas	
Direction	5
Technology	7
Audit	4
Research	4
General Secretary	28
Financial Subdirectorate	13
Operations Subdirectorate	24
Subdirectorate of Salvation and Follow-up	13
Asset Recovery Sub-Directorate	10
Total authorized plant	108

10 ADMINISTRATIVE ASPECTS OF THE FUND

10.1 Human Resources

Taking into account the general policies of the Human Resources Area responsible for the administration of the processes inherent to the management of human resources, in search of an adequate work environment, which allows the identification of the personnel with the entity and thus, the highest productivity and the achievement of the organizational objectives, the activities that were developed during the year 2000 are presented below.

10.1.1 Function manual and job description

In order to define the functions of the different positions of the entity and the minimum requirements for the exercise of the same, it was decided to develop the manual of functions and description of positions with the perspective of correctly orienting the personnel development programs within the the organization.

The entity's officials participated in the project in coordination with the Human Resources Area.

As a result of this work, the Fund has a description of 90% of the positions of the entity.

10.1.2 Personal selection

As of the second semester of 2000, the personnel selection process was implemented, which consists of the following phases:

- Psychological study: This phase includes psychotechnical tests and interview psychological oriented to establish the competences of each one of the candidates with respect to the minimum requirements established for each one of the positions of the organization.
- Background check: Phase aimed at validating the information provided by the candidates regarding their work and academic trajectories. Likewise, within this phase the verification of fiscal responsibility and financial background is covered through the financial information center - CIFIN - of the Banking Association and Financial Entities of Colombia.
- Home visit: A trip is made to the home of the people who are going to be linked with the entity, with the purpose of knowing the socio-cultural environment in which they operate and to confirm the information obtained throughout the process.

Thus, during the second semester of 2000, 42 selection processes were carried out to fill 14 vacancies.

10.1.3 Induction of personnel

With the 14 people who entered during the second semester of the year, the induction program was developed, consisting of a general induction and a specific induction to the position.

With respect to the general, reference is made to the history and structure of the organization, benefits, standards and work regulations, with the leaders of the areas with which it is estimated that the new official will interact to exercise their functions participate in this process. Likewise, a tour of the facilities of the Fund is made to make the formal presentation of the new official and locate him within the physical plant.

In the second part, specific induction to the position, we worked in coordination with the area leaders who hired personnel, emphasizing the rules, policies, processes and procedures that are developed within each of the areas.

10.1.4 Performance evaluation

Performance evaluation was carried out in a probationary period to the 44 officials who were admitted during the year.

10.1.5 Training

So far in 2000, 5 officials participated in diplomas, 16 in courses and seminars and two in congresses, programs related to the functions inherent to the positions held by the assistants.

10.1.6 Well-being

To meet the main objective of providing a set of activities and benefits aimed at the employee and his family group, through which an environment of physical and mental well-being is created, which allows strengthening the sense of belonging to the entity and motivation towards the work, the following activities were developed during the year, such as:

- Maintenance of the complementary medicine program
- Celebration of women's and secretary's and children's day
- Annual integration event - Mini-Olympics

10.1.7 Occupational Health

During the year in the field of occupational health, the following activities were developed:

- Opening of the occupational medical history at the time of hiring of the new official.

- Constitution of the Joint Committee on Occupational Health for the period 2000 - 2002.
- Updating of the occupational medical records of each of the entity's officials.
- Updating of the Occupational Health Program in relation to solid waste environmental management policies.
- Organization and dissemination of the Emergency Plan. Signaling of communal areas and emergency exits.

10.1.8 Payroll Administration

The processes were developed that allow the fulfillment of the obligations of the entity in the aspects related to the management of human resources internally and towards external organizations.

At a technological level, different tools were evaluated that allow the optimization and streamlining of the processes inherent to payroll administration.

10.2 General Services

- Adequacy of areas. During the year 2000, the archive area of the Documentation Center located on the third floor of the Fund building was expanded and additional data and voice points were installed to enable new jobs on the 3rd, 4th and 5th floors.
- Insurance: The insurance program was renewed for the period 2000-2001, with the relevant inclusions, clarifications and monitoring of the Fund's assets for updating the corresponding policies.
- Acquisitions of goods and services. In order to complement the endowment of the different offices and areas of the entity, the following furniture, furnishings and office equipment were acquired.
- Other activities
The proposed goals have been met as follows: Updating the supplier registry.
- Updating of the general inventory as of December 31, 2000 of each official.
- Inventory of fixed assets duly confronted with Accounting.
- The assets that due to their state of deterioration or obsolescence should be derecognized were selected.
- The monitoring and control of expiration of contracts for maintenance of equipment, cleaning, surveillance, work, as well as renewals of subscriptions and publications.

10.3 Documentation Center.

The activities developed by the Documentation Center during the term of 2000 were the following:

- Archiving and microfilming organization: The Fund hired the services of five temporary employees to continue the organization of the inactive archive and authorized the hiring of a fixed-term official for one year to provide support in updating the management archives. Likewise, a project was presented to initiate the microfilming of the documents once their organization has been completed, which was approved by the Board of Directors of the Fund.
- Information Search and Retrieval: It is important to point out that the Documentation Center, in its quest to obtain a program that streamlines the search and retrieval of information for its users, has requested to see the programs of the Banking Superintendency, Superintendency of Securities, Findeter, among others, as well as the presentations and proposals of suppliers such as Laser Fiche, Tandem, CP Soluciones and Cetecsa.
- Document Retention Table The Guarantee Fund of Financial Institutions, in compliance with Decree 1382 of 1995, is in the process of preparing the aforementioned table and will request advice to deliver it to the General Archive of the Nation, in 2001.

TO Below is a summary table of the other activities carried out by the Documentation Center:

SUMMARY TABLE

DESCRIPTION OF TASKS	JANUARY 3 - DEC. 29 OF 2000
PHOTOCOPYING	284,081
RADICATION. CARDS	8,958
RAD. MEMORANDS	2,620
CORRESPONDING RADICATION-CIA RECEIVED	21,704
SEND FAX	3,565
QUERIES (archive and library)	3,786

10.4 Technology

10.4.1 Technology Plan

In 2000, a review of the technology plan was made to adapt it to the Fund's strategies. The projects, product of this adjustment, are the following:

- **Non-performing portfolio management system:** Its purpose is to select a provider for the processing of the portfolio received by the Central de Inversiones, which in turn can support that of Fogafin. After reviewing the public bank systems, it was concluded that it was necessary to hire a new one, for which the initial terms of reference were prepared and the processing was defined on a temporary basis.

- **System for monitoring financial entities and settlements:** The objective is to improve the systems for the reception of financial statements, information validation, storage in databases, consultations and preparation of financial reports, to meet the needs of the Rescue and Follow-up Sub-directorate and the Operations Sub-directorate and especially the construction of a valuation model. For the above, progress was made in the review of the new risk system of the Banking Superintendency and the possibility of sharing information with that entity.
- **Follow-up of official entities technological plans:** In order to coordinate the work carried out by public entities, a monitoring plan was defined for the projects they develop. The most important advance refers to the signing of a performance agreement with Bancafé, which includes the definition and monitoring clauses of technology projects.

10.4.2 Internet Page

In order to improve the current design and present content that meets the expectations of the people and entities that use the services of Fogafín and use the Internet site as an alternative channel for the sale of real estate and other assets belonging to the official financial entities and in liquidation, the selection of consultants was made based on the terms of reference drawn up. This project was contracted under the "Development of Financial and Capital Markets" project administered by the Ministry of Finance through the United Nations Development Program - UNDP.

10.4.3 Internal financial and administrative systems

It is planned to improve the systems that support the following areas of the entity: Accounting and budgeting, portfolio, investment portfolio, title management and human resources. For this purpose, the preparation of the terms of reference and the call to participate for the system related to the investment portfolio and the administration of securities was achieved. Additionally, the terms for the portfolio and accounting areas were prepared.

10.4.4 Infrastructure Activities

During 2000 Fogafín acquired, through the United Nations Development Program, twenty personal computers with their respective software licenses. With these acquisitions the need for computer equipment of the moment was met.

10.4.5 Compliance with copyright regulations

In compliance with numeral 4 of article 1 of Law 603 of 2000, we inform that Fogafín has complied with the obligations derived from the copyright and intellectual property regulations. Regarding the acquisition of the software used in the ordinary operations of the Fund, it is pertinent to point out that the corresponding licenses were acquired and this entity is the owner of the same.

Appendix 1
CAPITALIZATION LINE ENTITIES
ACTIVES AND PASIVES

	ACTIVE	Purse	PASSIVE	Public Country	PATRIM.
COLPATRIA	2.56	1.89	2.33	1.91	0.24
MEGABANCO	1.38	0.63	1.37	1.11	0.01
CREDIT	1.17	0.72	1.03	0.74	0.15
HIGHER	0.58	0.38	0.49	0.44	0.09
INTERBANK	0.36	0.23	0.41	0.10	- 0.06
UNION	0.32	0.20	0.27	0.17	0.05
COFINORTE	0.24	0.14	0.21	0.09	0.03
COLTEFINANCIAL	0.19	0.10	0.17	0.15	0.02
CONFINANCIAL	0.04	0.02	0.03	0.03	0.01
MULTI-FINANCIAL	0.03	0.01	0.03	0.02	0.00
CREDINVER	0.02	0.02	0.02	0.02	0.00
FOGAFINIZED	6.89	4.36	6.35	4.77	0.54
REST SYSTEM	73.73	42.83	64.83	48.58	8.90
REST PRIVATE SYSTEM	56.73	35.09	49.19	37.90	7.53

LEADING INDICATORS

	Quality Coverage Purse	Age Purse	Index of Delinquency	Structure Balance	BRP / Assets	Exposition Patrimonial	Sufficiency Mg End.	Margin of Solvency
COLPATRIA	8.5	21.6	4.1	100.5	1.6	114.8	69.7	10.4
MEGABANCO	11.7	44.0	6.3	75.4	1.2	1,643.2	125.4	9.4
CREDIT	2.3	68.7	0.6	141.1	0.2	19.4	102.5	10.2
HIGHER	6.0	43.6	1.2	121.1	0.0	23.0	87.9	10.6
INTERBANK	22.5	48.9	10.4	74.1	1.2	-76.9	1,275.6	10.1
UNION	2.7	80.4	1.2	124.4	0.7	39.8	84.0	12.6
COFINORTE	4.0	61.9	0.4	85.2	0.1	6.3	285.2	11.6
COLTEFINANCIAL	5.7	47.0	1.7	96.1	1.0	41.8	151.2	10.0
CONFINANCIAL	1.3	35.1	0.1	126.0	0.0	1.0	82.3	24.5
MULTI-FINANCIAL	3.3	65.8	1.8	89.8	1.6	40.0	89.3	9.5
CREDINVER	9.2	20.9	3.1	101.2	0.3	44.7	24.4	12.2
FOGAFINIZED	7.9	36.3	3.6	100.4	1.0	95.2	108.5	10.4
REST SYSTEM	11.3	50.4	6.1	108.3	1.9	88.9	95.3	14.2
REST PRIVATE SYSTEM	9.3	56.4	5.2	113.6	2.1	80.8	84.8	13.9

Appendix 2
PUBLIC BANKING
ACTIVES AND PASIVES

	ACTIVE	Purse	PASSIVE	Public Country	PATRIM.
BANCAFE	5.75	2.13	5.56	3.53	0.19
GRANA SAVE	4.17	2.55	3.75	3.16	0.41
AGRARIAN BANK	3.27	0.98	3.04	2.18	0.23
BANESTADO	0.47	0.15	0.33	0.07	0.14
FES	0.21	0.20	0.24	0.12	-0.02
PUBLIC	13.87	6.00	12.92	9.06	0.95
REST SYSTEM	66.74	41.18	58.26	44.29	8.48

LEADING INDICATORS

	Quality Purse	Coverage Purse	Index Delinquency	Structure Balance	BRP / Assets	Exposition Patrimonial	Sufficiency Mg End	Margin of Solvency
BANCAFE	16.0	50.9	5.6	104.5	0.7	220.0	151.9	10.5
GRANA SAVE	36.1	18.2	19.8	82.9	2.2	244.4	98.2	20.6
AGRARIAN BANK	11.5	67.5	4.9	64.0	0.0	62.3	82.4	21.0
BANESTADO	45.2	116.9	23.8	131.1	0.1	48.1	-9.2	20.6
FES	24.5	122.9	16.5	89.2	10.3	-325.9	293.8	13.4
PUBLIC	24.8	37.2	12.3	88.7	1.1	180.0	118.9	16.0
REST SYSTEM	9.0	54.4	4.9	111.6	1.9	79.1	92.4	13.5

Annex No. 3

PUBLIC BANKING ENTITIES IMPRODUCIVE ASSETS

Billions of pesos	Dec-96	Jun-97	Dec-97	Jun-98	Dec-98	Jun-99	Dec-99	Jun-00	Dec-00	
BANCAFE										(two)
Unproductive Portfolio (1)	99	112	83	94	411	581	787	914	251	
Goods received in payment	14	22	28	49	86	114	160	192	fifty	42
Write-off assets:	Four	Five	48	105	136	192	181	187	195	42
Investments	0	0	0	0	0	0	0	0	0	0
Loan portfolio	24	27	73	99	140	133	140	144	twenty	
Accounts receivable	fifteen	16	26	32	Four	Five	42	40	41	12
Goods received in payment	6	6	6	6	7	7	7	10	10	
TOTAL	158	183	216	279	689	876	1,134	1,300		
GRANA SAVE										
Unproductive Portfolio (1)	32	97	126	163	276	329	533	472	850	
Goods received in payment	6	19	2.3	28	40	51	70	90	121	
Write-off assets:	4	two	two	two	two	two	two	5	37	52
Investments	0	0	0	0	0	0	0	0	0	0
Loan portfolio	4	two	two	two	two	two	two	4	36	fifty
Accounts receivable	0	0	0	0	0	0	0	0	1	two
Goods received in payment	0	0	0	0	0	0	0	0	0	0
TOTAL	43	118	150	192	318	382	608	598	1,023	
BANESTADO										
Unproductive Portfolio (1)	44	41	44	55	69	159	26	44	48	
Goods received in payment	13	33	47	55	74	80	0	two	18	
Write-off assets:	26	3.4	38	38	68	67	1,017	986	900	
Investments	0	0	0	0	0	0	4	4	5	
Loan portfolio	16	2.3	27	27	54	53	712	684	617	
Accounts receivable	9	eleven	10	10	14	14	99	99	83	
Goods received in payment	1	1	1	1	1	1	201	199	195	
TOTAL	84	109	129	148	212	307	1,043	1,032		
BCH										
Unproductive Portfolio (1)	113	172	238	304	479	755	855	30	two	
Goods received in payment	22	29	38	68	112	157	229	19	9	
Write-off assets:	fifteen	fifteen	fifteen	32	twenty	twenty	70	197	155	
Investments	0	0	0	0	0	0	0	0	0	
Loan portfolio	fifteen	fifteen	fifteen	29	18	18	62	826	19	
Accounts receivable	0	0	0	3	two	two	8	140	51	
Goods received in payment	0	0	0	0	0	0	0	232	86	
TOTAL	150	216	291	405	611	931	1,153	1,246		
TOTAL ENTITIES										
Unproductive Portfolio (1)	288	423	491	616	1,235	1,824	2,201	1,459	1,151	200
Goods received in payment	55	103	136	208	313	402	459	302	198	
Write-off assets:	90	100	160	208	282	270	1,279	2,415	1,149	
Investments	0	0	0	0	0	0	4	4	5	
Loan portfolio	59	67	117	156	214	206	919	1,690	705	
Accounts receivable	25	27	37	Four	Five	61	57	148	281	148
Goods received in payment	6	6	6	6	7	7	208	440	291	
TOTAL IMPRODUCIVE	434	626	787	1,025	1,830	2,496	3,938	4,177	2,498	

SOURCE: Financial statements Banking Superintendency

(1) Non-performing portfolio: Commercial and consumer portfolio with more than 3 months past due + housing portfolio more than 4 months past due

(2) Figures as of December 2000 reflect the sale of non-performing assets to CISA

TABLE OF CONTENTS

1	THE COLOMBIAN ECONOMY IN THE YEAR 2000	1
two	EVOLUTION OF FINANCIAL INSTITUTIONS IN 2000	5
	2.1 P CORE V ARIABLES F INANCIAL	5
	2.2 I INDICATORS F INANCIES	9
3	STRATEGY FOR THE SOLUTION OF THE CRISIS IN THE FINANCIAL SECTOR	15
3.1	L INEA OF C APITALIZATION P RIVADA	fifteen
	3.1.1 Operations carried out	fifteen
	3.1.2 Evolution of the private capitalization line	16
	3.1.3 New support measures	18
	3.1.3.1 Guarantee Capital	18
	3.1.3.2 Repurchase of Bonds	18
	3.1.3.3 Portfolio purchase transactions with a resale agreement (Portfolio Repos)	18
	3.1.4 INTERBANK	19
	3.1.5 MEGABANCO	twenty
3.2	AND PUBLIC BODIES	twenty-one
	3.2.1 Strategy for public entities	twenty-one
	3.2.2 Evolution of Public Banking	2. 3
	3.2.3 Complementary support for public banking.	24
	3.2.4 Dismantling of the Public Bank	24
	3.2.5 Privatization of public financial entities	25
3.3	C ONCLUSIONS	25
4	ACTIONS DEVELOPED IN PUBLIC BANKS	27
4.1	CENTRAL MORTGAGE BANK	27

4.1.1	Assignment of assets and liabilities	27
4.1.2	Dismantling of the organizational structure	27
4.1.3	BCH liquidation	28
4.2	BANESTADO	28
4.3	GRANA SAVE	29
4.4	BANCAFE	29
4.4.1	Administrative Restructuring	29
4.4.2	Assignment of Assets and Liabilities of the Banestado	30
4.4.3	Sanitation Operation	31
4.5	FINANCIAL FES	32
4.5.1	Officialization	32
4.5.2	Capital Guarantee	32
4.5.3	Disassembly Process	33
4.6	INSTITUTE OF INDUSTRIAL PROMOTION	3. 4
5	RECOVERY OF ASSETS ORIGINATED BY FINANCIAL INSTITUTIONS	
	OF PUBLIC NATURE	36
5.1	REQUIPMENT OF ASSETS THROUGH CENTRAL FROM INVERSIONS	36
5.2	VALUE ENTRY OF FINANCIERA FES SA	37
5.3	REDEMPTION AND NAJENATION OF CAPITAL INVESTMENTS OF PUBLIC FINANCIAL INSTITUTIONS IN REAL SECTOR COMPANIES	38
5.4	INTERNATIONAL MORTGAGE REGULARIZATION	39
6	PORTFOLIO MANAGEMENT	40
6.1	OPERATIONS OF EMERGENCY AND ECONOMIC	40
6.1.1	Reliefs for home debtors	40
6.1.2	The credit for donations in payment	41
6.1.3	Unemployment Insurance	41
6.2	ASSETS TO PORTFOLIO MANAGED BY GRANA SAVE	42
6.3	ASSETS RECEIVED IN DONATION IN PAYMENT FROM THE PORTFOLIO MANAGED BY GRANA SAVE	44

7	DEPOSIT INSURANCE AND GUARANTEE COST	Four. Five
7.1	AND ENTITIES REGISTERED FOR DEPOSIT INSURANCE AND GUARANTEE COST	Four. Five
7.2	R ECAUDOS	46 D EVOLUTION OF PREMIUMS FOR
7.3	DEPOSIT INSURANCE	46 M ODIFICATION OF THE SCHEME OF S INSURANCE OF D DEPOSITS
7.4	47
7.4.1	Modification of the deposit insurance premium settlement rate	47
7.4.2	Expansion of deposit insurance coverage	48
7.4.3	Modification of the annual premium return system	48
7.5	P AGO DEPOSIT INSURANCE AND SUBROGATED CREDITS	48
8	SETTLEMENTS	fifty
8.1	L THE RESULTS IN THE YEAR 2000	fifty
8.2	M FOLLOW-UP ECANISMS	51
8.3	H SUPPORT AND MONITORING ERRAMENTS FOR LIQUIDATORS AND CONTROLLERS	51
9	FINANCIAL RESULTS	56
9.1	L A FINANCIAL STRUCTURE	56
9.2	AND L ACTIVE	56
9.3	AND L LIABILITIES	57
9.4	AND L EQUITY	57
9.5	AND INVESTMENT PORTFOLIO VOLUTION	60
9.5.1	Primary Market	60
9.5.2	Secondary market	61
9.5.3	Return on the Investment Portfolio.	61
9.6	AND MISSIONS OF B ONOS	63
9.7	S UBASTAS OF B ONOS C APITALIZATION B HAUNCH P UBLIC	65
9.8	F LUXURY OF F WAVES	67
9.8.1	Deposit Insurance Funds Flow	67
9.8.2	Flow of funds from emergency economic resources	69
9.9	TO STRINGS WITH MULTILATERAL ORGANISMS.	70
9.9.1	International Monetary Fund	70
9.9.2	Other multilateral organizations	72

10	ADMINISTRATIVE ASPECTS OF THE FUND	74
10.1	R TOURS H JOIN US	74
10.1.1	Manual of functions and job descriptions	74
10.1.2	Personal selection	74
10.1.3	Induction of personnel	75
10.1.4	Performance evaluation	75
10.1.5	Training	75
10.1.6	Well-being	75
10.1.7	Occupational Health	75
10.1.8	Payroll Administration	76
10.2	S ERVICES G ENERALS	76
10.3	C INTO D OCCUMENTATION	76
10.4	T ECNOLOGY	77
10.4.1	Technology Plan	77
10.4.2	Internet Page	78
10.4.3	Internal financial and administrative systems	78
10.4.4	Infrastructure Activities	78
10.4.5	Compliance with copyright regulations	78