Banco Davivienda S.A. and Subsidiaries

Consolidated Financial Statements for the year ended on December 31st, 2019

KPMG

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Banco Davivienda S.A.:

Opinion

We have audited the consolidated financial statements of Banco Davivienda S.A. and Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2019 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and their respective notes that include the summary of significant accounting policies and other explanatory notes.

In our opinion, the above mentioned consolidated financial statements, attached to this report, present fairly, in all material aspects, the consolidated financial position of the Group at December 31, 2019, the consolidated results of its operations, and its consolidated cash flows for the year then ended, in conformity with Accounting and Financial Reporting Standards accepted in Colombia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing accepted in Colombia (ISAs). Our responsibilities under those standards are further described in the "Auditor' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Accountant's Professional Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA Code), included in the Information Assurance Standards accepted in Colombia together with the ethical requirements established in Colombia that are relevant to the audit of the consolidated financial statements and we have fulfilled the other ethical responsibilities in accordance with these requirements and the IESBA Code mentioned.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Assessment of the Loan Portfolio Impairment under IFRS 9 (see notes 4.7.1.3 and 12.5.2 to the consolidated financial statements)	
The key audit matter	**How our audit approached this matter**
The Group periodically reviews the credit risk exposure of its loan portfolio. Such determination is one of the most significant and complex estimates in the preparation of the accompanying consolidated financial statements, due to the high degree of judgment involved in the development of the models to determine impairment based on an expected loss approach required in the IFRS 9. The value of the loan portfolio and its respective impairment as of December 31, 2019 is $97,399,569 and $4,143,534 million, respectively. We considered the evaluation of the loan portfolio impairment as a key audit matter, because it involves a significant measurement complexity that required judgment, knowledge and experience in the industry, especially with regard to (1) the evaluation of the methodologies used, including the methodology to estimate the loss due to non-compliance; (2) the probability of loss given the default and its key factors and assumptions; (3) the qualification of loans and qualitative factors that are incorporated into the variables of the internal models established by the Group; and (4) the estimated impairment calculations due to credit risk of the entire loan portfolio.	Our audit procedures to assess the sufficiency of credit risk impairment included, among others, the following: • Involvement of professionals with experience and knowledge in the credit risk assessment and information technology, to evaluate certain internal controls related to the Group's process for determining the loan portfolio impairment. This included internal controls related to (1) validation of the models that determine the probability of loss, severity and exposure at the time of default, (2) the Group's monitoring on the determination of portfolio impairment (3) information technology controls on the input data to the models that determine credits impairment, as well as related calculations; (4) the evaluation to identify if there was a significant change in credit risk; and (5) the review of macroeconomic variables and the weighted scenarios used in the models for determining the loan portfolio impairment; and (6) I evaluated controls related to the review of commercial loans analyzed individually and write-offs. • Professionals with relevant knowledge in the credit risk assessment and information technology assisted us (1) evaluate the methodologies and key data used to determine the probability of loss, the severity and exposure in case of default, and the parameters produced by the models; (2) evaluate the macroeconomic variables and the

Assessment of the Loan Portfolio Impairment under IFRS 9 (see notes 4.7.1.3 and 12.5.2 to the consolidated financial statements)	
The key audit matter	**How our audit approached this matter**
	weighted probability scenarios used in the internal models including the consideration of alternative data for certain variables; (3) recalculate the expected loss model and its related data; and (4) evaluate the qualitative adjustments applied to the model.

Responsibilities of Management and those in charge with the Group's governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Accounting and Financial Reporting Standards accepted in Colombia and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors´ report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users' taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the consolidated financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group ceases to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to those charged with governance regarding, among other matters, the planned scope and timing for the audit, as well as significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and, therefore, they are key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG S.A.S.

KPMG S.A.S.
Bogotá, Colombia
March 06, 2020

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTABILITY FOR FINANCIAL REPORTING

The undersigned Legal Representative and Accountant of Banco Davivienda S.A., pursuant to the provisions of Articles 46 and 47 of Law 964 enacted in 2005, and following the requirements set forth in Accounting and Financial Reporting Standards accepted in Colombia, hereby certify that:

The consolidated financial statements for the period beginning January 1 and ending December 31, 2019, are free from defects, inaccuracies or errors that might hinder the ability to ascertain the true financial position or operations of Banco Davivienda S.A. and its subsidiaries, in accordance with Article 46 of Law 964 of 2005.

Pursuant to the terms stipulated by the Accounting and Financial Reporting Standards accepted in Colombia and following the provisions of the Conceptual Framework, the information and statements included in the Consolidated Financial Statements have been duly verified and extracted from accounting records, prepared in accordance with the aforementioned regulatory framework.

Banco Davivienda S.A. and its Subsidiaries are equipped with appropriate financial information disclosure and control systems. Procedures have been designed to ensure that the information is presented in an appropriate manner, and the operation of these systems is verified by the Audit and the Financial Department.

Likewise, we hereby report that no significant deficiencies have been found in the design and operation of internal controls that would have prevented the Bank and its Subsidiaries from properly recording, processing, summarizing or presenting their consolidated financial information. Management control activities have been conducted to prevent fraud risk in processes that would affect the quality of the consolidated financial information, and to evidence changes in its evaluation methodology.

Assets, liabilities and equity as of the cut-off date are disclosed in the Consolidated Financial Statements and reflect future rights and obligations, respectively. The transactions that transpired during the period and that pertain to the entity and its subordinates were recorded and the economic events have been recognized for the appropriate amounts, classified, described and disclosed accurately, considering the provisions of the Conceptual Framework and in accordance with the Accounting and Financial Reporting Standards accepted in Colombia.

Representations made in the Financial Statements have been previously verified, in accordance with applicable regulations. These statements are based on a reliable reading of the books in accordance with Article 37 of Law 222 enacted in 1995. The Bank and its Subsidiaries have adequate control and financial information disclosure procedures and their operation has been verified, in accordance with the provisions of Article 46 of Law 964 enacted in 2005.

Bogota, February 10th, 2020

Juan Carlos Hernández Núñez	**Carmen Anilsa Cifuente Barrera**
Legal Representative	Chief Accountant T.P. 35089-T

Banco Davivienda S. A. and Subsidiaries
Consolidated Financial Statements
(Millions of Colombian Pesos (COP))

	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash	12.1	9,744,167	9,523,601
Interbank and overnight funds	12.2	723,602	412,943
Investments measured at fair value	12.3	9,540,832	9,178,226
Derivatives	12.4	511,214	433,722
Loans portfolio and financial leases operations, net	12.5	93,256,035	84,111,916
Accounts receivable, net	12.6	1,482,887	1,516,140
Assets held for sale, net	12.7	88,163	61,288
Investments measured at amortized cost, net	12.3	2,173,054	1,824,536
Investments in associates	12.8	93,420	89,443
Other investments	12.9	388,447	384,607
Property and equipment, net	12.10	1,733,538	801,230
Investment property	12.11	112,900	73,815
Goodwill	12.12	1,635,185	1,635,185
Intangible assets	12.13	190,416	171,901
Other assets, net	12.14	548,163	505,385
Total assets		**122,222,023**	**110,723,938**
LIABILITIES			
Deposits	12.16	76,732,084	68,399,164
Savings accounts		30,243,837	26,510,302
Checking accounts		10,391,313	9,459,163
Time deposits		34,804,550	31,118,034
Other deposits		1,292,384	1,311,665
Interbank and overnight funds	12.17	1,759,721	3,786,541
Derivatives	12.4	617,820	513,143
Credits from banks or other obligations	12.18	13,564,888	12,495,235
Debt instruments issued	12.19	12,398,883	10,685,827
Accounts payable	12.20	1,316,109	1,382,383
Employee benefits	12.21	253,118	215,078
Current tax liabilities		172,610	61,731
Deferred tax liabilities		889,625	905,779
Technical reserves	12.22	217,595	205,582
Other non-financial liabilities and estimated liabilities	12.23	1,648,671	663,579
Total liabilities		**109,571,124**	**99,314,042**
EQUITY	12.24		
Capital and reserves (1)		9,289,322	8,624,778
Adjustments in the first time adoption		138,527	167,918
Other comprehensive income		1,625,800	1,128,942
Profits attributable to owners of controlling company		1,470,627	1,390,100
Total equity of owners of controlling company		**12,524,276**	**11,311,738**
Non-controlling interests	12.25	**126,623**	**98,158**
Total equity		**12,650,899**	**11,409,896**
TOTAL LIABILITIES AND EQUITY		**122,222,023**	**110,723,938**

(1) Includes the share placement premium

See the note attached to the consolidated financial statements.

JUAN CARLOS HERNÁNDEZ NÚÑEZ **Legal Representative**	**CARMEN ANILSA CIFUENTES BARRERA** **Chief Accountant** **TP. No. 35089-T**	**PEDRO ÁNGEL PRECIADO VILLARRAGA** **Statutory Auditor of Banco Davivienda S.A.** **TP. No. 30723-T** **Member of KPMG S.A.S.** **(See my report of March 6, 2020)**

Banco Davivienda S. A. and Subsidiaries
Consolidated Statement of Income
(Millions of Colombian pesos (COP))

Years ended on December 31:	**Note**	**2019**	**2018**
Interest income		10,725,258	9,509,642
Interest on loans		9,794,578	8,861,571
Investments and valuation, net	13,1	812,126	547,457
Interbank and overnight funds, repos, simultaneous operations		118,554	100,614
Interest expense		4,031,456	3,558,160
Deposits and time deposits		2,495,673	2,285,100
Checking accounts		31,158	30,965
Savings accounts		787,819	596,396
Time deposits		1,676,696	1,657,739
Credits from banks or other financial obligations		571,027	480,229
Debt instruments issued		792,204	713,042
Other interest		172,552	79,785
Gross financial margin		**6,693,802**	**5,951,486**
Impairment of financial assets, net		2,434,414	2,074,742
Impairment of financial assets		3,883,479	2,550,692
Reduction of financial assets		(1,449,065)	(475,950)
Net financial margin		**4,259,388**	**3,876,744**
Insurance transactions income, net	13.2	109,225	100,075
Commissions and service income, net	13.2	1,190,066	1,169,755
Result of investments in associates and joint operations, net		9,458	7,597
Operational expenditures		3,729,883	3,413,889
Staff expenditures	13.3	1,544,063	1,439,503
Overhead	13.4	1,903,269	1,854,542
Amortization and depreciation		282,551	119,844
Profit (or loss) on exchanges, net		196,799	190,057
Derivatives, net		(129,986)	(44,619)
Dividends received		22,510	18,975
Other revenue and expenses, net	13.5	(397)	(28,422)
Operational margin		**1,927,180**	**1,876,273**
Income tax and supplementary	13.6	387,373	362,654
Deferred income tax and supplementary	13.6	55,952	115,118
Profit attributable to the owners of the controlling company		**1,470,627**	**1,390,100**
Profit attributable to non-controlling interest		13,228	8,401
Profit for the year		**1,483,855**	**1,398,501**
Profit per share in pesos (1)		3,285	3,096

(1) Calculated as follows: profit for the year / average shares

Please see the notes attached to the consolidated financial statements.

JUAN CARLOS HERNÁNDEZ NÚÑEZ
Legal Representative

CARMEN ANILSA CIFUENTES BARRERA
Chief Accountant
TP. No. 35089-T

PEDRO ÁNGEL PRECIADO VILLARRAGA
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(See my report of March 6, 2020)

Banco Davivienda S. A. and Subsidiaries

Consolidated Statement of Other Comprehensive Income

(Millions of Colombian Pesos (COP))

Years ended on December 31st:	**2019**	**2018**
Profit attributable to the owners of the controlling company	**1,470,627**	**1,390,100**
Profit attributable to non-controlling interests	**13,228**	**8,401**
Components of other comprehensive income that will not be reclassified to the profit for the period, net of taxes (1):		
Financial instruments with changes in other comprehensive income	92,937	(11,396)
Long-term employee benefits	(9,875)	4,872
Impairment of loan portfolio for consolidated financial statements income	356,313	171,510
Total of other comprehensive income that will not be reclassified to the profit for the period, net of deferred taxes.	**439,375**	**164,986**
Components of other comprehensive income that will be reclassified to the result of the period, net of deferred taxes:		
Equity method from investments in associates - OCI	(1,340)	436
Effect First application IFRS 9	-	(768,020)
Exchange difference on translation	58,823	80,619
Total other comprehensive income that will be reclassified to income period, net of taxes	**57,483**	**(686,965)**
Total other comprehensive income, net of taxes	**496,858**	**(521,979)**
Total Comprehensive Result	**1,980,713**	**876,522**
Comprehensive income attributable to the holders of the controlling interest	1,974,223	870,805
Comprehensive income attributable to the holders of the non-controlling interest	6,490	5,717

(1) Note 13.6 disclose the related taxes for the components of other comprehensive income

See the notes attached to the consolidated financial statement.

JUAN CARLOS HERNÁNDEZ NÚÑEZ
Legal Representative

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Banco Davivienda S. A. and Subsidiaries
Consolidated Statement of changes in equity
(Millions of Colombian pesos (COP))

Years ended on 2019 and 2018	Capital	CAPITAL AND RESERVE Share premium	Legal reserve	Other reserves	First-time adoption effects	RETAINED EARNINGS Other comprehensive income	Profit previous years	Profit or loss	Total equity owners of the parent company	Non-controlling interests	Total shareholders´ equity
Balance at December 31, 2017	**76,784**	**4,676,804**	**2,657,922**	**430,249**	**23,335**	**1,650,921**	-	**1,275,266**	**10,791,281**	**92,585**	**10,883,866**
Profit transfer							1,275,266	(1,275,266)	-	(7,214)	(7,214)
Effect application IFRS 9					167,239	(768,020)	(215,860)		(816,641)	(413)	(817,054)
Dividends distribution											
Payments of dividends per share at a rate, $800 pesos per shave over 451,670,413 suscribed and pay, Apr. 4 y Sep. 19 de 2018							(361,336)		(361,336)		(361,336)
Reserve transactions:											
Legal reserve			95,225				(95,225)		-	641	641
Liberation of occasional reserve, to increase legal reserve commitment for			192,800	(192,800)					-		-
Occasional reserve				208,701			(208,701)		-	(1,299)	(1,299)
Capitalization of reserve, commitment for 2017			443,387				(443,387)		-		-
Liberation of occasional reserve, to increase legal reserve			276,068	(276,068)					-		-
To have profits of exercises of previous years realized in the period 2017, to increase Legal Reserve			35,706				(35,706)		-		-
Loan impairment for consolidated financial statements						171,510	62,293		233,803		233,803
Realizations First-time application of IFRS					(22,656)		22,656		-	(259)	(259)
Equity method from investments in associates - OCI						436			436		436
Exchange difference on conversion of subsidiaries outside Colombia						80,619			80,619	5,822	86,441
Equity investments through OCI						(11,396)			(11,396)	(106)	(11,502)
Long-Term Employee Benefits						4,872			4,872		4,872
Yearly earnings								1,390,100	1,390,100	8,401	1,398,501
Balance as of December 31, 2018	**76,784**	**4,676,804**	**3,701,108**	**170,082**	**167,918**	**1,128,942**	-	**1,390,100**	**11,311,738**	**98,158**	**11,409,896**
Balance as of December 31, 2018	**76,784**	**4,676,804**	**3,701,108**	**170,082**	**167,918**	**1,128,942**	-	**1,390,100**	**11,311,738**	**98,158**	**11,409,896**
Profit transfer							1,390,100	(1,390,100)	-	(5,372)	(5,372)
Effect application IFRS 9							2,448		2,448		2,448
Dividends distribution											
Dividends declared in cash at a ratio of , $840 pesos per share over 451,670,413 subscribed and paid. Apr.3 y Sep.18 2019				(599)			(378,804)		(379,403)		(379,403)
Reserve transactions:									-		-
Legal reserve									-		-
Occasional reserve				110,471			(110,471)		-	13,487	13,487
Capitalization of reserve, commitment for asamblea march 2018			509,220				(509,220)		-	639	639
Liberation of occasional reserve to increase legal reserve			258,162	(258,162)					-		-
To have profits of exercises of previous years realized in the period 2017, to increase Legal Reserve			45,452				(45,452)		-		-
Loan impairment for Consolidated financial Statements						356,313	(377,992)		(21,679)		(21,679)
First time IFRS applications					(29,391)		29,391		-	(7)	(7)
Equity method from investments in associates - OCI						(1,340)			(1,340)		(1,340)
Exchange difference on conversion of subsidiaries outside Colombia						58,823			58,823	5,068	63,891
Equity investments through OCI						92,937			92,937	1,422	94,359
Long-Term Employee Benefits						(9,875)			(9,875)		(9,875)
Yearly earnings								1,470,627	1,470,627	13,228	1,483,855
Balance as of December 31, 2019	**76,784**	**4,676,804**	**4,513,942**	**21,792**	**138,527**	**1,625,800**	-	**1,470,627**	**12,524,276**	**126,623**	**12,650,899**

JUAN CARLOS HERNÁNDEZ NÚÑEZ
Legal Representative

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(See my report of March 6, 2020)

Banco Davivienda S. A. and Subsidiaries
Consolidated Statement of Cash Flows
(Millions of Colombian pesos (COP))

Years ended on December 31st:	**Note**	**2019**	**2018**
Cash flows from operating activities:			
Profit for the period		**1,483,855**	**1,398,501**
Reconciliation between profit for the period and net cash generated (used in) operating activities			
(Recoveries) Impairment of investments, net	12.3	(2,080)	11,738
Impairment of loans and financial leasing operations, net		2,742,696	2,334,842
Impairment of accounts receivable, net	12.6	56,295	38,029
Impairment of assets held for sale, net	12.7	608	356
Impairment of property and equipment and investment property,, net	12.10	599	2,079
Impairment of other assets, net		51,236	89,723
Provision for severance payments		55,396	49,115
Provision for other non-financial liabilities and estimated liabilities, net		385,806	212,352
Net interest income		(5,881,675)	(5,404,029)
Depreciation		241,959	85,916
Amortization		40,592	33,928
Exchange difference, net		120,476	427,093
(Profit) on sale of investments, net		(42,112)	(32,731)
(Profit) on equity method associates, net		(10,069)	(8,431)
Net gain on investment securities		(770,015)	(514,726)
Valuation loss of derivatives and spot operations, net		129,986	44,619
(Profit) on sale of loans and leasing assets, net		(12,125)	(5,770)
(Profit) on sale of property and equipment, net	12.10	(793)	(16,578)
(Profit) on sale of assets held for sale	12.7	(3,392)	(8,663)
(Profit) on sale of investment property	12.11	(1,417)	(1,625)
Provision for income tax	13.6	443,325	477,772
Changes in operating assets and liabilities:			
Decrease (Increase) in money market and similar operations		32,633	(11,712)
(Increase) Decrease in spot operations and derivatives		(102,801)	13,670
Decrease in investments measured at fair value		299,883	322,926
(Increase) in loans portfolio and financial leasing operations		(12,936,447)	(11,384,839)
(Increase) in accounts receivable		(23,369)	(477,778)
(Increase) in other assets		(104,141)	(147,790)
Increase in deposits and demand accounts		7,754,443	4,588,699
(Decrease) Increase in ordinary interbank funds		(2,026,821)	2,436,646
(Decrease) in accounts payable		(175,360)	(184,899)
Increase in employment obligations		23,930	27,865
Increase in insurance technical reserves		12,013	25,131
Increase in estimated liabilities and provisions		181,194	9,708
(Decrease) in other liabilities		(505,178)	(74,432)
Proceeds of the sale of loans		948,454	337,279
Sale of assets held for sale		36,529	30,717
Income tax paid		(239,496)	(238,120)
Interest received		9,909,984	8,796,226
Interest paid		(3,293,360)	(2,866,073)
Payment of severance		(51,161)	(47,643)
Net cash (used) provided in operating activities		**(1,229,920)**	**369,091**

Banco Davivienda S. A. and Subsidiaries
Consolidated Statement of Cash Flows
(Millions of Colombian pesos (COP))

	Note	2019	2018
Cash flows from investment activities:			
Dividends received		27,371	29,081
(Increase) in investments measured at amortized costs		(196,801)	(200,200)
Decrease (Increase) in investments in associates and other companies		66,477	(54,388)
Increase (Decrease) in repurchase of shares; non-controlling interest		15,237	(2,828)
Acquisitions of property and equipment		(118,569)	(201,165)
Proceeds of sale of property and equipment		11,014	67,912
Proceeds of sale of investment properties		5,630	7,781
Net cash (used in) provided by investment activities		**(189,641)**	**(353,807)**
Cash flows from financing activities:			
Proceeds from new loans in financial debts	12.19	11,766,838	12,384,497
Debt repayments	12.19	(10,798,107)	(10,542,046)
Issues of debt instruments	12.20	2,468,971	803,114
Redemptions of debt instruments issued	12.20	(827,451)	(2,234,258)
Payment of liabilities for leases		(187,854)	-
Payment of cash dividends		(379,421)	(361,336)
Net cash provided (used in) financing activities		**2,042,976**	**49,971**
Net (decrease) in cash and cash equivalents		623,415	65,255
Effect of exchange difference on cash and cash equivalents		(59,558)	523,756
Cash and cash equivalents at the beginning of the year		9,903,912	9,314,900
Cash and cash equivalents at the end of the year		**10,467,769**	**9,903,911**

Please see the notes attached to the consolidated financial statements.

JUAN CARLOS HERNÁNDEZ NÚÑEZ
Legal Representative

CARMEN ANILSA CIFUENTES BARRERA
Chief Accountant
TP. No. 35089-T

PEDRO ÁNGEL PRECIADO VILLARRAGA
Statutory Auditor of Banco Davivienda S.A.
TP. No. 30723-T
Member of KPMG S.A.S.
(See my report of March 6, 2020)

1. Reporting Entity

Banco Davivienda S.A. is a private entity which has its registered offices in Bogotá D.C., at Avenida El Dorado 68C-61. It was incorporated Deed 3892 of October 16th, 1972, at Notary 14 Its operating license was granted on June 10th, 1997 (Resolution 562 of the Financial Superintendency ("SFC"). The Articles expire on December 30th, 2065, (Deed 7811 April 27, 2018) but may be extended or terminated before that date. The Bank and its Subsidiaries ("the Bank") form part of the Grupo Bolivar and its business is to engage in all operations permitted to commercial banks by local regulations.

2. Significant events

At December 31st, 2019, the following significant events were recorded in the Bank's operations affecting the Consolidated Financial Statements.

<u>Declared Dividends</u>

On March 15th, 2019, the Annual General Meeting approved payment of a dividend of $840 (pesos) per share for $378,804 from profits and $599 of occasional reserves for a total of $379,403, 50% of this dividend was paid on April 3rd, 2019 and the balance on September 18th, 2019. For further details of distribution see Note 12.25.

<u>Corporación Financiera Davivienda S.A.</u>

On September 2nd, 2019, the Financial Superintendence of Colombia authorized the incorporation of Corporación Financiera Davivienda S.A., per Resolution Number 1168. On September 13th, it was established as a subsidiary of the Bank per Public Instrument Number 16904 issued in the 29th Notary of Bogotá D.C. and registered with the Chamber of Commerce with a capital of $55,000. The Bank acquired a 90% participation while Banco Davivienda Internacional Panama acquired 9.99% and other Grupo Bolivar member companies hold a minority participation. The operating permit was granted on December 3rd, 2019.

<u>Servicios de Identidad Digital S.A.S.</u>

At December, 2019, the Bank paid an advance of $2,370 million for 33.33% of the share of the entity Servicios de Identidad Digital S.A.S., that will be incorporated during 2020. In addition, the Bank will pay approximately $7,873 and $9,257 in 2020 and 2021, respectively. The Bank wouldn't obtain control over Servicios de Identidad Digital, S.A.S., therefore the measurement of this entity will be as an investment in associate.

<u>The effect of exchange rates</u>

As of December 31st, 2019, the Market Exchange Rate (TRM) was US$1= $3,277.14, a devaluation of $27.39 compared to the TRM at December 31, 2018 (3,249.75). This increased the profit for the year by $191,105, the line items most affected were financial obligations (up by $409,734), other liabilities (up by $13,140), offset by the effect on the loans portfolio decrease by ($231,771).

3. Basis of preparation

a) Declaration of compliance with the Financial Reporting Standards Accepted in Colombia.

The financial statements have been prepared in accordance with the Accounting and Financial Reporting Standards accepted in Colombia *(*NCIF*)*, established in Law 1314 of 2009, regulated by the Single Regulatory Decree 2420 of 2015, modified by Decrees 2496/2015, 2131/2016, 2170/2017, 2487/2018 and 2270/ 2019 and the instructions of the Colombian Superintendency of Finance ("SFC"), in accordance with the provisions of Decrees 1851/2013 and 2267 /2014 and the SFC Circulars Letters 034/2014. The NCIF are based on the

International Financial Reporting Standards (IFRS), together with its interpretations, issued by the International Accounting Standards Board (IASB). The basic standards correspond to those translated into Spanish and issued by the IASB for the first half of 2016; the following items are excepted from NCIF:

Items	Normative	Exception
Treatment of the loan portfolio and its impairment	Decree 1851 of 2013 SFC External Circular 036 of 2014.	The consolidated financial statements present the impairment of the loan portfolio in accordance with the Accounting Norms and Financial Reporting accepted in Colombia (NCIF) and the difference between the impairment loss recognized under NCIF and the provisions calculated under the standards established by the SFC with the expected loss methodology is reflected in the Other Comprehensive Income (OCI) in the terms defined in Circular 36 of December 2014 and Circular 37 of October 2017.

Colombian law requires the Bank to prepare consolidated and separate financial statements, which are presented by the Board of Directors to the Annual General Meeting to approve or reject them. The consolidated financial statements are those in which assets, liabilities, equity, income, expenses, and cash flows of the Bank and its Subsidiaries are presented as if they were a single economic entity, which are submitted to the General Meeting in order to report on the performance of the management of the parent and subsidiaries. The separate financial statements are those in which the investments in subsidiaries are accounted for using the equity method. These financial statements are presented to the General Meeting so that - depending on their approval or rejection - the Meeting can decide on the distribution of dividends and other appropriations.

For legal purposes in Colombia, the principal financial statements are the separate financial statements.

b) Going concern

The preparation of the consolidated financial statements was made on the basis of a “going concern”; it was determined that there is no uncertainty about facts, events or conditions that may give rise to significant doubt about the possibility that the Bank entities continue to operate normally. The judgments by which the entities included in the Consolidated Financial Statements were determined to be business in progress, relate to the evaluation of the current financial situation, its current intentions, the results of operations and access to financial resources in the financial market, where also considered was the impact of such factors on future operations and no situation was identified that would make it impossible for the Bank to operate as a going concern.

c) Accrual accounting

The Bank uses accrual accounting to prepare its financial statements, except for cash flow information. The Bank therefore recognizes accounting items as assets, liabilities, equity, income and expense, when they meet the definitions and criteria established by the conceptual framework of IFRS adopted in Colombia.

d) **Materiality**

The Bank's management determined the relative importance of the figures to present in consolidated financial statements according to their function or nature. In other words, if a specific item lacks relative importance, it is grouped with other items, since IFRS do not require the Bank to make specific disclosures of items that lack relative importance.

e) Presentation

The Bank's management will maintain the presentation and classification of the items disclosed in the consolidated financial statements from one period to another, unless a review of activities of significant importance to the presentation of the consolidated financial statements is presented or when it becomes clear that another presentation or other classification will be more appropriate, considering the criteria defined according to the Bank's policies at the time.

Disclosures in relation to the criteria and estimates used for the recognition of asset and liability components of the Bank, appear in the note related to accounting policies. When required for proper understanding of the accounts, the importance of the use of these estimates and hypotheses that affect the amounts presented in the separate financial statements will be set out in the explanatory notes for each component that requires a separate description for value judgments applied in the presentation of the separate financial statements.

Uniform accounting NCIF-based policies have been used in preparing consolidated financial statements under NCIF except for changes introduced as of January 1, 2018 in relation to policies for other income due to the application of IFRS 15 - Revenues from Customer Contracts – and IFRS 9 – Financial Instruments. See Note 6 for a description of the impact of the application of these new standards.

f) Presentation of the consolidated financial statements

i. Statement of Financial Position

The statement is presented by showing the different accounts of assets and liabilities arranged according to their liquidity, considering that, for a financial institution, this form of presentation provides more relevant reliable information. Consequently, the development of each of the financial assets and liabilities are disclosed in an amount expected to be recovered or canceled within twelve months and after twelve months.

ii. Statement of Income and Other Comprehensive Income

They are presented separately in two statements as permitted by IAS 1- “Presentation of Financial Statements”. Also, the income statement is presented by the nature of income and expenses because it is a presentation that provides more reliable and relevant information for financial institutions.

iii. Statement of Cash Flows

The statement is presented by the indirect method. Interest income and expenses are presented as operating activities, dividends received as investment activities and dividends paid as financing activities.

4. Main Accounting Policies

4.1. Basis of Measurement

The consolidated financial statements were prepared based on a historic cost basis, except for the following financial instruments measured at their fair values at the end of each period, as explained in the accounting policies included below:

Rubric	Measurement Base
Derivatives financial instruments	Fair value
Financial instruments at fair value with changes in Results and in Other Comprehensive Income	Fair value
Long-term employee benefits	Actuarial calculation

i. Historical Cost

Historic cost generally is based on the fair value of the consideration given in exchange for goods and services.

ii. Fair Value

Fair value is defined as the price that would be received upon sale of an asset or price that would be paid to transfer a liability in an ordinary transaction between participants in the market at the valuation date, regardless of whether that price is observable or estimated directly using another valuation technique. When estimating the fair value of an asset or a liability, the Bank considers the characteristics of the asset or liability, whether the participants of the market would consider these characteristics at the moment of setting the price of the asset or liability on the date of measurement. The fair value for purposes of measurement and/or disclosure of the consolidated financial statements is determined in this way, with the exceptions of leasing operations covered by IAS 17, and valuations that have some similarities with fair value, but are not a fair value, such as the "value in use" contemplated by IAS 36.

4.2. Functional currency. Currency of presentation

The consolidated financial statements have been prepared and presented in Colombian pesos to comply with the functional currency of the Bank and comply with the instructions in SFC External Circular 38/2013.

The items included in the consolidated financial statements are expressed in the currency of the primary economic sphere where the Bank operates (Colombian pesos - COP). The financial statements are presented in "Colombian pesos" which is the functional currency of the Bank and the reporting currency. All information is presented in millions of pesos and has been rounded to the nearest unit.

4.3. Transactions in foreign currency

In preparing the financial statements of each individual entity included in the Bank's consolidated financial statement, transactions in a currency other than the functional currency of the Bank (foreign currency) are recognized using the exchange rates prevailing at the dates of the transaction. At the end of each period, monetary items denominated in foreign currency are converted at the exchange rates prevailing at that date. Non-monetary items are measured at historical cost in foreign currency are not reconverted.

Exchange differences in monetary entries are recognized in the income statement for the period, except when they are exchange differences arising from transactions related to currency risk hedges (see Note 4.9 related to hedge accounting policies).

The presentation of the consolidated financial statements contains the Bank's foreign currency assets and liabilities expressed in Colombian pesos using the exchange rates prevailing at the end of the period. Income and expense items are converted at the average exchange rates in effect for the period, unless they fluctuate significantly, in which case the exchange rates are used at the date the transactions are made and the equity at historical cost. Differences in exchange rate if any are recognized in OCI and accumulated in equity (attributed to non-controlling interests when appropriate). The Bank performs a sensitivity analysis of the exchange rates in order to assess the significant of fluctuations, see Note 11 - Risk Management for further information.

In the sale of a foreign operation (i.e., sale of all of the Bank's participation in a foreign operation, or a provision involving a loss of control in the subsidiary that includes a foreign operation, partial loss of joint control over a controlled entity jointly involving a foreign operation, partial of which the retained interest becomes a financial instrument. All differences in accumulated exchange rate in capital related to that operation attributable to the Bank are reclassified to results.

The conversion rates applied at the close of December 31,2019 and 2018 are $3,277.14 and $3,249.75 per USD $1 respectively.

4.4. **Basis for consolidation of financial statements**

The consolidated financial statements include the assets, liabilities, results and cash flows of the Bank and its subsidiaries and are prepared using standard accounting policies for transactions or events in similar circumstances. Intercompany balances and transactions and any unrealized income or expense are eliminated in the consolidation process. Unrealized gains arising from transactions with companies whose investment is recognized under the equity method are eliminated in proportion to the invested interest. Unrealized losses are eliminated in the same way as unrealized gains.

The Bank controls an entity when: a) there are existing rights that give the current capacity to direct the significant activities of the investee that significantly affect the returns of the same, b) it has the rights over and / or is exposed to the variable returns of the investee and c) It has the authority to use power over the investee to influence the returns of the same.

Subsidiaries

The Bank exercises indirect control over the companies in which the subsidiaries consolidate other entities. All consolidated entities are subsidiaries.

Subsidiaries are entities controlled by the Bank. An entity is controlled by the Bank when exercises power over the investee, is exposed, or is entitled to variable returns from its involvement in the investee and has the ability to influence those returns through its power over the investee. Generally, the control exercise is aligned with the risks or returns absorbed from the Subsidiaries. In addition, the subsidiaries are consolidated from the date control is obtained to the date when it ceases.

For each year, the Bank evaluates investments in which it has a stake of less than 50%, to establishing whether there is control and, therefore, an obligation to consolidate these entities, considering the following elements: a) Substantial changes in the interest of the Bank, purchases or sales of its shares in the period; b) contractual changes in management; c) additional activities in the year such as providing liquidity, transactions not originally contemplated; and d) changes in the evaluated financing structure of the Bank.

All intercompany balances, transactions and cash flows have been eliminated in consolidation.

When the Bank loses control of a subsidiary, the gain or loss in the disposal is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any interest retained and (ii) the previous book value of the assets (including goodwill) and liabilities of the subsidiary and any non controlling interest.

Amounts previously recognized in OCI related to the subsidiary are recorded in the same manner as if the relevant assets or liabilities are available (i.e.. they are reclassified to results or transferred directly to other equity account entries as is specified/allowed by the applicable IFRS). The fair value of any investment retained in the subsidiary at the date the control is lost is considered as the fair value for the initial recognition under IFRS 9 or if applicable, the cost of the initial recognition of an investment in an associate or joint operation.

For the equity investments, a significant and prolonged reduction in fair value at a level below cost is considered as an impairment.

The Bank's consolidated financial statements as of December 31, 2019 and 2018, include the following subsidiaries.

Subsidiaries in Colombia

Fiduciaria Davivienda S.A.

A private incorporation on December 14, 1992 (Deed No.7940 Notary 18, Bogotá), authorized by the SFC by Resolution 5413 of December 30, 1992 with a valid operating permit expiring in December 14, 2043, with registered offices of in Bogotá.

On December 13, 2012, Fiduciaria Davivienda S.A. and Fiduciaria Cafetera S.A., Subsidiaries of Banco Davivienda, were merged, and made Fiduciaria Davivienda S.A., one of the leading companies in the Trust sector. The company complements its offer of value to the customers with a wide portfolio of products in Investment Funds and Structured Trusts, backed by the knowledge and the experience of its staff.

Corredores Davivienda S.A. – Comisionista de Bolsa

This private securities brokerage was incorporated on December 5, 1980 by Deed 6710 on Notary 1 Bogotá D.C. Its registered offices are in Bogota D.C., and the SFC authorized it to operate in Resolution No. 061 of March 9, 1981; its Articles expires on December 31,2030.

On February 24, 2011, the Subsidiary Corredores Asociados Panamá S.A., a stick corporation, was incorporated as a Panamanian incorporation, registered as No. 719028 with the document 1880528 of the Business Section of the Public Registry of Securities Brokers, National Securities Commission Resolution No. 235-11 of July 5, 2011.

On February 28, 2013, a purchase agreement was made for 100% of the shares of Corredores Asociados, valued at $ 120,000 between Banco Davivienda, Fiduciaria Davivienda and Sociedades Bolívar, where the Bank acquired 94.89%. This purchase was authorized by the SFC on May 16th, 2013 and was formalized on December 25, 2013.

Through Resolution NumberNo. 2247 date of December 19th19, 2014, the SFC raised no objection to carry out the merger between the two brokerage firms: Corredores Asociados S.A., and Davivalores S.A.

On January 2, 2017 Davivalores S.A., ceased to exist, and joined with Corredores Asociados S.A., through a merger with Corredores Davivienda S.A

Cobranzas Sigma S.A.

Cobranzas Sigma S.A.S., is a private entity incorporated by a Single Private Shareholders Document on December 3, 2010, entered on December 9, 2010 under No. 01412815 of Book IX. It has its registered offices in Bogotá, D.C.; the articles of the company do not expire, but may be dissolved at any time. On October 31st,2018 the company became a stock corporation.

The Board of Directors of Leasing Bolivar, in Minute No. 435 of August 27, 2015 unanimously authorized the Company's President and granted him powers to execute the purchase agreement for the shares of the company SIGMA S.A.S., - a company whose business of collection of leasing debts, through the courts and otherwise - in the terms of a valuation conducted by the firm Estructuras Financieras S.A.S. Likewise, the Board of Directors unanimously requested Management to convene an Extraordinary General Meeting of Shareholders to be held on September 23, 2015, vote on the approval of the merger commitment or agreement and the terms of exchange between Banco Davivienda S.A. and Leasing Bolívar S.A.

On December 23, 2015, the General Shareholders' Meeting approved the merger between Banco Davivienda S.A., and Leasing Bolívar S.A., Financing Company.

As of January 4, 2018, with the merger between Leasing Bolivar S.A. and Banco Davivienda S.A., approved by the SFC, in Resolution 1667 of December 2, 2017, Sigma became a subsidiary of Banco Davivienda S.A.

Corporación Financiera Davivienda S.A.

Private organization incorporated under Public Instrument No. 16904 of September 9th, 2019 issued in the 29th Notary of the Circuit of Bogotá D.C., and authorized by the Financial Superintendence of Colombia per Resolution 1168 dated September 2nd, 2019, authorized per Resolution 1631 dated December 3rd, 2019 and registered in the Chamber of Commerce with a capital of $55,000. The Bank acquired a 90% stake, Banco Davivienda Internacional Panamá 9.99% and other companies of the Bolivar Group have a minority interest.

Subsidiaries outside Colombia

Financial Investments Davivienda S.A. - El Salvador

On June 25, 2003, the SFC authorized the firm Inversiones Financieras Bancosal S.A. to be incorporated as the controlling company for the sole purpose of managing the financial conglomerate of Banco Davivienda Salvadoreño which is composed of the following companies: Inversiones Financieras Davivienda. S.A., the controlling company with exclusive control; Banco Davivienda Salvadoreño S.A. And its subsidiaries;Valores Davivienda El Salvador, S.A. de C.V; and Seguros Comerciales Bolívar, S.A., Seguros de Personas Bolívar, S.A. and Davivienda Servicios S.A. de C.V.

Inversiones Financieras Davivienda S.A. has as its sole purpose the investment in the share capital of Salvadorean companies or companies incorporated abroad, engaged in financial intermediation or with the complementary purpose to effect the banking and financial businesses permitted by the laws of the Republic of El Salvador, with the approval of the SFC.

Banco Particular de El Salvador was incorporated on January 5, 1885 and Davivienda Seguros was incorporated on March 6, 1958 and the company of Davivienda Vida Seguros, S. A. Seguros de Personas was incorporated on July 13, 2000.

On November 30th, 2012 Banco Davivienda Colombia acquired the Subsidiary Inversiones Financieras Davivienda El Salvador.

There is a Representative Office in Guatemala which began operations in May 2014.

Banco Davivienda Honduras S.A.

This bank was incorporated in Tegucigalpa through Public Instrument No.12 of March 31st, 1948, to trade as Banco la Capitalizadora Hondureña S.A.

During 2004, the Bank became a subsidiary of Primer Banco del Istmo, S.A. (BANISTMO), a Panamanian financial group; and in July 2006, HSBC purchased 99.98% of the shares.

In February 2007, the bank's name changed was approved from Banco El Ahorro Hondureño S.A. to Banco HSBC Honduras, S.A. (Deed No.265 of May 9th, 2007, effective as of July 23, 2007).

On December 7th, 2012, Banco Davivienda Colombia acquired the subsidiary Banco HSBC Honduras S.A. (Deed 198), and the company name was changed to "Banco DAVIVIENDA Honduras S.A. Reg. No. 63.147, Entry No. 16.077 in the Business Register (*Registro de Comerciantes Sociales del Registro de la Propiedad Mercantil, Centro Asociado*).

Grupo del Istmo Costa Rica S.A.

On November 23, 2012 Banco Davivienda Colombia acquired Grupo del Istmo Costa Rica.

Grupo del Istmo was organized as a Costa Rican stock corporation; it is principally a holding company, with registered offices in San José, Costa Rica.

As of December 31,2014, Grupo del Istmo (Costa Rica), S.A. became the holder of 99.92% of the shares of Corporación Davivienda (Costa Rica), S.A., formerly Corporación HSBC (Costa Rica), S.A., an entity authorized as a Financial Group by the National Council for the Supervision of the Financial System (*CONASSIF*), since April 15, 1999, through Article 23 of Act 86-993.

The Financial Group is integrated, as of December 31, 2014, by Corporación Davivienda (Costa Rica), S.A. which holds 100% of the shares of the following companies registered in San José, Costa Rica:

- Banco Davivienda (Costa Rica). S.A. (formerly Banco HSBC (Costa Rica). S.A.
- Davivienda Puesto de Bolsa (Costa Rica). S.A. (formerly HSBC Puesto de Bolsa (Costa Rica). S.A.) (Valores)
- Davivienda Corredora de Seguros Costa Rica S.A. (formerly Davivienda Sociedad Agencia de Seguros (Costa Rica) S.A.

In March 2015, Grupo del Istmo acquired the Leasing company GDICR. Limited Liability. Company for 1 million colones and Corporación Davivienda (Costa Rica) acquired the shareholding held by Grupo Istmo of the business leasing subsidiary GDICR., changing the name of the leasing company to "Davivienda Leasing Costa Rica SA", and capitalizing it with ₡270 million (approximately US$ 0.5 million).

In October 2015 Grupo del Istmo (Costa Rica) S.A., made a capital contribution to Corporación Davivienda (Costa Rica), with the proceeds of a US$ 6.1 million loan received from Banco Davivienda Panama (General License), so that it could in turn acquire Riesgos e Inversiones Bolívar Internacional S.A., a company registered in Panama City, with 51% of the common and nominative shares of the company Seguros Bolívar Aseguradora Mixta S.A.

Seguros Bolívar Honduras S.A.

This company was incorporated on January 17, 1917, and was certified by public deed of November 11, 1987, as a corporation of indefinite duration, registered in Tegucigalpa, Honduras.

During 2005, the controlling interest in the insurance company, First Banco del Istmo. S.A. (BANISTMO), sold the shares of Seguros Bolívar Honduras S.A to another of its Panamanian subsidiary companies, HSBC

Seguros (Panama), S.A. Afterwards in July 2006, the Board of Directors of HSBC Seguros (Panama) S.A. deal signed with HSBC Asia Holdings, in which it sold 99.98% of the Parent´s shares.

During 2005, the parent of the insurance company, sold the shares of Seguros El Ahorro Hondureño, S.A. (Now Seguros Bolívar Honduras. S.A.) to another of its Panamanian subsidiaries: HSBC Seguros (Panama). S.A. (formerly Compañía Nacional de Seguros. S.A. (CONASE), which became the owner that consolidates the financial statements of the Subsidiary.

In February 2007, it was approved to change the company name Seguros El Ahorro Hondureño S.A." to "Seguros HSBC Honduras S.A." (Seguros HSBC. S.A) , and increase the capital to 3.468.000 shares.

In 2009, HSBC Seguros Panamá. S.A. passed to the ownership of HSBC Bank (Panama) S.A. On January 24th, 2012. HSBC Bank (Panama) S.A. entered into the agreement to buy 88.64% of the shares of Seguros HSBC Honduras S.A., with Banco Davivienda S.A., an operation concluded on December 7th, 2012, by an EGM Resolution of May 17th, 2012 and Resolution No. 502-11 / 2012 of the Banco Central de Honduras; the company was authorized to change its name to Seguros Bolívar Honduras. S.A.

The main business of the company is the acceptance of risk to cover indemnities for losses suffered by the assets or equity of the Parent, known as damage and loss insurance, including accident contracts.

Banco Davivienda Panamá S.A.

Banco Davivienda (Panama) S.A. (the "Bank", in this sections), before Bancafé (Panama) S.A., was incorporated on December 13, 1966 under the laws of the Republic of Panama, and started operations under a General Banking License from the National Banking Commission, now “Superintendence of Banks of Panama” (the “Panamanian Superintendence"), which allows it to engage in banking transactions in Panama and abroad. On May 3, 1988, through Resolution No.34-88 that entity also granted the Bank an international license. By Resolution No. S.B.P. 0067 of June 29, 2011. The Panamanian Superintendence authorized the transfer and consolidation of the activities held under the International License, under the umbrella of the General License. Therefore, this resolution supersedes Resolution No. 34-88.

Banking operations in the Republic of Panama are regulated and supervised by the Panamanian Superintendency, in accordance with Decree Law 9 of February 26, 1998 and other regulations. The registered offices are in Panama City.

On February 16, 2007 Banco Davivienda Colombia acquired the Subsidiary Bancafé Panama and currently owns 100% of the shares.

On November 19, 2012 Bancafé Panama changed its name and logo to become Banco Davivienda Panama.

Banco Davivienda Panama adopted the International Financial Reporting Standards and presented its opening financial statement and its first comparative statement in December 2014.

On March 13, 2018, Superintendency of Banks of Panama (the "Panamanian Superintendency" authorize the constitution by resolution No. 3.488. Inversiones Rojo Holding S.A., subsidiary of Banco Davivienda.

In 2018 Banco Davivienda (Panamá) S.A., acquired Torre Davivienda Sucursal S.A., Torre Davivienda piso 12 S.A., Torre Davivienda piso 13 S.A., Torre Davivienda piso 14 S.A. Torre Davivienda piso 15 S.A., Torre Davivienda piso 16 S.A., Torre Davivienda piso 17 S.A. and Torre Davivienda piso 18 S.A., for US$94,516. The acquisitions were business combinations under common control. Banco Davivienda (Panamá) S.A., measured the assets acquired and liabilities assumed using the book value in the financial statements of each entity (book value accounting). There were not impact on the consolidated financial statements because the transaction was at Banco Davivienda (Panamá) S.A. level and the effects were eliminated during the consolidation process.

(Millions of Colombian pesos (COP))

Licencia Internacional

On June 3, 2015 Banco Davivienda (Panama) S.A., was split to form the new subsidiary Davivienda Internacional S.A. (Panama), with a capital of US$ 10,000,000, consisting of 10,000 shares at US$ 1.000 each. This new entity is 100% owned by Banco Davivienda Colombia, as a result the new paid capital of Banco Davivienda (Panama) S.A., was in US$ 19,100,000.

With SFC-Colombia authorization (files 2014035808.-010-000 of May 29th, 2014 and file 2014088027-015000 of October 20th, 2014 the Panamanian Superintendency issued Resolution SBP-0106-2015 to permit the following book entries in the spin-off process:

Assets were transferred for US$ 109,117 compound for US$ 84,054 of loan portfolio and US$ 25,063 for investment in bonds and deposits for US$ 109,117. The process of spin-off was culminate in 2016.
Product of the split part of the capital reserve of US$ 1.3 million was transferred from the equity to constitute the dynamic reserve.

The following is a breakdown of the assets, liabilities, equity and profitability of the Bank and the companies included in the consolidation without elimination and adjustments to NCIF- Accounting and Financial Reporting Standards accepted in Colombia.

	December 31, 2019			
	Assets	Liabilities	Equity	Profit (Loss)
Banco Davivienda S.A. (Controlling Company) Excluded	94,882,121	83,416,461	11,465,659	1,316,203
Grupo del Istmo Costa Rica S.A. (*)	11,632,190	9,544,399	2,087,791	59,020
Inversiones Financiera Davivienda S.A. (*)	10,022,413	8,349,776	1,672,637	92,580
Banco Davivienda Honduras S.A	4,155,295	3,696,976	458,319	45,514
Seguros Bolívar Honduras S.A.	287,331	173,379	113,951	21,527
Banco Davivienda Panamá S.A.	4,824,599	4,248,431	576,268	32,408
Davivienda Internacional Panamá S.A.	576,771	373,028	203,742	9,546
Corredores Davivienda S.A. (*)	322,360	200,237	122,123	28,584
Cobranzas Sigma S.A.	2,111	556	1,555	1,178
Fiduciaria Davivienda S.A.	283,067	36,887	246,180	61,497
Corporación Financiera Davivienda S.A	55,514	150	55,364	364
Total	127,043,772	110,040,280	17,003,589	1,668,421

	December 31, 2018			
	Assets	Liabilities	Equity	Profit (Loss)
Banco Davivienda S.A. (Controlling Company) Excluded	86,049,167	75,705,051	10,344,116	1,194,882
Grupo del Istmo Costa Rica S.A. (*)	9,904,132	8,981,847	922,284	82,686
Inversiones Financiera Davivienda S.A. (*)	8,578,026	7,566,861	1,011,165	81,694
Banco Davivienda Honduras S.A	3,693,345	3,268,653	424,692	34,772
Seguros Bolívar Honduras S.A.	277,206	170,939	106,267	21,925
Banco Davivienda Panamá S.A.	4,228,813	3,701,774	527,039	27,117
Davivienda Internacional Panamá S.A. (*)	568,260	375,975	192,285	5,633
Corredores Asociados Colombia S.A. (*)	230,711	139,354	91,357	15,878
Cobranzas Sigma S.A.	1,580	383	1,197	911
Fiduciaria Davivienda S.A.	251,036	30,511	220,526	43,543
Total	113,782,276	99,941,348	13,840,928	1,509,041

(*) Sub-consolidated

To date, there are no contractual restrictions on the use of assets and liquidation of the Bank´s liabilities except the cash reserve requirement, for the protection of customer deposits.The financial information of all subsidiaries is presented on a consistent basis of accounting in accordance with NCIF.

4.5. Cash and Cash Equivalents

Cash and equivalents include available balances maintained with central banks, correspondents an highly-liquid financial instruments, with original maturities of three months or less, subject to little significant risk and used by the Bank to manage its short-term commitments. The Bank defines as ´low significant risk´ those financial instruments that depend on broad, deep markets, about which there is total certainty and facility for their valuation; and with a minimum credit risk, shown in the ratings that support a strength in the capacity of the issuer or counterparty to settle its obligations.

Cash equivalents measured at a fair value or at the amortized cost of the financial instruments that meet conditions to be so in each case. As of December 31, 2019 and 2018 cash equivalents are financial instruments that have a maturity between 1 and 90 days, and are included as part of Interbank and overnight funds (see note 12.2).

4.6. Interbank and overnight funds

Interbank and overnight funds include the operations of purchase and sale of interbank funds, repos, simultaneous operations and the temporary of securities operations.

Engagement in repos, simultaneous operations and temporary transfers of securities are recorded in the Statement of Financial Position as an obligation or a right according to the appropriate position. These operations are considered guaranteed forms of financing and are recognized initially at a fair value, the amount of cash being disbursed and received, respectively. The disbursing party takes possession of the securities that serve as a guarantee for the financing, and they have a value of the amount of capital lent, or higher.

For repos, the initial amount can be calculated with a discount on the market price of securities object of the transaction; it can be established that over the term of the transaction, the initial securities delivered can be substituted for others and restrictions can be imposed on the mobility of the securities involved in the operation.

In the case of simultaneous operations, a discount may not be established on the initial amount market price of the securities, nor may it be arranged that securities initially delivered can be replaced by others during the life of the operation, and restrictions cannot be placed on the mobility of the securities of the operation.

The securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not derecognized in the financial situation statement, since the risks and benefits of the financial asset cannot be transferred.

The yield of repo or simultaneous operations and interbank interest are recorded in the Income Statement.

Interbank operations maturing at 90 days or less are considered as cash equivalents for cash flow presentation.

4.7. Financial Instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to liabilities are deducted from the fair value of financial liabilities at initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in the Income Statement.

4.7.1. **Financial Assets**

The Bank has classified its financial assets at amortized cost or fair value according to the business model defined to manage the risks and benefits as well as the characteristics of contractual cash flows of financial assets.

The characteristics of cash flows show whether the instrument is held to obtain contractual cash flows or for sale or for both.

<u>Evaluation of the business model</u>

The evaluation of the business model implies an evaluation of the Bank´s routine operations and the role of one or another financial asset in its business objectives. The analysis of the instruments is made in aggregate form (area. sub-area), which is then extended downwards to an individual evaluation for a portfolio, product or business line where needed, generating the possibility of holding "sub-portfolios", each corresponding to a different business model.

<u>Evaluation of characteristics of contractual cash flows, SPPI Test.</u>

The Bank determines whether a financial asset satisfies the conditions as a Solely Payment of Principal and Interest security, in order to evaluate the characteristics of contractual cash flows.

Bank established two business models for the management of the investment portfolio: i) structural management: investments whose objective is associated with financial intermediation, management of market risks of the balance sheet, and the need to count on a backing of liquid assets in the process of financial intermediation; and ii) negotiation management: investments whose purpose is to maximize the profits generated by the Treasury by means of the purchase and sale of financial instruments.

All of the purchases and sales of financial assets completed in the usual manner are recognized and eliminated based on the trade date. The purchases and sales made on a regular basis are those purchases or sales of financial assets that require the delivery of the assets within the time period established by regulations or custom in the market.

Financial assets at amortized cost

The Bank holds financial instruments measured at amortized cost when its intention is to maintain them in order to collect contractual cash flows, and the contractual terms of asset give rise, on specific dates, to cash flows that are solely payments of principal and interest on the outstanding principal, and the Bank has the ability to hold them until maturity.

Financial assets are recognized at amortized net cost of impairment provisions; Interest income is recognized by the effective interest method and is recorded as interest income.

Investments measured at amortized cost are evaluated in each period to determine whether there is evidence of impairment. and impairment losses are charged to the Income Statement.

Reclassifications of financial instruments are made only if the Bank's business model changes.

Financial assets at fair value through profit or loss

Financial assets that are purchased for the purpose of selling or repurchasing in the short term are held for trading. The Bank manages these investments and takes decisions to buy and sell decisions based on their fair values in accordance with risk management or investment strategy. These assets are recognized at fair value on the date of the trade, and subsequent changes in fair value and gains or losses on sale are recorded in the Income Statement.

Financial assets at fair value through profit or loss

Financial assets that are designated at fair value through OCI are recognized at fair value on the trading date. Changes in fair value are recorded in OCI; interest is recognized in the Income Statement when earned and the profit or loss on sale is calculated on the cost and recognized in net income by profit (loss) in Other Income.

Certain equity investments complementary to the Bank's business are recognized at fair value through OCI, taking the irrevocable decision to classify them in this category and are recognized at fair value plus any transaction costs on the date of the trade. Changes in the equity securities are recorded in OCI.

Impairment of financial instruments at amortized cost and fair value through OCI - Investments

The impairment of these investments is recognized as follows:

- If the credit risk of the investment has significantly increased since its initial recognition, it is recognized for the amount less the expected credit loss over the life of the asset; or
- If the credit risk on the investment has not significantly increased since initial recognition, it is recognized for an amount net of expected credit loss for the next 12 months.

The Bank reviews these investments at least annually or semiannually, depending on the type of company concerned, and reviews individual or sector situations that could impact the creditworthiness of the counterparts.

For debt investments, the impairment of credit risk rating is considered to be objective evidence of impairment. There are other factors in assessing impairment, including financial position, the principal indicators of the issuer, significant and continuing losses of the issuer or contractual default, including non-payment of interest or defaults on loan covenants. Note 12.3.3 disclose the credit risk by grade and the expected credit loss of these financial instruments.

4.7.1.1. **De-recognition of financial assets**

The accounting treatment of financial assets transfers depends on the extent to which the risks and benefits associated with the transferred assets are transferred to third parties.

- The Bank ceases to recognize a financial asset only when the contractual rights expire on the cash flows of the financial asset or when all the risks and rewards of ownership of the financial asset are transferred substantially. For example, the unconditional sale of financial assets, the sale of financial assets with a promise to repurchase them at fair value to the date of repurchase, the securitization of assets in which the transferor does not retain subordinated financing or grant any credit enhancement to new holders, and other similar cases.

- Upon de-recognition of a financial asset in its totality, the difference between the book value and the sum of the consideration received, and because of the receiving and the cumulative gain or losses recognized in Other Comprehensive Income and retained earnings, they are recognized in results.

- If the Bank neither transfers nor retains all the substantial risks and rewards of ownership and continues keeping control of the transferred asset, the Bank will recognize its interest in the asset and the liability associated with the amounts that it would have to pay, for example, sales of financial assets with the promise of repurchasing them at a fixed price or the sale price plus interest.

If this is the case, the following elements are recognized:

a) An associated financial liability, which is recognized in an amount equal to the consideration received and is subsequently measured at its amortized cost unless it meets the requirements for classification in other financial liabilities at fair value through profit or loss.

b) The income from the transferred financial asset not de-recognized and expenses of the new financial liability remain uncompensated.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateral loan for funds received. For example, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the asset transferred.

4.7.1.2. **Loan Portfolio**

The loan portfolio consist of assets with fixed or determinable payments and which the Bank does not intend to sell in the short term and are not quoted in an active market. The loans are registered at amortized cost net of impairment provisions, penalties and unearned income, including paid interest, costs, and origination fees, syndicated loans commissions and unamortized discounts or premiums when the conditions are met.

Interest income is recognized by the effective interest method. Costs and origination commissions are considered to adjust the interest rate of the loan and recognized in interest income over the term of the loan.

Commissions are recognized by the effective interest rate method during the term of the credit or as commission income when there are no disbursements as contractually agreed.

Ministry of Finance Decrees 1143/2009, 1190/2012, 0701/2013, 2480/2014 and 161/2014, create the "conditioned hedging" mechanism to help home-buyers. The Bank implements the procedures for the implementation of this mechanism in the disbursements of housing loans and in residential leasing contracts for new housing. The Government has hedged of interest on loans granted from July 2012, up to a general preset. The Bank offered its customers an additional incentive for and after installment 85 up for up to a maximum of the next eight years and will take up the amount that the Government had been paying, provided that the customer keeps up with his obligations. To fulfill this obligation a provision was estimated based on a model that considers the real performance of the loans, which must be adjusted to the extent that the Bank provides hedging.

<u>Mortgage Leasing</u>

The property included in this type of operations is owned by the Bank and is insured for fire and earthquake.

Mortgage Leasing corresponds to the financed value of real property of housing delivered to the user on lease and use, in exchange for payment of a regular lease payment, during the agreed term. Upon expiry of that time, the property is restored to its owner or transferred to the lessee, if he decides to exercise the purchase option and pays it.

Restructured Loans

A restructured loan is a business transaction designed to change initial the conditions so that the debtor will be able to service the loan properly. Loan modifications that do not correspond to customer payment problems are not considered restructured. Before restructuring a loan it should be reasonably established that the debt will be repaid under the new conditions.

Portfolio Purchases

Purchases are initially recognized at acquisition cost equal to their fair value, considering any discount or premium adjustment on purchases.

Insolvency regime: Law 1116 of 2006

The insolvency regime seeks to protect credit and secure the recovery and conservation of a business as a unit of economic exploitation and source of employment, by the means of reorganization and formal liquidation, always applying the criterion of added value.

Impairment Provisions (Policy effective since January 1, 2018)

The Bank aims to guarantee its customers´ money by making prudent provisions against loan losses.

A loan or group of loans measured at amortized cost are considered to be impaired if there is a significant increased in credit risk and this event has an impact that can be reliably calculated on the estimated future cash flows of the financial asset.

This implies that the impairment must be consistent with the model for expected losses defined for the portfolio; that impairment be generated by the effect of significant increases in loan credit risk; and that the calculation of the amount of the impairment can be estimated as an effect of the decline in value of expected loan flows in comparison to contractual flows.

Indicators of impairment, may include, but are not limited to, one or more of the following events: a) significant financial difficulty of the borrower or issuer, b) default or delinquency by a borrower, c) restructuring of the loan, d) indications that a borrower or issuer will go into bankruptcy, e) disappearance of an active market for an instrument, f) other observable data relating to a block of assets such as adverse changes in the payment status of the borrowers or issuers in the bank or economic conditions that correlate with defaults on the Bank’s assets.

Significant loans measured at amortized cost presenting impairment are assessed individually and those that remain significant but have no impairment are collectively evaluated for any signs of impairment that they may have incurred but have not yet been identified. Loans measured at amortized cost that are not individually significant are collectively assessed looking for impairment, by grouping them according to similar risk characteristics.

The model of individual impairment evaluation takes into account the expected flows affected by factors such as arrears presented, the antiquity of these arrears, exposure of the loan, the associated guarantees and the costs incurred to collect against collateral.

Further, the evaluation model of collective impairment considers the customer´s historical record of payments at the cutoff date, allowing the construction of transition matrixes from which the existence of significant impairment in the obligations of the portfolio could be objectively determined. The collective impairment model also considers credit exposure and potential recoveries of impaired loans.

If the conditions of a financial asset at amortized cost are re-negotiated or otherwise modified due to financial difficulties of the borrower or issuer, the impairment should be measured if there is a significant increase in credit risk. making a comparison between:

- The risk of default on the date of the event, based on contractual or renegotiated terms; and,
- The risk of default at the time of original recognition, based on original contractual conditions.

The size of impairment represents the management's best estimate for the impairment of loans including off balance sheet exposures at year-end. Provisions for loans are presented as a deduction from loans at the time of presentation of assets in the consolidated financial statements.

Loan impairment levels increase with new provisions and are reduced by write-offs, or sals. The specific conditions of the model for expected losses are detained in Note 10.4.2 – Credit Risk – Impairment Model.

Write-offs

A loan is derecognized when there is no chance of recovery and extensive recovery efforts have been made or legal action have been taken. Consumer loans not backed by mortgage and/or guarantee are derecognized when exhaustive efforts of recovery have been made. Commercial. consumer and home mortgage loans and residential leases are derecognized when the maximum days´ past due is exceeded as set in each country.

Particular write-offs, under the parameters defined by the Bank as authorized by the Board may also be applied.

A write-off does not relieve Bank´s management from continuing in its efforts to collect in some appropriately manner.

4.7.1.3. **Loan Portfolio Sales**

This is a process whereby financial assets held by the Bank are 100% transferred with all the rights and risks or derivatives thereof to a third party as a firm sale and the consideration received can be money or other property. The assets being sold are removed from the consolidated financial statements for their net value on books on the trade date and the difference between the book value and the value received is recorded as a profit or loss for the year, registered according to valuation studies issued by experts

The Bank has management contracts for securitized portfolios where is uses computer applications to control the operations of a third-party loan portfolio on commission.

Loans that are derecognized and then sold are recorded at fair value and the profit or loss is recognized against profit or loss.

The Bank has management contracts for securitized portfolios where is uses computer applications to control the operations of a third-party loan portfolio on commission.

4.7.1.4. **Accounts receivable**

Accounts receivable other than the loan portfolio and finance lease transactions are subsequently classified and measured at amortized cost and impairment losses are periodically evaluated in accordance with the simplified impairment model for this item.

Accounts receivable provisions

The Bank will measure loss adjustments at an amount equal to expected credit losses over life for accounts receivable other than the loan portfolio, using a simplified impairment model based on the behavior and permanence of the items, excluding from the calculation those accounts that according to their term, functionality, purpose and control do not require it.

4.7.1.5. **Derivative financial instruments**

Derivatives are financial instruments that generate value from changes in interest rates, exchange rates, lending spreads, commodity prices, stock prices, or other financial or non-financial metrics. The Bank's derivatives portfolio is made up of contracts on interest rates, exchange rates and debt securities. The Bank uses derivatives for trading purposes and risk management purposes associated with the balance sheet structure and they are recognized at fair value in the Statement of Financial Position. In addition, the charge for credit risk is recognized using the CVA and DVA calculation for each counterparty engaged in this type of contract.

The CVA is the Counterparty risk, which is expressed as a negative adjustment to fair value; DVA is the Davivienda risk to the counterparty, which implies a positive adjustment to the fair value of the contract.

Notional amounts of derivatives are not recognized as assets or liabilities, as they represent the face value of the contract to which a rate or price is applied to determine the cash flow for which it will be changed in terms of the contract. The notional amount does not represent the potential gain or loss associated with market risk or the risk indicator associated with the derivative.

Derivatives held for purposes of risk management are recognized at fair value in the Statement of Financial Position, and changes in fair value are recognized in Results along with changes in the fair value of the hedged item that are attributable to risk coverage, on the same OCI income line as the hedge entry.

Derivatives held for trading purposes

Trading profit can be generated in three ways: i) by distribution, understood as the Treasury's intermediation between professional markets, and offshore, institutional and real sector customers; ii) by the own position activity, by which positions are taken for short periods of time to take advantage of the trends of valuation or devaluation of financial assets and derivative instruments and (iii) the arbitrage activity, which allows, through the combination of financial assets and derivative instruments, to generate financial margins without incurring market risks.

Realized or unrealized derivatives trading profits are recognized in the income statement as revenue associated with the business model of trading.

Derivatives held for risk management

The derivatives held for risk management care those which the Bank trades in order to hedge market, interest rate or foreign currency risks which are part of its traditional banking business operations. If derivatives are held to manage risks and also meet the requirements of hedge accounting, they are recorded with the requirements of hedge accounting. Certain derivatives that are held for hedging purposes and do not meet hedging requirements are recognized as derivatives to manage risks and their changes in fair value are recognized in the income statement.

Embedded derivatives

The derivatives embedded in other financial instruments or other contracts (host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when such contracts are not recorded at fair value through profit or loss.

4.7.1.6. Offsetting of financial instruments in the Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legal right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Information regarding the offsetting of financial assets and liabilities is disclosed in note 11.

4.8. Hedge accounting

The Bank designates certain instruments as hedging instruments. They include derivatives and non-derivatives with respect to foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investment in a foreign operation.

For the consolidated financial statements, the requirements of Chapter 6 of IFRS 9 apply to hedges in force at the transition date, that is, January 1, 2018. After that date all the criteria for hedge accounting in IFRS 9 v. 2014 will apply to new hedging operations. The consolidated financial statements at December 31, 2017 applied the hedge accounting requirements in IAS 39 (replaced by IFRS 9) were applied.

At the beginning of the hedge, the Bank documents the relationship between the hedging instrument and the hedged item, as well as the objectives of the risk management and its management strategy to undertake various hedging transactions. Additionally, at the beginning of the hedge and on a continuous basis, the Bank documents whether the hedging instrument is highly effective in offsetting the exposure to changes in fair value or changes in the cash flows of the portion hedged.

In addition, the risk component or components hedged are identified, provided that they can be separated and measured reliably, and it is specified whether full or partial hedging is performed at a percentage of the nominal amount of the hedged item or whether it is partial to the individual cash flows. The Bank also assesses, in accordance with the hedging strategy and according to the characteristics of the hedged item and the hedging instrument, whether periodic renewals are required to maintain the hedging relationship.

Fair value hedges

The changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized immediately in the results, along with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk. The change in fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the income statement in the item related to the hedged item.

Hedge accounting is terminated when the Bank revokes the hedging relationship when the hedging instrument expires or is sold, terminated, or exercised, or no longer meets the criteria for hedge accounting. The fair value adjustment of the book value of the hedged item arising from the hedged risk is amortized against income from that date.

See Note 12.4 for details of the fair value of instruments used for hedging.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in Other Comprehensive Income and accumulated under the rubric of hedged cash flows reserve. Profit or loss related to the ineffective portion of the hedging instrument is immediately recognized in profit for the year, and is included under "Other Income and Expenses".

The amounts previously recognized in Other Comprehensive Income and accumulated in equity are reclassified to the Income Statement in the periods in which the hedged item is recognized in income in the same area of the recognized hedged item. However, when a forecasted transaction that is hedged produces the recognition of a non-financial asset or liability, the gains or losses previously accumulated in equity are transferred and included in the initial valuation of the cost of the non-financial asset or liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or no longer meets the criteria for hedge accounting. Any cumulative profit or loss on the hedging instrument that has been recognized in equity remains in equity until the forecasted transaction is eventually recognized in the income statement. When the forecasted transaction hedged is no longer expected to occur, the cumulative gain or loss in equity is recognized immediately in the Income Statement.

Hedges of net changes in investment in a foreign operation

Hedges of a net investment in a foreign operation are recorded in a similar way to cash flow hedges. Any profit or loss on the hedging instrument relating to the effective portion of the hedge is recognized in Other Comprehensive Income and accumulated in the foreign currency translation reserve operations. The profit or loss related to the ineffective portion is recognized in the Income Statement.

Profit or loss on the hedging instrument relating to the effective portion of the accumulated hedge in the translation reserve of foreign currencies are reclassified to income in the sale of the foreign operation.

The Bank has a strategy of partial (successive) hedging in order to maintain the rate coverage of change of net investment abroad by replacing the non-derivative liability in dollars at maturity given that there is no expectation of selling these investments in the short term.

4.9. **Assets held for sale**

Assets are classified as held for sale when their present conditions allow their sale and it is highly probable that their sale happens in the following year and from the second year they are categorized as Other Assets. For the sale to be probable, the Bank's management is required to make sales plans and start an active marketing program to ensure their sale.

Assets classified as held for sale are recorded at the lower of cost and fair value less sale costs. In this classification they are no longer depreciated or amortized and subsequent changes in their fair value less sales costs are carried to the Income Statement.

Sales Plan

The following are the sales plans established for assets held for sale

- The available assets are delivered to the sales channels (real estate agencies, specialized natural persons and vehicle suppliers) with which the Bank works, to begin the marketing process.

- With regard to assets that are difficult to sell, which are catalogued as such when they have been in existence for more than twelve months in the case of real estate or more than three months in the case of vehicles without receiving any offer since the beginning of their listing, specific plans are made for the sale, with greater emphasis on those that have completed this time, analyzing each case and creating strategies to achieve their disposal.

- The price, as a general policy, is determined by a commercial appraisal (no older than six months for real estate and three months for private vehicles), the ease of sale of the property, physical conditions and conditions of the real estate or vehicle market in the specific area, among others.

- Businesses are monitored on a monthly basis, in order to verify the steps taken by the sales channels to comply with the times established in the marketing of the goods, generating commitments among the parties to seek effective sales solutions.

4.10. **Joint operations**

Joint operations are those entities in which the Bank has joint control over its activities, established by contractual agreements and requiring unanimous consent for decisions related to financial and operational policies. In the joint operations, assets, liabilities, revenues and expenses related to the participation in the multiparty operation of each of the joint ,operations are calculated and in joint operations the participation as an investment using the equity method is recognized.

The Bank participates in joint operations related to the financial retail business, through a business collaboration agreement where each party makes contributions that will remain within the agreement owned by of each contributing party receiving a percentage of participation of the profits.

4.11. **Property and equipment**

Land and buildings, computer equipment, furniture and fixtures and other equipment are recognized at cost, less depreciation and impairment provisions. The cost includes expenses directly attributable to the acquisition of the asset, Land is not depreciated and profits or losses on sale of assets are recorded in other income or expenses in the income Statement.

The costs of replacing a portion of the property and equipment are recorded as an value of the asset if they meet the requirements for being recorded in this way, and the maintenance and remodeling costs of own assets that do not extend the useful life of the asset are recorded as expenses in the Income Statement. Significant remodeling expenses of rented offices are amortized over the term of the agreement.

The carrying amount of an item in the books for Property and Equipment will be derecognized upon disposal; or when no future economic benefits are expected to be derived from their use or disposal

Transfers are made where there is a change of use of property and equipment and control of the asset is not lost.

Depreciation

Depreciation is calculated, using the straight-line method on the cost of the assets, less its residual value. Land is not subject to depreciation. Depreciation, which is charged to income, calculated based on the following useful lives:

Category	Useful life (years)	Residual value
Buildings	30 – 100	10% Acquisition Value
Vehicles	3 – 5	20% Acquisition Value
Furniture and fixtures	3 – 10	Up to 5%
Computer equipment and other equipment	3 – 20	Up to 5%

The useful lives and residual values are reviewed every year and adjusted when necessary.

4.12. Investment properties

An investment property is classified as real property that is not used by the Bank and which is maintained for income and/or capital gains.

Investment properties are initially valued at acquisition cost, including costs incurred in the transaction. After initial recognition, investment property is valued under the cost model set forth in the property and equipment policy.

An investment property is derecognized upon disposal or when it is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising from the derecognizing of the property (calculated as the difference between the net disposal income and the carrying value of the asset) is included in the income statement in the period in which the property is derecognized.

Investment properties are recognized as assets only when it is probable that future economic benefits that are associated with such investment property will flow to the Bank and the cost of the investment propertys can be measured accurately.

When the use of a property changes to investment property, this is measured at fair value and reclassified as investment property. The difference that arises between the carrying book value and fair value is recognized in income statement. According to the IAS 40, when the entity uses the cost model, transfers between investment property facilities occupied by owner and inventories do not change the carrying amount in the ledgers, or the cost of such properties for measurement purposes or disclosure.

4.13. **Investments in associates**

Associates are those entities in which the Bank has significant influence, but does not have complete or joint control over the financial and operating policies or it owns more than 20% but less than 50% of the business. Investments in associates and joint operations are initially recognized at cost including any transaction costs and increase or decreased by the equity method to recognize participation in income and changes in equity and any decrease to reflect provisions for impairment in the value of the investment. The changes in the investment are recognized in the income statement and in equity in Other Comprehensive Income, and thereafter the existence of impairment evidence is assessed applying the requirements of IAS 36. Dividends from associates are recognized in income for the period when there is the right to receive them.

When the Bank's share in the losses of an associated entity or a joint operation of the Bank exceeds the Bank's participation in the associate or joint operation (which includes long-term interests that, in substance, form part of the net investment of the Bank in the associate or joint operation), the Bank ceases to recognize its share of the losses. Additional losses are always recognized if the Bank has undertaken any legal or constructive obligation or has made payments on behalf of the associate or joint operation.

The equity method is estimated based on the financial statements homogenized to the controlling company's policies.

In the acquisition of the investment in an associate or joint operation, the excess of acquisition cost over the Bank's share in the net fair value of identifiable assets and liabilities on the investment is recognized as capital gain, which is included in the book value of the investment. Any excess in the Bank's participation in the net fair value of identifiable assets and liabilities in the acquisition cost of the investment, after reassessment, is recognized immediately in income in the period in which the investment was acquired.

When necessary, the Bank tests impairment of the total book value of the investment in an associate or joint operation (including capital gain) in accordance with IAS 36 Impairment of Assets as a single asset, by comparing its recoverable amount (the higher of value in use and fair value minus sale cost) against its book value. Any recognized impairment loss forms part of the book value of the invassociate estment. Any reversal of such an impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Bank discontinues the use of the equity method from the date the investment ceases to be an associate or a joint operation, or when the investment is classified as held for sale. When the Bank maintains an interest in the associate or joint operation, the investment retained is measured at the fair value at that date and is regarded as its fair value at the initial recognition in accordance with IAS 39 and the difference between the book value of the associate or joint operation at the date the equity method was discontinued and the attributable fair value is included in determining the profit or loss on disposal of the associate or joint operation . Additionally the profit or loss previously recognized in OCI by that iassociate or joint operation is reclassified to the Income Statement.

The Bank continues to use the equity method when an investment in an associate becomes an investment in a joint business or an investment in a joint operation becomes an investment in an associate. There is no re-valuation to at fair value of such changes in the participation.

When the Bank reduces its ownership interest in an associate or a joint operation but continues to use the equity method, the Bank reclassifies to profit for the year the gain or loss that had been previously recognized in Other Comprehensive Income in relation to the reduction of its investment share if that profit or loss had been reclassified to income statement on the disposal of related assets or liabilities. As of December 31, 2019 and 2018, the Bank has the same ownership of its associate or a joint operation (see Note 12.8.)

If the Bank conducts transactions with its associate or joint operation , the profit or loss resulting from such transactions with the associate or joint operation is recognized in the separate financial statements of the Bank only to the extent of participation in the associate or joint operation that is not related to the Bank.

The Bank determines that it has significant influence over the following investments:

- Colombian entities: Multiactivos, Redeban and Titularizadora de Colombia
- Indirect investments in Salvador: Sersaprosa, Serfinsa and ACH
- Indirect investments in Honduras: Zip Amarateca and Bancajero BANET

Joint operations are those entities in which the Bank has joint control over their activities, established by contractual agreement and requiring unanimous consent for determining the financial and operating policies. In joint operations, assets, liabilities, income and expenses relating to participation in the joint operation are accounted for from each of the joint operators in joint operations participations the interest is recognized as an investment applying the equity method.

The Bank engages in joint operations related to retail financial business, through a business partnership agreement where each party makes contributions that remain within the agreement in part owned by each contributor, receiving a percentage of participation on profits and other operations performed by the affiliate in Colombia Fiduciaria Davivienda S.A., Through contracts of consortium agreements, each entity has a percentage interest in consortia of structured Trusts. These agreements are signed with other trust businesses for the purposes of participating in public tenders to run and develop a service delivery activity together.

4.14. **Business combinations**

Business acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the entity minus the liabilities incurred by the entity with the previous owners of the acquired company and equity securities issued by the entity in exchange for control over the company. Costs related to the acquisition are generally recognized in the income statement as they happen.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at fair value except for:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefits, which are recognized and measured in accordance with IAS 12 -Income Taxes- and IAS 19 -Employee Benefits- respectively;
- Liabilities or equity instruments related to payment agreements based on shares of the acquired company or payment arrangements based on the Bank’s shares held to replace payment agreements based on shares of the acquired company that are measured in accordance with IFRS 2 -Share-based payments- at the date of acquisition; and
- Assets (or a group of assets for disposal) that are classified as held for sale in accordance with IFRS 5 - Non- current Assets Held for Sale and Discontinued Operations - which are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred. the amount of any non-controlling interest in the acquire, and the fair value of the previous shareholding of the acquirer in the acquire (if any) on net values of identifiable acquired assets and liabilities assumed at the acquisition date. If after a revaluation the net of amounts of identifiable acquired assets and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of the previous shareholding of the acquirer in the acquire (if any), the excess is recognized immediately in the consolidated income statement as a gain from a bargain purchase price.

Non-controlling interests in the form of shareholdings that give their holders a proportional share of the net assets of the entity in the event of liquidation may be initially measured either at fair value or at the value of the proportionate share of the non-controlling participation in the recognized amounts of the identifiable net assets of the acquired company. The measurement basis option is made on each transaction. Other types of non-controlling participations are measured at fair value or, when applicable, based on the specification by another IFRS.

When the consideration transferred by the entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and is included as part of the consideration transferred in a combination of businesses. Changes in the fair value of the contingent consideration that qualify as adjustments of the measurement period are adjusted retrospectively with the corresponding adjustments against goodwill. The adjustments of the measurement period are adjustments that arise from additional information obtained during the 'measurement period' (which may not be more than one year from the acquisition date) about facts and circumstances that existed at the date of acquisition.

The accounting treatment for changes in fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. A contingent consideration that is classified as capital is not measured again in future report dates and its subsequent settlement is accounted for within capital. Contingent consideration that is classified as an asset or liability is measured another time at future report dates in accordance to IAS 39. or IAS 37 - Provisions. Contingent Liabilities and Contingent Assets - as appropriate, recognizing the corresponding profit or loss in the Income Statement.

When a business combination is achieved in stages, the entity's previous shareholding in the acquired company is recognized at fair value at the acquisition date and the resulting profit or loss, if any, is recognized in the income statement. Amounts arising from interests in the company acquired prior to the acquisition date that have been previously recognized in Other Comprehensive Income are reclassified to the Income Statement when this treatment is appropriate and if the interest is eliminated.

If the initial accounting treatment of a business combination is incomplete at the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for items whose accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above) or additional assets or liabilities are recognized to reflect the new information obtained on the facts and circumstances that existed at the date of acquisition and that, had they been known, would have affected the amounts recognized at that date.

Combinations subject to common control

Combinations of companies under common control are accounted for using the book value approach, recognizing all identifiable assets, liabilities and contingent liabilities acquired at the incorporation for the amount recognized in the accounts of the absorbed company.

In addition, identifiable assets acquired and liabilities assumed must be recognized and measured and the date of acquisition shall be the date of registration with the competent authority. This date shall be deemed to correspond to that in which control of the subsidiary is acquired and which is normally referenced by the registration of the public deed of merger before the Chamber of Commerce.

There will be no recognition of intangible assets such as goodwill in this type of transaction and costs related to the merger processes will be recognized in the income statement of the period.

4.15. **Investments in other companies**

Certain equity investments are recognized at fair value with changes in equity, taking the final decision to classify them in this category.

Regulations for banks only permit investment in technical service businesses to support the operation of banks in entities where it does not have control, joint control or significant influence, which are recognized at the beginning. After this recognition they are measured at fair value minus any impairment identified at the end of each reporting period. Dividends received are recognized in the income statement unless they arise from profit of periods prior to the acquisition. in which case they are deducted from the permitted investment..

4.16. **Intangible assets**

The Bank records an intangible asset once it has identified: the existence of control, the separability of the asset and the fact that it is expected to generate a future economic benefit. For recognition it is essential that the intangible asset complies with all the features described above. The initial measurement of intangible assets depends on the way the Bank obtains the asset. An intangible asset can be obtained through the following ways: by the acquisition separately, as part of a business combination, or internally generated by the Bank.

The intangible asset acquired in a separate transaction is measured as the sum of the purchase price, including import duties and taxes not reimbursable on the acquisition, after deducting discounts and rebates, and the costs directly attributable to preparing the asset for the use provided. In business combinations, the value of the corresponding cost is the fair value at the acquisition date. For internally generated intangible assets, all disbursements in the research phase are recognized in expenditures along with all those incurred in the development phase to create, produce and prepare the asset for it to operate as intended are capitalized.

Subsequent disbursements are capitalized only when they increase the future economic benefits, incorporated into a specific asset related to those disbursements. All other disbursements including those made to generate goodwill and trademarks internally, are recognized in profit or loss when they accrue.

The Bank assesses whether the useful life of an intangible asset is finite or indefinite. An intangible asset with a finite useful life is amortized, unlike one with an indefinite useful life. In the subsequent recognition, intangible assets with indefinite useful life are amortized on a straight-line over their estimated useful life.

Intangible assets acquired separately, which generally corresponds to software licenses or software, are amortized over an estimated useful life of 1 - 11 years. Maintenance or support costs are charged to profit or loss.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

4.16.1. **Impairment of tangible and intangible assets excluding goodwill**

At the end of each period. the Bank reviews the carrying amounts in the ledgers of its tangible and intangible assets to determine whether there are indications that these assets have undergone an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent distribution base can be identified, corporate assets are also assigned to the cash-generating individual units, or otherwise, they are assigned to the smaller Bank of cash-generating units for which a reasonable and consistent distribution base could be identified.

Intangible assets with an indefinite lifespan or not yet available for use, are subject to testing for purposes of impairment at least annually, and whenever there is a sign that the asset may be impaired.

The recoverable amount is the higher between the fair value minus the cost to sell and the value in use. In assessing value in use, flows of estimated future cash flows are discounted to their present value using a discount rate before tax that reflects the current market assessment regarding the value of money over time and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its book value, the book value of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized at once in income.

Later, when an impairment loss is reversed, the carrying amount of the asset in the books (or cash- generating unit) is increased to the revised estimated value of its recoverable amount. in such manner that the adjusted carrying amount in books does not exceed the carrying amount that would have been determined if an impairment loss would have not been recognized for the asset (or cash-generating unit) in prior years. The reversal of an impairment loss is recognized immediately in the Income Statement.

4.16.2. **Goodwill**

Goodwill represents the surplus price paid over the fair value of assets and liabilities acquired in a business combination. Goodwill is initially registered at fair value and subsequently updated by decreasing its value because of impairment losses.

Goodwill represents the future economic benefits arising from the business combinations that are not individually identified and can be recognized separately. It is assigned to a cash-generating unit or a group of cash generating units if economic benefit from the synergies of the business combination is expected.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or when there is an indication of impairment. The test compares the carrying amount of the asset, including goodwill, with the amount recoverable on it. If the carrying amount exceeds the recoverable amount, the Bank will immediately recognize the impairment loss in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

4.17. **Other non-financial assets**

There are assets for which it is not possible to find similar recognition and measurement criteria that enable them to be classified into categories or available financial assets groups; they will be classified in the category of other non-financial assets. among them are, art and culture goods, prepaid expenses, foreclosed assets with restrictions on sale. Receivables other than loans and financial leases, among others.

They are measured at cost and are subject to impairment assessment using a matrix based on the risk of default, with an impact on the Income Statement.

4.18. **Leases**

The accounting treatment of the leases in which the Bank takes part as lessee must be acknowledged under a unique accounting model, whereas under the figure of a lessor, contracts are classified as financial or operational leases.

The Bank as lessor

The leasing contracts under the figure of a lessor are classified as financial and operational:

Financial leases are acknowledged by the statement of financial position and are presented as a receivable by an import equal to the net leasing investment. That is, the total of the minimum payments to be received by the financial leasing and any other unguaranteed residual value, discounted to the interest rate implicit in the lease. The acknowledgement of the financial income is based on a guideline which reflects, in each period, a constant performance rate on the net financial investment which has been made on the financial lease.

Operational leases are presented in the statement of financial position according to the nature of said assets. Expenses incurred in the securing of leasing income, including the depreciation of the asset, are recognized as expenses. Leasing proceeds are acknowledged linearly in the leasing deadline. Depreciation and deterioration of the leased assets shall take place in such a way which is coherent with policies for similar assets.

The Bank as Lessee

Policy applicable from the 1 of January 2019 onwards

A unique accounting model is applied, which implies acknowledging all leases of a significant amount and a period of application of over 12 months in the Statement of Financial Position should there be an explicitly or implicitly identified asset in a contract; there is a substantial right to use the identified asset without any restrictions by the provider; and there is the right to manage how and which the asset use purpose is.

Only tangible asset leases or contract components which are tangible assets shall be acknowledged. Contracts implying the use of an intangible asset are accounted for according to the corresponding policy for that type of asset.

At the starting date of the lease an asset is recognized for right to use and a liability for lease. The liability for lease shall equal the current value of the outstanding leasing payments to date using the implicit lease interest rate, if such rate could be determined easily. If said rate cannot be easily determined, the lessee shall use the lessor's incremental loan rate in similar terms to those agreed upon in valid contracts to date. The asset for right to use shall be measured to cost.

By selecting the incremental rate it must be considered that it is equivalent to the rate that would have to be paid by making the decision of being financed to acquire an asset of similar conditions during a similar term to that agreed upon in the lease and with a similar risk.

The term assessment takes place specifically for each contract and underlying asset types, including reasonably certain future renovations.

In the subsequent measurement, the carrying amount of the leasing liability shall be affected by the interest on the liability, the leasing payments and the leasing contract modifications or new liability measurements; the asset for right to use shall meanwhile be affected by the accumulated depreciation, accumulated deterioration and the leasing contract modifications or new liability measurements. The depreciation method used is straight line, using an equivalent period to the leasing term unless there is a purchase option.

Short-term leases or those which imply the use of a low-value asset shall be excluded from the defined accounting model and shall be directly recorded in a linear fashion in the period results.

Policy applied until the 31 of December 2018

Assets kept under operational lease are recorded in the income statement for the leasing payment value employing the straight line method during the term corresponding to the lease.

Should leasing incentives be received after having celebrated an operational lease contract, such incentives are acknowledged as a liability. The aggregate asset benefit is recognized as a leasing expenditure reduction on the basis of a straight line.

4.19. Financial Liabilities

An instrument is classified as a financial debt when it contains a contractual obligation to transfer cash or other financial assets where it is considered that it will or may be settled in a variable number of its own equity instruments.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as other financial liabilities.

Financial debt at fair value through profit or loss

Financial debt is classified at fair value through profit or loss when the liability is (i) held for trading or (ii) designated at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It is acquired principally for the purpose of rebuying it in the near future; or
- It forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of taking short-term profits; or
- It is a derivative that is not designated as a hedging instrument and meets the conditions to be cash.

Financial liabilities at fair value through profit or loss are recorded at fair value, recognizing any gain or loss arising from re-measurement in the income statement. The net gain or loss recognized in the income statement includes any interest earned from the financial liability and it is recorded under the heading of 'other income and expenses in the consolidated income statement. The fair value is determined as described in Note 9.

Other financial liabilities

Other financial debt, (including loans, bonds and accounts payable), is subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is an approach of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash flows over the expected life of the financial liability or (when appropriate) in a shorter period with the net carrying amount of the financial debt on initial recognition.

Financial debt instruments that include deposits, issued debt instruments and financings are recognized on the trading date and are carried at amortized cost more or less the accumulated amortization calculated with the method of the effective interest rate.

Subordinated debt and bonds are recorded at transaction value and are subsequently recorded at amortized cost, paid interests are recorded using the method of effective interest rate, and the issue costs are recognized and are recorded as an interest expense.

They also include rediscount operations. corresponding to credit programs that the Colombian government has established to promote the development of specific sectors of the economy, including foreign trade, agriculture, tourism, housing construction and other industries.

Derecognition of financial debt

The Bank derecognizes financial debt if, and only if, the Bank´s obligations are satisfied, canceled or have expired. The difference between the carrying amount of the derecognized financial debt and the consideration paid and payable is recognized in the Income Statements.

4.20. **Insurance**

Premiums for single premium businesses are recognized as income when received. This is the date on which the policy takes effect. For regular premium contracts, receivables are recognized on the date payments are due. Premiums are shown before deduction of commission. When policies expire because premiums are not received, all premium income accrued but not been collected up to that date is considered to have expired, net of expenses and offset against premiums.

Claims for losses are recognized as an expense when incurred and reflect the cost of all claims arising during the year.

Tests on the adequacy of liabilities are held for insurance portfolios on the basis of estimated future claims, costs, premiums earned and proportionate investment income. For long-term contracts, if actual experience regarding investment yields, mortality, morbidity, terminations or expenses indicates that liabilities for existing contracts, together with the present value of future gross premiums, will not be enough to cover the present value of future benefits and to recover deferred policy acquisition costs, then, a deficiency in the premium is recognized.

Costs directly attributable to the acquisition of incremental insurance and investment business are deferred to the extent that they are expected to be recoverable from future income margins on these contracts.

These costs are amortized systematically over a period not exceeding the one in which it is expected they will be recovered from these future margins.

The current risk reserve represents the portion of the premiums written from the policies in force and from the policies with future validity, discounting the expenses of issuance, corresponding to the time not taken from the risk. These premiums are recorded as income and are considered a reserve in liabilities.

This reserve is established on the date of issue of the policy and will be calculated as the result of multiplying the premium issued, net of issuance expenses. Notwithstanding of the form of payment of the insurance, the reserve is calculated based on its term.

For individual life insurance, a mathematical reserve should be set up with an amount that represents the difference between the actuarial present value of future obligations of the insurer and the actuarial present value of future payments by the insured to the calculation date.

The reserve for reported losses corresponds to the amount of money that the entity must allocate to meet payments of claims incurred once they and the costs associated with them have been reported. The reserve of claims incurred but not reported is an estimate of the amount of resources that the entity must allocate to meet future claims payments that have already occurred at the date of calculation of this reserve but have not yet been notified or for which there is not enough information.

Catastrophic loss reserves are not recognized in the consolidated financial statements because there is no accurate past event that can predict the occurrence of losses.

4.21. Income tax

Income tax

4.21.1. Strategy and tax policy

The Bank and its subsidiaries adequately and timely comply with both the essence and the literal content of the various tax regulations of the countries in which it operates. The permanent analysis of regulatory updates allows for the planning, implementation and effective adoption of decisions and control of tax-related risks.

4.21.1.1. Transparency

Based on its policies and principles, the Bank discloses required disclosures in an understandable, timely and transparent manner. In line with international recommendations, it adheres to a policy of avoiding doing business in non-cooperative, low or non-taxable jurisdictions and refraining from using secret jurisdictions or "tax havens". Similarly, it maintains its position against aggressive tax planning practices and the use of harmful tax structures.

4.21.1.2. Income tax

The tax expense is recognized in the income statement for the period, except for those items that must be recorded in equity or in other comprehensive income.

4.21.1.2.1. Current taxes

The current tax is the amount payable or recoverable for income tax, calculated based on the tax laws enacted at the date of the statement of financial position. Management periodically evaluates the position assumed in tax returns with respect to situations in which tax laws are subject to interpretation and, if necessary, estimates the amounts it expects to pay to the tax authorities.

4.21.1.2.2. Deferred taxes

Deferred tax liabilities are the amounts to be paid in the future in respect of taxable temporary differences, while deferred tax assets are the amounts to be recovered in respect of deductible temporary differences, tax loss carryforwards or deductions pending application. Temporary differences are those between the carrying amount of assets and liabilities and their tax base.

In assets classified as property, plant and equipment, the applicable rate for the calculation of deferred tax is calculated based on the use of the assets. For land, the applicable rate is the irregular income rate, provided the asset has been owned for more than two years.

For investments in associated companies, the deferred tax is calculated taking into account the forecast of expected dividends to be received and deemed to be taxable.

Deferred tax liabilities arising from taxable temporary differences are recognized in all cases, unless they relate to differences associated with investments in subsidiaries, associates and joint ventures over which the Company has the ability to control the timing of their reversal and it is not probable that their reversal will occur in the foreseeable future.

Deferred tax assets are recognized only when it is probable that the entities will have future taxable profits against which the temporary differences can be utilized.

Tax planning opportunities are only considered in assessing the recovery of deferred tax assets if they are intended or likely to be adopted.

4.21.1.2.3. **Recognition, measurement and disclosure**

Deferred tax is recognized when liabilities are settled or assets are realized, based on the differences that may arise.

Deferred tax is recognized when liabilities are settled or assets are realized, based on the differences that these may generate.

The carrying value of deferred tax assets is reviewed by the Bank at the balance sheet date and is reduced to the extent that it is no longer likely that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used.

The disclosure in the Financial Statements includes determination of temporary differences, calculation of tax on these differences, depreciation of current tax, reconciliation of income tax and adjustment for difference in rates. Current and deferred tax determined for other comprehensive income. Determination and analysis of the effective rate.

4.21.1.2.4. **Compensation and classification**

Under deferred tax accounting rules, the Bank only offsets deferred income tax assets and liabilities if a legal right of set-off exists vis-à-vis the tax authorities and the assets and liabilities relate to the same tax authority and the same taxpayer.

4.21.1.2.5. **Industry and Trade Tax**

Pursuant to Article 76 of Law 1943 of 2018, the Bank and its subsidiaries recognized the full amount of the industry and commerce tax incurred during the year as an expense for the year, the value that can be allocated as a tax deduction is treated as a non-deductible expense in the determination of the income tax for the year. The tax discount applied decreases the value of the current income tax expense for the period.

4.21.1.3. **Compliance**

The Bank meets its formal and substantive obligations such as payment of taxes, tax returns, issuance of certifications, reports to local and international tax authorities in accordance with current regulations and established deadlines. It also keeps customer information and tax compliance support in the Bank.

It provides tax information to clients in a timely and permanent manner by constantly updating the documentation corresponding to applicable regulatory changes to ensure compliance with the requirements for deductions and tax benefits.

4.22. **Provisions**

Provisions are recognized when the Bank has a present obligation (whether legal or assumed) as a result of a past event, and it is likely that the Bank has to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period in question, taking account of the risks and uncertainties obligations. When a provision is valued using cash flows estimated to settle the present obligation, the carrying value represents the present value of those cash flows.

When it is expected that some or all of the economic benefits required to settle a provision may be recovered by a third party, an account receivable is recognized as an asset if it is virtually certain that the payment and the amount of the account receivable can be reliably valued.

Litigation

The disputes analyzed are those with a probability of a decision against the Bank, which should be recognized at fair value, recognizing the likely value of the judgment and the estimated date of the decision. The estimated cash flows are discounted at the Bank´s funding rate.

When the probability of occurrence of the event indicates that litigation is likely, it is provisioned 100%.

Possible disputes are disclosed.

The Bank has provisions covered by guarantee contracts made in acquisitions of other companies, which are disclosed in Note 12.23.

4.23. Bank guarantees

A bank guarantee is a document issued by the Bank to ensure compliance with all or part of one or more obligations, contracted by the customer in favor of third parties. In the event of default by a customer, the Bank will respond to the third party by paying the sum of money agreed in the document, and an obligation is generated in the name of the customer for the amount paid, within a period agreed upon with the customer, initially recognized at the guaranteed value and subsequently as the greater of the amount of the correction of expected losses and the value initially recognized, less income within the scope of IFRS 15.

4.24. Equity

Capital

The Bank classifies capital instruments as equity instruments in accordance with the substance and characteristics thereof. An equity instrument is any contract that records a residual interest in the Bank's assets after deducting all of its liabilities. Capital instruments issued by the Bank are recognized for the funds received, net of direct issue costs and any tax effect.

Ordinary shares

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or another financial asset. Dividend payments are recognized as a deduction from equity.

Shares with minimum preferential dividend

The shares with minimum preferential dividend are classified as equity when they have no contractual obligation to transfer cash or another financial asset. The payment of the Minimum Preferential Dividend will be made with the frequency and manner determined by the General Meeting. The Minimum Preferential Dividend may not be accumulated.

Share premium

The share placement premium corresponds to the difference between the par value and the price effectively paid for the share.

Reserves

i) Mandatory ("Legal") Reserve - Banks in Colombia must establish a legal reserve of 10% of the net profits of each year until reaching 50% of subscribed capital. The reserve may be reduced to less than 50% of the subscribed capital in order to cover losses in excess of undistributed profits. The legal reserve cannot be used to pay dividends or to assume expenses or losses during the time that the Bank has undistributed profits. The Bank has set a legal reserve that is higher than policy parameters and has exceeded 8 times the established value of subscribed and paid capital.

ii) Statutory and voluntary reserves – It includes the following reservations that must be approved by the General Meeting.

- Reserve for valuation of investments at market prices. Decree 2336 of 1995
- Reserve for Wealth Tax
- Reserve available to the General Meeting for future distributions of profits
- Others

The Bank may make commitments to capitalize reserves available to the General Meeting, in order to meet solvency requirements.

Other Comprehensive Income - OCI

This statement includes income and expenses items not recognized in the Income Statement, such as unrealized gains on debt securities valued as equity, the effective portion of gains and losses on hedging instruments of net investment abroad, and the effect of the deferred tax of items recognized in the OCI.

According to the provisions of SFC Circular 036 of 2014, the difference between the models of loss incurred of loan portfolio under NCIF and the models of expected loss recognized in the Separate (individual) Financial Statements of domestic subsidiaries and those outside Colombia according to SFC regulations , are recognized in OCI.

Earnings per share

Basic earnings per common share are calculated by dividing the controlling interest into the weighted average numbers of ordinary shares outstanding during the year. See note 12.25.

4.25. Recognition of income and expenses

Income is recognized when the amount of revenue and associated costs can be measured reliably, with the probability that the economic benefits associated with the transaction will be realized and the degree of completion of the transaction is reliably measured.

The most significant criteria used by the Bank to recognize its income and expenses are summarized below:

Interest and similar income and expense

Interest and similar income and expense are generally recognized as accrued using the effective interest method.

Operating income is recognized when performance obligations owed to the customer have been satisfied in exchange for a sum of money reflecting the consideration agreed in contract to which there is an entitlement. Operating income is considered to be so earned after completing the following five stages:

- Stage 1: Identification of the contract(s) with the customer. A contract is an agreement between two or more parties that creates enforceable rights and obligations
- Stage 2. Identification of performance obligations under the contract. Performance obligation arise from customer contracts to transfer an asset or render a service (or a group of goods and services)
- Stage 3. Determination of the transaction price. The transaction price is the amount of the consideration in a contract to which a party expects to be entitled in exchange for then transfer of goods or services committed to the customer (performance obligations).
- Stage 4. Assignment of the transaction price among the performance obligations under the contract. The transaction price or contract price (Stage 3) needs to be distributed over the performance obligations identified in State 2.
- Stage 5. Recognition of the revenues when or to the extent that a performance obligation is satisfied. The recognition of revenues is made when performance obligations to customers have been satisfied.

Commissions from banking services are recognized when earned.

Credit card commissions or other income, including commissions from credit or debit card exchanges and quarterly or annual handling fees, are recognized was and hen earned, except that quarterly fees that are recognized monthly, exchange commissions are recorded net of the estimated points that are paid when purchases are made.

Loan commissions, whether for limit commitments, restructuring or syndicated loans, are recognized when the payment is made.

Commissions for investment management services include the commissions for asset management, investment banking, custody and securities trading and are recognized in each period when the service is provided.

Dividends are recognized as income when the right to receive them is established and in the case of dividends of the Subsidiaries, they are recorded as a reduction in the value of the investment, and for non- controlled entities and associates they are recognized in results on the date when the Bank is entitled to collect them.

Income received on the sale of goods is recognized when the five stages for recognition of operating income have been completed, i.e., when the performance obligations related to the transfer of goods have been satisfied.

4.26. **Operating segments**

An operating segment is a component of the Bank that conducts business from which it can earn revenues and incur expenses, whose operating results are regularly reviewed by the Strategic Committee headed by the Bank's President (CODM - the chief operating decision-maker), who decides on the resources to be allocated to the segment, and assesses its performance in relation to which different financial information is available. The CODM does not analyze operating segments by geographical areas, because all foreign operations are included within the International segment (see Note 9).

5. Use of estimates and judgments

In the preparation of these consolidated financial statements, the Bank's management provided criteria, judgments and estimates, according to the understanding and applicability of the regulatory and technical framework for the preparation of financial information, and the instructions issued by the SFC. Various different types of estimates and assumptions were used in the application of accounting policies. Management made these value judgments, on the analysis of assumptions based articulately on historical experience and factors considered relevant in determining the carrying value of certain assets and liabilities that are in fact not readily apparent, and that therefore required an additional effort for analysis and interpretation. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and subsequent periods.

5.1. Critical judgments in applying accounting policies

Critical judgments are presented below, apart from those involving estimates, made by the administration during the process of implementation of the Bank's accounting policies, which have a significant effect on the consolidated financial statements.

Assessment of significant influence

The Bank determined that it has significant influence in entities disclosed in Note 12.8 and represents its investment by the equity participation method, and further verifies whether there have been purchases, sales ort increases in the percentage interest held in investments that affect a holding of more than 20% and less than 50%.

Key sources of uncertainty in estimates

The following are the key assumptions concerning the future and other crucial sources of uncertainty estimation at the end of the period that have a significant risk of producing important adjustments to the carrying amounts of assets and liabilities within the next year:

<u>Fair value measurements and valuation processes</u>

Financial assets and liabilities traded in active markets are recognized in the Statement of Financial Position at their fair value and are valued at market prices.

An active market is one in which transactions for assets or liabilities are conducted with enough frequency and volume to provide pricing information on an ongoing basis.

In Colombia the SFC has authorized official Price Providers and the Bank uses the price information published daily by PIPCO to assess the investment portfolio and derivatives, in compliance with the provisions of SFC

Circular 034/ 2014 indicating the use of information supplied by Price Providers in accordance with the instructions provided in the SFC Basic Legal Circular Part 3. Title IV. Chapter IV - Price Providers.

Derivatives are recognized in the Consolidated Statement of Financial Position at fair value at each reporting date. Additionally, the fair value of certain financial instruments is disclosed - mainly loans and long-term debt - although they do not involve a risk of adjustment to book values. The above is described in Note 12.4.

The fair values described are estimated using valuation techniques that include observable and unobservable data in a market. The main assumptions used in the valuation are described in the related notes. Management believes that the valuation techniques and assumptions selected are appropriate for determining fair values.

Impairment of goodwill

The determination of impairment in goodwill requires a calculation of the value of the use of the cash-generating units to which it is assigned. The calculation of the value in use requires the Bank to determine future cash flows that the cash generating units are expected to obtain and set an appropriate discount rate to calculate their present value (see Note 12.12).

The Bank makes this valuation with an external, independent and specialized consultant who is approved by the SFC.

Useful life. residual values and methods of depreciation for long-life assets

As described in Note 4.11., the Bank regularly reviews the useful lives, residual values and methods of depreciation for long-life assets, including Property and Equipment, and Intangible Assets. Valuations are performed by technical experts. In the case of intangibles, an individual decision is made as to whether the life is for a definite or indefinite time. During the periods presented, there were no changes of these estimates.

Impairment of fixed assets

After reviewing fixed assets for signs of impairment, the Bank calculates the recoverable amount for the asset, in order to determine some impairment loss has been incurred.

Income tax

The Bank assesses the performance over time of deferred income tax assets, which represents income tax recoverable through future deductions from taxable profits. They are recorded in the Consolidated Statement of Financial Position. Deferred tax assets are recoverable to the extent that the realization of the related tax benefits is likely. At December 31, 2018, and December 31, 2017 the Bank estimates that the items of the deferred income tax assets will be recoverable according to its estimates of the future taxable profits. Deferred tax liabilities recorded as taxable differences in the calculation of deferred taxes. will reflect the values to be paid for income tax in future periods. Please see Note 13.6.

Provisions and contingencies

A contingency requires to be classified in conformity to a reliable estimate according to the probability of occurrence of a fact or an event. Unless the possibility of any disbursement of funds is remote, the Bank needs to disclose, for each class of contingent liabilities, at the end of the reporting period, a brief description of the nature of the contingent liability. When there is a probability of an inflow of economic benefits, the Bank shall disclose a brief description of the nature of the contingent assets at the end of the reporting period and, where feasible, an estimate of their financial effect. Estimates regarding contingencies are based on the criteria adopted under NCIF, as follows:

The Bank measure a provision based on the probability established by the Legal Area for each event, fact or legal process.

Probability of the result	Provision / contingent liability
Probable	Recognize and Disclose
Possible	Disclose
Remote	Neither recognize nor disclose

Impairment of loans

The Bank regularly reviews its loan portfolio for impairment and to determine the amount of such impairment, to analyze its reasonableness and record it under profit and losses in the statement of the period.

Loan s are classified into three stages, and each stage carries a certain level of impairment. Stage 1 consists of "Normal" risk; Stage 2, a significant increase in risk; and Stage 3 is default. The criteria for classification in each of the Stages is disclosed in Note 10 – Credit Risk.

Impairment of investments

At each close the Bank reviews the investment portfolio valued at amortized cost or fair value through OCI, to see whether there is objective evidence of impairment as a result of one or more events which have taken place since the beginning of the period (a "loss event") and whether the loss event(s) have had an impact on expected cash flows that can be reliably forecast.

Customer loyalty programs

The Bank operates a loyalty program where customers earn points for purchases made through credit cards, which entitles them to redeem points for prizes in accordance with the policies and the prize plan in force on the date of redemption. The points for prizes are recognized as a separately identifiable component of the initial sales transaction by allocating the fair value of the consideration received between the prize points and other components of the sale so that loyalty points are initially recognized as deferred income at fair value; they are subsequently recognized as income when the points are redeemed by the customer.

Employee Benefits

Short term benefits

Short-term employee benefits are those that the Bank expects to pay out in full before the twelve months following the end of the annual reporting period, such as wages and salaries, annual leave, sick leave, severance pay and interest on severance pay, among others. When an employee has rendered service to the Bank during the accounting period, the amount will be recognized (undiscounted) of short-term benefits to be paid for such services as a liability (accumulated or accrued expenditure) and as an expense.

The contractual or implied obligation of the Bank is limited to the recognition of the amount that has been agreed with the employee, and the calculation is based on a reliable estimate of the amounts payable. Spending is generated based only on the occurrence of the consideration since the services provided by employees do not increase the amount of benefits.

Long Term benefits

Long-term benefits are all benefits to employees other than short-term benefits, post-employment benefits and termination benefits. These benefits correspond to the extralegal premium for seniority and preferential interest rate for home-purchasing loans.

The recognition and measurement of the extralegal premium by seniority is done in the same way as the defined contribution benefits, applying a simplified method of accounting and recognizing all the changes in the carrying amount in the ledgers of the assets for long-term benefits in the results of the period.

Post-employment benefits

These benefits are different from the termination benefits and short-term benefits, and are paid after the employee completes the period of employment.

Defined-contribution plans are those in which the Bank makes predetermined contributions to a separate entity (a fund) and has no legal or implied obligation to make additional contributions. Included in this classification are the benefits of a supplementary pension plan.

In the defined-benefit plans, the Bank provides health insurance benefits for pensioners, being determined based on the present value of the estimated future payments that must be made to the employees, supported by actuarial studies, using the projected credit unit method, in which the benefits are distributed between the periods in which the payment obligation arises as the employees render the services. Changes in the liabilities related to the cost of the service and the net interest (financial cost) are recognized in results, and changes in the new actuarial measures are recorded in OCI.

Subsidized rate benefit

The subsidized rate benefit for home purchase loans are based on the accounting policies defined by the Bank, the calculation of the rate was based on the cover given.

Dismantling costs

Annually the Bank estimates dismantling costs of withdrawal and reconditioning of rented property, arising from obligations under contract for the installation of items for the use of rented assets.

6. Changes in accounting policy

The impact of IFRS 16 Leases, applied as of January 1, 2019 is presented below.

IFRS 16 introduces a single accounting lease model in the financial statement for lessees. As a result, the Bank has acknowledged a right-of-use asset, representing the lessee’s right to use the underlying asset, and a lease liability, representing the obligation to make lease payments. The standard defines acknowledgement exemptions for short-term leases and leases of low-value items.

The accounting policies applicable when the Bank is lessor are not different to those defined as of December 31, 2018. Therefore, these leases do not require any adjustment in the transition to IFRS 16. Likewise, no sublease agreements were identified on the date of transition.

Definition of a lease

Up to December 31, 2018, on the date of commencement of an agreement, the Bank determined whether said agreement was or contained a lease based on IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 introduces a new definition of lease under which an agreement is or contains a lease if it transfers the right to control the use of a given asset for a given period of time in exchange for compensation. In the transition to IFRS 16, the Bank has applied this new definition solely to agreements in force on the date of initial application.

Application of IFRS 16 as lessee

The Bank initially applied IFRS 16 on January 1, 2019, using the modified retrospective method. Hence, cumulative effect of adoption was recorded as an adjustment to the opening balance of retained earnings as of January 1, 2019, without restatement of comparative information. The Bank applied IFRS 16 to all existing agreements entered into before January 1, 2019, identified as leases in accordance with IAS 17 and IFRIC 4.

On the initial application date, lease liabilities previously classified as operational according to IAS 17 were measured at present value of remaining payments, discounted using the incremental lease rate as of January 1, 2019. Right-of-use assets were measured by an amount equivalent to the lease liability, adjusting the dismantling value applicable for each agreement.

The Bank's significant leases include property leases and leases of movable assets, including ATMs or office and computer equipment.

At December 31, 2018, the Bank classified its leases as operational/financial based on the evaluation of whether an agreement substantially transfers all risks and benefits of an asset.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank.

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date or initial application;
- did not recognise right-of-use assets and liabilities for leases of low- value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Impact on accounting policies

At the beginning of a lease, a right-of-use asset and a lease liability are acknowledged. The asset is initially measured at cost, and subsequently measured at cost minus cumulative depreciation, impairment loss and any adjustment in the value of the lease liability.

The liability is initially measured at present value of lease payments pending payment on the start date of the agreement, discounted using the implicit interest rate of the lease or, if said rate cannot be easily determined, using an incremental rate. The Bank uses incremental rates as discount rates.

Subsequently, the lease liability is affected by the interest caused and lease payments received. Likewise, a new measurement of the lease liability is made when there are changes in future payments due to modification in some index or rate associated with the fee (e.g.: CPI), changes in the estimated value of a residual value guarantee, or reasonably true changes in the valuation of a purchase option or renewal/termination of agreement.

(Millions of Colombian pesos (COP))

The Bank has applied assessments to determine lease terms. The evaluation of whether a renewal will be reasonably true affects the lease term and, therefore, the amount of acknowledged lease liabilities and right-of-use assets.

Impact on financial statements

In the transition to IFRS 16, right-of-use assets and lease liabilities are acknowledged whose difference affected the balance of retained earnings as of January 1, 2019. The impact of the transition is summarized below:

	January 1st, 2019
Right-of-use assets	1,167,059
Lease liabilities	1,151,184
Adjustment, dismantling provision	15,874

Measurement of lease liability discounts future payments using the incremental rate as of January 1, 2019, which was calculated taking into account traditional funding rates plus ordinary bonds in currency of origin.

Right-of-use assets, net of depreciation are presented in Property and equipment. Lease liabilities are presented in Other non-financial liabilities and estimated liabilities.

7. New standards issued but not yet in force

In line with Decree 2270 of 2019, the following regulations are applicable from 2020 onwards. The impact of this regulations is being evaluated by the Bank´s management.

Standards applicable from January 1, 2020

Conceptual Framework for Financial Information

A new conceptual framework is established for entities applying Full IFRS (Group 1) related to the preparation of general-purpose financial information.

The new conceptual framework is more aligned with current IFRS, and incorporates concepts not established in the previous framework, such as objectives and principles of information to be disclosed, account unity, discharge from accounts, agreements pending execution, among others.
References to the Conceptual Framework in IFRS Standards

Some of these references and citations are updated, referencing the 2018 Conceptual Framework, and other modifications are made to clarify which version of the Conceptual Framework is referenced.

IAS 19 - Employee benefits

Modifications are made related to post-employment benefits, benefit plans defined that require an entity to use updated actuarial assumptions to determine the cost of services in the present period and the net interest for the rest of the annual period reported after modification, reduction or liquidation of the plan when the entity measures liabilities (assets) again for net defined benefits.

IFRS 3 - Business combinations

It modifies the definition of business established in IFRS 3, a concept that is essential to determine whether to apply the purchase or acquisition method in a business combination.

IAS 1 - Presentation of financial statements and **IAS 8** - Accounting Policies, Changes in Accounting Estimates and Errors.

The definitions of materiality and relative importance are modified. The change provides guidelines to help entities make judgments about materiality or relative importance, instead of making substantive changes in the definition of material or relative importance. Therefore, IFRS issued Practice Statement 2: Making Materiality Judgements in September 2017.

IFRIC 23 - Uncertainty over Income Tax Treatments.

It clarifies acknowledgement and measurement requirements of IAS 12 when there is uncertainty about tax treatments. These acknowledgement and measurement requirements apply to the determination of fiscal gain or loss, tax bases, unused tax losses, unused tax credits and tax rates.

8. **Fair Value Measurement**

In accordance with IFRS 13, fair value is the price received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Such a transaction would take place on the main market. In its absence, it would be the "most advantageous" market. For this reason, the Bank carries out the valuation taking into account the market in which the transaction would normally be conducted with the most available information.

The Bank values the financial assets and liabilities traded in an active market with information available and sufficient at the valuation date, such as derivatives and debt and equity securities, through the price information published by the official price provider (PIP SA.), whose methodologies are endorsed by the SFC and which centralizes market information. In this way, the Bank uses the prices and curves published by the supplier instrument to be valued.

For those instruments that do not have an active market, the Bank develops methodologies that use market information, peer bank prices and, in some cases, unobservable data. Methodologies seek to maximize the use of observable data to arrive at the closest approximation closer to an exit price of assets and liabilities that do not have large markets.

IFRS 13 establishes the following hierarchy for the measurement of fair value:

Level 1: Prices quoted in active markets for assets or liabilities identical to those that the entity can access at the measurement date.
Level 2: Variables other than quoted prices at level 1 observable for the asset or liability. directly or indirectly.
Level 3: Unobservable variables for the asset or liability

The Bank classifies the financial assets and liabilities in each of these hierarchies based on the evaluation of the input data used to obtain the fair value. For these purposes the Bank is subject to observable variables based on criteria such as the availability of prices in markets, its regular publication and updating, the reliability and possibility of verification, and its publication by independent sources participating in the markets.

(Millions of Colombian pesos (COP))

Measurements of fair value on a recurring basis

Below are the assets and liabilities measured on a recurring basis at fair value by type of instrument, indicating the corresponding hierarchy for December 31, 2019 and 2018.

	Fair value	**Level**		
	December 31, 2019	**1**	**2**	**3**
Assets				
Investments in debt issued and guaranteed	9,405,032	6,440,911	2,382,223	581,898
in Colombian pesos	6,079,406	5,321,204	532,346	225,856
Colombian Government	4,877,187	4,875,614	1,573	-
Financial entities	787,676	382,907	404,769	-
Real sector	15,544	2,209	13,335	-
Other	398,999	60,474	112,669	225,856
Foreign currency	3,325,626	1,119,707	1,849,877	356,042
Colombian Government	13,903	13,063	840	-
Other governments	2,285,728	782,298	1,271,243	232,187
Financial entities	645,461	94,553	427,053	123,855
Real sector	380,534	229,793	150,741	-
Equity investments (1)	524,247	138,412	367,649	18,186
through profit or loss	132,580	93,843	38,103	634
through OCI	391,667	44,569	329,546	17,552
Trading derivatives (2)	510,370	-	510,370	-
Currency forwards	233,503	-	233,503	-
Securities forwards	344	-	344	-
Interest rate swaps	245,342	-	245,342	-
Currency swaps	23,948	-	23,948	-
Other	7,233	-	7,233	-
Hedging derivatives	815	-	815	-
Interest rate swaps	815	-	815	-
Total assets	**10,440,464**	**6,579,323**	**3,261,057**	**600,084**
Liabilities				
Trading derivatives (2)	617,805	-	617,805	-
Currency forwards	323,470	-	323,470	-
Securities forwards	1,899	-	1,899	-
Rate swaps	255,031	-	255,031	-
Currency swaps	27,565	-	27,565	-
Other	9,840	-	9,840	-
Total liabilities	**617,805**	**-**	**617,805**	**-**

(1) Includes investments in other companies
(2) Does not include spot operations

(Millions of Colombian pesos (COP))

	Fair value	Level		
	December 31, 2018	1	2	3
Assets				
Investments in instruments issued and guarantee	9,051,166	6,608,659	1,835,360	607,147
In Colombian Pesos	6,223,689	5,577,056	354,150	292,483
Colombian Government	4,362,664	4,347,186	15,478	-
Financial entities	1,474,709	1,183,199	291,510	-
Real sector	47,474	312	47,162	-
Other	338,842	46,359	-	292,483
Foreign currency	2,827,477	1,031,603	1,481,210	314,664
Colombian government	126,592	126,592	-	-
Foreign governments	1,823,079	561,241	1,060,073	201,765
Financial entities	733,096	234,543	385,654	112,899
Real sector	144,710	109,227	35,483	-
Equity investments (1)	511,667	459,122	37,724	14,821
Through profit or loss	122,977	85,253	37,724	-
Through OCI	388,69	373,869	-	14,821
Trading derivatives (2)	433,692	-	433,692	-
Currency forwards	201,445	-	201,445	-
Securities forwards	119	-	119	-
Interest rate swaps	174,064	-	174,064	-
Currency swaps	34,218	-	34,218	-
Other	23,846	-	23,846	-
Total assets	**9,996,525**	**7,067,781**	**2,306,776**	**621,968**
Liabilities				
Trading derivatives (2)	507,580	-	507,580	-
Currency forwards	198,168	-	198,168	-
Securities forwards	3,264	-	3,264	-
Interest rate swaps	188,957	-	188,957	-
Currency swaps	68,155	-	68,155	-
Other	49,036	-	49,036	-
Hedging derivatives	5,506	-	5,506	-
Interest rate swaps	5,506	-	5,506	-
Total liabilities	**513,086**	**-**	**513,086**	**-**

(1) Includes investments in other companies
(2) Does not include spot operations

For the determination of the levels of the fair value hierarchy, an evaluation is made of the methodologies used by the official price provider and the expert judgment of the treasury areas, who are aware of the markets, the inputs and the approximations used for the estimation of fair values.

Applicable methods for the valuation of investments in debt securities and equity securities:

- Market prices: this methodology is applied to assets and liabilities that have sufficiently large markets, in which the volume and number of transactions are sufficient to establish an exit price for each braided reference. This methodology equivalent to a hierarchy level 1, is generally used for investments in sovereign debt securities, financial institutions and corporate debt in local and international markets.

- Margins and reference curves: methodology applied to assets and liabilities for which market variables are used as reference curves and spreads or margins with respect to recent quotations of the asset or liability in question or similar. This methodology, equivalent to a hierarchy Level 2, is generally used for investments in debt securities of financial institutions and corporate debt in the local market of low recurring issuers and with low amounts in circulation. Also under this methodology are credit securities and securitizations of senior mortgage portfolio.

- Other methods: For the assets to which the official price provider does not report prices based on the methodologies previously described, the Bank uses approximations to estimate a reasonable value by maximizing the use of observable data. These methods, which are located in a Hierarchy level 3, are generally based on the use of an internal rate of return obtained from the primary market of the instrument, the last observed prices and the use of reference curves. In the hierarchy level 3 are investments in securitizations of the subordinated mortgage portfolio and the residual rights resulting there from. For this type of asset there is no secondary market from which indications of a fair exchange price can be obtained, constituting the best price referring to the transaction generated at the time of the issuance of each instrument. The valuation of these instruments, which is based on the discounted cash flow approach, has as its main variable the internal rate of return implicit in the purchase value. If this variable changes by 1%. maintaining the other contingent factors would affect the fair value by an amount equivalent to 2.8% of the book value.

Similarly, at this level are located the investments in government short-term debt securities in which the investment portfolio of the Central American Subsidiaries has a position. In particular, these are securities issued by the government of Honduras and El Salvador, which generally have maturities close to one year, not having secondary markets, and where the best reference of an exit price is the one generated by the transaction made at the time of issue. Similar to the securitizations previously described, the valuation is based on the discounted cash flow method whose main variable is the internal rate of return implicit in the purchase value. If this variable changes by 1%, keeping the remaining constant factors would affect the fair value by an amount equivalent to 1.1 % of book value.

For equity instruments not listed in an active market and reference information is not available in the market, standardized models and techniques are used in the financial sector. Investments in subsidiaries are recorded at fair value through cost of acquisition. Other equity investments in which there is no control or significant influence are recognized at acquisition cost due to the absence of market prices and are investments that financial institutions in Colombia require to operate in accordance with the local regulation. Additionally, evaluating the cost-benefit ratio of making recurring valuation models does not justify the financial effect of these investments in the statement of financial position.

Methods applicable for the valuation of derivative financial instruments:

- Over The Counter (OTC) derivatives: these instruments are valued using the discounted cash flow approach, in which, based on the inputs published by the provider of the prices of domestic foreign and implicit interest rate curves, and exchange rates future flows are projected and discounted of each contract based on the underlying one in question. The portfolio of these instruments, classified at fair value level 2, consists of interest rate and foreign exchange swaps, forwards on currencies and bonds, and European currency options.

- Standardized derivative financial instruments: these instruments are valued based on prices published by the designated official provider. Some of these contracts are deep enough to form a price under the market approach, and others are based on a discounted cash flow approach in which prices are taken of the underlying and interest rate curves of the market. The portfolio of these instruments is made up of futures on currency, on debt securities and on interest rates. Since for these instruments we have incoming inputs from level 1 and 2, the Bank classifies fair value based on the lowest level, in this case, level 2.

(Millions of Colombian pesos (COP))

For the period from December 31, 2019 to December 31, 2018, there were no transfers between fair value levels.

The following is the movement of financial instruments at fair value in Level 3:

	December 31, 2018	Total profit (loss) in profit or loss	OCI	Reclassifications	Purchases	Settlements	Transfers outside Level 3	December 31, 2019
Assets								
Investments in debt issued and guaranteed	607,147	90,353	-	-	302,129	(313,303)	(104,428)	581,898
In pesos	292,483	83,887	-	-	8,534	(54,620)	(104,428)	225,856
Others	292,483	83,887	-	-	8,534	(54,620)	(104,428)	225,856
Foreign currency	314,664	6,466	-	-	293,595	(258,683)	-	356,042
Foreign governments	201,765	3,420	-	-	213,393	(186,391)	-	232,187
Financial entities	112,899	3,046	-	-	80,202	(72,292)	-	123,855
Equity investments (1)	14,821	-	(72)	2,330	1,117	(10)	-	18,186
Through profit or loss	-	-	-	634	-	-	-	634
Through OCI	14,821	-	(72)	1,696	1,117	(10)	-	17,552
Total assets	**621,968**	**90,353**	**(72)**	**2,330**	**303,246**	**(313,313)**	**(104,428)**	**600,084**

	December 31, 2017	Total profit (loss) in profit or loss	OCI	Reclassifications	Purchases	Settlements	December 31, 2018
Assets							
Investments in debt issued and guaranteed	926,821	(53,352)	-	(414,047)	181,931	(34,206)	607,147
In pesos	726,517	32,866	-	(414,047)	5,965	(58,818)	292,483
Other	726,517	32,866	-	(414,047)	5,965	(58,818)	292,483
Foreign currency	200,304	(86,218)	-	-	175,966	24,612	314,664
Foreign governments	188,357	(74,271)	-	-	63,067	24,612	201,765
Financial entities	11,947	(11,947)	-	-	112,899	-	112,899
Equity investments	4,504	-	(3,410)	-	13,727	-	14,821
Through OCI	4,504	-	(3,410)	-	13,727	-	14,821
Total assets	**931,325**	**(53,352)**	**(3,410)**	**(414,047)**	**195,658**	**(34,206)**	**621,968**

(Millions of Colombian pesos (COP))

Measurements of fair value of instruments measured at amortized cost

The Bank's assets and liabilities at fair value and carrying value are presented below:

	December 31, 2019				
			Level		Carrying value
	Fair value	1	2	3	
Assets					
Loans, net	95,389,361	-	-	95,389,361	93,256,035
Investments at amortized cost, net	2,206,442	438,143	1,735,096	33,203	2,173,054
Total financial assets	**97,595,803**	**438,143**	**1,735,096**	**95,422,564**	**95,429,089**
Liabilities					
Term deposits	35,025,483	-	35,025,483	-	34,804,550
Debt issued	12,998,018	11,556,247	-	1,441,771	12,398,883
Bank borrowings and other financial debt	13,460,139	-	-	13,460,139	13,564,888
Total liabilities	**61,483,640**	**11,556,247**	**35,025,483**	**14,901,910**	**60,768,321**

	December 31, 2018				
			Level		Carrying value
	Fair value	1	2	3	
Assets					
Loans, net	85,997,225	-	-	85,997,225	84,111,916
Investments at amortized cost, net	1,823,996	408,153	1,023,560	392,283	1,824,536
Total financial assets	**87,821,221**	**408,153**	**1,023,560**	**86,389,508**	**85,936,452**
Liabilities					
Term deposits	31,184,423	-	31,184,423	-	31,118,034
Debt issued	11,094,689	10,058,981	-	1,035,708	10,685,827
Bank borrowings and other financial debt	12,429,808	-	-	12,429,808	12,495,235
Total liabilities	**54,708,920**	**10,058,981**	**31,184,423**	**13,465,516**	**54,299,096**

9. Operating Segments

The Bank determines the presentation of its business operating segments based on how information is organized and received. These segments are components of the Bank engaged in financial and banking activities, which generate income and expenses, and which ensure a surrender of effective accounts, for an optimal measurement of their results, assets and liabilities, which are regularly evaluated and verified by the Strategic Committee, headed by the President of the Bank (CODM) for correct decision-making, the appropriate allocation of resources and the respective evaluation of their performance. The operating segments for the Bank were determined considering:

a.Activities of natural persons and legal entities. which are reported separately at the level of assets, liabilities, income and expenses
b.the results that are examined periodically by the CODM.
c.The relationship with which differentiated financial information is available.

The operating segments are components of the Parent, and they include the results of the countries where

(Millions of Colombian pesos (COP))

Davivienda is present, so that its results are classified and presented in the segments established by the Bank:

1.Retail banking

This segment contains all the products and services that are offered to individuals, Davivienda offers a high variety of products and services focused on meeting the needs of its customers, including investment, financing and savings products.

2.Corporate banking

This segment includes the offer of products and services aimed at legal entities, offers financial and transactional solutions in local and foreign currency and financing, savings and investment products in order to meet the needs of these types of customers in different sectors of the economy.

3.Assets and liabilities Management (ALM)

Asset and Liability Management corresponds to segments of assets, liabilities, income and treasury expenses of 10% or more of the assets, which are presented in an aggregate manner, as well as to the management of the mismatch and liability, and any effect of foreign exchange, either by position of the Treasury Book or the Bank Book. Therefore, the result of this segment reflects not only the result of a line of business but reflects corporate decisions about the management of issues and financing of the bank. Even so, when managing liquidity resources, the Bank has a follow-up by the management, as the other segments. Taking this into account we present the main dynamics in the segment.

4.International

This segment corresponds to the Bank's International operation; therefore. it includes the financial information of the Subsidiaries outside Colombia, located in: Panama, Costa Rica, El Salvador and Honduras. These subsidiaries derive their income from a variety of products and financial services offered in each country, products which are based on an effective offer of integral value for its multi-Latin customers, with a focus on quality and service.

Results by segment
January 1, 2019 to December 31, 2019

Income statement	Personal	Business	ALM	International	Total Bank, consolidated
Interest income	5,086,496	2,869,027	678,375	2,091,360	10,725,258
Interest expense	(340,233)	(1,585,743)	(1,207,516)	(897,964)	(4,031,456)
Net FTP (*)	(1,260,478)	570,696	689,782	-	-
Impairment of Loans and Accounts Receivable, net	(1,380,554)	(777,305)	5,135	(281,690)	(2,434,414)
Net financial margin	**2,105,231**	**1,076,675**	**165,776**	**911,706**	**4,259,388**
Commissions, services and insurance income, net	549,987	180,325	254,824	314,155	1,299,291
Result of investments in associates, net	-	-	8,947	511	9,458
Dividends	-	-	20,530	1,980	22,510
Operating expenses	(1,845,958)	(761,220)	(242,947)	(879,758)	(3,729,883)
Exchange and Derivatives, net	-	-	85,304	(18,491)	66,813
Other income and expenses, net	46,745	(1,376)	(45,486)	(280)	(397)
Operating margin	**856,005**	**494,404**	**246,948**	**329,823**	**1,927,180**
Income taxes	(104,643)	(129,156)	(120,608)	(88,918)	(443,325)
Net profit	**751,362**	**365,248**	**126,340**	**240,905**	**1,483,855**
At December 31, 2019					
Assets	**43,147,776**	**33,352,948**	**15,767,390**	**29,953,909**	**122,222,023**
Liabilities	**15,663,035**	**39,449,577**	**27,973,439**	**26,485,073**	**109,571,124**

(Millions of Colombian pesos (COP))

Results by segment
|January 1, 2018 to December 31, 2018

Income statement	Personal	Business	ALM	International	Total Bank, consolidated
Interest income	4,558,045	2,772,136	473,876	1,705,585	9,509,642
Interest expense	(330,563)	(1,520,850)	(1,000,459)	(706,284)	(3,558,156)
Net FTP (*)	(1,105,483)	527,210	578,273	-	-
Impairment of Loans and Accounts Receivable, net	(1,191,979)	(683,256)	(3,800)	(195,707)	(2,074,742)
Net financial margin	**1,930,020**	**1,095,240**	**47,890**	**803,594**	**3,876,744**
Commissions, services and insurance income, net	554,603	182,251	202,427	288,278	1,227,559
Result of investments in associates, net	-	-	7,201	396	7,597
Dividends	-	-	17,070	1,905	18,975
Operating expenses	(1,657,274)	(722,675)	(258,998)	(774,942)	(3,413,889)
Exchange and Derivatives, net	-	-	95,399	50,039	145,438
Other income and expenses, net	43,236	(3,284)	(54,752)	28,648	13,848
Operating margin	**870,585**	**551,532**	**56,237**	**397,918**	**1,876,272**
Income taxes	(89,731)	(121,917)	(152,829)	(113,295)	(477,772)
Net profit	**780,854**	**429,615**	**(96,592)**	**284,623**	**1,398,500**

At December 31, 2018

Assets	**35,164,737**	**33,031,831**	**15,369,180**	**27,158,190**	**110,723,938**
Liabilities	**14,108,055**	**35,111,018**	**26,033,799**	**24,061,170**	**99,314,042**

(*) Net FTP: Refers to the costs of transferring resources between segments. which are allocated systematically and consistently and managed within the entity.

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During 2019, methods used to calculate funds transfer prices were changed based on adjustments to best practices. To make the results comparable. methods were applied historically. There are therefore differences with figures presented for December 2018 previous reports. There is also an annual review of customer segmentation and new classifications are made where necessary. which in turn causes changes in business units.
(1) Asset and liability management

10. Risk Management

The Bank's comprehensive risk management is based on a governance structure aimed at achieving the strategic objectives, based on risk management, administration and control, supporting the growth of business and the use of opportunities. On this basis, the efforts of the management towards the fulfillment of the strategy and the control of the associated risks are focused.

The organization's corporate risk model has been designed and built on the principles of enterprise risk management defined in the Enterprise Risk Management document published in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and later documents such as COSO Internal Control - Integrated Framework published in 2013.

The Bank's comprehensive risk management is governed by the principles and policies of the Bolivar Business Group, under the autonomy of each company in its risk management and being responsible of the control environment of the same

10.1. Principles and Policies

- Risk management must be in line with the nature and activity of the business. We only act in business that we understand and that does not affect economic stability or reputation.
- The Bank has sector/regional specialties in its business. Any investment in new sectors or regions must be approved by the Board of the Holding Company and/or subsidiaries, and particular characteristics and regulatory considerations will be analyzed.

- For new businesses that do not fit adequately with the Risk Philosophy and the defined risk appetite, the only instance that can authorize them is the Board of Directors of each Company and from the Holding Company.
- The fulfillment of growth objectives must not lead the Bank to overexposures that generate present and future losses outside of the risk levels of the organization.
- The Bank will maintain enough liquidity levels on an ongoing basis.
- The Bank will manage levels of economic capital appropriate to their risk levels and growth prospects.
- The risk management system is supported by checks and balances guaranteed by the independence between the business, operational and risk areas.
- Risk management, regulatory compliance and internal policies are the responsibility of the company's three lines of defense, in its order: business, commercial and operational areas, in the second instance, risk areas and, lastly, internal audit.
- The risks that may affect the achievement of key corporate goals and strategies and that significantly impact the Organization as a whole are managed centrally. Risk management that because of its nature is best managed at the process and / or area level is done in a decentralized way because its effect is particular to each process, without this modifying the organization's ability to successfully implement its strategies.
- The strength developed in the knowledge. understanding and quantification of the risks, as well as the characteristics of each business, define the levels of risk of Grupo Bolivar. Boldness in decisions will depend on that understanding.
- Human resources policies must include career plans to include technical and specialized knowledge fit for each position, key positions must be identified and efforts made to train up successors in each position with the competences and experience required.
- Remuneration systems must be aligned to strategic objectives of the companies and their appetites for risk and there must be policies and procedures that allow conflicts of interest that may arise in decision making to be identified and managed.
- The structure of the organization and the design of processes must respond to the development of the business, operating capacity and risk management.
- Key areas and important processes must have specific follow-up to risk management to ensure the ongoing stability of the Bank.
- There must be a robust system of processes to support the range of business needs and solid base of management of business needs and risk management specific to the organization.
- The customer service model must secure clarity promptness and transparency in information and communications, offering simple, friendly and reliable experiences and effective attention to requests, complaints and claims.
- Relevant action should be taken to strengthen the culture of risk and compliance. Every member of staff must know and apply the framework of risk management and clearly and accurately define types of activity and risks associated with their functions.

10.1.1. **General Framework**

The process of the Bank’s comprehensive risk management is aligned to comprehensive risk management of Grupo Bolivar. The Bank's risk management involves the analysis of current and planned positions as well as defining limits for them. In addition, it requires an assessment of the implications of all risks and making decisions aimed at modifying the limits if they are not in line with the general risk philosophy.

Risk management should be conducted from two angles: (1) “top-down”, in order to ensure its integrity. its consistency and interrelationship of the various risks; and (2) “bottom-up” through the development of management and control schemes of each and every one in order to ensure their effectiveness and depth as well as where it clearly defines the governance model of each risk, the relevance and strength of each definition of limits for these positions, and procedures to follow in the event of breaches.

The application of the risk management model is implemented within a clear framework of segregation of functions in order to achieve a timely identification of risks, defining three lines of defense that involve all areas of the Organization (1) Business Lines, Operations and Commercial, (2) the Vice President of Risk and Financial Control and the Risk Investment Vice President who reports to the Corporate Risk Committee of the Bank ("Risk Areas"); and (3) Audit.

The macro processes or lines of the most representative business lines in the strategy, or those that generate higher risk exposures, must be accompanied by specialized risk areas responsible for determining the effectiveness of risk management, including the operational ones.

Risk areas are responsible for promoting and protecting the right control scheme of each risk through monitoring how these are managed in different areas, the effectiveness of controls and levels risks, always ensuring that they are within the risk levels defined by Grupo Bolivar.

10.1.2. **Structure of Government**

A set of principles has been defined and risk policies that clearly define the Bank's risk levels, while establishing authority levels and the responsible ones that must perform the risk management. Based on the risk approach, the Board of Directors is the senior organ of management and control of the risk management, which in turn is supported on a Corporate Risk Committee the body that incorporates in its assessment and control all of the risk aspects identified in the organization.

Risk management is run through the Risk Areas who reports to the Corporate Risk Committee of the Bank. This is a Board committee with three active members.

<u>Board of Directors</u>

The Directors, as principal managers of corporate governance, make it their duty to be property acquainted with risks associated with the Bank´s products and segments, and they include experts in finance and risks.

The Directors are the source of authority, guidance and oversight to senior management all come from the Board of Directors; therefore they have the experience and knowledge about the activities, objectives and structure of the respective entity.

The Board is the body responsible for risk issues. and its duties include, for example:

- Evaluation, approval and oversight of the management of corporate risks in the Bank
- Approval of the appetite and risk tolerance of the institution and the general corporate risk scheme.
- Assurance that the risk management is aligned to the strategy and objectives of the Bank.

<u>Audit Committee</u>

- Supervision of the activities of the internal and external audit in the evaluation of the methodology and implementation of the Bank's risk management model.
- Follow-up of recommendations arising from the control processes, and instructions of the Audit Committee and the Board, or equivalent authority.
- Evaluation of methods used to implement the Bank´s risk management ensuring compliance with recommendations for each risk, identifying weaknesses and making recommendations where appropriate.

Corporate Risk Committee

- Evaluation of harmonious functioning of the various risk management systems and a comprehensive risk profile of the organization.
- Ensure that risk levels in the organization are within established appetites for risk and have adequate levels of capital required.
- Make proposals for the framework for appetite for risk for Board approval.

10.2. Management Risk Model

Banco Davivienda's risk management is done according to operations management: Banco Davivienda Colombia and Banco Davivienda Subsidiaries outside Colombia, defined internally and is aligned to the overall risk management and compliance strategy.

Banco Davivienda Colombia

The Risk Division evaluates and manages all aspects of Credit Risk with specialized Departments for each banking segment- Personal Credit Risk, SME Credit Risk and Corporate and Business Credit Risk.

For the Personal Banking segment, the Personal Banking Credit Risk Department is responsible for the evaluation, administration and collection of all credit lines. Approval is based on a pyramid structure of authority levels. There are also credit committees for collegiate decision. Each credit product has approval scores set on the basis of internal historical records to evaluate the customer´s variables, payment record and indebtedness to the financial system, the product and collateral. Methods have also been developed to segment loans into homogeneous groups and use that allocate the individual risk levels. The Personal Banking Risk Department manages and monitors a range of banking products to manage each type of business: payments, consumer and home mortgage.

The Corporate Credit Division Vice-Presidency manages credit risk in the SME and Corporate segment, and is responsible for analyzing credit applications, tracking current obligations, assigning risk categories and arranging for recoveries where needed. The SME Credit Risk Department manages and monitors credit risk for the subsegments – asset products, agro-,sector."MiPymes" (micro/SME lending) and medium range pending.

The Corporate Credit Division is also responsible for granting credit facilities to Colombian and foreign companies whose economic activity is framed within the norms and conditions established by both the Superintendent of Corporations and the Bank; the intention is to achieve this objective through a thorough analysis of the creditworthiness of companies, the macroeconomic and microeconomic conditions in which it operates; the culture, strategy, policies, procedures and the various quantitative and qualitative risks and the size and importance of the economic sector in which it operates, are all examined and its culture, strategy, policies and procedures and a whole range of quantitative and qualitative factors. The Corporate Risk Division monitors related risks and oversees compliance with covenants with debtors, securing available collateral, and the concentration of the portfolio in terms of economic sectors and geographical regions.

Finally, the Risk Investment Division of Grupo Bolivar manages market and liquidity risk, defining methods of calculation and suggesting policies and controls for risks, all within current regulatory parameters.

The Board receives support from the Financial Risks Committee and the Investment and Unit Fund Risk Committees where appropriate with the responsibility for evaluating and authorizing operations and alternatives for investments in Treasury in each company. The Board has delegated the Assets and Liabilities Management (ALM) or similar to define, follow up and control general Assets and liabilities Management (ALM) policy (market risk in the balance sheet), and policies for liquidity risk management.

The Risk Division is also responsible for managing operating risk with the design, implementation and maintenance of strategies, policies and procedures required for information security management and the definition and guidelines and policies for operating risk management in the Bank and Subsidiaries in Colombia, through the Operating Risk Division and Transaction Risk Department.

Banco Davivienda and Subsidiaries outside Colombia

The risk management function outside Colombia is evaluated and monitored by the Parent to secure defined exposure limits and implement risk management policies supported by the Corporate Risk Committee and endorsed by the Board.

The International Credit Division is responsible for Corporate and Business Banking and the Personal Banking business of subsidiaries outside Colombia. It is therefore responsible for the evaluation, administration and collection of credit lines. As in Colombia, approvals are structured in a pyramid of authority levels locally with a Regional Unit and a Unit of the Corporate Credit Committee in Colombia where collegiate decisions are taken.

The products of Personal Banking use approval scores for customer variables, with their historical record and indebtedness to the financial sector, the products and collateral.

The International Credit Risk Division maintains oversight of the perspective of the business and coordinates efforts of all subsidiaries through the Credit Risk areas of each country, with appreciations of the particular features of each market.

In Davivienda Internacional, market and liquidity a manage model which is different from that applied in other Grupo Bolivar companies, because in this case the model of governance has been defined to include faculties for the Subsidiaries, a Grupo of authority level which a different and use some different processes and methods. The Board of each Subsidiary is the senior level in the organization, responsible for the overall management of financial risks in each individual balance sheet. Therefore, each Board is responsible for defining and approving the appetite for market risk and policies and instructions on liquidity risk in each currency. or consolidated by company. supported by approvals from the foreign currency Assets and liabilities Management (ALM) Committee from Colombia. Each Subsidiary outside Colombia has and Assets and liabilities Management (ALM) Committee, and is responsible for the approval of risk limits at the level of the business and strategy follow-up.

Finally, operating risk management is the responsibility of the international operation division, which must also secure the integrity of business processes and the ability to keep services available to customers and shareholders, following Board guidelines, for transparency in the management of the business.

10.3. **Risk Appetite Framework**

The Risk Appetite Framework of Banco Davivienda determines the risks that the Bank is willing to assume and withstand towards achieving its strategic objectives.

The definition of the risk appetite framework serves the purposes detailed below:

- Consider the interests of the different Bank stakeholders in order to guarantee the sustainability of the entity thanks to a comprehensive risk management vision.
- Display the capacity, appetite and tolerance of the Bank to the different risks with the purpose of framing the strategy within these levels.
- Prepare a proactive risk management scheme in the medium and long term that allows for the bank to take desirables risks in the development of the strategy.
- Align decisions within the bank so that they are consistent with the risk appetite.

Consider the interests of the different Bank stakeholders in order to guarantee the sustainability of the entity thanks to a comprehensive risk management vision. Display the capacity, appetite and tolerance of the Bank to the different risks with the purpose of framing the strategy within these levels. Prepare a proactive risk management scheme in the medium and long term that allows for the bank to take desirables risks in the development of the strategy. Align decisions within the bank so that they are consistent with the risk appetite.

10.4. **Risk management system**

10.4.1. Strategic Risk

For Davivienda, strategic risk is understood as the potential deviation from the expected results as a result of strategic decisions, the improper application of such decisions and/or a lack of capacity to react to changes in the environment.

Strategic risk management is a continuous process that incorporates both the control on the execution of the strategy, and also the integral and systematic assessment of strategic decisions, seeking, in both cases, to assure compliance with the Bank's strategic objectives.

In 2019, the strategic risk factors below were ratified, which were put forth to the Board of Directors along with the strategies proposed for the year 2020:

- A change in consumer behavior in a new digital world
- Ability to attract and withhold human talent to face the new digital world
- Capacity to access financial markets (local and international) to obtain funding through debt and/or capital (risk rating of both the country and the bank)
- Changes in regulation that lead to new capital and liquidity requirements (for instance, Basel III)
- Local regulatory changes that adversely impact business dynamics and the Bank's outcomes (for instance, intervention in bank commissions)

On top of that, throughout 2019, headway was made in the identification and analysis of macro-trends, which are all those market forces that surround the Bank and over which no control be exercised, but which could impact the consequences of the strategic objectives.

10.4.2. **Credit Risk**

Credit risk is defined as the possibility for a borrower or counterparty to default on their obligations as per the agreed terms, thus negatively affecting the value of the Bank's portfolio.

The objective of credit risk management is to maximize the profitability of the Bank by adjusting to the desired risk levels. This objective is accomplished by sustaining the expected loss levels within acceptable parameters without ignoring other uncertainty phenomena that may affect the portfolio's outcome.

Banco Davivienda is exposed to credit risk in the development of operations, both in its credit portfolio (funding of consumer, housing and capital requirements for companies) as well as in its treasury operations (currency market, investment portfolio management, contract derivatives and purchase and sale of currencies). For the successful execution of the general credit risk management process, three general sub processes are established:

Credit Portfolio Monitoring and Management: The portfolio monitoring and management process holds, as its main purpose, the monitoring of the makeup and quality of the portfolio, detecting concentrations, relevant segments, risk factors and articulating its management with the credit risk control and monitoring process. Adjustments to the business rules and credit policies are proposed in this process in accordance with the level of risk desired for the respective product or strategy; monitoring and analysis of the potential losses of the portfolios is implemented; the strategies and the effectiveness of debt collections and their effect on the mitigation of losses sustained, among others, are also analyzed.

Credit Risk Methodologies and Models: This process is aimed at the study, design, development and implementation of methodologies, models and tools that allow for the adequate measurement of credit risk, as well as the sensitization of portfolios to various economic scenarios.

Credit Risk Control and Monitoring: The process of credit risk control and monitoring has the main objective of ensuring compliance and guarantee the proper implementation of the definitions established by the Board of Directors and the Risk Committees. The controls and their monitoring are established, executed and coordinated with the Credit Cycle units in the face of set provisions in order to avoid deviations from the strategy defined by the Bank.

10.4.2.1. **Organizational structure for credit risk management**

The Bank manages credit risk for Colombia from the Risk Division, whose internal structure is has been strengthened with the creation of the Credit Risk Department, which has specific units to attend top Corporate and Business Banking, SME Banking and personal Banking. There are two transverse areas: Credit Risk Models and Methods and Risk Information and Management. In Central America, Credit Risk is managed by a Regional Unit that reports to the Risk Committees of each banking segment.

The Board, defines, creates and establishes the structure of the Credit Risk Committees for personal Banking. SME and corporate Banking (CRC), the Credit Risk Collections Committee (CRCC) and the Portfolio Rating Committee (CC) as specialized bodies and coordination issues regarding credit risk management. The Board authorizes the CRC. CRCC and CC to be the only collegiate bodies with attribution to recommend policies and authorization rules and / or provisions relating to the management of credit risk, portfolio recovery and portfolio rating under the government process established and with the sole purpose of materializing the policies established by the Board.

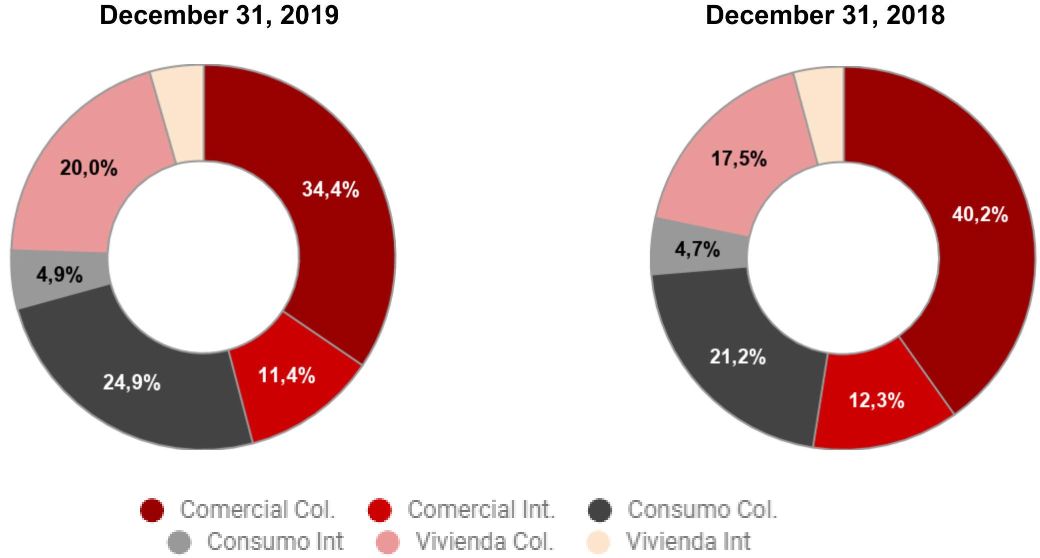
The Credit Risk Management Procedure Manual (MARC) represents the navigation chart for the Credit Risk Management System, describing our culture, policies, methods, rules and general procedures. It is the instrument, for the recording, and orderly and systematic transmission of information to the organization in this area.

10.4.2.2. **Credit risk exposure - portfolio composition**

The Bank's portfolio, both in Davivienda Colombia and Davivienda International, is distributed in: Consumer, Home mortgage and Commercial. The first two relate to loans granted to individuals to finance consumer needs (free investment and unsecured. revolving credit, promissory note, car and credit card) and housing (Social Interest- Traditional VIS. VIS and Residential Leasing) respectively and the commercial portfolio corresponds to loans to finance corporate and business needs.

(Millions of Colombian pesos (COP))

As of December 31st, 2019, the portfolio has a value of $ 97,399,570 million; Davivienda-Colombia contributes 80% and Davivienda Internacional 20%. distributed as follows:



As of December 31st, 2019, Banco Davivienda's loan portfolio grew by 10.9% compared to the end of December 2018, Davivienda Colombia, grew by an 11.9%, wand the Subsidiaries outside Colombia grew 7.2%. The gross portfolio is measured at amortized cost, the distribution by stages and type (commercial, consumer and home mortgage) and the growth of each was as follows

Business model	December 31, 2019			Total	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Davivienda Colombia								
Commercial	30,347,694	2,168,749	2,269,577	34,786,020	25,740,362	6,484,546	2,287,766	34,512,674
Consumer	21,896,702	1,705,661	421,006	24,023,369	16,099,017	1,461,245	419,217	17,979,479
Mortgage	17,577,818	1,001,758	450,179	19,029,755	15,880,812	807,622	399,995	17,088,429
	69,822,214	**4,876,168**	**3,140,762**	**77,839,144**	**57,720,191**	**8,753,413**	**3,106,978**	**69,580,582**
International subsidiaries								
Commercial	10,040,501	331,275	209,594	10,581,370	9,467,743	357,003	215,091	10,039,837
Consumer	4,276,860	346,867	143,698	4,767,425	3,870,917	331,306	124,335	4,326,558
Mortgage	3,968,193	135,304	108,134	4,211,631	3,665,161	126,236	83,219	3,874,616
	18,285,554	**813,446**	**461,426**	**19,560,426**	**17,003,821**	**814,545**	**422,645**	**18,241,011**
Total	**88,107,768**	**5,689,614**	**3,602,188**	**97,399,570**	**74,724,012**	**9,567,958**	**3,529,623**	**87,821,593**

An analysis of results in percentage terms shows that 89.7% of Colombia loans are in Stage 1, 6.3% in stage 2 and only 4.0% in stage 3. This distribution is impacted by the commercial portfolio, where 87.2% is at an optimal risk level and there is 6.2% that shows a significant deterioration in its risk level. This behavior is explained by specific credit exposures in the Engineering and Civil Works sector for the corporate portfolio. The consumer and housing segments have a portfolio at 91.1% and 92.4% in stage 1, 7.1% and 5.3% in stage 2 and 1.8% and 2.43% in stage 3 respectively, thus showing a distribution similar to that of December 2018, with slight variations in the Colombia consumer portfolio

(Millions of Colombian pesos (COP))

	December 31, 2019		
Business model	**Stage 1**	**Stage 2**	**Stage 3**
Davivienda Colombia	**89.70%**	**6.30%**	**4.00%**
Commercial	87.20%	6.20%	6.60%
Consumer	91.10%	7.10%	1.80%
Home mortgage	92.40%	5.30%	2.30%
International Subsidiaries	**93.50%**	**4.20%**	**2.30%**
Commercial	94.90%	3.10%	2.00%
Consumer	89.70%	7.30%	3.00%
Home mortgage	94.20%	3.20%	2.60%
TOTAL	**90.50%**	**5.80%**	**3.70%**

In Davivienda Internacional, 93.5% of loans are optimum (Stage 1), 4,2% in Stage 2 and nearly 2,4% in stage 3. with a distribution similar to that of the end of 2018.

This distribution is detailed by country and by portfolio segment according to the following chart:

Country	Commercial	Consumer	Mortgage	Total
Costa Rica	**3,766,735**	**1,138,734**	**1,879,373**	**6,784,842**
Stage 1	3,596,390	1,027,592	1,788,219	6,412,201
Stage 2	121,892	78,445	37,439	237,776
Stage 3	48,453	32,697	53,715	134,865
El Salvador	**2,988,111**	**2,462,432**	**1,130,869**	**6,581,412**
Stage 1	2,840,876	2,177,242	1,057,146	6,075,264
Stage 2	62,212	208,464	46,598	317,274
Stage 3	85,023	76,726	27,125	188,874
Honduras	**1,293,687**	**1,040,595**	**828,440**	**3,162,722**
Stage 1	1,210,713	949,593	781,255	2,941,561
Stage 2	77,559	57,524	32,623	167,706
Stage 3	5,415	33,478	14,562	53,455
Panama	**2,532,837**	**125,664**	**372,949**	**3,031,450**
Stage 1	2,392,522	122,433	341,573	2,856,528
Stage 2	69,612	2,434	18,644	90,690
Stage 3	70,703	797	12,732	84,232
Overall	**10,581,370**	**4,767,425**	**4,211,631**	**19,560,426**

For further details on the composition of the portfolio see note 12.5.1 (Loan and finance lease portfolio by type) and 12.5.9 (Loan and finance lease portfolio by type of guarantee).

10.4.2.3. **Exposure to Credit Risk**

The investment portfolio is mainly concentrated in sovereign debt securities of countries where Davivienda operates, given that the main mandate is to establish a liquidity reserve. The portfolio is therefore concentrated in assets with a low credit risk and high liquidity. There are also positions in corporate debt securities, mostly of well-known issuers who are regularly in the market, with high credit ratings, and mortgage portfolio securitizations. In terms of participation for December 2019, 61% corresponds to sovereign debt, mostly Colombian, followed by private debt with 32% and finally securitizations accounting for 7%. The composition of the portfolio reflects conservative and adequate credit risk management, in accordance with the policies defined by the Bank's management.

(Millions of Colombian pesos (COP))

Consolidated credit risk exposure includes the loans of Davivienda Colombia and its International Subsidiaries' credit portfolio and their treasury operations. Subject to counterparty credit risk. The following table comparative exposure is observed separating the carrying amount of financial assets secured by some form of collateral that depends on the nature of the product and / or the counterparty and unsecured loans.

Assets	**December 31, 2019**		**December 31, 2018**	
	Collateral	**No collateral**	**Collateral**	**No collateral**
Debt at fair value	220,467	9,735,873	3,048	9,481,840
Colombian government	-	4,891,090	-	4,489,256
Other governments	-	2,285,728	-	1,823,079
Financial entities	-	1,473,231	-	2,207,805
Real sector	-	396,078	-	192,184
Others	-	398,999	-	338,842
Derivatives	220,467	290,747	3,048	430,674
Debt at amortized cost	-	2,174,931	-	1,828,493
Debt investments	-	2,174,931	-	1,828,493
Loans	52,453,185	44,946,385	46,994,887	40,826,706
Commercial	26,234,285	19,133,105	23,045,416	21,507,095
Consumer	2,977,514	25,813,280	2,986,426	19,319,611
Home mortgage	23,241,386	-	20,963,045	-
Total financial assets with credit risk	52,673,652	56,857,189	46,997,935	52,137,039
Credit risk off-balance-sheet	8,171,740	22,360,449	9,059,149	19,589,247
Credit limits	8,171,740	22,360,449	9,059,149	19,589,247
Total maximum exposure to credit risk	**60,845,392**	**79,217,638**	**56,057,084**	**71,726,286**

As a matter of Bank policy, the approvals process requires the offer of collateral in order to mitigate credit risk exposure, as a function of the nature of the product, the term of the loan, the financial and equity structure of the counterparty, the risks associated with the sector, the exposure of the debtor with the Bank, and other factors.

In its assessment of the value of the collateral value and the timing of the valuation, the Bank takes into account the particular characteristics of the assets covered by the operation, which determine whether the main component of the appraisal is the market price, the valuation indices calculated by Government agencies and / or the criteria of experts when deemed necessary..

At the end of 2019, 53.9% of the portfolio exposure is mitigated by a guarantee: The commercial portfolio has collaterals like mortgages, liens, cash collaterals, escrows, guarantees granted by the National Guarantee Fund (FNG) and the Agricultural Guarantee Fund (FAG) among others, covering 57.8% of the exposure.

Consumer loans are mostly unsecured, except for vehicle loan pledges, free-use personal loans with mortgage guarantees (10.3% of consumer exposure).In particular, unsecured consumer include payroll installment loans with guaranteed collection. The balance of payroll installment loans represents about 30% of unsecured consumer loans.
Finally, home mortgages are fully backed by a mortgage (or, in the case of residential leasing, are assets owned by the Bank) and the credit risk exposure can always be mitigated by this form of security.

For further details please see Note 12.5.9 (Loans and financial leasing by type of collateral).

10.4.2.4. Measurement of impairment reserves

The Bank seeks to ensure that the expected flows of credit and investment activity meet the expected requirements of the funds raised, prudently make reserves to cover its lending risks. Also, it is important for the Bank to guarantee the stability and consistency of the reserves with loan losses incurred, and it has therefore developed models in line with international standards (IFRS 9) in order to manage and mitigate the risks efficiently.

As of January 1, 2018 the Bank adopted IFRS 9 to calculate losses, changing the focus from “incurred losses” (as it formerly did under IAS 39 up to December 2017) to the measurement of “expected losses" (IFRS 9), With this new focus, the Bank developed models that discriminate the mass portfolios (Personal Banking. SME), and non-mass portfolios (Corporate and Business), and incorporate traditional components of the measurement of expected loss: probability of default (PD), loss given default (LGD), and exposure on default (ED). There is also a contingency included in expected loss, and a model for probability of activation (PA) was developed for this.

Additionally, regulations underline the need to reflect current and future conditions of the customer. Therefore, there is the incorporation of "forward-looking" effects, which include macroeconomic effects in estimates. For this reason, the calculation of expected loss is made in the context of different macroeconomic scenarios, within which may or may not give rise to a loss

In some segments of lending in Costa Rica and Panama, the Colombian parameters were used because there is insufficient historical information available to create a stable parameter over time which would provide an adequate reflection of the risk in these portfolios. In Costa Rica, a study was made to determine Colombia has the economy most similar to those of the other Central American countries. For this reason, parameters were used for Consumer and Business. In Panama, due to products such as vehicles and home mortgage being relatively new, there is little history or material information to make a stable model, and therefore it was decided to use Colombian parameters.

The following are the principal components of the methods used by the Bank to estimate the expected losses under IFRS 9, and the criteria used to classify loans between Stage 1-Normal risk, Stage 2 - Significant increase in risk; and Stage 3 - Default

10.4.2.5. Criteria for classifying loans in Stage 1 - without significant increase in risk

Generally speaking, a loan is deemed free of significant increased risk when it sustains good payment habits (arrears of less than 30 days) and has not changed its contractual conditions since initial recognition. Under certain warning conditions that are set forth in the following Stage, a reclassification is made.

10.4.2.6. Criteria for classifying loans in Stage 2 - significant increase in risk

In general, a loan is deemed as having a significant increase in risk when one of the following factors occurs, depending on the type of portfolio:

Consumer: A loan is deemed to have a significant increase in risk when it is more than 30 days past due. In addition, for certain portfolios, criteria such as greater use in revolving loans, variation in the customer's risk level, payroll loans that lose collection are included.

Housing: Clients with arrears greater than 60 days as well as clients with other types of portfolios who do not comply with their obligations.

Commercial: 30 days of arrears as well as particular criteria of the debtors depending on whether there have been changes in collateral, changes in credit conditions or particular conditions.

10.4.2.7. Criteria for classification in Stage 3-definition of default.

It is considered that there is default in a segment as of the first limit of arrears in which the probability of recovering of the loan is less than 50%. Further, for individually-significant loans, the account is taken of other factors to consider a loan to be in default, such as litigation, and the follow-up to internal ratings. For each segment of each portfolio and for each country, the study is made of the resulting parameter in the context of a possible or presumed default in 90 days arrears. This parameter is maintained in most mass and non-mass portfolios, except for loans secured against mortgage collateral.

10.4.2.8. Probability of default

This is the estimated probability that default will occur within 12 months of the life of the debt, counting from the date of analysis. The standard defines that this probability will be used to calculate expected losses solely for healthy loans which show no evidence of impairment (Stage I).

For mass portfolios such as Consumer. Home Mortgage and SME, the calculation is made of the probability of default using non-parametric estimates of the survival curve adjusted for payment, seeking to predict the probability that a loan will reach default in the next 12 months of observation. The study is made of a default parameter for each homogeneous segment of loans, and survival curves are constructed for loans with different terms of arrears, to make an adequate estimate of the level of risk for each segment.

For non-mass portfolios, including Corporate. Business and Construction, the Tasche & Pluto (2005) method is used, because these portfolios have a very low level of default.

Where obligations or customers show a significant increase in the level of risk, the calculation of the probability of default is made for the remaining life of the loan.

The Lifetime-PD is the estimated probability that default will occur throughout the remaining life of the instrument.

Mass portfolios and non-mass portfolios are exposed to the analysis described for the probability of default at 12 months, but considering the available credit record, and making the survival analysis.

10.4.2.9. Loss given default (LGD)

Loss given default (ODD) is the percentage exposure expected for a loss should default occur on a financial instrument.

The loss is defined as (1- the percentage of recovery of exposure at the time of default), the latter being the sum of expected flows from the operation discounted at the effective interest rate on the date of analysis. In order to estimate LGD to be assigned to a normal loan operation today, an estimate is made of the historic loss observed for each operation that has given rise to default treatment.

For loans with collateral. collateral is taken into account for the calculation of loss. and recovery flows are discounted to the value of net exposure of net present value of the recovery under the collateral.

10.4.2.10. Exposure on default

The PD and LGD in each loan is multiplied by the estimated exposure on default.

As part of the Bank´s methods, the exposure on instalment loans is reduced with the natural reduction caused by repayments over time, and the possibility that for each type of loan, exposure may be open to special reductions through prepayment.

(Millions of Colombian pesos (COP))

For revolving loans, the calculation is made of the Credit Conversion Factors in order to predict an increase in the use of credit limits up to the time of default

10.4.2.11. **Forward Looking**

IFRS 9 stresses the need to reflect current and future customer conditions. Therefore, it postulates the incorporation of "forward looking" effects, which include macroeconomic effects in the estimates. For this reason, the calculation of expected losses is made under different scenarios weighted by their probability of occurrence, thus recognizing the impact that a changing macroeconomic environment may have on the Bank's losses

To calculate the forward-looking adjustment, a multiple linear regression model is estimated to explain the 12-month PD observed historically, through macroeconomic variables. This regression considers all projected variables, their transformations and lags from 1 to 18, and uses a first model (Lasso) for the preliminary selection of variables. Subsequently, correlated variables are eliminated and finally all the remaining possible combinations of variables are considered for modeling, selecting the best model for projection (statistical and economic sense criteria).

The following charts describe the macroeconomic scenarios for the resulting variables used to calculate the reserves for each country:

Colombia

Variables		2019	2020	2021	2022	2023
CPI	Base	3.20%	3.10%	3.00%	3.00%	3.00%
	Interval	1.81% - 5.03%	1.61% - 2.47%	2.23% - 3.93%	2.55% - 3.42%	2.95% - 3.09%
Interest Rate	Base	29.10%	29.90%	29.40%	28.90%	28.70%
	Interval	28.30% - 32.42%	27.60% - 30.31%	26.74% - 29.70%	26.99% - 29.10%	27.72% - 29.00%
GDP	Base	2.80%	3.30%	3.30%	3.40%	Base 3.4%
	Interval	0.07% - 5.36%	1.39% - 4.43%	2.68% - 3.49%	2.73% - 3.62%	2.72% - 3.65%
Unemployment	Base	9.50%	9.70%	9.80%	9.90%	9.90%
	Interval	9.30% - 13.80%	9.30% - 14.30%	9.60% - 14.30%	9.90% - 14.00%	9.90% - 13.80%
MPR	Base	4.20%	4.00%	4.00%	4.00%	4.00%
	Interval	2.20% - 5.30%	2.70% - 4.70%	3.90% - 4.00%	3.50% - 4.00%	3.50% - 4.00%
WTI	Base	53.6	67.65	69.62	71.66	73.66
	Interval	52.24 - 88.97	60.82 - 79.42	63.87 - 80.43	67.74 - 82.28	71.60 - 84.16
Representative Market Rate	Base	2,950,83	2,938,97	2,889,65	2,817,87	2,768,26
	Interval	2,893,61 - 3,224,39	2,761,83 - 3,056,11	2,674,67 - 3,056,53	2,628,69 - 3,016,38	2,602,51 - 2,967,06

(Millions of Colombian pesos (COP))

Honduras

Variables		2019	2020	2021	2022	2023
Consumer Growth System	Base	11.69%	16.13%	16.75%	8.02%	3.54%
	Interval	10.66% - 20.21%	3.27% - 26.97%	1.58% - 26.10%	2.19% - 15.59%	3.54% - 9.38%
Portfolio Quality System	Base	1.88%	1.89%	1.78%	1.80%	1.92%
	Interval	1.57% - 2.76%	1.31% - 3.22%	1.33% - 2.71%	1.47% - 2.29%	1.53% - 2.32%
Commercial Growth System	Base	12.61%	9.47%	6.69%	5.86%	6.02%
	Interval	8.31% - 15.99%	0.44% - 18.02%	3.79% - 18.02%	0.46% - 15.56%	3.62% - 14.29%
LIBOR 6M	Base	2.50%	2.75%	2.75%	3.00%	3.00%
	Interval	1.00% - 3.50%	1.00% - 3.50%	1.75% - 3.25%	2.75% - 3.50%	2.25% - 3.50%
GDP	Base	4.16%	3.27%	3.58%	3.25%	2.90%
	Interval	-0.81% - 7.22%	-0.32% - 7.52%	3.44% - 5.12%	3.07% - 5.09%	2.02% - 4.20%
CPI	Base	4.06%	4.51%	4.19%	4.12%	4.15%
	Interval	3.83% - 4.29%	4.43% - 5.40%	4.01% - 5.08%	4.07% - 4.76%	4.08% - 5.13%
US Unemployment	Base	3.60%	3.60%	3.80%	4.10%	4.10%
	Interval	2.90% - 5.70%	2.90% - 7.00%	3.60% - 7.00%	4.00% - 6.40%	4.10% - 6.30%

Panama

Variables		2019	2020	2021	2022	2023
US Unemployment	Base	3.60%	3.60%	3.80%	4.10%	4.10%
	Interval	2.90% - 5.70%	2.90% - 7.00%	3.60% - 7.00%	4.00% - 6.40%	4.10% - 6.30%
Portfolio Quality	Base	1.63%	1.65%	1.76%	1.81%	1.95%
	Intervalo	1.64% - 1.74%	1.63% - 1.84%	1.54% - 1.91%	1.64% - 1.90%	1.82% - 2.16%

Costa Rica

Variables		2019	2020	2021	2022	2023
CPI	Base	1.54%	2.75%	2.81%	3.06%	3.17%
	Interval	1.54% - 2.93%	2.36% - 4.05%	2.07% - 4.92%	1.83% - 5.20%	1.71% - 5.71%
GDP	Base	2.83%	2.01%	2.47%	3.02%	3.13%
	Interval	0.75% - 4.12%	0.74% - 3.87%	2.19% - 3.28%	2.66% - 3.62%	3.02% - 3.72%
Portfolio Quality	Base	2.16%	2.33%	2.67%	2.83%	2.88%
	Interval	2.00% - 3.01%	1.86% - 3.45%	1.99% - 3.75%	2.02% - 3.90%	2.09% - 3.65%
	Interval	2.00% - 3.01%	1.86% - 3.45%	1.99% - 3.75%	2.02% - 3.90%	2.09% - 3.65%

(Millions of Colombian pesos (COP))

El Salvador

Variables		2019	2020	2021	2022	2023
US GDP	Base	2.47%	1.60%	1.72%	2.00%	2.00%
	Interval	- 1.34% - 4.22%	-2.36% - 4.72%	1.62% - 3.65%	1.62% - 3.40%	1.70% - 3.40%
CPI	Base	0.43%	1.62%	1.83%	1.99%	2.09%
	Interval	0.43% - 1.86%	1.21% - 2.43%	1.66% - 1.94%	1.77% - 2.08%	1.85% - 2.11%
Consumer Portfolio Growth	Base	4.31%	6.65%	7.10%	6.41%	6.68%
	Interval	4.16% - 6.99%	3.74% - 9.19%	3.43% - 9.75%	2.75% - 10.05%	6.24% - 9.02%
Commercial Portfolio Quality	Base	2.13%	2.07%	1.91%	1.86%	1.75%
	Interval	2.02% - 2.43%	1.94% - 2.48%	1.81% - 2.05%	1.73% - 1.89%	1.68% - 1.89%
Libor 6M	Base	2.50%	2.75%	2.75%	3.00%	3.00%
	Interval	1.00% - 3.50%	1.00% - 3.50%	1.75% - 3.25%	2.75% - 3.50%	2.25% - 3.50%
Commercial Portfolio Growth	Base	6.72%	3.15%	1.64%	1.22%	1.23%
	Interval	1.40% - 9.54%	- 3.11% - 9.61%	- 4.77% - 8.94%	-3.80% - 8.09%	0.55% - 8.27%

After applying the criteria described in the models for estimating provisions to the portfolio by Stages, the following results are obtained:

Modelos de Negocio	**December 31, 2019**			**Total**	**December 31, 2018**			**Total**
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Davivienda Colombia								
Commercial	282,155	431,041	1,262,114	1,975,310	160,347	396,752	1,241,728	1,798,827
Consumer	659,245	401,396	334,510	1,395,151	458,524	412,643	324,283	1,195,450
Mortgage	57,795	62,732	148,826	269,353	27,149	40,614	180,432	248,195
	999,195	**895,169**	**1,745,450**	**3,639,814**	**646,020**	**850,009**	**1,746,443**	**3,242,472**
International subsidiaries								
Commercial	57,981	43,980	68,113	170,074	46,610	19,535	86,511	152,656
Consumer	179,170	94,822	(23,890)	250,102	113,422	57,095	82,643	253,160
Mortgage	18,995	702	63,848	83,545	12,150	6,839	42,400	61,389
	256,146	**139,504**	**108,071**	**503,721**	**172,182**	**83,469**	**211,554**	**467,205**
Total impairment of Loans Portfolio and financial leases operations, net	**1,255,341**	**1,034,673**	**1,853,521**	**4,143,535**	**818,202**	**933,478**	**1,957,997**	**3,709,677**

As of December 31, 2019, loan-loss reserves reached $4.1 trillion pesos, or 4.25% of the total portfolio, which is 10 basis points higher than the 4.22% recorded at the end of the previous year.

(Millions of Colombian pesos (COP))

The following chart shows the breakdown of the proportion of impairment on the balance per stage and per type of portfolio:

	diciembre 31, 2019				diciembre 31, 2018			
Business Model	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Davivienda Colombia	**1.40%**	**18.40%**	**55.60%**	**4.70%**	**1.10%**	**9.70%**	**56.20%**	**4.70%**
Commercial	0.90%	19.90%	55.60%	5.70%	0.60%	6.10%	54.30%	5.20%
Consumer	3.00%	23.50%	79.50%	5.80%	2.80%	28.20%	77.40%	6.60%
Mortgage	0.30%	6.30%	33.10%	1.40%	0.20%	5.00%	45.10%	1.50%
International Subsidiaries	**1.40%**	**17.10%**	**23.40%**	**2.60%**	**1.00%**	**10.20%**	**50.10%**	**2.60%**
Commercial	0.60%	13.30%	32.50%	1.60%	0.50%	5.50%	40.20%	1.50%
Consumer	4.20%	27.30%	-16.60%	5.20%	2.90%	17.20%	66.50%	5.90%
Mortgage	0.50%	0.50%	59.00%	2.00%	0.30%	5.40%	50.90%	1.60%
TOTAL	**1.40%**	**18.20%**	**51.50%**	**4.30%**	**1.10%**	**9.80%**	**55.50%**	**4.20%**

10.4.2.12. **Impact, individually significant clients**

Within the process of provision quantification under IFRS 9, there are clients who, due to their increase in risk level as well as the materiality of their exposure, must be analyzed individually to understand recovery expectation through the analysis of cash flows expected, net of present guarantees recovery value when applicable.

The main clients that generated an impact on impairment in 2019 correspond to the corporate and construction portfolio in Colombia, in sectors that develop Infrastructure and Construction Projects, generating an increase in coverage, going from $ 543,866 (2018) to $ 641,014 (2019).

Please see Note 12.5.3 (Individuals) for more details on the individually rated portfolio.

10.4.3. **Risk management, derivative financial instruments**

The operation of derivative financial instruments and structured products in the Treasury of Banco Davivienda is part of a risk policy scheme based the following minimum guidelines:

- Authorized market or product.
- Counterparty limits and authorized credit, acceptable guarantees in credit risk mitigation mechanisms, concentration of credit exposure by counterparty and/or sector, and the company's global credit exposure.
- Signing of framework and/or ISDA contracts, with due diligence considering the analysis of clauses related to credit risk mitigation, early termination and default.
- Authorized counterparties, even for cases intended to bring a central counterparty risk chamber.

10.5. Market and liquidity risk management

The Vice Presidency of Investment Risk is the instance unto which the Board of Directors of each company delegates responsibility for the evaluation of financial risks, identification of new risks, definition of calculation methodologies, policy suggestions and risk control.

Risk Management in the companies of Grupo Empresarial Bolívar is carried out through a synergic strategy between the companies, consolidating a Financial Risk Directorate for all companies, thus optimizing technological and human resources. The Financial Risk Directorate depends on the Vice Presidency of Investment Risk of Grupo Empresarial Bolívar, following the guidelines of the Vice Presidency of Risk and Financial Control and the Corporate Risk Committee.
For this purpose, it has been established that the Financial Risk Committee (CFR, after its name in Spanish) of Grupo Empresarial Bolívar, the Assets and Liabilities Management Committee (C-GAP, after its name in Spanish) or whoever may act in its capacity, the Foreign Currency Assets and Liabilities Management Committee (C-GAP ME, after its name in Spanish), the Market Risk Committee, and the Board of Directors of each Group entity, are the bodies responsible for defining institutional policies in relation to exposure to different financial risks, in line with the financial structure and operation of each entity, as well as with its strategy and corporate objectives.

The Financial Risk Management Manual (MARF) of Grupo Empresarial Bolívar consolidates the aspects related to management and administration of treasury and liquidity financial risks in the Group companies and establishes the administration system required for this purpose.

Thus, the companies have designed and implemented a robust structure of exposure limits to risk, to control portfolios and their management activities. Each company has defined, among others, investment and counterpart limits, portfolios, limits per operator, value at risk, sensitivity, duration, term, as well as various early alerts to monitor and control the operation.

The Board of Directors delegates unto the CRF and in the Investment and Risk Committees of the Collective Investment Funds, as appropriate, the responsibility of evaluating and authorizing the different operation and investment alternatives of the Treasuries of each Company; and unto the C-GAP, or whoever acts in its capacity, the definition, monitoring and control of the general policies of asset and liability management (market risk of the balance structure), and liquidity risk management policies.

10.5.1. Market risk

Market risk management requires the identification. measurement, monitoring and control of the risks arising from fluctuations in interest rates, exchange rates, prices, indicators and other risk factors.

The strategic principles applied by Davivienda's market managers are:

→Consistency between expected return and level of exposure tolerated.
→Market share in markets and products on which it has deep knowledge and management tools.
→Strategy segmentation and risk profiles for each business model.
→Consolidated and individual levels of management.

The Bank is a market player through its investment portfolio in the money market and the foreign exchange market. The managed portfolios are composed of a range of assets that diversify sources of income and assumed risks, which are part of a series of limits and early warnings seeking to maintain the risk profile of the balance sheet and risk-reward ratio.

Given the nature of the business and the markets that the Bank accesses to, the bank book and the treasury book are exposed to interest rate and exchange rate risks, and to risks of change in the price of shares and investment funds.

10.5.1.1. Business Model and Portfolio Structure

Since market risk management starts from the recognition of defined business models for managing the investment portfolio. Davivienda has instituted two major management practices: i) structural management: investments associated with financial intermediation, market risk management of the balance sheet and the need support in the form of liquid assets in the financial intermediation process; and ii) trading management: investments for which its purpose is to maximize Treasury profits by buying and selling financial instruments.

From these business models, fields of action to manage them are established through limits, alerts and risk policies that reflect the appetite for and tolerance of risk, the depth of the market, and the objectives of each business line.

The gross investment portfolio, at December 2019 was at $11,715,763 million according to the business models stated:

			Variation	
Business model	**December 31, 2019**	**December 31, 2018**	**$**	**$**
Trading	1,914,901	2,120,712	(205,811)	-9.7%
Structural	9,800,862	8,886,007	914,855	10.3%
Liquidity Reserve	7,564,684	7,217,898	346,786	4.8%
Balance-sheet management	2,236,178	1,668,109	568,069	34.1%
Total	**11,715,763**	**11,006,719**	**709,044**	**6.4%**

The most significant amount of investments corresponds to the reserve to meet liquidity demands; secondly, investments with the purpose of risk management of the balance sheet, and finally the trading portfolio.

The accounting classification rules for investments are associated with the business models with which the portfolios are managed. At December 2019, the gross portfolios were classified as follows;

$ Million			**Variation**	
Accounting classification	**December 31, 2019**	**December 31, 2018**	**$**	**%**
Fair value through profit or loss	4,137,310	5,103,080	(965,770)	-18.9%
Fair value through OCI	5,403,522	4,075,146	1,328,376	32.6%
Amortized cost	2,174,931	1,828,493	346,438	18.9%
Total	**11,715,763**	**11,006,719**	**709,044**	**6.4%**

The most significant amount of investments corresponds to the reserve to meet liquidity demands; secondly, investments with the purpose of risk management of the balance sheet, and finally the trading portfolio.

In relation to December 2018, an investment portfolio growth of 6.4% is observed, explained by the growth of the liquidity reserve that adjusts to the growth structure of liabilities, so that the risk profile established by the Bank and its Subsidiaries is preserved. On the other hand, the balance of the trading portfolio varies depending on market conditions and expectations prevailing on the date of analysis. An additional variable that explains the variation in portfolio balance is the restatement effect of the Costa Rican Colon, Honduran Lempira and the US Dollar against the Colombian Peso.

(Millions of Colombian pesos (COP))

At the level of subsidiaries and operating jurisdiction, the investment portfolio is mostly explained by the operation in Colombia, followed by Costa Rica, Panama and El Salvador.

Country	**December 31, 2019**	**December 31, 2018**	$	%
Colombia	7,667,548	7,613,437	54,111	0.7%
Costa Rica	1,566,898	1,392,585	174,313	12.5%
El Salvador	846,742	707,095	139,647	19.7%
Panamá	1,037,886	757,932	279,954	36.9%
Honduras	357,278	315,905	41,373	13.1%
Estados Unidos	239,411	219,765	19,646	8.9%
Total	11,715,763	11,006,719	709,044	6.4%

10.5.1.2. **Measurement of Market Risk**

The measurement of market risk quantifies the potential loss due to changes in risk factors that affect the valuation of expected results. This requires the definition of parameters and tools for measurement, together with the generation of reports, analysis, and regular assessments by senior management and risk taking areas.

The market risk management system allows the Bank to identify, measure and control the risk to which the positions of the balance sheet are exposed, based on the principles of the business model. For this, there is a scheme of limits that serves the purpose of each business unit. The trading portfolios, which are composed of debt instruments and derivatives, have an action framework defined by measures of Value at Risk, maximum positions and sensitivity measures (Rho, Delta, Vega, among others). Meanwhile, portfolios that follow a set structure consist of debt instruments following a long-term vision which can be complemented with derivatives in order to reduce the sensitivity of the portfolios to adverse movements in interest rates.

In addition to the standard model required by the SFC. Davivienda has adopted to manage market risk sensitivity, positions, durations and deadline measures, and value at risk measures (VaR).

Risk of changes in net exposure of interest rates and exchange rates - VaR

A standard model is used for the measurement, control and management of market risk, defined by SFC, focused on capital consumption and allocation. This methodology is based on the mapping of asset and liability positions of the investment portfolio subject to variations in interest rates in certain zones and bands from the duration of each instrument. It also includes the net exposure to exchange rates of the treasury book and the banking book.

In accordance with the standard model, the value at risk for the investment portfolio in the consolidated balance sheet, as of December 31, 2019 and December 31, 2018 was as follows

Maximum, minimum and average values of value at risk:

	December 31, 2019			
	Minimum	Average	Maximum	Latest
Interest rate	135,620	198,495	250,932	229,678
Exchange rate	168,960	199,428	229,311	224,011
Shares	698	1,189	3,667	2,621
Collective Portfolios	5,960	8,368	20,298	20,298
VeR	312,193	407,480	502,042	476,608

(Millions of Colombian pesos (COP))

	December 31, 2018			
	Minimum	Average	Maximum	Latest
Interest Rate	173,779	193,433	215,028	173,779
Exchange Rate	112,318	141,696	176,269	176,269
Shares	2,125	3,259	3,890	3,130
Collective Portfolio	10,893	11,989	16,890	16,890
VeR	299,115	350,377	412,077	370,068

As a complement to management under normal conditions, there is a measurement of stress scenarios, mainly used to quantify techniques which relationships between variables and historic scenarios, to establish worst cases; the intention is to evaluated how volatilities generated and valuation losses acquiring in the scenarios can impact the portfolio and so, quantify for state of crisis. Statistical tools are used for this and the worst case is applied to the current situation on the portfolio.

Amon the quantities techniques, to estimated stress have been implemented. One is VaR-stress, which represent the extreme maximum expected loss, in historical terms (stress scenarios) and represents the VaR high stress for given time using the Exponentially Weighted Moving Average (EWMA) volatilities and correlations.

The second technique is a sensitivity analysis based a bigger devaluation recorded in local and international crisis with impact on portfolios for the different risk factors.

10.5.1.3. **Risk of changes in exchange rates**

Davivienda is exposed to exchange rate variations, firstly as a result of its international presence through its subsidiaries in the Central American and United States markets, and secondly because of its trading activity in the foreign exchange market. Below are the net positions (assets less liabilities) in currencies.

	December 31, 2019		**December 31, 2018**	
	Currency balance	**Peso balance**	**Currency balance**	**peso balance**
US dollar	306	1,004,149	(15)	(47,858)
Lempira	3,053	405,894	2,893	386,241
Colón	60,494	347,724	103,721	557,849
Other*	(3)	(9,395)	(1)	(2,358)
Total	63,850	1,748,372	106,598	893,874

(*) figures in “Currency Balance” are in US$.

The estimated effect of the increase of 1% in The US$/COP exchange rate, other rates being unchanged with respect to rates at December 31, 2019, would be +/-$17,578. The increase in sensitivity is explained by the increase in the net long position in dollars to reduce the sensitivity of the solvency ratio to exchange rate movements, in accordance with risk appetite.

10.5.1.4. **Effect of interest rates on balance-sheet structure:**

The Bank´s financial assets and liabilities are exposed to fluctuations in rates and market prices. Variations of this kind have a direct effect on the financial margin and results. Methods are therefore used to sensitize financial instruments to rate changes and there is follow-up of marching of assets and liabilities, their durations and reprising

(Millions of Colombian pesos (COP))

The table below shows the sensitivity of interest-earning assets and interest-bearing liabilities. At December 31, 2019 and 2018 an increase or decrease of 50bp in interest rates would have caused an increase or decrease of, $17,765 and $2,008, respectively, in the Income Statement.

	December 31, 2019				
	Quarterly average	Income /expense	Average rate (*)	Impact Δ50 pb Increase	Impact Δ50 pb Decrease
Interest-earning assets					
Money market funds	927,189	39,232	4.20%	4,636	(4,636)
Domestic currency	696,784	27,240	3.90%	3,484	(3,484)
Foreign currency	230,405	11,992	5.20%	1,152	(1,152)
Investments at fair value through profit or loss or through OCI	9,283,665	586,968	6.30%	2,175	(2,175)
Domestic currency	6,227,555	374,486	6.00%	(10,196)	10,196
Foreign currency	3,056,110	212,482	7.00%	12,371	(12,371)
Investments at fair value through profit or loss	4,164,321	258,636	6.20%	(23,421)	23,421
Domestic currency	3,920,095	246,942	6.30%	(21,733)	21,733
Foreign currency	244,226	11,694	4.80%	(1,688)	1,688
Investments at fair value through OCI	5,119,344	328,332	6.40%	25,596	(25,596)
Domestic currency	2,307,460	127,544	5.50%	11,537	(11,537)
Foreign currency	2,811,884	200,788	7.10%	14,059	(14,059)
Investments at amortized cost	1,997,702	149,637	7.50%	9,988	(9,988)
Domestic currency	1,359,099	139,875	10.30%	6,795	(6,795)
Foreign currency	638,603	9,762	1.50%	3,193	(3,193)
Credit portfolio	93,600,297	9,839,442	10.50%	314,080	-314,08
Domestic currency	69,317,096	7,730,749	11.20%	210,992	(210,992)
Foreign currency	24,283,201	2,108,693	8.70%	103,088	(103,088)
Total assets in domestic currency	**77,600,534**	**8,272,350**	**10.70%**	**211,075**	**(211,075)**
Total assets in foreign currency	**28,208,319**	**2,342,929**	**8.30%**	**119,804**	**(119,804)**
Total interest-earning assets	**105,808,853**	**10,615,279**	**10.00%**	**330,879**	**(330,879)**
Interest-bearing liabilities					
Public deposits	73,094,970	2,495,710	3.40%	245,665	(245,665)
Domestic currency	54,054,223	1,912,500	3.50%	186,334	(186,334)
Foreign currency	19,040,747	583,210	3.10%	59,331	(59,331)
Bonds	11,915,639	792,204	6.60%	30,377	(30,377)
Domestic currency	8,922,870	609,221	6.80%	30,377	(30,377)
Foreign currency	2,992,769	182,983	6.10%	-	-
Money-market	1,927,762	73,831	3.80%	9,639	(9,639)
Domestic currency	1,761,799	66,093	3.80%	8,809	(8,809)
Foreign currency	165,963	7,738	4.70%	830	(830)
Financial sector debt	12,592,833	640,276	5.10%	62,965	(62,965)
Domestic currency	2,838,317	174,727	6.20%	14,192	(14,192)
Foreign currency	9,754,516	465,549	4.80%	48,773	(48,773)
Liabilities in domestic currency	**67,577,209**	**2,762,541**	**4.10%**	**239,712**	**(239,712)**
Liabilities in foreign currency	**31,953,995**	**1,239,480**	**3.90%**	**108,934**	**(108,934)**
Total interest-bearing liabilities	**99,531,204**	**4,002,021**	**4.00%**	**348,646**	**(348,646)**
Total financial assets subject to interest rate risk, Net,	**6,277,650**	**6,613,257**		**(17,765)**	**17,765**
Domestic currency	10,023,326	5,509,809		(28,636)	28,636
Foreign currency	(3,745,676)	1,103,448		10,871	(10,871)

(Millions of Colombian pesos (COP))

	December 31, 2018				
	Quarterly average	Income /expense	Average rate (*)	Impact Δ50 pb Increase	Impact Δ50 pb Decrease
Interest-earning assets					
Money market funds	988,486	36,324	3.70%	4,942	(4,942)
Domestic currency	729,031	26,969	3.70%	3,645	(3,645)
Foreign currency	259,455	9,355	3.60%	1,297	(1,297)
Investments at fair value through profit or loss or through OCI	8,329,791	342,384	4.10%	5,994	(5,994)
Domestic currency	5,642,591	225,474	4.00%	(2,977)	2,977
Foreign currency	2,687,200	116,910	4.40%	8,971	(8,971)
Investments at fair value through profit or loss	4,485,777	160,897	3.60%	(13,227)	13,227
Domestic currency	4,124,269	140,313	3.40%	(10,569)	10,569
Foreign currency	361,508	20,584	5.70%	(2,658)	2,658
Investments at fair value through OCI	3,844,014	181,486	4.70%	19,220	(19,220)
Domestic currency	1,518,322	85,160	5.60%	7,592	(7,592)
Foreign currency	2,325,692	96,326	4.10%	11,628	(11,628)
Investments at amortized cost	1,744,397	112,573	6.50%	8,722	(8,722)
Domestic currency	1,250,626	76,463	6.10%	6,253	(6,253)
Foreign currency	493,771	36,110	7.30%	2,469	(2,469)
Credit portfolio	82,874,187	8,893,081	10.70%	285,904	(285,904)
Domestic currency	61,506,878	7,097,401	11.50%	192,151	(192,151)
Foreign currency	21,367,309	1,795,680	8.40%	93,753	(93,753)
Total assets in domestic currency	**69,129,126**	**7,426,306**	**10.70%**	**199,072**	**(199,072)**
Total assets in foreign currency	**24,807,735**	**1,958,055**	**7.90%**	**106,489**	**(106,489)**
Total interest-earning assets	**93,936,861**	**9,384,361**	**10.00%**	**305,561**	**(305,561)**
Interest-bearing liabilities					
Public deposits	65,212,254	2,285,101	3.50%	214,855	(214,855)
Domestic currency	48,859,744	1,834,852	3.80%	167,493	(167,493)
Foreign currency	16,352,510	450,249	2.80%	47,362	(47,362)
Bonds	10,114,516	713,042	7.00%	27,216	(27,216)
Domestic currency	7,769,288	566,043	7.30%	27,216	(27,216)
Foreign currency	2,345,228	146,999	6.30%	-	-
Money-market	2,067,399	66,411	3.20%	10,337	(10,337)
Domestic currency	1,832,685	55,631	3.00%	9,163	(9,163)
Foreign currency	234,714	10,780	4.60%	1,174	(1,174)
Financial sector debt	11,032,527	480,229	4.40%	55,162	(55,162)
Domestic currency	2,162,880	120,006	5.50%	10,814	(10,814)
Foreign currency	8,869,647	360,223	4.10%	44,348	(44,348)
Liabilities in domestic currency	**60,624,597**	**2,576,532**	**4.20%**	**214,686**	**(214,686)**
Liabilities in foreign currency	**27,802,099**	**968,251**	**3.50%**	**92,884**	**(92,884)**
Total interest-bearing liabilities	**88,426,696**	**3,544,783**	**4.00%**	**307,570**	**(307,570)**
Total financial assets subject to interest rate risk, net.	**5,510,165**	**5,839,578**		**(2,009)**	**2,009**
Domestic currency	8,504,529	4,849,774		(15,614)	15,614
Foreign currency	(2,994,364)	989,804		13,605	(13,605)

(*) Calculated as: Accumulated income last 4 quarters / average balance last 4 quarters

10.5.2. Liquidity Risk

Liquidity risk is the contingency of not being able to fully meet expected and unexpected cash flows, current and future, in a timely and efficient manner, without affecting the course of daily operations or the financial condition of the entity. This contingency (funding liquidity risk) manifests itself in the insufficiency of liquid assets available for this purpose and/or in the need to assume unusual funding costs. In turn, the capacity of the entities to generate or undo financial positions at market prices, is limited either because there is no adequate depth of the market or because drastic changes occur in rates and prices (market liquidity risk). Similarly, for businesses that are funded through deposits, liquidity risk includes the capacity to generate a stable long-term funding structure to be able to maintain illiquid assets, in accordance with the business strategy, and capable of dealing with unanticipated stress situations.

The strategic principles used by the Bank to manage liquidity are the following:

● Permanent availability of high-quality liquid assets, in accordance with the balance sheet structure and risk appetite.
● The self-sufficiency of Davivienda's balance sheet and each of its subsidiaries must prevail in a liquidity crisis.
● Do not overestimate the availability of liquid assets; that is, constantly evaluate the level of liquidity of the assets that make up the reserves and anticipate changes.
● Mitigate the reputational risk, so that with own resources, it has the capacity to attend adverse situations without compromising the compliance with the regulations in force and reduce the probability of requiring transitory support from state entities.

To comply with these principles, the risk management scheme, which is supplementary to the standard models of regulatory agencies, includes a series of short- and long-term alerts, limits and alerts that are managed daily by the Treasury and periodically by the areas responsible for the structure of the balance structure, as set out below.

Short-term:

The methodologies used for the estimation of liquidity risk consist, for short-term purposes, in i) the calculation of cash flows of active, passive and off-balance sheet positions in different time horizons for different scenarios, and ii) the identification and quantification of liquid assets available to deal with said cash flow

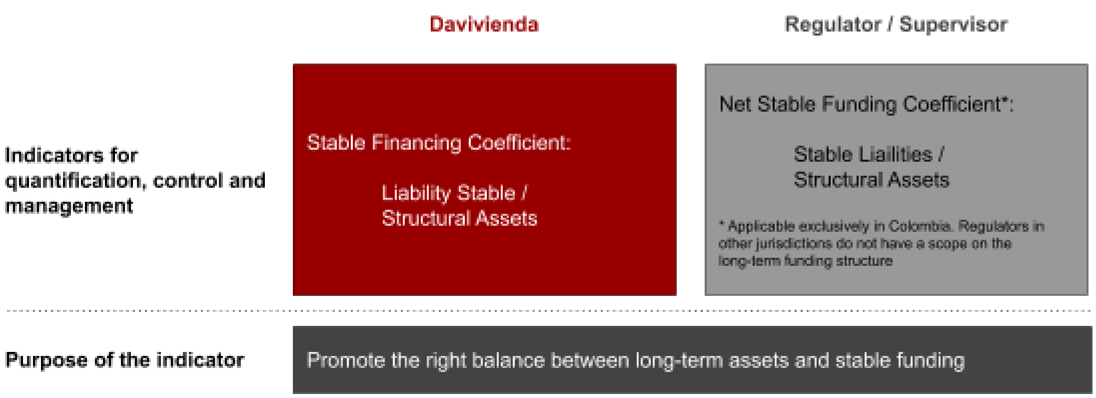
	Davivienda	Regulator / Supervisor
Measurement and management Period	3, 30, 90 Days	7, 30, 60, 90 Days
Scenarios	3: Normal, Moderate, Severe	1: Stress
Indicators for quantification, control and management	1) Structural Liquidity Requirements: Minimum amount of liquid assets 2) Ratio: Liquid Assets / Net LiquidityRequiements	Ratio: Liquid Assets / Net Liquidity Needs
Purpose of the indicator	Self-sufficiency of liquidity in stress scenarios / Avoidance of recourse to last resort support provided by the central bank or whoever acts in such capacity	

It is defined as a policy to maintain a portfolio of a minimum required size, invested in high liquidity assets so that any risk can be addressed in a moderate scenario, without resorting to the temporary liquidity support provided by central banks or who makes times . The size of the portfolio or liquidity reserve is determined based on an estimate of withdrawals, given a stressful situation, which affects the volatile portions of deposits of both natural persons and companies and institutions. In the same way, the funding strategy defined in the bank's growth plan is prospectively incorporated into the liquidity reserve to guarantee the sufficiency of liquidity assets in line with the structure of the balance sheet and the desired risk profile.

On the other hand, the assets that make up the liquidity reserve must have minimum characteristics; be eligible as a guarantee for central banks, low credit and market risk, and quotes in large and recognized markets. Additionally, these assets must be free of charge, that is, free of any contractual commitment that limits their use or liquidation.

Long Term

Regarding long-term management, the methodologies focus on the analysis of funding sources, their composition at the level of segments, products and terms, and the characterization of assets and liabilities that do not have contractually defined conditions of permanence.



The long-term approach seeks to promote a balanced relationship between long-term assets and stable funding so that the balance grows in a structured and sustainable way. Structural assets are understood as those long-term, low-liquid and vocational renewal assets. For its part, stable funding is understood as those long-term resources, resources from atomized sources and with high rates of renewal and stability.

Notes 13.16, 13.18 and 13.19 present the contractual maturity of the liabilities of the balance sheet as of December 31, 2019 and December 31, 2018.

(Millions of Colombian pesos (COP))

The contractual capital and interest flows of financial liabilities are shown below, as of December 31, 2019 and December 31, 2018, in the Consolidated Balance Sheet.

Maturity of financial liabilities at December 31, 2019	Up to one month	More than one month and no more than three months	More than three months and not more than a year	More than one year and not more than five years	Over five years	Total
Certificates of Term Deposit	3,910,373	6,399,245	17,069,068	8,421,244	3,459	35,803,389
Savings and Current Accounts (*)	41,293,134	-	-	-	-	41,293,134
Bonds	171,369	480,208	1,961,765	8,640,691	4,528,071	15,782,104
Loans entities	771,208	1,704,814	4,786,741	4,490,884	3,084,926	14,838,573
Total Financial Liabilities	**46,146,084**	**8,584,267**	**23,817,574**	**21,552,819**	**7,616,456**	**107,717,200**

Maturity of financial liabilities at December 31, 2018	Up to one month	More than one month and no more than three months	More than three months and not more than a year	More than one year and not more than five years	Over five years	Total
Certificates of Term Deposit	3,623,983	7,138,891	14,589,572	7,098,956	53,806	32,505,208
Savings and Current Accounts (*)	36,338,168	-	-	-	-	36,338,168
Bonds	81,386	89,384	1,312,384	8,069,304	4,304,203	13,856,661
Loans entities	1,021,518	1,954,624	4,474,649	3,330,228	2,746,089	13,527,108
Total Financial Liabilities	**41,065,055**	**9,182,899**	**20,376,605**	**18,498,488**	**7,104,098**	**96,227,145**

(*) Savings and checking accounts are classified in the band up to one month taking into account that they are demand deposits. although this does not imply that their maturity is in that time band.

(Millions of Colombian pesos (COP))

11. Netting of Financial Assets and Liabilities – Consolidated

A financial asset and a financial liability may be the object of netting, and may be disclosed a such in the Statement of Financial Position when there is a current, legally valid right to offset recognized amounts and there is the intention, in the normal course of business, to settle the net amount.

In this context, the following is the detail of financial instruments subject to offset at December 31, 2019 and December 31, 2018 and the impact of Master Netting Agreements and the remittance of collateral.

December 31, 2019			Amounts not netted in the Statement of Financial Position			
	Gross financial assets recognized	Net financial assets presented in the Statement of Financial Position	Impact of Master Netting Agreements	Cash Collateral	Debt Collateral	Net amount
Assets						
Money Market	723,602	723,602	-	-	96,430	627,172
Derivatives (*)	511,185	511,185	375,161	30,154	-	105,870
	1,234,787	1,234,787	375,161	30,154	9,643	733,042
Liabilities						
Money Market	1,759,721	1,759,721	-	-	1,840,419	(80,698)
Derivatives (*)	617,805	617,805	375,161	43,732	-	198,912
	2,377,526	2,377,526	375,161	43,732	1,840,419	118,214

December 31, 2018			Amounts not netted in the Statement of Financial Position			
	Gross financial assets recognized	Net financial assets presented in the Statement of Financial Position	Impact of Master Netting Agreements	Cash Collateral	Debt Collateral	Net amount
Assets						
Money Market	412,943	412,943	-	-	244,617	168,326
Derivatives (*)	433,693	433,693	332,372	16,835	-	84,846
	846,636	846,636	332,372	16,835	244,617	252,812
Liabilities						
Money Market	3,786,541	3,786,541	-	-	3,912,539	(125,998)
Derivatives (*)	513,086	513,086	332,004	526	-	128,482
	4,299,627	4,299,627	332,004	526	3,912,539	2,484

The column "Impact of the Master Netting Agreement" details amounts associated with netting arrangements generally applied in situations where credit risk events arise. These amounts are not included in the Statement of Financial Position because they do not meet the criterion of simultaneous settlement of an asset and a liability or because the netting rights are conditional on default by the counterparty.

The columns for cash collateral and debt securities show amounts received delivered or pledged in relation to money-market operations.

(Millions of Colombian pesos (COP))

12. Specific Items of the Consolidated Statement of financial position

12.1. Cash

The detail of cash is as follows:

	December 31, 2019	December 31, 2018
Domestic Currency		
Cash and banks	4,302,863	3,486,477
Clearing and transit	36,386	80,928
	4,339,249	3,567,404
Foreign Currency		
Cash and banks	5,353,689	5,915,717
Clearing and transit	51,229	4,048
	5,404,918	5,956,197
	9,744,167	9,523,601

The local currency balances in cash and central banks are part of the mandatory cash reserve to be held against customer deposits. These deposits are non-interest-earning.

The following are restricted cash balances:

Distribution of cash and cash equivalents based on the counterparty risk:

Detailed below is the credit quality determined by independent rating agents from principal financial institutions where the bank holds cash:

	December 31, 2019	December 31, 2018
Sovereign/Central Bank guarantee	2,287,693	1,791,920
Investment grade	7,456,474	7,731,681
Total	9,744,167	9,523,601

The local currency balances in cash and central banks are part of the mandatory cash reserve to be held against customer deposits. These deposits are non-interest-earning.

The following are restricted cash balances:

	December 31, 2019		December 31, 2018	
	Requirement (*)	Held	Requirement (*)	Held
Colombia	3,899,333	3,908,777	3,415,465	3,437,412
Subsidiaries outside Colombia	2,760,867	3,667,079	2,773,176	3,419,495

(*) Corresponds to the average balances of mandatory cash reserves for the period.

In addition according with current regulation, the Miami branch must maintain a cash reserve in the Federal Reserve Bank. The average amount was approximately of US$4 million for December de 2019 y 2018.

(Millions of Colombian pesos (COP))

12.2. Interbank and overnight funds

The details of interbank and overnight funds is the following:

December 31, 2019

			Date (*)		
	Amount in US$	Rate	Initial	Final	Amount
Foreign Currency					
Interbank funds	USD $99	2,06% - 2,06%	2/10/2019	30/3/2020	32,042
Repos	USD $4	2,00% - 9,11%	6/12/2019	23/1/2020	14,626
Local Currency					
Interbank funds					
Banks / Financial Entities		4,11%	30/12/2019	2/1/2020	30,007
Brokers		5,10% - 5,10%	19/12/2019	20/1/2020	4,424
Simultaneous					
Brokers		5,00% - 5,00%	11/12/2019	13/1/2020	1,015
Ohers		2,00% - 9,00%	10/12/2019	13/2/2020	347,488
					723,602

December 31, 2018

			Date (*)		
	Amount in US$	Rate	Initial	Final	Amount
Foreign Currency					
Interbank Funds	USD $55	2,55% - 6,52%	6/9/2018	30/8/2019	178,267
Repos	USD $1	4,51% - 5,52%	27/11/2018	25/1/2019	2,272
Brokers	USD $4	5,08% - 6,08%	17/12/2018	7/1/2019	13,022
Domestic Currency					
Simultaneous					
Brokers		4,35% - 5,00%	11/12/2018	17/1/2019	31,675
Others		0,00% - 9,00%	18/10/2018	22/2/2019	187,707
					412,943

(*) Date format: dd/mm/yyyy

(Millions of Colombian pesos (COP))

12.3. **Investments measured at a fair value and amortized cost, net**

12.3.1. Investments by classification and issuer

The following is the detail of the classification of financial instruments of investment by issuer and impairment:

	December 31, 2019			December 31, 2018		
	Amount	Impairment (Provision)	Net	Valor	Impairment (Provision)	Net
Investments at fair value through profit or loss						
National Government	2,811,389	-	2,811,389	2,964,323	-	2,964,323
Financial entities	779,682	-	779,682	1,535,673	-	1,535,673
Banks abroad	4,029	-	40,290	87,454	-	87,454
Foreign governments	98,316	-	98,316	53,871	-	53,871
Credit multilateral organizations	-	-	-	28,693	-	28,693
Corporate	69,108	-	69,108	140,469	-	140,469
Securitizations	338,525	-	338,525	292,597	-	292,597
	4,137,310	-	4,137,310	5,103,080	-	5,103,080
Investments at amortized cost						
Financial Entities	1,029,882	598	1,029,284	875,347	368	874,979
Banks abroad	241,841	107	241,734	240,345	2,146	238,199
Foreign Governments	19,113	230	18,883	33,904	377	33,527
Corporate	425,211	938	424,273	286,617	1,066	285,551
Securitizations	458,884	4	45,888	39,228	-	392,280
	2,174,931	1,877	2,173,054	1,828,493	3,957	1,824,536
Investments at fair value through OCI						
National Government	2,079,701	-	2,079,701	1,524,933	-	1,524,933
Financial Entities	172,153	-	172,153	84,537	-	84,537
Banks abroad	516,270	-	516,270	528,861	-	528,861
Multilaterals	47,942	-	47,942	54,599	-	54,599
Foreign Governments	2,187,412	-	2,187,412	1,769,208	-	1,769,208
Corporate	339,570	-	339,570	66,763	-	66,763
Securitizations	60,474	-	60,474	46,245	-	46,245
	5,403,522	-	5,403,522	4,075,146	-	4,075,146
	11,715,763	1,877	11,713,886	11,006,719	3,957	11,002,762

Debt and equity investments at fair value are not subject to legal or economic restrictions, pledges or embargoes, nor any limits in their ownership.

(Millions of Colombian pesos (COP))

12.3.2. Investments by classification and type

The detail of financial instruments by type is as follows:

	December 31, 2019			December 31, 2018		
	Amount	Impairment (Provision)	Net	Amount	Impairment (Provision)	Net
Investments at fair value through profit or loss						
National Government	2,811,389	-	2,811,389	2,964,323	-	2,964,323
Financial entities	779,682	-	779,682	1,535,673	-	1,535,673
Banks abroad	40,290	-	40,290	87,454	-	87,454
Foreign governments	98,316	-	98,316	53,871	-	53,871
Credit multilateral organizations	-	-	-	28,693	-	28,693
Corporate	69,108	-	69,108	140,469	-	140,469
Securitizations	338,525	-	338,525	292,597	-	292,597
	4,137,310	-	4,137,310	5,103,080	-	5,103,080
Investments at fair value through OCI						
National Government	2,079,701	-	2,079,701	1,524,933	-	1,524,933
Financial Entities	172,153	-	172,153	84,537	-	84,537
Banks abroad	516,270	-	516,270	528,861	-	528,861
Multilaterals	47,942	-	47,942	54,599	-	54,599
Foreign Governments	2,187,412	-	2,187,412	1,769,208	-	1,769,208
Corporate	339,570	-	339,570	66,763	-	66,763
Securitizations	60,474	-	60,474	46,245	-	46,245
	5,403,522	-	5,403,522	4,075,146	-	4,075,146
	9,540,832	-	9,540,832	9,178,226	-	9,178,226
Investments at amortized cost						
National Government	-	-	-	-	-	-
Regional Governments and Local Authorities	-	-	-	-	-	-
Financial Entities	1,029,882	598	1,029,284	875,347	368	874,979
Banks abroad	241,841	107	241,734	240,345	2,146	238,199
Foreign Governments	19,113	230	18,883	33,904	377	33,527
Corporate	-	-	-	-	-	-
Securitizations	425,211	938	424,273	286,617	1,066	285,551
	458,884	4	458,880	392,280	-	392,280
	2,174,931	1,877	2,173,054	1,828,493	3,957	1,824,536
	11,715,763	1,877	11,713,886	11,006,719	3,957	11,002,762

(Millions of Colombian pesos (COP))

12.3.3. **Concentration of credit risk**

The following is the investment portfolio by risk rating:

	Stage 1 Expected credit losses in the next 12 months	
	December 31, 2019	December 31, 2018
Investments at amortized cost		
AAA	458,884	74,724
AA	-	41,533
A	-	144,441
BBB	1,363,637	1,061,648
BB	177,333	231,044
B	175,077	274,249
CCC	-	854
	2,174,931	1,828,493
Impairment	(1,877)	(3,957)
Balance at December 31 2019	2,173,054	1,824,536
Investments at fair value through OCI – Debt		
AAA	354,618	78,722
A	192,384	218,452
BBB	2,701,331	1,842,022
BB	396,618	1,963
B	1,725,870	1,887,256
CCC	2,948	2,498
Balance at December 31 2019	5,400,301	4,071,062
Investments at fair value through OCI – equities	3,221	4,084
Investments at fair value through profit or loss	4,137,310	5,103,080
Balance at December 31 2019	11,713,886	11,002,762

12.3.4. **Investments by currency**

The following is the classification of financial investments by currency:

	December 31, 2019	December 31, 2018
Peso	6,157,729	5,898,252
USD	3,317,390	2,832,737
CAD	9,161	11,142
UVR	1,500,658	1,706,272
Lempiras	290,352	258,605
Colons	440,473	299,711
Total	11,715,763	11,006,719
Impairment	(1,877)	(3,957)
Total Investments	11,713,886	11,002,762

(Millions of Colombian pesos (COP))

12.3.5. Classification by maturity

The following is the detail is the classification of investment maturities (shares not included):

December 31, 2019

	0-1 year	1-5 years	5-10 years	Over 10 years	Total
Investments at fair value through profit or loss	93,639	2,226,044	649,008	193,289	4,004,731
Investments at fair value through OCI	1,495,384	3,599,118	291,681	14,118	5,400,301
Investments at amortized cost	1,188,722	141,419	509,928	334,862	2,174,931
Total	3,620,496	5,966,581	1,450,617	542,269	11,579,963

December 31, 2018

	0-1 year	1-5 years	5-10 years	Over 10 years	Total
Investments at fair value through profit or loss	2,101,721	1,711,202	957,427	209,753	4,980,103
Investments at fair value through OCI	2,503,871	1,500,077	66,819	295	4,071,062
Investments at amortized cost	1,087,690	93,978	327,932	318,893	1,828,493
Total	5,693,282	3,305,257	1,352,178	528,941	10,879,658

12.3.6. Reconciliation of impairment of investments

The following chart shows a reconciliation of expected loss impairment by investment portfolio classification:

	Expected credit losses in the next 12 months	
	December 31, 2019	December 31, 2018
Investments at amortized cost		
Opening balance	3,957	7,301
Impairment	981	11,738
Recovery	(3,061)	(15,082)
	1,877	3,957

12.3.7. Credit quality

The following is the detail of credit quality of investments measured at fair value and amortized cost.

	Fair Value		
December 31, 2019	Debt	Equity Instruments	Amortized Cost
Credit quality			
Investment grade	1,884,858	-	1,822,521
Sovereign/Central Bank issued/guarantees	7,176,817	-	-
Speculation grade	343,357	-	35,241
Not rated / not available	-	1,358	-
	9,405,032	1,358	2,174,931

	Fair value		
December 31, 2018	Debt	Equity Instruments	Amortized Cost
Credit quality			
Investment grade	2,424,085	-	1,322,346
Sovereign/Central Bank issued/guarantees	6,314,366	-	-
Speculation grade	309,079	-	506,144
Not rated / not available	3,636	12,706	3
	9,051,166	12,706	1,828,493

(Millions of Colombian pesos (COP))

12.4. Derivatives

The following is the summary of Bank acceptances spot operations and derivatives:

December 31, 2019

	Assets		Liabilities		
Product	Notional amount	Fair value	Notional amount	Fair value	Total
Spot operations	7,843	29	9,831	15	14
Options	530,484	7,233	58,962	984	(2,607)
Futures	2,924,112	-	-	-	-
Swaps	10,488,699	270,105	10,381,932	282,596	(12,491)
Forwards	7,426,448	233,847	9,390,038	325,369	(91,522)
	21,377,586	511,214	20,371,421	61,782	(106,606)

December 31, 2018

	Assets		Liabilities		
Product	Notional amount	Fair value	Notional amount	Fair value	Total
Spot operations	25,921	29	28,433	57	(28)
Options	2,084,557	23,846	1,962,133	49,036	(25,190)
Futures	4,313,062	-	-	-	-
Swaps	11,090,696	208,283	12,210,484	262,618	(54,335)
Forwards	13,206,460	201,564	10,001,563	201,432	132
	30,720,696	433,722	24,202,613	513,143	(79,421)

The result of speculative derivatives is the following:

December 31, 2019

		Forward	Futures	Swaps	Options	Total
Currency purchases	Right	8,185,775	2,465,085	330,070	-	10,980,930
	Obligation	8,488,883	2,465,085	354,005	-	11,307,973
Currency sales	Right	7,361,440	363,421	283	-	8,007,861
	Obligation	7,148,300	363,421	262,682	-	7,774,403
Securities purchases	Right	537,915	185,048	-	-	722,963
	Obligation	537,675	185,048	-	-	722,723
Securities sales	Right	876,914	491,390	-	-	1,368,304
	Obligation	878,708	491,390	-	-	1,370,098
Interest rate swaps	Right	-	-	3,189,935	-	3,189,935
	Obligation	-	-	3,198,809	-	3,198,809
Call options	Purchase	-	-	-	2,002	2,002
	Sale	-	-	-	(2,239)	(2,239)
		-	-	-		
Put operations	Purchase	-	-	-	5,231	5,231
	Sale	-	-	-	(7,601)	(7,601)
Total rights		16,962,044	3,504,944	3,803,005	-	24,269,993
Total obligations		17,053,566	3,504,944	3,815,496	-	24,374,006
Total net		(91,522)	-	(12,491)	(2,607)	(106,620)

(Millions of Colombian pesos (COP))

December 31, 2018

		Forward	Futures	Swaps	Options	Total
Currency purchases	Right	8,350,548	2,304,426	480,069	-	11,135,043
	Obligation	8,149,123	2,304,426	445,850	-	10,899,399
Currency sales	Right	8,632,694	1,444,424	661,466	-	10,738,584
	Obligation	8,830,842	1,444,424	729,620	-	11,004,886
Securities purchases	Right	53,091	111	-	-	53,202
	Obligation	52,980	111	-	-	53,091
Securities sales	Right	1,293,469	3,257	-	-	1,296,726
	Obligation	1,296,725	3,257	-	-	1,299,982
Interest rate swaps	Right	-	-	2,741,124	-	2,741,124
	Obligation	-	-	2,761,524	-	2,761,524
Call options	Purchase	-	-	-	17,522	17,522
	Sale	-	-	-	(47,886)	(47,886)
Put operations	Purchase	-	-	-	6,324	6,324
	Sale	-	-	-	(1,150)	(1,150)
Total rights		18,329,802	3,752,218	3,882,659	-	25,964,679
Total obligations		18,329,670	3,752,218	3,936,994	-	26,018,882
Total net		132	-	(54,335)	(25,190)	(79,393)

The following is the detail of credit quality provided by independent rating agents pertaining to the principal counterparties in derivative assets and liabilities.

	Derivatives		
December 31, 2019	Options	Swaps	Forwards
Credit quality			
Investment grade	4,722	264,974	159,900
Speculative grade	2,511	5,131	73,947
	7,233	270,105	233,847

(Millions of Colombian pesos (COP))

		Derivatives	
December 31, 2018	Options	Swaps	Forwards
Credit Quality			
Investment grade	21,730	204,226	170,681
Not listed/not available	2,116	4,057	30,883
	23,846	208,283	201,564

The following is the detail of the maturity period of derivatives:

December 31, 2019	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Spot operations	14	-	-	-	14
Options	(2,607)	-	-	-	(2,607)
Futures	-	-	-	-	-
Swaps	3,721	(7,316)	(8,896)	-	(12,491)
Forwards	(88,003)	(3,519)	-	-	(91,522)
	(86,875)	(10,835)	(8,896)	-	(106,606)

December 31, 2018	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Spot operations	(28)	-	-	-	(28)
Options	(25,190)	-	-	-	(25,190)
Swaps	(47,904)	(1,993)	(3,761)	(677)	(54,335)
Forwards	1,718	(1,586)	-	-	132
	(71,404)	(3,579)	(3,761)	(677)	(79,421)

(Millions of Colombian pesos (COP))

12.5. Loans and financial leases operations, net
12.5.1. Loans and financial leases by mode

The following is the detail of loans and financial leases by mode:

Commercial	December 31, 2019	December 31, 2018
Corporate and construction	29,402,101	29,806,755
Other commercial	11,807,893	10,804,268
Financial leasing	3,173,813	2,735,239
Credit cards	490,919	47,663
Vehicles	28,039	496,089
Checking account overdrafts	186,848	17,499
	45,341,964	44,493,971
Consumer loans (1)		
Credit cards	6,084,200	5,085,712
Other consumer	19,889,977	14,544,313
Vehicles	2,726,318	2,579,216
Checking account overdrafts	25,026	30,137
Financial leasing	65,273	66,659
	28,790,794	22,306,037
Mortgage (2)		
Home Mortgage	13,036,724	12,164,808
Residential Leasing	10,204,662	8,798,237
	23,241,386	20,963,045
Microcredit		
Microcredit	25,301	58,246
Financial leasing	125	294
	25,426	5,854
Gross Loans	97,399,570	87,821,593
Less impairment	(4,143,535)	(3,709,677)
	93,256,035	84,111,916

(1) Includes employee portfolio $86.709 and $90.585 as of December 2019 and 2018 respectively.
(2) Includes employee portfolio $374.190 and $359.899 as of December 2019 and 2018 respectively.

(Millions of Colombian pesos (COP))

12.5.2. Loans by concentration of risk and collateral

The following is the detail of concentration of loan credit risk:

December 31, 2019	Stage 1 Expected credit losses in the next 12 months	Stage 2 Loan losses expected over the life of the assets	Stage 3 Loan losses expected over the life of the assets with objective evidence of impairment	Total
Commercial				
Category A - Normal	36,370,221	37,698	34,872	36,782,073
Category B - Acceptable	1,154,394	590,001	70,117	1,814,512
Category C - Appreciable	15,273	72,739	246,067	98,873
Category D - Significant	7,816	564,692	1,356,359	1,928,867
Category E - Uncollectible	571	72,381	581,017	653,969
	37,548,275	2,331,444	2,288,432	42,168,151
Impairment	(327,878)	(455,661)	(1,232,993)	(2,016,532)
Commercial loans, net	37,220,397	1,875,783	1,055,439	40,151,619
Consumer				
Category A - Normal	25,564,337	78,403	-	26,348,367
Category B - Acceptable	272,356	523,006	-	795,362
Category C - Appreciable	126,453	353,214	7,597	487,264
Category D - Significant	97,429	295,007	382,313	774,749
Category E - Uncollectible	52,331	94,652	172,796	319,779
	26,112,906	2,049,909	562,706	28,725,521
Impairment	(837,994)	(495,979)	(309,308)	(1,643,281)
Consumer loans, net	25,274,912	1,553,930	253,398	27,082,240
Vivienda				
Category A – Normal	11,870,633	128,169	-	11,998,802
Category B - Acceptable	108,037	277,591	-	385,628
Category C - Appreciable	1,082	99,217	81,369	191,406
Category D - Significant	9,044	17,501	94,425	278,479
Category E - Uncollectible	10,015	13,334	15,906	182,409
	12,008,549	693,321	334,854	13,036,724
Impairment	(6,511)	(38,228)	(10,619)	(209,528)
Mortgage loans, net	11,943,439	655,093	228,664	12,827,196
Microcredit				
Category A – Normal	16,499	297	-	16,796
Category B - Acceptable	84	1,259	-	1,343
Category C - Appreciable	-	728	-	728
Category D - Significant	20	1,444	-	1,464
Category E - Uncollectible	6	1,584	338	497
	16,609	5,312	338	25,301
Impairment	(1,547)	(751)	(78)	(2,376)
Microcredit loans, net	15,062	4,561	3,302	22,925
	74,453,810	4,089,367	1,540,803	80,083,979

(Millions of Colombian pesos (COP))

Concentration of credit risk financial leasing

	Expected credit losses in the next 12 months	Loan losses expected over the life of the assets	Loan losses expected over the life of the assets with objective evidence of impairment	Total
Commercial				
Category A - Normal	2,743,017	22,057	569	2,765,643
Category B - Acceptable	72,233	57,084	559	129,876
Category C - Appreciable	3,122	9,441	5,432	17,995
Category D - Significant	676	6,189	97,976	160,542
Category E - Uncollectible	4,153	12,781	82,823	99,757
	2,823,202	163,253	187,359	3,173,813
Impairment	(1,071)	(18,608)	(97,156)	(126,474)
Commercial loans, net	2,812,491	144,645	90,203	3,047,339
Consumer				
Category A – Normal	60,388	30	94	60,512
Category B - Acceptable	178	117	-	1,348
Category C - Appreciable	90	573	-	663
Category D - Significant	-	738	1,069	1,807
Category E - Uncollectible	-	108	835	943
	60,656	2,619	1,998	65,273
Impairment	(421)	(239)	(1,312)	(1,972)
Consumer loans, net	60,235	238	686	63,301
Mortgage				
Category A – Normal	9,530,889	58,295	-	9,589,184
Category B - Acceptable	5,457	271,811	-	277,268
Category C - Appreciable	217	43,212	82,032	125,461
Category D - Significant	899	68,143	70,128	13,917
Category E - Uncollectible	-	228	71,299	73,579
	9,537,462	443,741	223,459	10,204,662
Impairment	(1,168)	(25,206)	(106,484)	(14,337)
Mortgage, net	9,525,782	418,535	116,975	10,061,292
Microcredit				
Category A – Normal	110	-	-	110
Category B - Acceptable	-	2	-	2
Category C - Appreciable	-	13	-	13
	110	15	-	125
Impairment	(1)	(1)	-	(2)
Microcredit loans, net	109	14	-	123
	12,398,618	565,574	207,864	13,172,055

(Millions of Colombian pesos (COP))

December 31, 2018	Stage 1	Stage 2	Stage 3	
	Expected credit losses in the next 12 months	Loan losses expected over the life of the assets	Loan losses expected over the life of the assets with objective evidence of impairment	Total
Commercial				
Category A - Normal	32,067,777	4,667,351	72,807	36,807,935
Category B - Acceptable	466,241	787,288	11,539	1,368,919
Category C - Appreciable	191,714	993,921	35,874	1,544,375
Category D - Significant	2,571	176,974	1,181,996	1,361,541
Category E - Uncollectible	1,652	43,629	630,681	675,962
	32,729,955	6,669,163	2,359,614	41,758,732
Impairment	(180,279)	(406,229)	(1,270,016)	(1,856,524)
Commercial Net.	32,549,676	6,262,934	1,089,598	39,902,208
Consumer				
Category A - Normal	19,403,554	678,393	-	20,081,947
Category B - Acceptable	253,189	418,962	-	672,151
Category C - Appreciable	120,661	291,602	6,953	419,216
Category D - Significant	96,128	320,913	385,039	80,208
Category E - Uncollectible	3,414	80,052	149,792	263,984
	19,907,672	1,789,922	541,784	22,239,378
Impairment	(573,784)	(469,754)	(402,532)	(1,446,070)
Consumer loans, net	19,333,888	1,320,168	139,252	20,793,308
Mortgage				
Category A – Normal	11,145,797	115,671	-	11,261,468
Category B - Acceptable	116,037	235,574	-	351,611
Category C - Appreciable	8,503	78,302	70,327	157,132
Category D - Significant	8,691	159,435	8,359	251,716
Category E - Uncollectible	5,401	5,151	132,329	142,881
	11,284,429	594,133	286,246	12,164,808
Impairment	(24,802)	(33,048)	(131,018)	(188,868)
Mortgage loans, net	11,259,627	561,085	155,228	11,975,940
Microcredit				
Category A – Normal	45,175	731	-	45,906
Category B - Acceptable	333	2,567	-	29
Category C - Appreciable	40	1,731	-	1,771
Category D - Significant	10	2,158	56	2,224
Category E - Uncollectible	15	2,074	3,356	5,445
	45,573	9,261	3,412	58,246
Impairment	(679)	(2,214)	(2,022)	(4,915)
Microcredit loans, net	44,894	7,047	139	53,331
	63,188,085	8,151,234	1,385,468	72,724,787

(Millions of Colombian pesos (COP))

Concentration of credit risk financial leasing

	Expected credit losses in the next 12 months	Loan losses expected over the life of the assets	Loan losses expected over the life of the assets with objective evidence of impairment	Total
Commercial				
Category A - Normal	2,316,206	45,745	347	2,362,298
Category B - Acceptable	92,722	53,528	650	1,469
Category C - Appreciable	20,553	22,572	19,327	62,452
Category D - Significant	2,297	36,175	68,459	106,931
Category E - Uncollectible	580	5,104	50,974	56,658
	2,432,358	163,124	139,757	2,735,239
Impairment	(14,166)	(12,571)	(63,263)	(90)
Commercial loans, net	2,418,192	150,553	76,494	2,645,239
Consumer				
Category A - Normal	61,945	-	-	61,945
Category B - Acceptable	177	883	-	106
Category C - Appreciable	60	966	-	1,026
Category D - Significant	18	623	722	1,363
Category E - Uncollectible	62	157	1,046	1,265
	62,262	2,629	1,768	66,659
Impairment	(642)	(519)	(1,379)	(254)
Consumer loans, net	6,162	211	389	64,119
Mortgage				
Category A - Normal	8,258,070	50,952	-	8,309,022
Category B - Acceptable	237	20,564	-	20,801
Category C - Appreciable	68	20,046	72,527	92,641
Category D - Significant	993	62,141	61,706	12,484
Category E - Uncollectible	42	947	62,735	63,724
	8,261,543	339,726	196,968	8,798,237
Impairment	(12,873)	(14,235)	(93,608)	(120,716)
Mortgage, net	8,248,670	325,491	10,336	8,677,521
Microcredit				
Category A - Normal	220	-	-	220
Category E - Uncollectible	-	-	74	74
	220	-	74	294
Impairment	(4)	-	(40)	(44)
Microcredit loans, net	216	-	34	250
	10,728,698	478,154	180,277	11,387,129

(Millions of Colombian pesos (COP))

12.5.3. Loans by individual classification

The following is the detail of loans classified individually:

December 31, 2019	0-30 days	31 - 90 days	> 90 days	Gross amount recorded	Collateral	Provision made
Commercial						
No impairment recorded	8,349	2,738	9,524	45,253	48,989	-
Impairment recorded	1,866,816	136,074	1,233,519	3,236,409	1,549,170	1,608,314
	1,875,165	163,454	1,243,043	3,281,662	1,598,159	1,608,314
Financial leasing						
Impairment recorded	479	528	1,086	2,093	-	-
	1,875,644	163,982	1,244,129	3,283,755	1,598,159	1,608,314

December 31, 2018	0-30 days	31 - 90 days	> 90 days	Gross amount recorded	Collateral	Provision made
Commercial						
No impairment recorded	83,773	2,506	46,222	132,501	135,441	-
Impairment recorded	6,030,797	78,746	1,422,904	7,532,447	4,571,699	1,355,807
	6,114,570	81,252	1,469,126	7,664,948	4,707,140	1,355,807

12.5.4. Reconciliation of impairment of loans and leases

The table below reconciles the impairment for expected losses by type of financial instrument:

Commercial	Stage 1 Loss expected in the next 12 months	Stage 2 Loss expected over the life of the assets	Stage 3 Loss expected over the life of the assets with impairment	Total
Opening balance as of January 1, 2019	373,785	432,420	1,140,319	1,946,524
Transfers from Stage 1 to Stage 2 and Stage 3	(9,995)	4,755	5,240	-
Transfers from Stage 2 to Stage 3 and Stage 1	22,621	(148,555)	125,934	-
Transfers from Stage 3 to Stage 1 and Stage 2	3,155	45,219	(48,374)	-
Impairment	(72,933)	(6,598)	643,511	563,980
Reductions	22,440	159,332	199,440	381,212
Written off	(824)	(12,465)	(724,438)	(737,727)
Foreign exchange effect	339	161	(11,483)	(10,983)
Net reconciliation. provision against Commercial loans	338,588	474,269	1,330,149	2,143,006

(Millions of Colombian pesos (COP))

Consumer				
Opening balance as of January 1, 2019	771,810	535,244	141,556	1,448,610
Transfers from Stage 1 to Stage 2 and Stage 3	(35,722)	25,896	9,826	-
Transfers from Stage 2 to Stage 3 and Stage 1	106,377	(125,342)	18,965	-
Transfers from Stage 3 to Stage 1 and Stage 2	7,178	10,561	(17,739)	-
Impairment	(191,603)	(286,029)	1,637,030	1,159,398
Reductions	256,818	382,263	96,501	735,582
Written off	(77,315)	(46,808)	(1,590,440)	(1,714,563)
Foreign exchange effect	872	433	14,921	16,226
Net reconciliation. provision against Consumer loans	838,415	496,218	310,620	1,645,253
Mortgage				
Opening balance as of January 1, 2019	61,730	47,178	200,676	309,584
Transfers from Stage 1 to Stage 2 and Stage 3	(5,920)	4,448	1,472	-
Transfers from Stage 2 to Stage 3 and Stage 1	10,727	(21,876)	11,149	-
Transfers from Stage 3 to Stage 1 and Stage 2	9,886	22,281	(32,167)	-
Impairment	3,129	12,054	136,359	151,542
Reductions	4,641	307	(12,450)	(7,502)
Written off	(7,428)	(1,009)	(92,430)	(100,867)
Foreign exchange effect	25	51	65	141
Net reconciliation. provision against Home Mortgage loans	76,790	63,434	212,674	352,898
Microcredit				
Opening balance as of January 1, 2019	1,730	2,966	263	4,959
Transfers from Stage 1 to Stage 2 and Stage 3	(130)	103	27	-
Transfers from Stage 2 to Stage 3 and Stage 1	376	(873)	497	-
Transfers from Stage 3 to Stage 1 and Stage 2	69	243	(312)	-
Impairment	(497)	(1,687)	4,460	2,276
Written off	-	-	(4,857)	(4,857)
Net reconciliation. provision against Microcredit	1,548	752	78	2,378
Undiscounted amount of impaired portfolio at initial recognition				
Balance as of January 31, 2019				4,143,535

(Millions of Colombian pesos (COP))

	Stage 1 Loss expected in the next 12 months	Stage 2 Loss expected over the life of the assets	Stage 3 Loss expected over the life of the assets with impairment	Total
Commercial				
Opening balance as of January 1, 2018	232,618	602,799	669,660	1,505,077
Transfers from Stage 1 to Stage 2 and Stage 3	(25,015)	20,354	4,661	-
Transfers from Stage 2 to Stage 3 and Stage 1	190,863	(24,523)	(166,340)	-
Transfers from Stage 3 to Stage 1 and Stage 2	3,013	9,533	(12,546)	-
Impairment	24,345	2,493	894,643	921,481
Reductions	(55,951)	(180,125)	(68,583)	(304,659)
Written off	-	-	(191,263)	(191,263)
Foreign exchange effect	3,912	1,889	10,087	15,888
Net reconciliation. provision against Commercial loans	373,785	432,420	1,140,319	1,946,524
Consumer				
Opening balance as of January 1, 2018	545,078	414,688	406,925	1,366,691
Transfers from Stage 1 to Stage 2 and Stage 3	(42,523)	30,498	12,025	-
Transfers from Stage 2 to Stage 3 and Stage 1	134,443	(119,296)	(15,147)	-
Transfers from Stage 3 to Stage 1 and Stage 2	7,524	10,269	(17,793)	-
Impairment	260,259	330,765	1,285,498	1,876,522
Reductions	(143,339)	(137,870)	129,782	(151,427)
Written off	-	-	(1,661,329)	(1,661,329)
Foreign exchange effect	10,368	6,190	1,595	18,153
Net reconciliation. provision against Consumer loans	771,810	535,244	141,556	1,448,610

(Millions of Colombian pesos (COP))

Mortgage				
Opening balance as of January 1, 2018	14,509	46,476	149,489	210,474
Transfers from Stage 1 to Stage 2 and Stage 3	(2,076)	1,635	441	-
Transfers from Stage 2 to Stage 3 and Stage 1	21,359	(14,519)	(6,840)	-
Transfers from Stage 3 to Stage 1 and Stage 2	4,729	11,949	(16,678)	-
Impairment	23,971	5,007	149,584	178,562
Reductions	(2,315)	(3,882)	(25,020)	(31,217)
Written off	-	-	(50,882)	(50,882)
Foreign exchange effect	1,553	512	582	2,647
Net reconciliation. provision against Home Mortgage loans	61,730	47,178	200,676	309,584
Microcredit				
Opening balance as of January 1, 2018	1,180	2,591	3,772	7,543
Transfers from Stage 1 to Stage 2 and Stage 3	(192)	156	36	-
Transfers from Stage 2 to Stage 3 and Stage 1	1,137	(451)	(686)	-
Transfers from Stage 3 to Stage 1 and Stage 2	93	604	(697)	-
Impairment of new financial assets purchased or originated	(273)	306	3,004	3,037
Impairment	(215)	(240)	(208)	(663)
Written off	-	-	(4,958)	(4,958)
Net reconciliation. provision against Microcredit	1,730	2,966	263	4,959

Undiscounted amount of impaired portfolio at initial recognition	
Balance as of December 31, 2018	3,709,677

12.5.5. Loans and financial leases by maturity

Loans by maturity are depicted as follows:

December 31, 2019	0-1 year	1- 5 years	Over 5 years	Over 10 years	Total
Commercial	12,485,038	15,867,803	11,772,344	5,216,779	45,341,964
Consumer	517,363	20,690,683	7,213,210	369,538	28,790,794
Home mortgage	44,107	498,866	3,784,318	18,914,095	23,241,386
Microcredit	502	20,364	42	-	25,426
	13,051,528	37,077,716	22,769,914	24,500,412	97,399,570

(Millions of Colombian pesos (COP))

December 31, 2018	0-1 year	1- 5 years	Over 5 years	Over 10 years	Total
Commercial	13,915,749	15,566,364	11,147,476	3,864,382	44,493,971
Consumer	454,697	15,095,037	6,341,207	415,096	22,306,037
Mortgage	42,643	432,086	3,447,892	17,040,424	20,963,045
Microcredit	7,936	50,515	89	-	5,854
	14,421,025	31,144,002	20,936,664	21,319,902	87,821,593

12.5.6. Loans by currency

The following is the detail of loans and leases by monetary unit:

	December 31, 2019			December 31, 2018		
	Domestic currency	Foreign currency	Total	Domestic currency	Foreign currency	Total
Commercial	26,493,329	15,674,822	42,168,151	26,659,717	15,099,015	41,758,732
Consumer	23,930,971	4,794,550	28,725,521	17,874,480	4,364,898	22,239,378
Mortgage and residential leasing	19,029,754	4,211,632	23,241,386	17,088,428	3,874,617	20,963,045
Microcredit	25,301	-	25,301	58,246	-	58,246
Financial leasing	3,104,650	134,561	3,239,211	2,683,741	118,451	2,802,192
	72,584,005	24,815,565	97,399,570	64,364,612	23,456,981	87,821,593

12.5.7. Loans by economic sector

The following is the detail of loans and leases by economic sector:

Economic sectors	December 31, 2019	December 31, 2018
Agriculture. cattle-farming. forestry and fishing	2,512,612	2,156,926
Mines and quarries	35,938	201,261
Manufacturing industry	8,094,493	7,143,273
Supply of electricity, gas, steam and air conditioning	2,827,810	3,461,217
Water supply, wastewater disposal, waste management and decontamination	272,646	163,704
Construction	7,007,236	7,141,396
Wholesale and retail trade, repair of motor vehicles and motorcycles	7,169,069	7,417,599
Transport and storage	2,974,409	3,291,798
Lodging and Catering Activities	602,163	484,815
Information and Communications	831,889	781,499
Financial and insurance activities	3,624,054	3,307,986
Real estate activities	2,117,108	2,201,914
Professional, scientific and technical activities	1,266,419	1,219,780
Administrative and customer service activities	1,380,247	1,431,597
Public administration and defense; compulsory social security schemes	1,043,746	1,312,566
Teaching	466,046	41,099
Human health care and social work activities	913,971	824,916
Artistic, entertainment and recreational activities	155,264	152,067
Other service activities	314,395	335,431
Activities of households as employers	31,874	2,766
Activities of extraterritorial organizations and bodies	48	4,476
Employees	52,832,390	43,826,663
Rentiers (individuals)	597,549	522,059
	97,399,570	87,821,593

(Millions of Colombian pesos (COP))

12.5.8. Loans and leases by geographic zone

The following is the detail of loans and leases by geographic zone:

December 31, 2019

	Commercial	Consumer	Mortgage	Microcredit	Total
Bogota	13,693,380	11,343,727	4,845,269	18,368	29,900,744
Antioquia	7,364,564	4,241,002	1,112,255	2,458	12,720,279
Northeast	5,226,292	4,668,192	1,576,773	4,453	11,475,710
Southwest	4,142,988	3,752,363	1,290,795	22	9,186,168
Miami	1,244,483	245	-	-	1,246,933
Costa Rica	3,683,525	1,089,964	1,879,374	-	6,652,863
Honduras	1,293,687	1,040,596	82,844	-	3,162,723
Panamá	2,531,120	124,795	372,949	-	3,028,864
El Salvador	2,988,112	2,462,432	1,130,869	-	6,581,413
	42,168,151	28,725,519	13,036,723	25,301	83,955,697

December 31, 2018

	Commercial	Consumer	Mortgage	Microcredit	Total
Bogotá	14,043,114	8,552,067	4,931,962	43,926	27,571,069
Antioquia	6,794,531	3,236,244	1,008,517	5,498	11,044,790
Northeast	5,882,034	3,709,679	1,463,593	8,131	11,063,437
Southwest	3,762,393	2,460,814	88,612	691	7,110,018
Miami	1,306,951	2,338	-	-	1,309,289
Costa Rica	3,613,958	99,295	1,801,719	-	6,408,627
Honduras	1,182,894	919,945	758,609	-	2,861,448
Panamá	2,356,092	108,089	303,485	-	2,767,666
El Salvador	2,816,765	2,257,252	1,010,803	-	6,084,820
	41,758,732	22,239,378	12,164,808	58,246	76,221,164

Financial leases by geographic zone

December 31, 2019

	Commercial	Consumer	Mortgage	Microcredit	Total
Bogota	2,255,351	9,984	4,553,958	104	6,819,397
Antioquia	400,925	1,459	2,214,795	21	2,617,200
Northeast	263,103	2,074	2,012,862	-	2,278,039
Southwest	169,509	212	1,423,047	-	1,594,676
Costa Rica	83,208	48,768	-	-	131,976
Panama	1,717	868	-	-	2,585
	3,173,813	65,273	10,204,662	125	13,443,873

December 31, 2018

	Commercial	Consumer	Mortgage	Microcredit	Total
Bogota	1,940,718	14,299	4,057,364	260	6,012,641
Antioquia	333,934	1,867	1,890,868	34	2,226,703
Northeast	231,976	1,293	1,792,976	-	2,026,245
Southwest	158,482	878	1,057,029	-	1,216,389
Costa Rica	68,511	46,762	-	-	115,273
Panama	1,618	156	-	-	3,178
	2,735,239	66,659	8,798,237	294	11,600,429

(Millions of Colombian pesos (COP))

12.5.9. Loans and leases by type of collateral

The following is the detail of loans by type of collateral:

December 31, 2019

	Commercial	Consumer	Home mortgage and residential leasing	Microcredit	Financial leasing	Total
No collateral	19,053,328	25,813,280	-	262	79,515	44,946,385
Guaranteed by other Banks	182,818	-	-	-	-	182,818
Home mortgages	374,283	314,223	22,862,087	-	533	23,551,126
Other real property	9,190,564	432,791	373,415	-	-	9,996,770
Equity investments	392,032	-	-	-	-	392,032
Cash deposits	556	129,204	95	-	2,666	687,965
Other assets	12,419,126	2,036,023	5,789	25,039	3,156,497	17,642,474
	42,168,151	28,725,521	23,241,386	25,301	3,239,211	97,399,570

December 31, 2018

	Commercial	Consumer	Home mortgage and residential leasing	Microcredit	Financial leasing	Total
No collateral	21,506,878	19,319,611	-	217	-	40,826,706
Guaranteed by other Banks	173,176	-	-	-	-	173,176
Home mortgages	355,542	35,958	20,668,036	-	-	21,383,158
Other real property	8,263,936	343,692	289	-	1,748,808	10,645,436
Equity investments	49,789	-	-	-	-	49,789
Cash deposits	462,609	223,472	94	-	3,178	689,353
Other assets	10,498,701	1,993,023	5,915	58,029	1,050,206	13,605,874
	41,758,732	22,239,378	20,963,045	58,246	2,802,192	87,821,593

12.5.10. Maturity of financial leases

The maturity of financial leases is as follows:

December 31, 2019

	0-1 year	1-5 years	Over 5 years	Total
Gross investment in financial leasing	2,430,912	8,554,776	14,762,157	25,747,845
Unearned financial income from financial leasing - interest	1,800,121	4,960,589	6,683,163	13,443,873
Total minimum financial lease-payments receivable at present value	630,791	3,594,187	8,078,994	12,303,972

December 31, 2018

	0-1 year	1-5 years	Over 5 years	Total
Gross investment in financial leasing	2,122,164	7,580,586	12,733,388	22,436,138
Unearned financial income from financial leasing - interest	1,587,720	4,321,906	5,690,803	11,600,429
Total minimum financial lease-payments receivable at present value	534,444	3,258,680	7,042,585	10,835,709

(Millions of Colombian pesos (COP))

12.5.11. Loans to shareholders and staff

Loans to shareholders and home-purchase mortgages to employees are made at special rates::

	December 31, 2019	December 31, 2018
Shareholders (*)	286	321
Employees	460,899	450,484
Consumer	86,709	90,585
Mortgage	267,548	264,627
Residential Leasing	106,642	95,272
	461,185	450,805

(*) Shareholders holding more than 5% of shares

The Bank, in compliance with IFRS 9 and IAS 19, incorporated the rate benefit granted to its employees in loans for the acquisition of housing in its financial statements, recognizing portfolio income and personnel expenses of $10,996 for December 2019 and $10,410 for the same period in 2018.

12.5.12. Sales of loans

Sales of loans are shown below:

December 31, 2019

Month of operation	No.	Rate	Capital	Interest	Other	Total	Profit	Sale proceeds	Provisions recovered
April	2,600	5,60%	250,000	1,101	185	251,286	2,353	256,564	5,209
May	2,738	5,60%	280,000	1,423	236	281,659	4,595	289,059	5,618
August	2,523	5,50%	100,000	359	118	100,477	2,093	103,819	2,003
October	2,748	5,30%	200,000	826	169	200,995	3,084	20,685	4,009
	10,609		830,000	3,709	708	834,417	12,125	856,292	16,839

December 31, 2018

Month of operation	No.	Rate	Capital	Interest	Other	Total	Profit	Sale proceeds	Provisions recovered
February	2,504	7,10%	157,884	985	189	159,058	393	163,732	3,176
July	2,421	3,40%	90,990	382	130	91,502	1,841	92,894	1,824
	4,925		248,874	1,367	319	250,560	5,771	256,626	5,000

(Millions of Colombian pesos (COP))

12.5.13. Sales of written-off loans

The following is the detail of loans written off:

Banco Davivienda Colombia

Month of operation	No. of loans	Capital	Interest	Other items	Total	Sale proceeds
March	31,198	379,432	17,769	14,226	411,427	22,653
April	13,153	91,126	5,197	11,189	107,512	5,513
June	7,957	141,602	5,057	1,007	147,666	8,807
July	26,576	281,939	13,731	40,672	336,342	1,702
September	892	85,066	4,913	7,856	97,835	6,888
October	10,547	181,652	6,164	4,074	19,189	17,369
November	14,747	117,916	6,709	4,561	129,186	10,584
	113,098	1,278,733	5,954	83,585	1,421,858	88,834

El Salvador

Month of operation	No. of loans	Capital	Interest	Other items	Total	Sale proceeds
January	88	451	96	-	547	111
May	42	151	30	-	181	37
June	46	233	47	-	280	60
July	37	215	37	-	252	51
August	92	444	90	-	534	104
September	45	267	49	-	316	51
October	229	1.164	183	-	1,347	249
November	78	380	57	-	437	58
December	111	559	89	-	648	117
	768	3.864	678	-	4.542	838

Honduras

Month of operation	No. of loans	Capital	Interest	Other items	Total	Sale proceeds
August	12,612	98,008	-	-	98,008	2,490
	12,612	98,008	-	-	98,008	2,490

December 31, 2018

Banco Davivienda Colombia

Month of operation	No. of loans	Capital	Interest	Other items	Total	Sale proceeds
April	48,502	403,962	13,603	60,779	478,343	22,083
June	2,379	266,158	6,958	21,822	294,937	1,767
August	449	1,411	54	23	1,488	85
September	11,422	86,978	2,816	13,598	103,392	4,535
October	483	1,347	57	39	1,443	278
November	64,204	498,749	19,523	58,724	576,996	20,876
December	2,624	14,583	8,968	6,987	161,785	7,154
December	386	1,056	34	25	1,115	254
	175,476	1,405,491	52,013	161,997	1,619,501	72,935

(Millions of Colombian pesos (COP))

12.6. Accounts Receivable, net

The following is the detail of accounts receivable

	December 31, 2019	December 31, 2018
Transfer to ICETEX - abandoned accounts	221,879	183,900
Payment for account of borrowing customers	127,652	116,063
Portfolio and Cards Accounts Receivable	107,494	151,758
Premiums receivable	78,828	83,117
Deposits	55,982	62,201
Sale of written-off loans	38,212	44,742
Payments for customer account	37,333	32,930
Parent, subsidiaries, related parties, and associates	28,416	8,491
Reinsurers outside Colombia	16,024	17,885
Colombian Central Bank – Rate cover	15,820	13,500
Colombian treasury	15,250	20,920
Interest	13,316	6,480
Interest receivable – TIPS	7,524	6,749
Settlement of Forward Transactions	6,037	1,606
Technical Reserves – Reinsurers	4,861	4,400
Sale of properties	2,373	5,129
Employees	1,337	2,349
Claims insurance companies	729	473
Joint operations	297	1,224
Accounts receivable	779,364	763,917
Impairment (Provision)	(78,517)	(54,937)
Accounts receivable, net	700,847	700,847

The following is the detail of Other accounts receivable:

	December 31, 2019	December 31, 2018
Advances to contractors and suppliers	263,975	383,726
Taxes	364,361	265,144
Otras	113,010	96,940
Administrative costs leasing portfolio	23,174	42,798
Commissions	17,047	18,552
Other accounts receivable	781,567	807,160
Total Accounts receivable and Other accounts receivables, net	1,482,414	1,516,140

(Millions of Colombian pesos (COP))

Accounts receivable by maturity:

December 31, 2019	1 Year	1 to 5 years	Over 5 years	Total
Taxes	364,361	-	-	364,361
Advances to contractors and suppliers	260,772	3,203	-	263,975
Transfer to ICETEX - abandoned accounts	221,879	-	-	221,879
Payment for account of borrowing customers	108,619	18,885	148	127,652
Accounts Payable for Portfolio and Cards	107,494	-	-	107,494
Premiums receivable	78,828	-	-	78,828
Deposits	51,933	1,976	2,073	55,982
Debtors	36,563	1,649	-	38,212
Payments for customer account	32,965	4,368	-	37,333
Parent, Subsidiaries, Related Parties, and Associates	28,416-		-	28,416
Commissions	16,152	878	17	17,047
Leasing portfolio administrative expenditure	23,174	-	-	23,174
Reinsurers outside Colombia	432	15,592	-	16,024
Banco de la República (Central Bank) Rate Cover	1,582	-	-	1,582
National Treasury	1,525	-	-	1,525
Interests	13,151	-	165	13,316
Interests receivable TIPS	7,524	-	-	7,524
Settlement of forwards	6,037	-	-	6,037
Technical reserves – Reinsurers	4,861	-	-	4,861
Sale of properties	2,373	-	-	2,373
To employees	1,237	100	-	1,337
Other	60,203	51,685	2,621	114,509
Accounts receivable	1,458,044	98,336	5,024	1,561,404
Impairment (Provision)	(6,036)	(17,243)	(914)	(78,517)
Accounts Receivable, net	1,397,684	81,093	411	1,482,887

(Millions of Colombian pesos (COP))

December 31, 2018	1 Year	1 to 5 years	Over 5 years	Total
Taxes	265,144	-	-	265,144
Advances to contractors and suppliers	382,671	1,055	-	383,726
Transfer to ICETEX - abandoned accounts	1,839	-	-	1,839
Payment for account of borrowing customers	101,608	14,347	108	116,063
Premiums receivable	83,102	15	-	83,117
Deposits	5,807	2,076	2,055	62,201
Sale of written-off loans	30,503	-	-	30,503
Payments for customer account	28,082	4,848	-	3,293
Reinsurers outside Colombia	108	17,777	-	17,885
Leasing portfolio administrative expenses	42,798	-	-	42,798
Commissions and fees	17,469	1,055	28	18,552
National treasury	2,092	-	-	2,092
Parent, Subsidiaries, Related Parties, and Associates	8,491	-	-	8,491
Banco de la República (Central Bank) – Rate Cover	135	-	-	135
Interest	648	-	-	648
Interest receivable – TIPS	6,749	-	-	6,749
International trade network compensation	96,009	-	-	96,009
Sale of properties	5,129	-	-	5,129
Debtors	44,742	-	-	44,742
Settlement of Forwards	1,606	-	-	1,606
Technical reserves – reinsurers	44	-	-	44
Employees	357	283	1,709	2,349
Others	(17,025)	39,662	76	98,637
Accounts receivable	1,410,059	81,118	799	1,571,077
Impairment (Provision)	(20,613)	(1,212)	(22,204)	(54,937)
Accounts receivable, net	1,389,446	68,998	57,696	1,516,140

The bank evaluates the behavior of other accounts receivable during each reported period. in order to minimize the credit risk, it is exposed to. and applies an estimated provision based on the seniority of these items as protection to risk exposure.

The following is the movement of accounts receivable:

	December 31, 2019	December 31, 2018
Opening balance	54,937	37,778
Expected losses recorded	-	8,894
Plus:		
Impairment expensed	61,229	40,752
Less:		
Recovery of impairment	(4,934)	(2,723)
Write-offs	(24,485)	(23,356)
Recovery of other accounts receivable	(7,905)	(2,656)
Translation	(325)	(3,752)
Closing balance	78,517	54,937

(Millions of Colombian pesos (COP))

12.7. Assets held for sale, net

The following is the detail of assets held for sale:

	December 31, 2019	December 31, 2018
For Home purchases		
Voluntary surrender	10,387	12,381
Court award	6,462	2,524
Total for home purchase	16,849	14,905
Total for home purchase		
Voluntary surrender	1,920	7,427
Total Other than Home Mortgage	1,920	7,427
Movable assets		
Vehicles	796	930
Rights	125	224
Others	33,501	-
Total other than Home Mortgage	34,422	1,154
Assets restored from leasing contracts		
Machinery and equipment	1,150	135
Vehicles	750	1,704
Real property	4,788	2,093
Real property – Residential leasing	35,823	23,887
Total assets restored from leasing contracts	42,511	27,819
Real property	-	10,755
Total other than Home Mortgage	-	10,755
Subtotal	95,702	62,060
Provision (Impairment)	(7,539)	(772)
Total	**88,163**	**61,288**

The following is the detail of the movement of assets held for sale:

	For Home Mortgage	Other than Home Mortgage	Restored from residential leasing contracts	Leasing Immovable Property	Total
Cost					
Opening balance as of January 1, 2019	14,905	8,581	27,819	10,755	62,060
Additions (received)	19,993	39,662	52,470	-	112,125
Withdrawn (sales)	(4,342)	(4,931)	(13,464)	(10,755)	(33,492)
Transfers	(13,512)	(6,970)	(24,314)	-	(44,796)
Effect of movements in exchange rates	(195)	-	-	-	(195)
Closing balance	16,849	36,342	42,511	-	95,702
Impairment					
Opening balance	(105)	(114)	(196)	(356)	(771)
Assets in force at the previous cut	-	-	-	-	-
Additions (received)	(104)	(6,422)	(600)	-	(7,126)
Withdrawn (sales)	2	-	-	356	358
Effect of movements in exchange rates	-	-	-	-	-
Transfers	-	-	-	-	-
Balance as of December 31, 2019	**(207)**	**(6,536)**	**(796)**	**-**	**(7,539)**

(Millions of Colombian pesos (COP))

	For Home Mortgage	Other than Home Mortgage	Restored from residential leasing contracts	Leasing Immovable Property	Total
Cost					
Opening balance as of January 1, 2018	8,474	71,567	43,089	-	123,130
Additions (received)	18,894	9,072	34,154	10,755	72,875
Withdrawn (sales)	(5,519)	(3,444)	(13,092)	-	(22,055)
Transfers	(6,975)	(68,614)	(36,332)	-	(111,921)
Effect of movements in exchange rates	31	-	-	-	31
Closing balance	14,905	8,581	27,819	10,755	62,060
Impairment					
Opening balance	-	-	-	-	-
Additions (received)	(105)	(114)	(197)	-	(416)
Withdrawn (sales)	-	-	-	(356)	(356)
Balance as of December 31, 2018	**(105)**	**(114)**	**(197)**	**(356)**	**(772)**

Find below the assets held for sale in accordance to the length of time on the market in detail:

	December 31, 2019	December 31, 2018
Up to 1 year	89,841	60,379
1-3 years	5,861	1,681
Total	95,702	62,060

During this time period the bank has executed different strategies assets held for at December 31:

	Quantity	Value	Quantity	Value
Sale price	215	33,493	196	22,055
Total Sales	215	33,493	196	22,055
Profit on sales		812		2,059
Profit on sale previous periods		(58)		
Amortization of deferred profit		101		1,641
Profit on sale of assets not in use		365		6,661
Total sales profit		5,414		10,361
Loss on sale of foreclosed assets		401		500
Loss on sales, previous period (residential leasing)		1,620		1,199
Loss on sales		2,021		1,699
Profit (Loss) on foreclosed assets		3,393		8,662

(Millions of Colombian pesos (COP))

The movement of the provision for assets held for sale is as follows:

	December 31, 2019	December 31, 2018
Opening balance	772	-
Plus:		
Transfers	6,515	-
Provision expensed	2,703	739
Effect of movements in exchange rates	-	33
Less:		
Derecognition	(356)	-
Recoveries	(2,095)	-
Closing balance	7,539	772

12.8. **Investments in associates**

The following is the detail of investments in associates.

December 31, 2019

Name	% Interest	Equity	Acquisition cost	Dividends accumulated	Equity method	Adjusted cost
Titularizadora Colombiana S.A.	26.85%	59,855	41,851	(16,654)	10,588	35,785
Redeban Multicolor S.A.	26.04%	15,792	21,785	(4,318)	13,465	30,932
Sersaprosa S.A.	25.00%	8,786	2,312	-	8,456	10,768
Serfinsa S.A.	41.03%	4,292	1,474	-	1,942	3,416
ACH de El Salvador S.A	25.00%	1,541	385	-	991	1,376
Zip Amarateca	37.85%	8,606	3,258	(796)	4,768	7,230
Bancajero BANET	34.79%	2,673	930	(709)	3,689	3,910
		101,545	71,995	(22,477)	43,899	93,417
Investments in Joint operations						
CCA Rentaliquida						3
Total						93,420

December 31, 2018

Name	% Interest	Equity	Acquisition cost	Dividends accumulated	Equity method	Adjusted cost
Titularizadora Colombiana S.A.	26.85%	59,855	41,851	(13,033)	7,308	36,126
Redeban Multicolor S.A.	26.04%	15,792	21,785	(3,078)	8,528	27,235
Sersaprosa S.A.	25.00%	8,786	2,312	-	8,119	10,431
Serfinsa S.A.	41.03%	4,292	1,474	-	1,806	3,280
ACH de El Salvador S.A	25.00%	1,541	385	-	828	1,213
Zip Amarateca	37.85%	8,606	3,258	(655)	4,502	7,105
Bancajero BANET	34.81%	2,673	930	(710)	3,791	4,011
		101,545	71,995	(17,476)	34,882	89,401
Investments in Joint operations						
CCA Rentacafé						42
Total						89,443

(Millions of Colombian pesos (COP))

The following is the value of the asset, liability and homogenized equity based on the calculation of the equity participation method:

December 31, 2019

Interest		Total Assets	Total Liabilities	Total Equity	(Profit/ Loss)
Titularizadora Colombiana S.A.	26.85%	149,737	16,472	133,265	3,349
Redeban Multicolor S.A.	26.04%	228,025	109,231	118,794	6,209
Sersaprosa S.A.	25.00%	64,093	21,022	43,071	996
Serfinsa S.A.	41.03%	25,086	16,760	8,326	613
ACH de El Salvador S.A	25.00%	5,870	363	5,507	265
Zip Amarateca	37.85%	19,770	669	19,101	2,268
Bancajero BANET	34.79%	14,111	2,875	11,236	1,662
		506,692	167,392	339,300	15,362

December 31, 2018

Interest		Total Assets	Total Liabilities	Total Equity	(Profit/ Loss)
Titularizadora Colombiana S.A.	26.85%	151,447	16,911	134,536	14,923
Redeban Multicolor S.A.	26.04%	199,395	94,799	104,596	15,469
Sersaprosa S.A.	25.00%	5,259	405	4,854	529
Serfinsa S.A.	41.03%	25,881	17,887	7,994	(602)
ACH de El Salvador S.A	25.00%	58,756	17,032	41,724	2,043
Zip Amarateca	37.85%	20,198	1,431	18,766	2,040
Bancajero BANET	34.81%	13,750	2,230	1,152	2,146
		474,686	150,695	323,990	36,548

12.9. Investments in other companies

The following is the detail of investments in other companies:

Company	% Share	December 31, 2019	December 31, 2018
CrediBanco	15.55%	143,862	12,504
Finagro	12.67%	120,909	131,646
Bolsa De Valores De Colombia	6.78%	46,681	48,210
Ach Colombia S.A.	18.42%	42,187	46,230
Corabastos	3.39%	16,351	1,156
Cámara De Riesgo Central De Co	5.48%	2,914	3,053
Cámara Comp Div Colombia S.A.	8.31%	3,191	3,339
Tecnibanca S.A. - Servibanca S.A.	0.94%	1,143	1,083
Corporación Andina De Fomento	0.00%	1,238	16,351
Almacafe	0.00%	-	10
Bio D	7.12%	8,276	8,489
Laser Refrectivo de Caldas S.A.	20.00%	899	-
Integral S.A.	0.48%	788	-
Inverseguros S.A.	0.18%	8	-
		388,447	384,607

(Millions of Colombian pesos (COP))

12.10. Property and equipment

The following is the detail of property and equipment:

	Land	Buildings and improvements	IT Equipment	Furniture and fixture	Vehicles	Property and Equipment in Joint Operations	Total
January 1, 2019							
Cost							
Opening balance	199,191	497,901	253,217	461,849	23,921	1	1,436,080
Additions	4,896	23,065	37,036	46,608	7,634	0	119,239
Disposals	(3,004)	(7,793)	(26,991)	(14,132)	(5,696)	0	(57,616)
Effect of movements in exchange rates	699	4,575	3,445	2,268	202	-	11,189
Transfers	(5,936)	(43,349)	(9,761)	13,184	-	-	(45,862)
Impairment	-	(599)	-	-	-	-	(599)
December 31, 2019	195,846	473,800	256,946	509,777	26,061	1	1,462,431
Accumulated Depreciation:							
January 1, 2019	-	(145,926)	(21,116)	(265,907)	(11,856)	(1)	(634,850)
Opening balance							
Purchases	-	(669)	-	-	-	-	(669)
Disposals	0	2,818	26,752	13,647	4,176	0	47,393
Accumulated depreciation	-	(15,249)	(45,549)	(32,518)	(3,926)	-	(97,242)
Effect of movements in exchange rates	-	(3,303)	(2,066)	(1,577)	209	-	(6,737)
Transfers	-	184	15,635	(19,053)	-	-	(3,234)
December 31, 2019	-	(162,145)	(216,388)	(305,408)	(11,397)	(1)	(695,339)
Carrying value:	**195,846**	**311,655**	**40,558**	**204,369**	**14,664**	**0**	**767,092**
Right -of-use assets (See Note 12.10.1)	913,953		52,493				966,446
Total Property and equipment, net	**1,109,799**	**311,655**	**93,051**	**204,369**	**14,664**	**0**	**1,733,538**

(Millions of Colombian pesos (COP))

	Land	Buildings and improvements	IT Equipment	Furniture and fixture	Vehicles	Property and Equipment in Joint Operations	Total
January 1st, 2018							
Cost							
Opening balance	200,452	394,243	229,984	418,142	21,721	1	1,264,543
Additions	17,350	120,943	40,315	18,636	4,493	-	201,737
Disposals	(16,231)	(32,988)	(15,018)	(5,460)	(2,766)	-	(72,463)
Effect of movements in exchange rates	8,026	14,090	8,419	5,733	473	-	36,741
Transfers	(10,406)	3,692	(10,483)	24,798	-	-	7,601
Impairment	-	(2,079)	-	-	-	-	(2,079)
December 31, 2018	199,191	497,901	253,217	461,849	23,921	1	1,436,080
Accumulated Depreciation:							
January 1st, 2018	-	(118,331)	(181,662)	(222,108)	(10,069)	(1)	(532,171)
Opening balance							
Purchases	-	(573)	-	-	-	-	(573)
Disposals		1,654	11,870	5,412	2,195	-	21,131
Accumulated depreciation	-	(11,067)	(41,803)	(28,945)	(3,765)	-	(85,580)
Effect of movements in exchange rates	-	(6,074)	(6,596)	(436)	(268)	-	(17,298)
Transfers	-	(11,535)	7,031	(15,906)	51	-	(20,359)
December 31, 2018	-	(145,926)	(21,116)	(265,907)	(11,856)	(1)	(63,485)
Carrying value:	**199,191**	**351,975**	**42,057**	**195,942**	**12,065**	**-**	**801,230**

The following are the proceeds of sale of property and equipment:

	No.	Carrying value	Sale proceeds (*)	Profit	Loss
Real property	13	(6,441)	7,179	792	-
IT equipment	18	(230)	246	144	(243)
Furniture and fittings	10,750	(470)	400	134	(120)
Vehicles	78	(1,149)	1,229	221	(135)
	10,859	(826)	9,054	1,291	(498)

	No	Carrying value	Sale proceeds (*)	Profit	Loss
Real estate	61	(47,565)	65,291	20,703	(2,978)
IT equipment	5,698	(2,642)	1,669	518	(1,484)
Furniture and fittings	3,048	(446)	249	221	(416)
Vehicles	37	(570)	594	33	(19)
	8,844	(51,223)	67,803	21,475	(4,897)

Restrictions on ownership of investment properties

There are no restrictions on ownership for any of the reported periods

12.10.1. Right -of-use assets

The balance of the assets by right of use for the leases in which the bank acts as a lessee is detailed below:

	diciembre 31, 2019
Right-of-use assets	1,111,637
Accumulated depreciation	(145,191)
Right-of-use assets, net	966,446

(Millions of Colombian pesos (COP))

Right-of-use assets movement

The following is the movement of rights-of-use assets:

	Real property	Computer and data processing equipment	Net
January 1, 2019	1,098,721	68,338	1,167,059
Pluss:			
Additions	29,176	36	29,212
Damage compensation	-	-	-
Less:			
Withdrawals, net	(45,283)	-	(45,283)
Period depreciation	(138,895)	(11,257)	(150,152)
Period deterioration	-	-	-
Restatement	6,135	56	6,191
Changes in dismantling provisions	(8,047)	-	(8,047)
Modifications to the contract	(27,854)	(468)	(32,534)
	913,953	52,493	966,446

Contractual lease liabilities

	December 31, 2019
1 year or less	597,825
1 to 5 years	1,716,335
Over 5 years	363,861
Total undiscounted lease liability	2,678,021

Amounts recognized in profit or loss

	December 31, 2019
Interest expense on lease liability	69.249
Variable lease payment expense not included in the measurement of lease liabilities	-
Income from subleasing right-of-use assets	21.843
Gain (loss) on sale and leaseback transactions	9.583
Depreciation expense	143.444
Short-term lease and low-value asset expense	20.530

Cash Outflows from Leases

	December 31, 2019
Cash Outflows from Leases	187,854

(Millions of Colombian pesos (COP))

12.11. Investment properties

The following is the movement of investment properties:

Cost:	December 31, 2019	December 31, 2018
Opening balance	75,304	36,487
Transfers	6,329	45,215
Sales	(4,397)	(6,473)
Transfers	38,084	-
Effect of movements in exchange rates	347	75
Closing balance	115,667	75,304
Accumulated depreciation:		
Opening balance	(1,489)	(1,111)
Sales	184	316
Accumulated depreciation	(1,272)	(336)
Restatement	1	(4)
Effect of movements in exchange rates	(191)	(354)
Closing balance	(2,767)	(1,489)
Carrying value	112,900	73,815

Belows the product of the sale of investment properties:

Investment properties	December 31, 2019	December 31, 2018
No.	3	5
Book value	4,213	6,157
Sales proceeds	5,630	7,781
Profit	1,417	3,217
Loss	-	(1,593)

The results recognized in the consolidated result statement for the management of investment properties up to December 31, 2018 and 2017 was:

	December 31, 2019	December 31, 2018
Rental income	2,276	1,557
Direct operating expenses from investment properties that generate rental income	-	(10)
Direct operating expenses on investment properties that do not earn rental income	-	(1,036)
Net	2,276	511

The fair value of investment properties up to the closing date December 31, 2018 was $70,576 ($55,863 in 2017)

Restrictions on ownership of investment properties

There are no restrictions on ownership of investment properties for any of the reported periods.

(Millions of Colombian pesos (COP))

12.12. Goodwill

The following is the detail of the Bank's acquisitions:

Name of the acquired	Date of acquisition	% Participation
Granbanco	February 2007	99.06%
Grupo del Istmo Costa Rica	November 2012	100.00%
Inversiones Financieras El Salvador	November 2012	95.95%
Banco y Seguros Honduras	December 2012	Banco 94% - insurance 89%
Corredores Asociados	September 2013	94.90%

The following in detail of goodwill:

	December 31, 2019	December 31, 2018
Granbanco	1,084,549	1,084,549
Operación Centroamérica(1)	473,362	473,362
Corredores Asociados	77,275	77,275
	1,635,185	1,635,185

(1) Includes Grupo del Istmo Costa Rica, Inversiones Financieras El Salvador and Banco y Seguros Honduras. These three entities were purchased to HSBC

Granbanco purchase

The purchase of Granbanco on February 16, 2007, gave origin to goodwill worth $1,372,458. The table below shows the main items of goodwill:

The general criteria to define the **cash-generating units (CGUs)** were: proper business line characteristics, (placement rate average, and average balance per Customer/product, customer profiles, portfolio growth, and allocation of expenses); feasibility of independent valuation and international accounting regulations.

The determination of income and balances of each business line were determined; assets were defined, and 5-year projections made.

The assessment of CGU was carried out using the dividend flow methodology, with a discount at the expense of the shareholder; which according to experts is the most appropriate method to valuate financial institutions and it is also widely used by top rank investment banks. Said method consists on projecting the flow of dividends available during 10 years plus a terminal value and discounting an appropriate rate. For Fidudavienda, cash flows and a terminal value were used to draw up a free cash statements for the entity.

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As of December 31, 2019, the Bank, in line with the adoption of best practices in the recognition, measurement and disclosure of economic events and to faithfully reflect the economic reality of the entity, has decided to redefine the Cash Generating Units initially configured in the purchase of Granbanco, aligning them with the business segments defined by the Bank in this way:

For impairment testing purposes, the goodwill was assigned to the following:

(Millions of Colombian pesos (COP))

Business Line	New line	Interest	Goodwill
Consumer Credit card Mortgage	Personal	48.70%	527.591
Commercial SMSEs	Business	50.70%	550.049
Subsidiaries	Subsidiaries	0.60%	6.909
		100.00%	1.084.549

An independent impairment test took place on October 31, 2019, by external consultants discounted at first-level investment cost "assessment and consulting, results showed that none of the business lines generated impairment loss.

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The principal assumptions for the projection of impairment tests were as follows:

	2020	2021	2022	2023	2024
Placement rate (%)	11.80%	11.60%	11.60%	11.60%	11.60%
Deposit-taking rate (%)	3.10%	3.00%	3.10%	3.00%	3.00%
Growth in operating income	5.30%	4.90%	4.70%	4.50%	4.30%
Growth in other operating expenses (CPI)	3.60%	3.20%	3.90%	3.70%	3.70%
Inflation	3.30%	2.70%	3.50%	3.30%	3.30%
GDP annual growth	3.00%	3.20%	3.10%	3.40%	3.40%

The discount rate used to determine the capital cost generated by the source of income is subject to the average weighted cost of the capital in market value of all income sources in the bank's capital structure estimated on 13.9%, upon executing a sensitivity analysis on use value and impairment analysis on each of the cash-generating units (CGUs) identified for capital gain vs the discount; it shows that a superior risk assigned to the discount rate won't generate impairment on any of the mayor CGU.

Purchase of HSBC in Central America

The purchase of the HSBC Central American operation was carried out between November 23 and December 7, 2012 and generated a capital gain of $473,362. assigned to the following business lines:

Business lines	Purchase US$	Cost $	Capital gain
Banking	767	916,556	459,161
Insurance	34	52,591	14,201
	801	969,147	473,362

An impairment test took place on December 31 2019. Results showed that none of the business lines generated impairment loss

(Millions of Colombian pesos (COP))

The following are the main assumptions used in impairment testing:

Banking	2020	2021	2022	2023	2024
Placement rate (interest)	13.20%	13.30%	13.20%	13.20%	13.20%
Deposit taking rate (interest)	3.00%	3.10%	3.10%	3.00%	3.30%
Growth in operating income	4.40%	9.20%	8.40%	10.00%	9.90%
Growth in other operating expenses	1.70%	9.40%	9.40%	10.00%	11.10%
Inflation	2.90%	2.70%	2.70%	2.60%	2.70%
GDP annual growth	6.00%	5.80%	5.90%	5.90%	6.00%

Insurance	2020	2021	2022	2023	2024
Growth in other operating expenses	8.00%	6.10%	5.20%	5.20%	6.40%
Inflation	2.90%	2.70%	2.70%	2.60%	2.70%
GDP annual growth	6.00%	5.80%	5.90%	5.90%	6.00%

Purchase of Corredores Davivienda

On February 28, 2013 a contract made to buy 100% of the firm Corredores Asociados and a capital gain was constituted for a value of $73,336 and Fiduciaria Davivienda for $3,636.

Business line	Acquirer	Cost $	Goodwill
Corredores Davivienda	Banco Davivienda S.A.	70,732	73,336
	Fiduciaria Davivienda S.A.	-	3,939
		70,732	77,275

An impairment test took place on December 31, 2019. by external consultants. The results showed that none of the business lines generated impairment loss.

The following are the e main assumptions used in the impairment loss testing:

	2020	2021	2022	2023	2024
Average portfolio growth	27.60%	16.20%	12.20%	12.80%	12.60%
Growth in operating income	8.90%	8.80%	12.10%	12.40%	12.40%
Growth in other operating expenses	20.00%	10.30%	13.40%	12.30%	10.30%

For tax purposes the Bank has applied Article 143 of the Tax Code, which establishes that the termination for amortization investments shall be carried out on a period of five years or more, and it is in fact being amortized over 7 years for Granbanco, and 5 years for Corredores y Asociados; utilizing the straight-line method, which was simply calculated by dividing the total by the number of months proposed.

The difference resulting from book amortization and tax amortization is recorded as deferred tax payable.

(Millions of Colombian pesos (COP))

12.13. Intangibles

The following is the movement of intangibles:

	Licenses	Programs, Application etc	Total
Opening balance	105,216	66,685	171,901
Acquisitions	24,973	31,548	56,521
Amortizations	(19,998)	(20,594)	(40,592)
Derecognition	(2,569)	(83)	(2,652)
Reclassifications	3,883	(3,883)	-
Effect of movements in exchange rates	3,453	1,785	5,238
Closing balance	114,958	75,458	190,416

	Licenses	Programs, Application etc	Total
Opening balance	99,561	69,891	169,452
Acquisitions	21,921	21,871	43,792
Amortizations	(15,269)	(18,659)	(33,928)
Reclassifications	4,223	(4,223)	-
Effect of movements in exchange rates	1,145	1,088	2,233
Derecognition	(6,365)	(3,283)	(9,648)
Closing balance	**105,216**	**66,685**	**171,901**

There are no commitments to buy, no restrictions on ownership and no pledges to back debt servicing.

12.14. Other non-financial assets, net

The following is the detail of other non-financial assets:

	December 31, 2019	**December 31, 2018**
Goods received in lieu of payment	513,089	436,371
Prepaid expenses	219,826	136,821
Deferred payment letter of credit	22,792	94,281
Others	16,310	3,159
Trust Rights	8,372	8,314
Assets Pending activation	6,721	9,338
Project Advance	4,169	9,847
Works of Art	3,142	3,030
Deferred tax	24,587	29,144
Impairment	(270,845)	(224,920)

The following is the detail of impairment:

	December 31, 2019	December 31, 2018
Opening Balance	224,920	140,239
Plus:	-	-
Translation	7,024	4,410
Leasing Integration	-	-
Provision	109,681	127,450
Less:	-	-
Recovery	(60,573)	(37,727)
Adjustment to provision	**(10,207)**	**(9,452)**

(Millions of Colombian pesos (COP))

12.15. Joint operations

The following is the summary of joint operations:

		December 31, 2019		December 31, 2018	
	% interest	Assets	Liabilities	Assets	Liabilities
Retail business	50.00%	91,156	-	83,471	-
Fidufosyga	9.86%	58	1,494	77	1,439
FPB 2013	50.00%				
Pensac 2012	50.00%	-	-	2	-
Pensac 2015	50.00%				
Pensac 2017	50.00%	-	-	28	1
Pensac 2018	50.00%	-	-	99	33
Fonpet	20.00%				
CCP Fonpet 2012	39.10%	625	119	1,341	104
Cali Mio	44.00%	6	2	6	2
Consorcio Pem	30.00%	-	-	-	-
		91,845	1,615	85,024	1,579

Assets in joint operations include:

	December 31, 2019	December 31, 2018
In Colombian Pesos		
Cash and cash equivalents	389	287
Deposits and investments in debt securities	3	43
Loan portfolio and accounts receivable	91,453	84,692
Other activities in joint operations	-	2
Total Assets	91,845	85,024

Liabilities in joint operations include:

	December 31, 2019	December 31, 2018
Accounts payable	62	82
Other liabilities	61	59
Other provisions	1,492	1,438
Total Liabilities	1,615	1,579

The following is the movement of joint operations:

	December 31, 2019	December 31, 2018
Opening balance of the period	83,444	74,977
Fair value of assets and liabilities acquired	6,786	8,467
Closing balance	90,230	83,444

(Millions of Colombian pesos (COP))

12.16. Deposits and demand accounts

The following is the detail of deposits and demand accounts:

	December 31, 2019		December 31, 2018	
	Balance	Interest paid	Balance	Interest paid
Interest-bearing liabilities				
Checking account	5,084,034	96,430	4,549,181	74,493
Savings accounts	29,563,968	646,201	26,418,741	520,080
Term deposits	34,804,550	1,174,565	31,118,034	1,190,658
Total interest-bearing liabilities	69,452,552	1,917,196	62,085,956	1,785,231
Non-interest bearing liabilities				
Checking account	5,307,279	-	4,909,982	-
Savings accounts	679,869	-	91,561	-
Demand accounts for services	822,885	-	693,943	-
Electronic deposits	151,109	-	116,638	-
Others (*)	318,390	-	501,084	-
Total interest-bearing liabilities	7,279,532	-	6,313,208	-
	76,732,084	1,917,196	68,399,164	1,785,231

(*) Other: banks and correspondents – special deposits – collection services – affiliate establishments – canceled accounts

Below are the deposits by currency and rate:

	December 31, 2019		December 31, 2018	
Legal Currency	Balance		Balance	
Deposits and demand accounts	Capital	% Implicit Rate	Capital	% Implicit Rate
Checking Accounts	5,386,746	0.63%	5,144,058	0.67%
Savings Accounts	25,908,525	2.30%	22,374,336	2.15%
Term deposits (TDs)	23,572,047	5.48%	21,555,279	5.80%
Demand Accounts for services	634,643		539,205	
Electronic Deposits	151,109		116,638	
Others (*)	257,715		454,382	
	55,910,785		50,183,898	
Foreign currency				
Deposits and demand accounts				
Checking accounts	5,004,567	1.35%	4,315,105	0.68%
Savings accounts	4,335,312	1.46%	4,135,966	0.51%
Term deposits (TDs)	11,232,503	1.00%	9,562,755	2.60%
Demand Accounts for services	188,242		154,738	
Others (*)	60,675		46,702	
	20,821,299		18,215,266	
	76,732,084		68,399,164	

(*) Others: banks and correspondents - special deposits - collection services - affiliated establishments - cancelled accounts

(Millions of Colombian pesos (COP))

The following is the maturity of deposits:

December 31, 2019

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Checking accounts	10,391,313	-	-	-	10,391,313
Savings accounts	30,228,730	15,107	-	-	30,243,837
Term deposits	25,186,512	9,603,296	12,477	2,265	34,804,550
Demand accounts for services	822,885	-	-	-	822,885
Electronic deposits	151,109	-	-	-	151,109
Others	318,390	-	-	-	318,390
	67,098,939	9,618,403	12,477	2,265	76,732,084

December 31, 2018

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Checking accounts	9,459,163	-	-	-	9,459,163
Savings accounts	26,497,223	13,079	-	-	26,510,302
Term deposits	23,587,849	7,471,830	55,060	3,295	31,118,034
Demand accounts for services	693,943	-	-	-	693,943
Electronic deposits	116,638	-	-	-	116,638
Others	501,084	-	-	-	501,084
	60,855,900	7,484,909	5,506	3,295	68,399,164

12.17. Interbank and overnight funds

Below is the detail interbank and overnight liability operations:

December 31, 2019

		Date (*)		
	Rate	Initial	Final	Amount
Foreign currency				
Interbank liabilities	1.98% - 3.75%	17/12/2019	7/1/2020	207,038
Liability repos	0.24% - 0.24%	23/12/2019	8/1/2020	7,196
Simultaneous	3%	27/12/2019	3/1/2020	3,277
Domestic currency				
Interbank				
Banks	4.11% - 4.11%	30/12/2019	2/1/2020	80,018
Commitments arising from short positions	3.75% - 10.00%	20/11/2019	15/1/2020	256,609
Repos	4.30% - 4.30%	30/12/2019	2/1/2020	998,792
Simultaneous				
Banks	4.00% - 5.00%	27/12/2019	3/1/2020	11,578
Others	0.00% - 6.00%	30/12/1899	13/2/2020	194,900
Vouchers to be paid - active simultaneous operations (*)				313
				1,759,721

(Millions of Colombian pesos (COP))

December 31, 2018

	Rate	Date (*) Initial	Final	Amount
Foreign currency				
Interbank	0,00% - 3,13%	13/12/2018	14/1/2019	60,900
Domestic currency				
Interbank liabilities				
Banks	4,10% - 4,10%	28/12/2018	2/1/2019	180,082
Repos	4,30% - 6,00%	28/12/2018	2/1/2019	954,777
Stock exchange brokerage companies	4,00% - 4,20%	28/12/2018	2/1/2019	2,270
Simultaneous				
Banks	4,00% - 5,00%	21/12/2018	4/1/2019	31,150
Others	4,00% - 8,00%	12/12/2018	3/12/2019	2,521,903
Commitments arising from short positions	3,30% - 4,00%	24/12/2018	4/1/2019	35,459
				3,786,541

12.18. Bank borrowings and other financial liabilities

The movement of loans and credits borrowed is detailed below:

	Currency	Interest rate range Minimum	Maximum	Maturity Year Range Minimum	Maximum	Balance
Balance on January 1, 2019						12,495,235
New loans	Pesos	0,33%	9,96%	2019	2033	1,277,470
	US Dollars	2,18%	6,34%	2011	2034	10,456,991
	Lempiras	0,00%	0,00%	2016	2021	32,974
Payments during the period	Pesos	0,33%	10,01%	2019	2033	(1,085,787)
	Dollars	0,35%	8,00%	2013	2034	(9,701,899)
	Colons	0,00%	7,05%	2016	2021	(11,087)
Other movements						
Interest payable						164,440
Translation						(49,006)
Cost to be amortized						(16,535)
Others						2,092
Balance on December 31, 2019						13,564,888

(Millions of Colombian pesos (COP))

	Currency	Interest rate range Minimum	Interest rate range Maximum	Maturity Year Range Minimum	Maturity Year Range Maximum	Balance
Balance on January 1, 2018						9,686,332
New loans	Pesos	0,30%	13,04%	2018	2030	959,510
	Dollars	1,65%	7,00%	2018	2032	11,362,602
	Colons	5,00%	6,00%	2018	2019	29,248
	Lempiras	6,64%	12,50%	2018	2048	33,801
Payments during the period	Pesos	0,30%	12,50%	2018	2030	(872,288)
	Dollars	1,65%	8,00%	2011	2034	(9,639,853)
	Colons	0,00%	7,20%	2016	2021	(29,905)
Other movements						
Interest payable						144,986
Translation						830,824
Cost to be amortized						(12,953)
Others						2,931
Balance on December 31, 2018						12,495,235

The Bank's loans and credits are detailed below:

	December 31, 2019	December 31, 2018
Entities in the country:		
Domestic currency:		
Financial Obligations	2,471,419	2,162,609
Foreign currency:		
Foreign banks	7,524,655	5,063,520
Other obligations	273,156	621,814
Foreign entities	3,295,658	4,647,292
	13,564,888	12,495,235

The maturity of the financial obligations is indicated below:

December 31, 2019	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Domestic Currency					
Bancoldex	57,679	384,493	175,002	-	617,174
Finagro	24,677	128,689	79,976	334	233,676
Findeter	21,314	262,192	805,334	531,729	1,620,569
Foreign Currency					
Bancoldex	72,864	-	22,888	69,816	165,568
Findeter	794	-	48,265	103,875	152,934
Entidades del exterior	6,271,716	1,133,953	898,124	2,313,041	10,616,834
Other liabilities	2,614	155,519	-	-	158,133
	6,451,658	2,064,846	2,029,589	3,018,795	13,564,888

December 31, 2018	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Domestic Currency					
Bancoldex	7,459	411,507	43,409	-	529,506
Finagro	11,037	108,851	56,958	3,854	1,807
Findeter	7,162	12,872	1,031,283	285,238	1,452,403

(Millions of Colombian pesos (COP))

Foreign Currency					
Bancoldex	94,037	29,811	75,036	22	198,906
Findeter	288	-	63,708	77,089	141,085
Entidades del exterior	6,419,808	1,249,124	991,751	1,183,938	9,844,621
Other liabilities	2,449	145,565	-	-	148,014
	6,609,371	2,073,578	2,262,145	1,550,141	12,495,235

12.19. Debt instruments issued

Then following is the detail of debt or equity issues:

	Date	Amount issued	Term (Months)	Yield	Maturity	Balance
Balance as of January 1, 2018						12,008,969
Bonds issued in Colombia						
New issues						
CPI	15/11/2018	365.845	96 - 120	CPI + 1,00% - 3, 67%	15/11/2026 - 27/07/2023	365,845
IBR	15/11/2018	87.025	36	IBR + 1,09%	15/11/2021	87,025
Redemptions						(2,015,423)
Other Movements						
TRM variation						44,238
UVR variation						4,949
Interests						(13,581)
Amortized cost						12,956
Bonds issued in international subsidiaries						
New issues						
Dollars	24/07/2018 - 24/10/2018	50	12 - 18	8,42% - 9,13%	22/10/2020 - 23/04/2020	269
Colon	29/06/2018	74.305	24	4,75%	29/06/2020	81,244
Redemptions						(218,835)
Other Movements						
Amortized cost						49,763
Translation						736
Others						2,317
Balance as of December 31, 2018						10,685,827

(Millions of Colombian pesos (COP))

	Date	Amount issued	Term (Months)	Yield	Maturity	Balance
Balance as of January 1, 2018						12.008.969
Bonds issued in Colombia						
New issues						
CPI	15/11/2018	365.845	96 - 120	CPI + 1,00% - 3, 67%	15/11/2026 - 27/07/2023	365.845
IBR	15/11/2018	87.025	36	IBR + 1,09%	15/11/2021	87.025
Redemptions						(2.015.423)
Other Movements						
TRM variation						44.238
UVR variation						4.949
Interests						(13.581)
Amortized cost						12.956
Bonds issued in international subsidiaries						
New issues						
Dollars	24/07/2018 - 24/10/2018	50.000	12 - 18	8,42% - 9,13%	22/10/2020 - 23/04/2020	269.000
Colon	29/06/2018	74.305	24	4,75%	29/06/2020	81.244
Redemptions						(218.835)
Other Movements						
Amortized cost						49.763
Translation						7.360
Others						2.317
Balance as of December 31, 2018						10.685.827

The following is a breakdown of the bonds, by each of the issues in force:

	Date	Amount	Term (Months)	Yield	Maturity	Book value	Book value
Colon							
International bonds	6/11/2017	340	12 - 60	3.53% - 9.13%	24/01/2020 - 3/14/2024	6,371	488,504
Interest						12,895	9,012
Amortized cost						72	202
USD							
International bonds	26/11/2013 - 31/10/2019	200	24 - 180	4.75% - 6.30%	21/04/2019 -23/01/2034	762,964	519,949
Interest						6,727	466
Other						683	(2,177)
Lempiras							
International bonds	1/1/2002	20	180	15.00%	17/11/2017	20	299
				Total Bonds in international subsidiaries		1,420,461	1,020,449
				Total Bonds		12,398,883	10,685,827

(Millions of Colombian pesos (COP))

Below are the Bonds per currency unit:

	December 31, 2019	December 31, 2018
National		
Legal currency	9,134,457	7,842,444
Foreign currency	1,681,474	1,666,485
UVR	162,491	156,449
	10,978,422	9,665,378
International		
Foreign currency		
Colones	650,067	497,718
Lempiras	20	299
Dollars	770,374	522,432
	1,420,461	1,020,449
	12,398,883	10,685,827

The following are the bonds by maturity period:

	December 31, 2019	December 31, 2018
		7
Under 1 year	1,358,100	50,119
1 to 5 years	7,000,052	6,248,649
5 to 10 years	3,873,294	3,687,059
Over 10 years	167,437	-
	12,398,883	10,685,827

The following are the redemptions made:

December 31, 2019

Date	Type of issue	Term	Rate	Date of maturity	Amount
15/05/2014	Ordinary bonds	60	CPI+3.39%	15/05/2019	183,359
27/07/2016	Ordinary bonds	36	TF 8.64%	27/07/2019	222,385
09/10/2014	Ordinary bonds	60	CPI+3.25%	09/10/2019	109,350
					515,094

December 31, 2018

Date	Type of issue	Term	Rate	Date of maturity	Amount
12/02/2015	Ordinary bonds	36	TF 5.94%	12/02/2018	378,756
10/03/2011	Ordinary bonds	84	CPI+3.88%	10/03/2018	76,055
10/03/2011	Ordinary bonds	90	CPI+3.99%	10/09/2018	159,230
29/01/2013	Ordinary bonds	60	TF 2.95%	29/01/2018	1,401,382
					2,015,423

The following are the redemptions made:

Redemptions Banco Costa Rica

December 31, 2019

Date	Type of issue	Term	Rate	Date of maturity	Amount
24/10/2018	Standardized bond	11	8.42%	22/10/2019	519
24/10/2018	Standardized bond	11	8.42%	22/10/2019	16,396
24/10/2018	Standardized bond	11	8.42%	22/10/2019	10,412
24/10/2018	Standardized bond	11	8.42%	22/10/2019	54,656
					81,983

(Millions of Colombian pesos (COP))

December 31, 2018

Date	Type of issue	Term	Rate	Date of maturity	Amount
20/07/2015	Standardized bond	36	4.78%	20/07/2018	30,504
20/07/2017	Standardized bond	12	3.80%	20/07/2018	9,107
23/02/2016	Standardized bond	24	6.63%	23/02/2018	53,935
20/07/2015	Standardized bond	36	8.53%	20/07/2018	27,374
					120,920

Redemptions Banco El Salvador

December 31, 2018

Date	Type of issue	Term	Rate	Date of maturity	Amount
30/05/2013	Standardized bond	1.826	4.00%	30/05/2018	81,244
28/11/2013	Standardized bond	1.826	5.00%	28/11/2018	10,562
25/02/2014	Standardized bond	1.737	5.00%	28/11/2018	5,687
					97,493

Redemptions Banco Honduras

December 31, 2019

Date	Type of issue	Term	Rate	Date of maturity	Amount
25/04/2002	Mortgage bonds	15 years	15.00%	25/04/2017	67
25/04/2002	Mortgage bonds	15 years	15.00%	25/04/2017	206
27/11/2002	Mortgage bonds	15 years	15.00%	24/11/2017	5
					278

December 31, 2018

Date	Type of issue	Term	Rate	Date of maturity	Amount
13/12/1984	Mortgage bonds	15 years	15.00%	14/06/2017	312
06/01/1959	Mortgage bonds	15 years	15.00%	24/07/2017	4
25/12/2011	Mortgage bonds	15 years	15.00%	04/09/2017	27
06/08/2014	Mortgage bonds	15 years	15.00%	26/10/2017	9
28/11/1939	Mortgage bonds	15 years	15.00%	05/11/2017	7
13/09/2013	Mortgage bonds	15 years	15.00%	15/11/2017	27
24/09/1932	Mortgage bonds	15 years	15.00%	23/11/2017	7
06/08/2014	Mortgage bonds	15 years	15.00%	26/10/2017	9
19/10/2001	Mortgage bonds	15 years	15.00%	19/10/2016	7
08/11/2002	Mortgage bonds	15 years	15.00%	08/11/2017	13
					422

Hedging liabilities

The bank opted to manage hedge accounting by designating liabilities for US$ 500 million as coverage instruments of net investments overseas of Central American subsidiaries (hedged item) starting January 1, 2015, considering the intentions expressed by management of covering the type of exchange risk associated with such investment. Up to December 31, 2019, management tests have shown that this cover is effective.

Furthermore, as of April 2016, $146 million in financial obligations were established as a hedge to cover the foreign exchange exposure generated by the net investment in Panama. Given the change in the exchange rate risk policy, the Bank defined discontinuing the hedge based on the maturity of the obligations, with the objective of maintaining a long position in foreign currency that reduces the sensitivity of the basic consolidated solvency indicator to movements in the Colombian peso - US dollar exchange rate. At the end of December 2019, the position of these obligations amounts to $35 million.

(Millions of Colombian pesos (COP))

Evaluation of net investment abroad

As a result of Davivienda's presence abroad through its subsidiaries, the bank book is sensitive to exchange rates. This fact affects two very important variables for the entity; i) the economic value, understood as the aggregation of the Profit and Loss Statement (P&L), and the Other Comprehensive Income (OCI), and ii) the solvency or equity adequacy ratio.

The strategy adopted by Davivienda from 2019 onwards aims to reduce the sensitivity of the solvency ratio to movements in the Colombian peso - US dollar exchange rate. This strategy implies maintaining long positions in foreign currency whose effect by exchange rate translation counteracts the effect of the exchange rate on assets weighted by risk level denominated in foreign currency coming from investments controlled abroad.

For this purpose, Davivienda uses various hedging instruments, such as passive cash positions, financial derivative instruments and any other instrument that fits the purpose of exchange risk management. It also adopts hedge accounting to reduce the accounting asymmetry between P&L and ORI.

Another important point concerns the strategy in the range of currencies that might affect the Bank Book. The Lempira, Colon and American dollar. The markets in Costa Rica and Honduras are not deep, and there is no easy availability of hedging instruments, either due to high cost or simply, there is no offer. Hedge accounting therefore focuses on the protection of the risk of the dollar-peso rate.

The following are the hedged items for equity investments of Davivienda in subsidiaries in Costa Rica,Honduras, El Salvador and Panama and their related hedges.

	Costa Rica	**Honduras**	**El Salvador**	**Panamá**	**Total**
Hedge Ratio	**62%**	**72%**	**78%**	**65%**	**64%**
Position hedged portion					**930**
Value of equity investment in currency of origin	138,475	3,786	311	224	
Value of equity investment in USD	241	154	311	224	930
Position of hedging instruments					**595**
Bonds in USD	148	111	241	0	500
Correspondent loans in USD	0	0	0	35	35

Effectiveness of hedges

The hedges refer to one currency rate where the component hedged in the item hedged relates only to the COP-USD rate and there is a direct and inverse relationship between the primary item and the hedging item, since bother are proportionately sensitive the movements of COP-USD rate.

Backtesting for the effectiveness of hedging, based on the dollar offset method which compares changes in value for the hedge items with changes of value in the hedging item over the period, gives a 100% result for 2019 and 2018.

(Millions of Colombian pesos (COP))

12.20. Accounts payable

The following is the detail of Accounts payable:

	December 31, 2019	December 31, 2018
Vendors and services payable	589,083	723,570
Contribution on transactions	10,900	27,738
External Reinsurers Current Account	17,196	20,334
To parent company, subsidiaries, related parties	24,376	16,749
Balance available VISA prepaid	3,342	4,509
Account payable Nation Law 546	7,080	6,775
Deposit insurance	75,878	68,682
Disbursements pending creditors	89,939	20,242
Creditor Security Bonds	18,017	18,926
Outstanding checks	21,241	21,275
Third-party forward settlement	10,974	24,355
Insurance	20,269	7,588
Fund guarantees financial institutions	28,128	38,405
Franchises	22,251	14,475
Credit Card	7,858	8,213
Sundry	178,792	194,728
	1,125,324	1,216,564

The following is the detail of Other accounts payable:

	December 31, 2019	December 31, 2018
Employment deductions and contributions	172,062	147,142
Promising buyers	8,189	8,051
Commissions and fees	5,734	5,808
Dividends and surpluses	4,800	4,818
	190,785	165,819
Total accounts payable and Other accounts payable	1,316,109	1,382,383

12.21. Employee benefits

The following is the detail of employee benefits:

	December 31, 2019	December 31, 2018
Short-term benefits	171,812	143,897
Long-term benefits	41,321	3,882
Post-Employment Benefits	39,985	32,361
Pension funds	21,708	18,514
Pensioner health plan	18,277	13,847
	253,118	215,078

The Bank offers the following long-term benefits:

a. Home loans are given to staff members with a minimum 2 years of seniority, with a preferential variable interest rate which is only available during the labor relationship period, meaning that, in case of severance the benefit is immediately lost. For the aforementioned 2 funds have constituted with a maximum cap established by the administration and updated periodically. The estimate amount of benefits are interest rate vs. current market rate by the date of loan origination, this difference in rates is the sum of present values and is recognized as the statement of financial position.

(Millions of Colombian pesos (COP))

b. With the signing of the collective agreement 2018-2021, a special bonus was granted to employees for seniority, equivalent to 15 days of salary upon completing five years of employment and 30 days of salary upon completing 10 years and for every following subsequent five-year term.

Post-employment benefits are as follows:

Defined contribution plan

Contribution made by the bank equivalent to the same value defined by the staff member with a limit of up to 5% of salary, applicable to staff members that are 10 years or less away from retirement pension, with no compromise to make any payments on said date. These are accounted for with the contributed values with charges on results and do not require actuarial assumptions due to these being in a fund where the bank does not assume any actuarial or investment risk.

Defined benefits plan

Healthcare policy for pensioners and their spouse are recognized through actuarial calculations with changes in OCI.

Below in detail employee benefits:

	December 31, 2019	December 31, 2018
Present value of employee benefit obligations	18,277	13,847

Movement of defined obligations for employee benefits

	December 31, 2019	December 31, 2018
Defined benefit obligation at the beginning of the period	13,847	12,946
Current Service Costs	757	782
Interest cost	1,135	928
Remedies	2,979	(403)
Experience-related adjustments	336	1,996
Actuarial (gains) losses from changes in financial assumptions (OCI)	2,643	(2,399)
Benefits paid by the plan	(441)	(405)
Defined benefit obligation as of December 31	18,277	13,847

Actuarial assumptions

The following are the principal actuarial assumptions up to the closing date (weighted average):

	December 31, 2019	December 31, 2018
Discount rate as of December 31, 2019	7.25%	7.88%
Future salary increments	3.50%	1.75%
Rate of inflation	3.50%	3.50%

(Millions of Colombian pesos (COP))

After the pension age has been reached, it is supposed that those who access this benefit will pass away in accordance to the mortality chart for renters (2008) in SFC Resolution 1555/ 2010.

Sensitivity analysis

Obligations for defined benefits and the cost of services in the current period were calculated using the projected credit unit method. The following is a sensitivity analysis of defined-benefit liabilities for the various financial and actuarial variables.

Discount rate

	Current value of defined benefits	Weighted average duration of defined benefit obligations (in years	Assumptions
Discount rate -50 bp	19,894	15,28	6.75%
Discount rate +50 bp	17,044	14,68	7.75%

Medical trend

	Medical service rate	Assumptions
Medical service rate -50 bp	16,621	3.00%
Medical service rate -50 bp	19,624	4.00%

Payments of expected future benefits

It is estimated that the payment of expected future benefits. reflecting future service. will be:

Year	Defined benefits
2020	471
2021	530
2022	647
2023	549
2024	729
2025 a 2029	5.301

12.22. Technical reserves

The following is the detail of technical reserves

	December 31, 2019	December 31, 2018
Reserve for outstanding claims	73,057	21,489
Reserve for claims incurred and not reported	7,807	6,247
Technical and mathematical reserve:	136,731	177,846
To defer premium income	20,511	63,839
Of provision	38,543	46,775
Others	77,677	67,232
	217,595	205,582

(Millions of Colombian pesos (COP))

Movement of reserves:

December 31, 2019

	Mathematical reserve	Current risk reserve	Reported risk reserve	Unreported risk reserve	Special reserves	Total
Opening balance	84,064	93,782	21,489	6,247	-	205,583
Translation	(198)	(3,653)	64	1,974	-	(1,813)
Claims, profits and settlement costs	171	749	-	-	-	2,459
Release of reserves to pay claims	66	4,233	(640)	(62)	-	3,597
Establishment of reserve	132	39,389	18,473	1,675	-	59,669
Release of reserve	(66)	(35,156)	(19,113)	(1,737)	-	(56,072)
Closing balance	85,642	95,112	27,863	8,978	-	217,595

December 31, 2018

	Mathematical reserve	Current risk reserve	Reported risk reserve	Unreported risk reserve	Special reserves	Total
Opening balance	77,798	76,894	20,441	5,318	-	180,451
Effect of movements in exchange rates	4,629	3,440	2,358	533	-	10,960
Obligations to insured	-	-	(2,732)	344	-	(2,388)
Claims, profits and settlement costs	1,651	4,422	-	-	-	6,073
Release of reserves to pay claims	(14)	9,026	1,422	52	-	10,486
Establishment of reserve	101	38,361	20,244	1,313	-	60,019
Release of reserve	(115)	(29,335)	(18,822)	(1,261)	-	(49,533)
Closing balance	84,064	93,782	21,489	6,247	-	205,582

The following is the reserve movement:

	December 31, 2019	December 31, 2018
Opening balance	205,582	180,451
Plus:		
Acquisitions	506	-
Reserve – Established	74,652	73,926
Effect of movements in exchange rates	(1,876)	7,299
Less:		
Recoveries – released	(63,327)	(56,094)
Closing balance	217,594	205,582

(Millions of Colombian pesos (COP))

12.23. Other non-financial liabilities and estimated liabilities

The following is the detail of provisions and other liabilities and estimated liabilities

	December 31, 2019	December 31, 2018
Other provisions (1)	165,493	167,401
Litigation, indemnities, and claims	23,440	19,801
In joint operations	1,492	1,438
Subtotal	190,425	188,640
Other accruals and liabilities		
Leases	993,408	-
Advance income	226,782	149,714
Letters of credit for deferred payment	22,529	94,281
Credits to be applied to debt securities	150,418	177,783
Deferred credits	5,642	4,370
Maintenance and repairs	7,070	2,448
Sundry	52,397	46,343
Total other non-financial liabilities and estimated liabilities	1,458,246	474,939

The following is the movement of Other provisions:.

	December 31, 2019	December 31, 2018
Opening balance	167,402	15,332
Effect of movements in exchange rates	3,704	3,771
Plus:		
Provision	768,691	528,845
Less:		
Derecognitions	(382,858)	(206,909)
Recoveries	(391,445)	(311,626)
	165,493	167,401

The following is the detail of other provisions:

	1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
Provision for FRECH premium	5,113	9,321	10,645	9,231	-	3,431
Taxes	67,338	-	-	-	-	67,338
Accruals	961	-	3,472	-	-	13,082
Overhead	1,285	-	-	-	-	1,285
Loan provisions	5,358	-	-	-	-	5,358
Accounts payable to vendors	6,077	1,231	-	-	-	7,308
Human resources	27,742	-	-	-	-	27,742
Cards	5,508	13	-	-	-	5,521
Creditors and services	1,907	-	-	-	-	1,907
Points program	3,462	88	-	-	-	355
	1,334	10,653	14,117	9,231	-	167,401

(Millions of Colombian pesos (COP))

2) Litigation, indemnities, and claims

The following is the movement of the provision for litigation, compensation and claims:

	December 31, 2019	December 31, 2018
Opening balance	19,801	25,329
Effect of movements in exchange rates	(19)	3,485
Plus:		
Provision	856	6,145
Less:		
Derecognition	(4,902)	(4,146)
Recoveries	-	(11,012)
Closing balance	2,344	19,801

The following is a summary of litigation:

	December 31, 2019			December 31, 2018		
	No. of cases	Amount of provision	Amount of Claim	No. of cases	Amount of provision	Amount of Claim
Covered by FOGAFIN banking deposit insurance (2)	11	10,251	1,193	22	10,262	6,252
Labor cases	19	3,897	3,731	22	3,797	3,556
Civil cases	251	9,292	5,335	163	5,742	5,483
	281	2,344	10,259	207	19,801	15,291

Estimated outflows due to conclusion of cases are as follows:

December 31, 2019

	1 year	1 -3 years	3 – 5 years	5 - 10 years	Over 10 years	Total
Covered by FOGAFIN (Banking deposit insurance) guarantee (2)	-	10,251	-	-	-	10,251
Tax cases	-	-	-	-	-	-
Labor cases	2,323	1,574	-	-	-	3,897
Civil cases	3,849	5,271	-	-	172	9,292
Fidufosyga 2005 consortium	-	-	-	-	-	-
	6,172	17,096	-	-	172	2,344

December 31, 2018

	1 year	1 -3 years	3 – 5 years	5 - 10 years	Over 10 years	Total
Covered by FOGAFIN (Banking deposit insurance) guarantee (2)	-	10,262	-	-	-	10,262
Labor cases	1,954	1,827	17	-	-	3,798
Civil cases	1,809	3,399	288	-	245	5,741
	3,763	15,488	305	-	245	19,801

(2) Granbanco, Fiduciaria Cafetera and Bancafé Panama cases and Bancafe International Corporation (now Davivienda Internacional) current at January 31, 2007 but served after February 16, 2007 and up to February 16, 2010. still current and expressly guaranteed by FOGAFIN.

Civil, administrative and special cases covered by the FOGAFIN contract carry provisions for 15% since the guarantee covers contingencies as rated and only for civil, special and employment cases.

Criminal

The bank has been cited as a third party with civil liability party. in terms of Colombian law, and therefore possibly liable for damages caused by the conduct of the person convicted. According to the legal analysis, the allocation the assignation of responsibility may or may not be made.

Ordinary civil cases, special cases, contentious administrative cases and labor cases

These types of case generate a liabilities contingent liability for the Bank regardless of the proceedings in question, in general terms due to its possible civil liability in contract or in civil liability, and likewise on the occasion of fines or sanctions imposed by the competent authorities. Each of these cases has classification and a provision, if necessary.

The following are cases which generate the greatest economic impact:

Bank

Popular actions and group actions are judicial proceedings created for the protection of rights belonging to a plural number of people. While popular actions are designed for prevention, cessation and restoration of collective rights, group actions seek reparation for damages generated due to offences against homogeneous individual rights. The risk in these cases has been considered the remote, however, the nature of the rights in dispute and the plurality of the plaintiffs make these cases important for the Bank.

Cases for the extinct UPAC system

Mr. HERNANDO ORDOÑES VILLALOBOS, in representation of the inhabitants of the Pueblo Nuevo development project, seeks the cancellation of the mortgages that the Bank possess regarding real estate property located in the mentioned development project, and as a subsidiary claim, to cease any action seeking the judicial or extra judicial recovery of these obligations by the National Savings Fund and Banco Davivienda S.A. The Administrative Court No. 1 of Bogotá has issued a favorable Ruling to the claims of the public interest action plaintiffs, which was the object of an appeal that is currently being studied by the Contentious-Administrative Tribunal of Cundinamarca. The procedure has been graded as probable.

The National Committee of UPAC-UVR Users, alongside with different individual persons have formulated a public interest action suit against Banco Davivienda S.A., and other financial institutions with the purpose of declaring that the defendants irregularly reassessed the liquidation of the reliefs that were granted to the mortgage debtors in accordance to Law Number 546 of 1999. Additionally, they claim that the defendants refund the TES (Public Debt Securities) to the public treasury, which they still have not returned despite grounds for doing it having been fulfilled. The procedure is being followed up by the Administrative Tribunal of Cundinamarca pending the definitive resolution of preliminary procedural exceptions formulated by the Bank. The quantum of the affair has not been determined in the lawsuit; therefore, the contingency is classified as remote.

Davivienda has been disassociated from this legal action by ruling of December 4th of 2018, which has been appealed and is pending of resolution.

Mrs. Clara Cecilia Murcia and others brought a group action in Administrative Court 5, Bogota, against courts that did not follow terms of Law 546/1999 on the termination of mortgage enforcement cases. Among the petitions, there was one for an order for these courts to terminate these matters. The Bank was involved because at one time it had presented enforcement claims. The case is in the evidential stage, the contingency is classed as remote.

Construction companies GILPA LTDA and HERPA LTDA, through financing by Colpatria and Bancafé, have constructed the development project Colinas de Vista Hermosa in the Township of Villa del Rosario (North of Santander). The development project presents slides, public services problems and, in general, lack of security for the sanitation and life of the residents. The Township´s Office of the Public Defender pretends that the residents be relocated, that the construction companies adapt new residences and that the financial institutions suspend collecting debentures and liabilities. The Tribunal of North of Santander has ordered that Colpatria and Bancafé (today Davivienda) be binded to the process. The contingency is being graded as probable, considering the legal proceedings that have been verified up to the date, which indicate a possible ruling adverse to the bank´s interests, with a provision of $953 million pesos, 85% of which is covered by FOGAFIN..

Cases related to other Bank activities

In the Superintendency of Corporations, Mr. Carlos Consuegra claims against the company Vandux de Colombia S. A., and a number of financial entities including Davivienda, for the revocation of payment of a Bancoldex loan owed by Vandux, and made during a time of suspicion of fraudulent proceedings in the reorganization of that company. The case is pending the instruction hearing, and judgement. The contingency is calculated as $ 3,500, and the risk is classed as possible.

CORPORACION ALIANZA CARIBE, member of the Provisional Joint Venture Agreement Unión Temporal Alimentando Nariño, sues the Bank, for considering a breach in the checking account deposit contract, given that the other member of the Provisional Joint Venture Agreement, who exercised the administration and representation of the Provisional Joint Venture had disposed of the monies that had been deposited in the account and transferred them to an account in a different Bank other than Davivienda. The lawsuit is being followed upon by the delegate for legal proceedings of the Financial Superintendent's Office, and its pending of an instruction and ruling hearing. The risk has been provisionally graded as possible.

Mister Alvaro de Jesus Restrepo Cantillo, has sued the Bank and pretends to declare a contract simulation or quasi-contract in the constitution of the company Restrepo Hoyos & Cia S en C[1] (Today Restrepo Hoyos S.A.S.) [2] The lawsuit also pretends to declare the simulation of real estate acquisitions, which are comprised in the following public deeds: No. 2860 of 3/10/2003 Notary No.1 of Barranquilla (6 immovable properties) No. 2914 of 9/10/2003 Notary No.1 of Barranquilla (1 immovable property) (mortgage by Davivienda) No. 2154 of 9/11/2001 Notary No. 9 of Barranquilla (4 immovable properties). To void the legal effects of any business purchases made by the company Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) with any third parties. To order

[1] Translator's Note: From now on Limited Partnership Company
[2] Translator´s Note: From now on Simplified Shares Company

the company Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) and its partners, the recognition and payment of any harm and prejudice of the estimated appraisal under oath section. To order the cancellation of the aforementioned deeds and the registration conducted at the Public Records Registry Office. To condemn the defendant to pay all legal representation and additional costs. 2. As a second main claim: That the properties that are object of purchase and that have been identified in the three aforementioned public deeds be the decreed the object of Laesio Enormis or abnormal serious injury or loss, and as a consequence of it, decree the nullity of all contracts entered upon with them. As a consequence of the aforesaid, to order the y termination of the mentioned contracts entered upon by the defendant Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.). As a consequence of the previous claims, the assets must return to the bequeather mister Restrepo Urbina, and therefore be part of his hereditary estate. That the properties sold to third parties by the defendant be decreed the object of Laesio Enormis or abnormal serious injury or loss. That, as a result of this, the properties be purged of any mortgage or real or “in rem” rights that have constituted over them. That the defendant Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) must provide restitution of the immovable properties described in the mentioned deeds with all their natural and civil fruits and accessories from the date of the negotiation up to the day of the effective delivery. That the Public Records Registry Office of Valledupar be notified so that it can take note of the decisions taken via ruling regarding the present case. To condemn the defendant to pay all legal representation and additional costs. SUBSIDIARY CLAIMS: To order the absolute nullity of the contract of constitution of the company Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) and of any business affairs entered into by it. To declare void all legal effects of any business affairs regarding purchases and sales conducted by Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) with third parties. To order the company Restrepo Hoyos & Cia S en C (Today Restrepo Hoyos S.A.S.) and its partners, the recognition and payment of all damages of the estimated appraisal under oath section. To order the cancellation of public deeds No. 2860 of 3/10/2003 Notary No.1 of Barranquilla (6 immovable properties) No. 2914 of 9/10/2003 Notary No.1 of Barranquilla (1 immovable property) (mortgage by Davivienda) No. 2154 of 9/11/2001 Notary No. 9 of Barranquilla (4 immovable properties). To condemn the defendant to pay all legal representation and additional costs. The consequence of this declarations is that the bank would be left without a series of guarantees constituted by leaseback and mortgage credit loans. The process' status is pending of an instruction and ruling hearing. The risk has been provisionally graded as possible.

Mister GUSTAVO LAGAURE RODRÍGUEZ sues the bank in a labor-related legal action and demands job reinsertion and the payment of wages and other benefits left not earned. The plaintiff was terminated with just cause, because of event that occurred in occasion of the procedure of international transfers that were received by companies LAYSHA INTERNACIONAL LTD, IAS EXPORTACION LTDA and YAMILE ELVIRA LLANOS MENDEZ, incurring in the breach of procedures and manuals. The contingency is graded as probable, considering the legal procedures that have been verified up to the date, which indicate that it is possible for a ruling adverse to the interests of the bank to be proffered. The amount of the provision is of $309 million.

Fiduciaria Davivienda S.A.

Plaintiff: Carlos A. Gómez
Defendant: Fiduciaria Davivienda, Banco Davivienda.
Amount of the claim: The plaintiff argues "Unity of enterprise" and recalculation of his dismissal without cause, for $165.

Current status: Pending cassation decision.

Opinion of counsel: there is a decision against the defendants, but the amount was less than that initially requested by the plaintiff, at $50 indexed by the results of the first-instance proceedings

Amount provided: $224.
Approximate date of decision: December 30, 2019

Cases of subsidiaries in Central America

As a result of negotiations by the Bank with HSBC Holdings plc to acquire HSBC Costa Rica, Grupo del Istmo (Costa Rica) S. A., HSBC El Salvador, Inversiones Financieras HSBC S.A., HSBC Honduras, Banco HSBC Honduras S.A., and Honduras Seguros Holdco., purchases made between November 23 and December 7, 2012, this report needs to record cases which may generate a contingent liability for the Bank, as follows:

According to the contract signed with HSBC, it was decided that certain cases were classed as "excluded litigation", which, if lost, would be paid for by HSBC, as follows:

Honduras

Type of case: indemnity of the damages, classed as: remote.
Plaintiff: Green Development Corporation S.A. (GDC)
Defendant: Banco HSBC Honduras S. A., and Banco Lafise. S. A. Amount of claim: US$ 159,810,071.39.

Current Status: the decision in the first and second instances was unfavorable to Davivienda Bank and another local bank. On August 4, 2014 each bank presented a plea for cassation before the Supreme Court of Justice, and that was admitted on August 25, 2015. In January 2016, the Supreme Court of Justice was changed, and entirely replaced, and the Civil Hall took responsibility for the study of the case, pending decision. According to Davivienda´s Counsel, there are serious reasons to believe that the decisions of the first and second instance have vices which should lead the Supreme Court to declare nullity and issue a new decision. In the event that the Banco HSBC Honduras S. A., and Banco Lafise. S. A. loss the legal case, their financial statements will not have an impact because a third party guarantees the amount of claim.

Legal Procedure initiated by Wilfredo Quiñónez Gaylor Zelaya, against the bank by an amount that surpasses 810 thousand dollars. Ruling in first instance, issued on February 25th of 2016, with an “Unfavorable” ruling to the Bank. On July 22th of 2016 an appeal for reversal was filed. On February 13th of 2019, the Supreme Court of Justice issued an unfavorable ruling for the Bank for the reversal appeal and confirmed the second instance ruling. On may 30th of 2019, a Remedy of Review was presented against the ruling for the reversal appeal, based on the causality of criminal prejudice, which implies that the execution of the ruling claimed by the plaintiff is left suspended. Grade: Possible

Case against management, Criminal complaint for "continued fraud" by Avanti Inversiones Hoteles S.A. de C.V. (Jesus Faud Hasbun Touche), against Alvaro Morales-Patino (legal representative of Banco Davivienda Honduras. S.A.). For an amount in excess of US$ 137 million. The complaint was extended to include Jorge Alvarado (former CEO of Banco BGA. now Banco Davivienda). On April 25, 2017 a hearing was held to examine the proceedings. On July on June 9, 3017 there was a continuation hearing, and proposal of exceptions. On June 14, 2017 in a decision was issued ordering that Alvaro Morales and Jorge Alvarado to be superseded. Current situation: cases in the second instance, with both parties appealing. The decision is awaited. Classification: remote.

El Salvador

Type of the Legal Procedure: Commercial Summary Judgment of Claim and Liquidation of Damages
Plaintiff: Company Name: Ingeniero José Antonio Salaverría y Compañia de C.V. (hereafter IJASAL). Reference: 34-SM-09.
Defendant: Bank HSBC Salvadoreño S.A. (today Davivienda Salvadoreño S.A.)
Amount of the Claim: US $22.727,8.
Causes of the Lawsuit: Presumptive breaches of contract entered into between the parties, regarding the claims of consequential damage and loss of profits, as a direct and immediate effect of the presumptive actions carried out by the Bank.
Current Status: Legal procedure with rulings favorable to the Bank in first and second instances. On June 13th of 2019 of the Civil Chamber of the Supreme Court of Justice notifies ruling for reversal appeal unfavorable to Banco Davivienda Salvadoreño S.A., convicted to payment of compensation for damages for the sum of $ 49,314.3. Pending resolution for the demand of explanation presented by the Bank regarding ruling for appeal of reversal.

Up to the date of the financial statements, this procedure continues its course and every legal recourse and instance allowed by the law in defense of the Bank's interests. According to the legal concept of the Bank´s legal counsels, there are serious motives to consider that the ruling of the appeal for ruling reversal presents vices that may allow to declare, via legal action for protection of constitutional rights or guarantees, and in consequence, obtain a new favorable ruling. In the event in which Davivienda is convicted, it is considered that, given the guarantees with which the bank relies upon, the impact is not expected to be of a material nature. It is also indicated that it is not probable that any adverse consequences for the bank exist.

Grade of the contingency: Possible

Consumers defender. A claim for protection by the President of the Office of the Consumers Defender, against a decision which left a resolution fining the Bank without effect, the fine being for a surcharge for a loan prepayment. The bank is not the defendant, as at a third party beneficiary. On January 6, 2017 the Constitutional Court issued a decision in the action for protection declaring that there is room for protection of due to impairment of the right of ownership attached to consumers. The Disciplinary Tribunal of the Office of the Consumers Defender ordered repayment of the amounts charged for prepayment, and fined the Bank US$453,099.60. On July 25, 2017 the fine was paid. Current status. Within the period for compliance given by the Disciplinary Tribunal for the Consumers Defender by June 20, 2018 the Bank had returned funds for 76.41% of beneficiaries for amounts representing 95.31% of the total.

Enforcement proceedings initiated by Creaciones Popeye against the Bank, for an amount in excess of US$ 41 million. On February 24, 2017 there was evidence hearing in which the court acquitted the Bank, dismissing all claims of the plaintiff. On July 10, 2017, an appeal hearing was held in which the plaintiff was told that there was no room for the appeal presented, and he was ordered to pay the costs of process. The Civil Division admitted a cassation application. The application argued that the decision had impaired fundamental rights. The Bank contested, discrediting the alleged impairment, and defending the legality of yet its actions in the first instance and on appeal. Current situation: no change

Case brought by Ijasal y Cia SA de CV against the bank for damages (breach of contract), for an amount exceeding US$ 22 million. On November 1, 2017 it judgement was issued in which (a) the demand was declared to be inept; (b) it was declared that there was "no room" for the exception of ineptitude of the claim due to an erroneous configuration of the necessary litis consortium, and (c) there was no order play costs of process against the plaintiff. On November 16, 2017, the Bank presented an "Explanation", and the plaintiff presented an appeal. We await a decision. On February 7, 2018 the Bank presented a document to state that it was a party to the appeal made by the plaintiff. Current situation: both parties have presented claims. the appeals decision is taken is pending.

Case for the declaration and recognition of damages brought by José Emilio Marcos Kalil Ghattas Dahbura against the Bank, for US$ 2.7 million. The Bank contested the claim once November 17, 2017 and the case awaits the preliminary hearing. The argument was that no damage has been caused, and there is a clear lack of legitimation foreign action. On March 13, 2018 a decision was served in which the judge referred the files to the claimant for the latter to make a pronouncement on the lack of substance claimed the Bank. On July 11, 2018, the court called for a hearing to show there was lack of substance. As of the December 31, 2019 the court has not release a resolution. Based on legal advice, management believes that its defense of the action will be successful. This claim didn't have an impact in the financial statements of the Bank because a third party guarantees the total amount of claim.

<u>Costa Rica</u>

Claim for income tax expenses rejected in relation to non-taxable income from 2011. This claim didn't have an impact in the financial statements of the Bank because a third party guarantees the total amount of claim.

A case for some US$3,582,833.72 pending decision. The administrative claim and incident for monitoring presented on December 8, 2016 are pending. Current situation. A request for revocation was lodged, with appeal in subsidiary, against the decision so far issued.

Case for proportionality of taxes corresponding to 1999-2005. On July 9, 2014 a payment was made under protest of approximately US$9,529,823. The case is still pending decision in the administrative and judicial courts. 1) Administrative: pending solution of an appeal against the rejection of an incident formality presented against the liquidation for tax debts. 2) Judicial: on June 19, 2017 hearing was for new facts, presented by the Bank, in particular informing a payment made under protest in 2014. The summons to a to oral debate is awaited, which point the substance of the matter will be discussed. The sentence has been suspended until the Constitution Division of the Supreme Court of Justice has resolved points relating to a process for harmful action. Current status: no change.

Request for annulment of the deeds establishing an escrow for property given guarantee, awarded by the Bank (under a loan made to SilvercatIinvestments Inc). The amount of the claim is in excess of US$ 21 million. Preliminary exceptions were presented and claims were contested. A decision on the preliminary exceptions was decided for the arbitration in favor of the bank. The claim was declared to be without foundation. Current status: the plaintiff appealed.

Two employment cases, from former employees of a company contracted by outsourcing. Claims are for an amount that cannot be estimated. The claims were contested. Pending a summons to hearing for evidence. Current situation: no change.

12.24. Equity

Comprises all the items and amounts that represent the contributions or rights of shareholders for the subscribed capital, appropriate reserves of earnings of previous exercises by mandate of the assembly with the objective of complying legal, statutory dispositions or specific goals the surplus and dividends that have decreed in shares as their placement premiums.

(Millions of Colombian pesos (COP))

12.24.1. Share capital

Up to December 31, 2019, and December 31, 2018, the Bank's authorized capital raises to $77.350 represented by 455.000.000 shares, with a nominal value of $170 (pesos per share).

Subscribed and paid-in capital as of December 31, 2019 and December 31, 2018 amounts to $76,784.

The authorized, subscribed and paid-in capital is represented by the following shares and the other data of the Equity as of December 31, 2019 are:

	December 31, 2019	December 31, 2018
Ordinary shares subscribed and paid	343,676,929	343,676,929
Preferential shares subscribed and paid	107,993,484	107,993,484
Total shares outstanding	451,670,413	451,670,413
Par value as of the date	170	170
Separate equity value	11,465,659	10,344,116
Intrinsic value (in pesos)	25,385.01	22,901.91

There were no changes in the total shares outstanding for December 31, 2019 and 2018.

The banks shares are nominative, and can be: a) ordinary b) preference c) non-voting with preferential dividend; the latter may not represent more than (50%) of the shared capital.

The shares with preferential dividends will give their owners the right to receive a minimum preferential dividend corresponding to zero point five percent (0.5%) six-monthly over the price of subscription for the first emission of the program. this amounts to (COP 80.65) that will be paid by decision of the assembly in a preferential manner corresponding to ordinary shares. Minimum preferential dividends are non-cumulative and not guaranteed.

The payment of minimum preferential dividends will be done within the time and way determined by the general assembly of shareholders, in Colombian pesos, to date Davivienda´s accounting period is annual.

If distributable earnings are enough to pay both ordinary and preferential shareholders a dividend equal or superior to the minimum preferential dividend, earnings shall be distributed, in proportion, between ordinary and preferential shareholders in accordance to decisions made by the Annual General Meeting (AGM)

12.25.2. Share placement premium

Values for share placing have been accounted by the largest amounts obtained over share nominal values and by capitalization of occasional reserves obtained in the distribution of previous earnings with increment of nominal value. determined by the AGM.

The following is the detail of share premium:

	December 31, 2019	December 31, 2018
Share placement premium:		
By ordinary share premium	2,902,187	2,902,187
By preferential share premium	1,774,617	1,774,617
	4,676,804	4,676,804

(Millions of Colombian pesos (COP))

12.24.3. Reserves

Nominal value of the share and by the capitalization of occasional reserves obtained in the distribution of profits from previous years with an increase in nominal value. determined by the decisions of the General meeting of shareholders.

The following were the equity items:

	December 31, 2019	December 31, 2018
Legal reserve		
By appropriation of earnings	4,513,942	3,701,108
Statutory and occasional reserves:	-	75,456
At the disposal of the board of directors	21,792	66,104
At the disposal of AGM	-	28,385
Future capitalization	-	137
Tax regulations	21,792	170,082

12.24.4. Earnings per share

Earnings per share up to December 31, 2019 and 2018 were $3,285 and $3,096 based on the basic profit per cut on each period divided by the weighted average of outstanding shares.

	December 31, 2019	December 31, 2018
Total shares outstanding	451,670,413	451,670,413
Profit	1,483,855	1,398,501
Earnings per share for the year in pesos	3,285	3,096

12.24.5. In the AGM held March 15, 2019, the following decisions were approved:

Distribution of profit

The AGM approved result distribution for the closing year 2018 for $1,194,882 as follows:

a) Increase mandatory reserve by $477,953 of taxed and un-taxed earnings for the year.

b) Payment of dividends in cash for $378,804, at $840 (pesos) per share payable 50% by value of $420 per share on April 3 and 50% at $420 on September 18, 2019. To complete the dividend value of $840 per share, an occasional reserve of $599 is released for a total of dividends payable of $379,403.

c) Increase occasional reserves at the disposal of shareholders by $338,125.

(Millions of Colombian pesos (COP))

Other decisions:

a) Release $258,162 of equity method 2017 to increase mandatory reserve.
b) To increase mandatory reserve $45,453 of previous years profits, 2017
c) To make an irrevocable commitment to increase mandatory reserve after 2019 with 35% of current profits up to 10% of the Bank´s computable capital.

12.24.6. Capital Management

Banco Davivienda defines its capital as the level of own funds that could have to be used to face a loss scenario created by the materialization of financial risks. The Bank has instituted as policy to maintain sufficient solvency levels that allow it to achieve its different activities with enough capital according to the assumed risks, watching over the sustainability of the entity in long term.

To best serve the purpose stated above, the Bank abides by Colombian regulations which define the standards for calculating the required capital of financial entities. According to Articles 2.1.1.1.2 and 2.1.1.1.3 of Decree 2555/2010, amended by Decree 1771/2012 and Decree 1648/2014, the minimum level of total solvency is 9% and the reason of basic solvency must exceed 4.5%.

Computable capital corresponds to the addition of Tier 1 basic capital and Tier 2 capital (net of items in Decree 2555/ 2010. Percentages given by SFC regulations are applied to risk-weighted assets - market risk is also included in compliance with that methodology.

The Bank attends adequately to asset requirements both individual and consolidated under the guidelines of the Colombian superintendence presented below up to December 31, 2019 and December 31, 2018:

Technical equity calculations	December 31, 2019	December 31, 2018	Variation Dec 19 - Dec 18
Technical equity	12,690,687	11,794,760	895,927
Tier 1	8,734,312	7,886,852	84,746
Deductions from tier 1	(950,659)	(929,913)	(20,746)
Tier 2	3,956,376	3,907,908	48,468
Market VaR	476,608	370,068	10,654
Risk – Weighted assets	103,972,044	94,724,021	9,248,023
Technical Capital Ratio	11,61%	11,93%	-0,32%
Tier One Ratio	7,99%	7,98%	0,01%

Based on the requirements of the Colombian superintendence, as of December 31, 2019 and 2018, the minimum requirements for the technical capital ratio and Tier One Ratio was 9% and 4.5%, respectively.

Capital levels are monitored permanently with the aim of identifying possible changes in the current solvency relations and take corrective action opportunely. Likewise for strategic planning effects, in the budgetary and business projection processes, the bank relies on tools that allow it to measure future capital levels, and to establish required action that guarantees compliance of solvency levels necessary to develop set strategies.

Finally, credit institutions must apply, as of January 1, 2021, the solvency indicators under the new definitions of decrees 1477 of 2018 and 1421 of 2019, which modify decree 2555 of 2010 in those aspects related to the requirements of adequate equity of credit institutions in Colombia. The application of the minimum required solvency levels under the new standard will be made gradually until full application is reached as from January 1, 2024.

(Millions of Colombian pesos (COP))

12.25. Non-controlling interest

These interests arise from net assets (equity) and from the result of subsidiaries, attributable to shareholders other than those in the group of consolidated entities group.

December 31, 2019	Equity	% Minority interest	Minority interest
Fiduciaria Davivienda S.A.	24,582	5,30%	13,026
Corredores Davivienda S.A	101,939	4,30%	4,389
Cobranzas Sigma S.A.S	1,555	6,00%	93
Inversiones Financieras Davivienda S.A.	1,094,265	3,88%	42,436
Banco Davivienda Salvadoreño S.A.	1,006,083	1,76%	177
Banco Davivienda Honduras S.A.	447,008	3,12%	13,958
Seguros Bolívar Honduras S.A.	125,175	9,94%	12,445
Corporación Davivienda S.A.	1,084,247	0,03%	292
Seguros Costa Rica S. A:	45,478	49,00%	22,284
			126,623

December 31, 2018	Equity	% Minority Interest	Minority interest
Fiduciaria Davivienda S.A.	220,284	5,30%	11,671
Corredores Davivienda S.A	78,766	4,30%	3,391
Cobranzas Sigma S.A	1,197	6,00%	72
Inversiones Financieras Davivienda S.A.	553,392	3,88%	21,461
Banco Davivienda Salvadoreño S.A.	969,894	1,76%	17,064
Banco Davivienda Honduras S.A.	413,765	3,19%	13,186
Seguros Bolívar Honduras S.A.	117,732	9,94%	11,705
Corporación Davivienda S.A.	470,686	0,03%	130
Aseguradora Mixta S. A.	39,751	49,00%	19,478
			98,158

13. Specific items of the consolidated Statement of Income

13.1. Investments and valuation, net

The following is the detail of investment revenues:

	December 31, 2019	December 31, 2018
Debt instruments		
Profit	663,554	419,408
Loss	76,587	77,025
Valuation of investments at a fair value	586,967	342,383
Profit	161,564	115,055
Loss	11,929	2,482
Valuation of investments at amortized cost	149,635	112,573
	736,602	454,956
Equity instruments		
Profit	68,506	97,914
Loss	35,094	38,144
Equity instruments valuation, net	33,412	5,977
Profit	52,945	46,823
Loss	10,833	14,092
Investment sales, net	42,112	32,731
	812,126	547,457

(Millions of Colombian pesos (COP))

13.2. Commissions and services, net

The following is a detail of commissions and services:

	December 31, 2019	December 31, 2018
Income from insurance operations	358,584	330,048
Insurance operating expense	249,359	229,973
	109,225	100,075
Income Commissions and services	1,615,567	1,464,116
Expenses for commissions and services	425,501	336,632
	1,190,066	1,127,484
	1,299,291	1,227,559

The main items in these commissions originate from transactional operations

13.3. Staff expenses

The following is the detail of personnel expenses:

	December 31, 2019	December 31, 2018
Salaries and benefits	1,100,613	1,052,306
Incentives	181,646	135,351
Employee benefits	261,804	251,846
	1,544,063	1,439,503

13.4. Overhead

The following is the detail of overhead**:**

	December 31, 2019	December 31, 2018
Maintenance and adjustments	213,057	196,164
Cleaning and security services	55,579	57,113
Advertising, publicity and public relations	142,674	136,901
Insurance	81,566	70,836
Contributions and Others	96,349	87,163
Other income leasor	47,021	210,666
Electronic data processing	92,395	76,812
Fees	319,833	262,681
Transport	128,604	113,941
Taxes	239,496	23,812
Deposit Insurance	159,835	144,748
Others	32,686	259,397
	1,903,269	1,854,542

(Millions of Colombian pesos (COP))

13.5. Other revenue and expenses, net

The following are other revenue and expenses:

	December 31, 2019	December 31, 2018
Other Operating Income		
Operational Risk Recovery	15,181	12,902
Property sales	8,122	35,053
Reversals of impairment losses	62,764	37,728
Other income	110,531	120,639
	196,598	206,322
Other Operating Expenses		
Operating Risk Losses	57,139	26,933
Property sales	13,001	13,075
Reversals of impairment losses	121,146	136,142
Other expenses	5,709	16,324
	196,995	192,474
	(397)	13,848

13.6. Income tax
13.6.1. Components of income tax expense

	December 31, 2019	December 31, 2018
Income Tax	449,635	38,758
Tax discount	(64,571)	(26,234)
Expenditure (recovery) from previous periods	2,309	1,308
Total current tax	387,373	362,654
Deferred taxes	55,952	115,118
Total Income Tax	443,325	477,772

Applicable tax provisions for the Bank in Colombia require that:

The income tax rate for 2018 and 2019 was 37% and 33% respectively (includes the 4% income tax surcharge for financial institutions for the taxable year 2018. Such surcharge was not in force in 2019 since it was declared unconstitutional by a ruling of the Constitutional Court).

* In accordance with law 1819 of 2018, two benefits were established as a tax discount, 50% industry and commerce tax and 100% VAT on the acquisition, construction, formation and importation of real productive fixed assets, which cannot be treated as a simultaneously deductible expense.

Pursuant to Law 2010 enacted in 2019, whereby economic growth is promoted:

* The income tax rate for 2020, 2021, 2022 will be 32%, 31% and 30% respectively. Additionally, a 4% income tax surcharge applies to financial institutions for 2020 and 3% for 2021 and 2022

- In 2018 and 2019, the presumptive income is 3.5% of the net worth on the last day of the immediately preceding taxable year. For 2020, such rate is reduced to 0.5% and 0% from 2021 onwards.

- Starting 2020, tax returns filed will be subject to review and in force for 5 years.

(Millions of Colombian pesos (COP))

* Starting in 2020 and onwards, the dividend withholding rate for resident individuals (for profits over 300 UVT) is reduced to 10%. The rate for distribution of dividends to foreign companies is increased to 10% (no minimum base).

The following tax provisions apply to Central American subsidiaries:

Applicable income tax rates for Banco Davivienda subsidiaries in Central America are 30% (Costa Rica, Honduras, Salvador) and 25% (Panama, Salvador in lower income companies) and 0% for Panama Lic. Internacional, Rojo Holding and Torre Davivienda Piso 12, 13, 14, 15, 16, 17, 18 and Corredores Panama.

13.6.2. Reconciliation of the effective tax rate:

The following is the detail of the reconciliation of tax rates at current levels and tax effectively reported in the Income Statement.

	December 31, 2019		December 31, 2018	
		Effective rate		Effective rate
Profit before tax	1,927,180		1,876,273	
Tax at flat rate 2019 (33%) - 2018 (37%)	794,854	33%	694,221	37%
Tax incentives	(66,309)		(26,234)	
Non-allowable expenses and fiscal income	265,312		147,481	
Fiscal deductions and non-taxable income	(364,596)		(224,349)	
Exempted Income	(160,523)		(196,853)	
Separate Deferred Tax	(2,009)		115,118	
Adjustment in Subsidiaries (1)	(25,712)		(32,920)	
Changes in estimates relating to prior years	2,308		1,308	
Total income tax expense	443,325	23%	477,772	25%

By law, the exchange rate adjustment for investments in foreign currency only has fiscal impacts at the time of disposal or settlement of the investment. There is no effect on deferred tax under the Nic 12 exception, since the Bank has control over the investment and does not expect the exchange difference to reverse in the foreseeable future.

Under Law 1819 of 2016, the restatement of other assets and liabilities in foreign currency has no tax effect until they are realized or settled, and therefore this difference, being temporary, is recognized as deferred tax.

As from 1 January 2019, leases are recognized under IFRS 16, which has an impact on the estimate of deferred tax.

(Millions of Colombian pesos (COP))

13.6.3. Deferred taxes

Differences between asset and liability bases for IFRS purposes and base figures used for tax calculations gives rise to timing differences that produce deferred tax accounts calculated and recorded at December 31, 2019 and 2018, taking account of current rates for the years in which the differences arise.

	January 1, 2019	Recognized in Profit or loss	Recognized in OCI	December 31, 2019
Investments measured at fair value	1,437	261	(3,127)	(1,429)
Investments in associates	264	347	-	611
Provisions and allowance for expected credit losses	27,443	(2,098)	59	25,404
Deferred tax assets	29,144	(1,490)	(3,068)	24,586
Investments measured at fair value	61,641	(11,801)	20,047	69,887
Investments in associates	8,738	(8,886)	9,898	9,750
Provisions and allowance for expected credit losses	263,002	(8,269)	(11,521)	243,212
Other assets	18,886	(3,321)	274	15,839
Property and equipment	57,854	(14,990)	118	42,982
Goodwill	495,658	12,503	(202)	507,959
Deferred tax liabilities	905,779	(34,764)	18,614	889,629
Deferred taxes, net	(876,635)	33,274	(21,682)	(865,043)

	January 1, 2018	Recognized in Profit or loss	Recognized in OCI	December 31, 2018
Investments measured at fair value	712	865	(140)	1,437
Investments in associates	264	-	-	264
Provisions and allowance for expected credit losses	11,533	(9,430)	25,340	27,443
Deferred tax assets	12,509	(8,565)	25,200	29,144
Investments measured at fair value	59,385	7,117	(4,861)	61,641
Investments in associates	34,426	(24,614)	(1,074)	8,738
Provisions and allowance for expected credit losses	444,978	99,776	(281,752)	263,002
Other assets	30,797	(11,952)	41	18,886
Property and equipment	52,515	5,355	(16)	57,854
Goodwill	464,760	30,871	27	495,658
Deferred tax liabilities	1,086,861	106,553	(287,635)	905,779
Deferred taxes, net	(1,074,352)	(115,118)	312,835	(876,635)

(Millions of Colombian pesos (COP))

13.6.4. Effect of current and deferred taxes on components of other comprehensive income in equity

	January 1, 2019	Movement of OCI component	Current tax	Deferred tax	December 31, 2019
Components of other comprehensive income that will not be reclassified to Profit for the year:					
Financial instruments	540,470	120,010	-	2,355	662,835
Impairment of loans for the purposes of the consolidated financial statements	763,773	357,855	(1,544)	-	1,120,084
Long-term employee benefits	2,461	(30,735)	20,867	-	(7,407)
Components of other comprehensive income that will be reclassified to Profit for the year:					
Equity method from investments in associates - OCI	(9,844)	(1,341)	-	-	(11,185)
	1,296,860	445,789	19,323	2,355	1,764,327

	January 1, 2018	Movement of OCI component	Current tax	Deferred tax	December 31, 2018
Components of other comprehensive income that will not be reclassified to Profit for the year:					
Financial instruments	471,637	65,186	8	3,639	540,470
Impairment of loans for the purposes of the consolidated financial statements	1,215,700	(678,063)	-	226,136	763,773
Long-term employee benefits	(2,801)	(77,798)	-	83,060	2,461
Components of other comprehensive income that will be reclassified to Profit for the year:					
Equity method from investments in associates - OCI	(10,280)	436	-	-	(9,844)
	1,674,256	(690,239)	8	312,835	1,296,860

Uncertainties in tax positions

An analysis was made of tax positions in the Statement of Financial Position at December 31, 2019 and 2018 for filings open to review. No events or situations were identified that would cause uncertainties associated with a difference between those positions and the tax authorities.

Deferred taxes with respect to subsidiaries, associates and joint ventures

In the application of paragraph 39 of IAS 12, the Bank recognizes deferred taxes on investments in associates on distributable and taxable accumulated profits for 2018 and 2019 in respect of the timing difference between book entries and the related fiscal cost, of 1,794,228 in 2018 and $1,414,915 in 2019. No deferred tax is recognized to the extent that the moment of reversion of these differences can be controlled and is not expected to occur in the foreseeable future.

Transfer Pricing

"In accordance with the provisions of Laws 788 of 2002, 863 of 2003, 1607 of 2012 and 1819 of 2016, regulated by Decree 2120 of 2017, the Company prepared a transfer pricing study on the operations carried out with economic affiliates abroad for the taxable year 2018. The study did not result in adjustments that will affect the Bank's revenues, costs and tax expenses in the tax returns filed for 2018.

The aforementioned temporal differences as of December 31, 2019 and 2018 amounted to $1,975,631 and $1,794,228, respectively. However, the Bank recognized a deferred tax liability of $5,217 on retained earnings in foreign entities that are subject to tax at the time of distribution as of December 31, 2019 and 2018.

Although the transfer pricing study for the year 2019 is in the process of being prepared, no significant changes are anticipated with respect to the previous year's study".

14. Related parties

The Bank may perform operations, agreements or contracts with related parties it being understood that any such operations will be carried out at fair value, and attending to the following criteria:

- Market conditions and fees existing in the sector where the operation takes place
- The activity of involved parties.
- Growth perspective of each respective business.

The following are considered to be related parties

1. Group companies:

Controller: Grupo Bolívar

Subsidiaries: Fiduciaria Davivienda, Corredores Davivienda, Cobranzas Sigma, Banco Davivienda Panamá, Banco Davivienda Panamá Licencia Internacional, Rojo Holding, Torre Davivienda sucursal,Torre Davivienda piso 12;Torre Davivienda piso 13, Torre Davivienda piso 14,Torre Davivienda piso 15,Torre Davivienda piso 16, Torre Davivienda piso 17,Torre Davivienda piso 18, Corredores Panamá, Banco Davivienda Honduras, Seguros Honduras, Grupo del Istmo Costa Rica, Davivienda Seguros Costa Rica, Banco Davivienda Costa Rica, Corporación Davivienda Costa Rica, Davivienda Sociedad Agencia de Seguros, Davivienda Leasing Costa Rica, Banco Davivienda El Salvador, Davivienda Puesto de Bolsa, Inversiones Financieras Davivienda El Salvador, Davivienda Servicios El Salvador, Seguros Comerciales Bolívar El Salvador and Valores Davivienda El Salvador.

Companies in Grupo Bolívar: Capitalizadora Bolívar, Compañía de Seguros Bolívar, Seguros Comerciales Bolívar, Investigaciones y Cobranzas el Libertador, Multinversiones Bolívar, Asistencia Bolívar, Riesgo e

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Inversiones Bolívar, Construcción y Desarrollo Bolívar, Inversora Bolívar, Ediciones Gamma, Promociones y Cobranzas Beta, Constructora Bolívar Bogotá, Constructora Bolívar Cali, CB inmobiliaria, CB Hoteles y Resorts, Prevención Técnica, Riesgo e Inversiones Bolívar Internacional, Delta Internacional Holding, Agencia de Seguros el Libertador, Sentido Empresarial, Sentido Empresarial Internacional, Richnestt, Negocios e Inversiones Bolívar, Grupo Bolívar, Inversora Anagrama, Inversiones Financieras Bolívar,Salud Bolívar IPS, Ekoservicios E.S.P and VC Investments.

2. Associated companies: Redeban, Titularizadora, Sersaprosa, Serfinsa, ACH El Salvador, Zip Amarateca and Bancajero Banet.

3. Key management personnel: Directors and strategic committee (President and Executive Vice-Presidents)

4. . Other: shareholders between 5% and 10%: Inversiones Cusezar and Inversiones Meggido; ACH, Deceval, Finagro, Credibanco and Laser Refractivo, companies where the Bank has more than 10% interest.

The Bank has office network agreements with Fiduciaria Davivienda and Corredores Davivienda; real contracts of immovable properties with Promociones y Cobranzas Beta, Ediciones Gamma and Seguros Comerciales Bolívar; commercial agreements with Asistencia Bolívar; collection management contracts with Cobranzas Beta and Cobranzas Sigma; and a magazine edition and commercialization agreement with Ediciones Gamma; an administration and support contract with Davivienda Empresarial Multilatina portal between Davivienda Servicios and Banco Davivienda el Salvador, Banco Davivienda Colombia, Banco Davivienda Costa Rica, Banco Davivienda Honduras and Banco Davivienda Panamá; Vulnerability testing contract between Davivienda Services with Banco Davivienda Panama, Banco Davivienda Costa Rica, Banco Davivienda Honduras and Banco Davivienda Colombia; Contract for IT development, support and consulting services between Davivienda Services with Banco Davivienda Panama and Banco Davivienda Colombia.

There are also agreements for placement and collection of insurance policies with Compañías Seguros Bolívar, and Seguros Comerciales Bolívar.

Every single operation was carried out at market prices; capture rates are between 0.1% and 6.05% and placement rates are found between 0.01% and 28.32% including home loans to key personnel with rates UVR and UVR+2%; agreed as employee benefits.

Up to closing date December 2019 no loans exist with interest rate, terms, warranties and other conditions different to those agreed with third parties to loans granted related parties

Up to the closing date December 2019 there are no portfolio operations with shareholders whose participation is less than 10% of the bank’s social capital, or more than 5% of computable capital.

The Bank is required to make and maintain obligatory investments in securities issued by the agricultural sector financing fund such as TDA, for $1,009,495; for Class A issued at 4% quarterly in arrears; and for class B 2% nominal quarterly in arrears; these are not market rates.

The Bank also engaged in discount operations with Finagro, which are detailed below:

Rediscount operations	December 31, 2019	December 31, 2018
Small warranty rediscount	165,058	130,579
Rediscount interest payable	1,745	1,261
Rediscount interest expenses	6,831	8,429

These operations correspond to the agricultural sector portfolio at preferential rates.

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The following is the detail of transactions with related parties:

December 31, 2019

	Group companies Controller	Subsidiaries	Other	Associated companies	Key personnel (1)	Other	Total
Asset (2)	**-**	**135,521**	**16,147**	**3,883**	**7,171**	**28,575**	**371,567**
Cash	-	130,422	-	-	-	-	130,422
Loans and financial leasing operations	-	-	118,978	16,916	7,161	-	143,055
Accounts receivable	-	4,835	30,062	21,704	10	28,575	85,186
Other assets	-	264	1,243	210	-	-	12,904
Liabilities (3)	**90,533**	**94,459**	**255,374**	**44,814**	**1,822**	**253,526**	**740,528**
Financial liabilities	90,533	9,396	230,532	14,738	178	252,877	68,442
Derivatives	-	-	-	-	-	-	-
Accounts payable	-	499	24,813	30,076	42	649	56,079
Other	-	-	29	-	-	-	29
Interests	**363**	**56,731**	**178,697**	**126,161**	**416**	**125,884**	**488,252**
Commissions	3	68	162,751	120,095	8	108,645	39,157
Interest	-	5,204	9,578	889	404	-	16,075
Dividends	-	-	-	-	-	17,206	17,206
Other	360	51,459	6,368	5,177	4	33	63,401
Expenses	**10,755**	**3,339**	**8,842**	**96,231**	**276**	**51,221**	**250,242**
Commissions	-	1,616	203	9,093	-	46,024	138,773
Other	10,755	1,723	88,217	5,301	276	5,197	111,469

(1) According to IAS 24 key management personnel means individuals with the authority and responsibility to plan, direct and control entity activities directly or indirectly: members of the Strategic Committee and the Bank’s Directors.

Includes all transactions with key management personnel, except for the employee benefits detailed ahead.

(2) Assets: the most significant asset operations with related parties include home loans at special employment benefit rates, placement rate to UVR o UVR+2.0% approved by Directors at a term of 15 years with admissible collateral; and consumer loans at market rate maximum 28.32%.

Work capital loans, construction credit and corporative credits and credit cards for group companies with rates between 0.01% and 28.02%.

(3) Liabilities: the most significant transactions in liabilities were: with group society’s current accounts with rates of 0%. - 3.50%; savings accounts with interest rate between 0.01% and 4.50% and TDs at 4.0% and 6.05%. with Other

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Shareholders, savings accounts with interest rates of 4.50% for those with an interest of less than 10% and 5% or more of the Bank's capital; and checking accounts with rates of 0% and savings accounts with interest rate of 4.0% of shareholders with an interest participation of 10% or more of the bank's capital.

December 31 2018

	Group companies Controller	Subsidiaries	Other	Group companies	Key personnel (1)	Other	Total
Assets (2)	**-**	**232,345**	**159,271**	**41,879**	**4,998**	**707**	**4,392**
Cash	-	168,017	-	-	-	-	168,017
Investment financial instruments	-	60,559	-	-	-	-	60,559
Loans and financial leasing operations	-	-	137,145	2,485	4,983	-	144,613
Accounts receivable	-	3,769	8,286	39,197	15	707	51,974
Other assets	-	-	1,384	197	-	-	14,037
Liabilities (3)	**284,869**	**29,138**	**238,747**	**57,054**	**1,372**	**319,533**	**930,713**
Financial liabilities	284,869	28,764	221,926	28,612	133	299,083	864,584
Derivatives	-	-	-	-	-	-	-
Accounts payable	-	374	16,782	28,442	42	2,045	6,609
Others	-	-	39	-	-	-	39
Income	**6**	**97,933**	**16,549**	**101,315**	**350**	**105,466**	**47,056**
Commissions	3	33	148,211	99,791	5	91,014	339,057
Interest	-	3,015	12,361	108	342	-	15,826
Dividends	-	51,438	-	-	-	14,371	65,809
Other	3	43,447	4,918	1,416	3	81	49,868
Expenses	**8,968**	**5,549**	**55,167**	**74,499**	**255**	**85,598**	**230,036**
Commissions	-	1,365	158	70,292	-	72,197	144,012
Other	8,968	4,184	55,009	4,207	255	13,401	86,024

(1) According to IAS 24 key management personnel means individuals with the authority and responsibility to plan, direct and control entity activities directly or indirectly: members of the Strategic Committee and the Bank's Directors.

Includes all transactions with key management personnel, except for the employee benefits detailed ahead.

(2) Assets: the most significant asset operations with related parties include home loans at special employment benefit rates, placement rate to UVR o UVR+2.0% approved by Directors at a term of 15 years with admissible collateral; and consumer loans at market rate maximum 29.62%.

(Millions of Colombian pesos (COP))

Work capital loans, construction credit and corporative credits and credit cards for group companies with rates between 0.01% and 28.62%.

(3) Liabilities: the most significant transactions in liabilities were: with group society's current accounts with rates of 0%. - 4.05%; savings accounts with interest rate between 0% and 4.05% and TDs at 2.1% and 6.72%. with Other Shareholders, savings accounts with interest rates of 4.50% for those with an interest of less than 10% and 5% or more of the Bank's capital; and checking accounts with rates of 0% and savings accounts with interest rate of 3.7% of shareholders with an interest participation of 10% or more of the bank's capital.

Transactions with key management personnel are as follows:

	December 31, 2019		December 31, 2018	
	Maximum balance	Closing balance	Maximum Balance	Closing Balance
Mortgages and other secure loans	1,545	4,405	682	2,523
Credit cards	86	361	60	298
Other loans	1,661	2,394	1,644	2,162
	3,292	7,160	2,386	4,983

Remuneration of key management personnel is comprised of:

	December 31, 2019	December 31, 2018
Short-term benefits		
Salaries	6,537	5,555
Other short-term benefits	1,504	1,128
	8,041	6,683

On 2019 payments made to members of management that have authority and responsibility to plan, direct and control Bank activities rise to $8,041.

There were no decisions of importance taken or not taken by Banco Davivienda by influence or on behalf of Grupo Bolívar S.A., nor decisions of importance taken or not taken by Grupo Bolívar S.A., on behalf of Davivienda.

15. Subsequent events

There are no post-closing events to report

16. Approval of the consolidated financial statements

The consolidated financial statements and related Notes were approved by the Board and Legal Representative, on January 28th, 2020 to be presented for the approval of the Annual General Meeting which may approve or amend them.