# Banco Davivienda S.A.

*Separate Financial Statements at December 31, 2018*

## Contents

**(FREE TRANSLATION OF THE REPORT PREVIOUSLY ISSUED IN SPANISH)**
**STATUTORY AUDITOR'S REPORT**

To the Shareholders
Banco Davivienda S.A.:

**Report on the financial statements**

I have audited the separated financial statements of Banco Davivienda S.A. (the Bank), which comprise the separated statement of financial position at December 31, 2018 and the separated 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.

**Management's responsibility regarding the separated financial statements**

Management is responsible for the fair preparation and presentation of these separated financial statements in accordance with Accounting and Financial Reporting Standards accepted in Colombia. This responsibility includes: designing, implementing and maintaining the internal control relevant to the preparation and presentation of separated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Statutory Auditor's responsibility**

My responsibility is to express an opinion on the separated financial statements based on my audit. I obtained the necessary information and carried out my audit in accordance with International Standards on Auditing accepted in Colombia. Such standards require that I comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance about whether the separated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement in the separated financial statements. In making this risk assessment, the statutory auditor considers internal control relevant to the preparation and presentation of the separated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separated financial statements.

I believe that the audit evidence I have obtained provides a reasonable basis for my opinion expressed below.

**Opinion**

In my opinion, the above mentioned separated financial statements, taken accurately from books and attached to this report, present fairly, in all material respects, the separated financial position of Banco Davivienda S.A. at December 31, 2018, the separated results of its operations, and its separated cash flows for the year then ended, in conformity with Accounting and Financial Reporting Standards accepted in Colombia, applied on a consistent basis with previous year.

**Other matters**

The separated financial statements at and for the year ended December 31, 2017 are presented exclusively for comparison purposes and were audited by another public accountant, member of KPMG S.A.S., who in his report dated February 8, 2018, expressed an unqualified opinion thereon.

**Report about other legal and regulatory requirements**

1. Based on the results of my tests, I believe during 2018:

   a) The Bank's bookkeeping has been performed in conformity with legal rules and accounting pronouncements.

   b) The operations recorded in the books are in conformity with the bylaws and decisions of the General Shareholders' Meeting.

   c) The correspondence, the vouchers of accounts and the books of minutes and record of shares have been properly kept and maintained.

   d) The Bank has fulfilled the rules and instructions of the Financial Superintendence of Colombia regarding the appropriate administration and provision of the goods received in payment and the implementation and impact on the statement of financial position and the statement of income and other comprehensive income of the risks management systems that apply.

   e) The management report prepared by management agrees with the accompanying financial statements, which includes evidence about free circulation of sellers' or suppliers' invoices.

   f) The information contained in the contribution returns submitted to the Social Security System, specifically the information on affiliates and their salary base for determining contributions, has been prepared from the accounting records and supporting documentation. The Bank is up to date in payment of contributions to the Social Security System.

   In compliance with the requirements of articles 1.2.1.2. and 1.2.1.5. of Single Regulatory Decree 2420 of 2015, modified by articles 4 and 5 of Decree 2496 of 2015, respectively, in development of the Statutory Auditor's responsibilities contained in numerals 1 and 3 of article 209 of the Commercial Code, related to the evaluation of whether the Society's management performance is in accordance with the bylaws and the orders or instructions of the General Shareholders' Meeting and if there are and are adequate the internal control measures, of preservation and custody of the Society's assets or third parties assets in its possession, I issued a separate report dated February 12, 2019.

2. I carried out monitoring to the answers about the recommendation letters addressed to the Bank's management and there are no outstanding material issues that can affect my opinion.

Gustavo Adolfo Roa Camargo
Statutory Auditor of Banco Davivienda S.A.
Registration 90879 - T
Member of KPMG S.A.S.

February 12, 2019

DAVIVIENDA

VIGILADO SUPERINTENDENCIA FINANCIERA DE COLOMBIA

Banco Davivienda S.A.

## CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

### RESPONSIBILITY FOR FINANCIAL INFORMATION

We, the undersigned Legal Representative and Chief Accountant of Banco Davivienda S.A. in compliance with the terms established in Articles 46 and 47 of Law 964/ 2005 and in accordance with the terms required in the Accounting and Financial Reporting Standards accepted in Colombia, certify the following:

We certify that the Financial Statements for the period January 1 to December 31, 2018, do not contain any defects, inaccuracies or errors that prevent the Company from knowing the true situation of the assets and liabilities or the operations of Davivienda, in accordance with the provisions of Article 46 of Law 964 of 2005.

In accordance with the terms of the Accounting and Financial Information Standards accepted in Colombia and taking account of the matters referred to in the Conceptual Framework, the information and statements included in the Financial Statements have been duly verified and obtained from the accounting records, prepared in accordance with the framework of standards mentioned.

Banco Davivienda S.A. has adequate systems of disclosure and control of financial information, for which the corresponding procedures have been designed to ensure that it is presented in an appropriate form, whose operational capacity is verified by the Audit and Financial Management.

Likewise, we report that there have been no significant deficiencies presented in the design and operation of internal controls that would have prevented the Bank from recording, processing, summarizing or adequately presenting its financial information. Management controls have been applied to prevent the risk of fraud in processes that might affect the quality of financial information or changes in its evaluation methodology.

The Financial Statements record the assets and liabilities existing at the closing date, and they represent probable future rights and obligations, respectively. The transactions of the period were recorded and all economic facts have been recognized and correctly classified, described and disclosed. All elements have been recognized for the appropriate amounts, and classified, described amnd faithfully disclosed, taking into account the aspects referred to in the Conceptual Framework and in accordance with the Accounting and Financial Reporting Standards accepted in Colombia.

The statements contained therein have been previously verified in accordance with the regulations and they have been faithfully taken from the books in accordance with Article 37 of Law 222/1995. The Bank has adequate procedures for the control and disclosure of financial information and its operation has been verified, in accordance with the terms of Article 46 of Law 964/ 2005.

Bogotá, February 7, 2019

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

**Banco Davivienda S.A.**
**Separate Statement of Financial Position**
**(Millions of Colombian pesos)**

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | 12.1 | 5,159,680 | 4,081,986 |
| Money market and overnight operations | 12.2 | 413,332 | 1,337,235 |
| Inbvestments in financial insturments, net | 12.3 | 6,412,218 | 6,175,692 |
| Dertivatives | 12.4 | 433,695 | 335,412 |
| Loans and financial leases, net | 12.5 | 64,425,872 | 58,380,096 |
| Accounts receivable, net | 12.6 | 2,067,077 | 1,455,007 |
| Assets held for sale, net | 12.7 | 43,952 | 86,324 |
| Investments measured at amortized cost, net | 12.3 | 1,393,279 | 1,392,427 |
| Investments in subsidiaries and associates | 12.3.7 | 3,775,482 | 3,404,886 |
| Property and equipment, net | 12.8 | 419,608 | 450,783 |
| Investment property, net | 12.9 | 70,653 | 33,865 |
| Goodwill | 12.11 | 1,080,775 | 1,080,775 |
| Intangibles | 12.12 | 100,656 | 105,250 |
| Other non-financial assets, net | 12.13 | 252,888 | 172,143 |
| **Total assets** | | **86,049,167** | **78,491,881** |
| **LIABILITIES** | | | |
| Deposits and demand accounts | 12.14 | 52,038,596 | 48,638,542 |
| Savings accounts | | 22,462,669 | 20,186,530 |
| Checking accounts | | 5,660,952 | 5,699,239 |
| Term deposits | | 22,696,899 | 21,893,816 |
| Other demand accounts | | 1,218,076 | 858,957 |
| Money market and ovenight operations | 12.15 | 3,543,323 | 1,036,602 |
| Derivatives | 12.4 | 507,637 | 354,549 |
| Bank borrowings and other financial debt | 12.16 | 7,624,354 | 5,663,504 |
| Debt issued | 12.17 | 9,665,377 | 11,179,368 |
| Accounts payable | 12.18 | 1,259,524 | 1,051,715 |
| Employee benefits | 12.19 | 144,326 | 129,512 |
| Deferred tax, net | 13.7 | 412,054 | 497,087 |
| Other non-financial liabilities, net | 12.20 | 509,861 | 396,286 |
| **Total liabilities** | | **75,705,052** | **68,947,165** |
| **EQUITY** | | | |
| Capital and reserves (1) | 12.21 | 8,492,749 | 7,709,912 |
| Unrealized gains/losses (OCI) | | 168,271 | 202,418 |
| First adoption of IFRS | | 421,882 | 435,116 |
| Accumulated profits, previous periods | | 66,331 | 88,803 |
| Profit for the period | | 1,194,882 | 1,108,467 |
| **Total equity** | | **10,344,115** | **9,544,716** |
| **TOTAL LIABILITIES AND EQUITY** | | **86,049,167** | **78,491,881** |

(1) includes share premium

See the Notes accompanying the separate financial statements.

**JUAN CARLOS HERNÁNDEZ NÚÑEZ**
**Legal Representative**

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

**GUSTAVO ADOLFO ROA CAMARGO**
**Statutory Auditor of Banco Davivienda S.A.**
**TP. No. 90879-T**
**Member of KPMG S.A.S.**
**(See my report of February 12, 2019)**

**Banco Davivienda S.A.**
**Separate Statement of Results**
**(Millions of Colombian pesos)**

| **Years ended December 31,** | **Note** | **2018** | **2017** |
|---|---|---|---|
| Interest income | | 7,702,137 | 7,561,906 |
| Loans | | 7,281,272 | 7,076,025 |
| Investment valuations, net | 13.1 | 358,165 | 424,469 |
| Money market operations | | 62,700 | 61,412 |
| Inerest expense | | 2,856,619 | 3,225,126 |
| Deposits and demand accounts | | 1,859,464 | 2,202,114 |
| Checking accounts | | 30,965 | 29,290 |
| Savings | | 468,261 | 747,277 |
| Term deposits | | 1,360,238 | 1,425,547 |
| Bank borrowings and other financial debt | | 266,687 | 218,111 |
| Debt issued | | 660,842 | 687,538 |
| Other interest | | 69,626 | 117,363 |
| **Gross financial margin** | | **4,845,518** | **4,336,780** |
| Provisions for financial assets, net | | 2,177,129 | 1,777,147 |
| Provisions against financial assets | | 3,706,988 | 3,015,470 |
| Recoveries of financial assets | | 1,529,859 | 1,238,323 |
| **Net financial margin** | | **2,668,389** | **2,559,633** |
| Commissions and services, net | 13.2 | 775,953 | 779,737 |
| Results of equity investments | 13.3 | 338,125 | 262,305 |
| Dividends | | 68,257 | 22,188 |
| Operating expenses | | 2,553,046 | 2,377,047 |
| Payroll | 13.4 | 1,052,242 | 988,021 |
| Operations | 13.5 | 1,431,215 | 1,330,258 |
| Amortizations and depreciation | 13.5 | 69,589 | 58,768 |
| Exchange differences, net | | 133,039 | 67,451 |
| Derivatives, net | | (42,992) | 385 |
| Other income and expenses, net | 13.6 | 30,613 | 65,640 |
| **Operating margin** | | **1,418,338** | **1,380,292** |
| Current income taxes | 13.7 | 236,510 | 307,463 |
| Deferred income taxes | 13.7 | (13,054) | (35,638) |
| **Profit for the period** | | **1,194,882** | **1,108,467** |
| Profit per share (pesos) (1) | | 2,645 | 2,454 |

(1) Calculated as profit for the period/weighted average number of shares outstanding

See the Notes accompanying the separate financial statements.

**JUAN CARLOS HERNÁNDEZ NÚÑEZ**
**Legal Representative**

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

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**TP. No. 90879-T**
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**(See my report of February 12, 2019)**

**Banco Davivienda S.A.**
**Separate Statement of Other Comprehensive Income**
**(Millions of Colombian pesos)**

| Years ended on December 31: | 2018 | 2017 |
|---|---|---|
| **Profit for the period** | **1,194,882** | **1,108,467** |
| Components of OCI not to be reclassified to the Income Statement for the period, net of taxes | | |
| Long-term employee benefits | 338 | 27,163 |
| **Total OCI not to be reclassified to the Income Statement for the period, net of taxes** | **338** | **27,163** |
| Components of OCI to be reclassified to the Income Statement for the period, net of taxes | | |
| Unrealized gain on fixed-yield investments | (1,456) | 16,012 |
| Investments in subsidiaries and other non-controlling interests | (82,479) | 14,644 |
| Exchange difference on investmenrts outside Colombia | 170,350 | (36,052) |
| Net hedging of investments outside Colombia, net of deferred tax | (120,900) | 5,938 |
| **Total other comprehensive result to be reclassified to the Income Statement for the period, net of tax** | **(34,485)** | **542** |
| **Total other comprehensive results, net of tax** | **(34,147)** | **27,705** |
| **Total comprehensive result** | **1,160,735** | **1,136,172** |

See the Notes accompanying the separate financial statements.

**JUAN CARLOS HERNÁNDEZ NÚÑEZ**
**Legal Representative**

**CARMEN ANILSA CIFUENTES BARRERA**
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**(See my report of February 12, 2019)**

**Banco Davivienda S.A.**
**Separate Statement of Changes in Equity**
**(Millions of Colombian pesos)**

| Years ended on December 31, 2018 and 2017 | CAPITAL AND RESERVES | | | | | ACCUMULATED RESULTS | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share premium | Mandatory reserve | Voluntary reserves | First adoption of IFRS | Unrealized gains (OCI) | Profit previous periods | Profit for the period | Total shareholder equity |
| **Balance at December 31, 2016** | 76,784 | 4,676,804 | 1,051,180 | 580,800 | 507,026 | 174,713 | 253,479 | 1,538,686 | 8,859,472 |
| **Wealth tax (1)** | | | | (21,841) | | | | | (21,841) |
| **Distribution of dividends:** | | | | | | | | | - |
| Cash dividends declared, $950 per share on 451.670.413 shares outstanding. Apr.05 and Sep.21 2017 | | | | | | | | (429,087) | (429,087) |
| **Movement of reserves** | | | | | | | | | - |
| Mandatory reserve | | | 645,948 | | | | | (645,948) | - |
| Voluntary reserve for future capítalization or to increase mandatory reserve | | | | 192,896 | | | | (192,896) | - |
| Voluntary reserve | | | | 270,755 | | | | (270,755) | - |
| Capitalization reserve, commitment of profits from 2015 | | | 475,000 | (475,000) | | | | | - |
| Release of voluntary reserve to value investments to market (Decree 2336/95) to increase Mandatory reserve | | | 10,802 | (10,802) | | | | | - |
| Disposal of profits for previous periods, made in 2016 to increase mandatory reserve | | | 236,586 | | | | (236,586) | | - |
| **Other comprehensive income, net of income tax** | | | | | | | | | |
| First application of IFRS (2) | | | | | (71,910) | | 71,910 | | - |
| Investments in subsidiaries and other non-controlling interests | | | | | | 14,644 | | | 14,644 |
| Exchange difference in subsidiaries and net hedging investments outside Colombia, net of deferred tax | | | | | | (30,114) | | | (30,114) |
| Unrealized gain on fixed-yield investments | | | | | | 16,012 | | | 16,012 |
| Long-term employee benefits | | | | | | 27,163 | | | 27,163 |
| **Result for the period** | | | | | | | | 1,108,467 | 1,108,467 |
| **Balance at December 31, 2017** | 76,784 | 4,676,804 | 2,419,516 | 536,808 | 435,116 | 202,418 | 88,803 | 1,108,467 | 9,544,716 |
| **Distribution of dividends:** | | | | | | | | | - |
| Cash dividends declared, $800 per share on 451.670.413 shares outstanding. Apr.04 and Sep.19 de 2018 | | | | | | | | (361,336) | (361,336) |
| **Movement of reserves** | | | | | | | | | - |
| Mandatory reserve | | | 62,016 | | | | | (62,016) | - |
| Release of voluntary reserve to increase mandatory reserve, commitment for profits of 2016 | | | 192,800 | (192,800) | | | | | - |
| Voluntary reserve | | | | 241,728 | | | | (241,728) | - |
| Capitalization reserve, commitment of profits from 2017 | | | 443,387 | | | | | (443,387) | - |
| Release of voluntary reserve to increase mandatory reserve | | | 276,068 | (276,068) | | | | | - |
| Disposal of profits for previous periods, made in 2017 to increase mandatory reserve | | | 35,706 | | | | (35,706) | | - |
| **Other comprehensive income, net of income tax** | | | | | | | | | |
| First application of IFRS (Note 12.21.4.) | | | | | (13,234) | | 13,234 | | - |
| Investments in subsidiaries and other non-controlling interests | | | | | | (82,479) | | | (82,479) |
| Exchange difference in subsidiaries and net hedging investments outside Colombia, net of deferred tax | | | | | | 49,450 | | | 49,450 |
| Unrealized gain on fixed-yield investments | | | | | | (1,456) | | | (1,456) |
| Long-term employee benefits | | | | | | 338 | | | 338 |
| **Result for the period** | | | | | | | | 1,194,882 | 1,194,882 |
| **Balance at December 31, 2018** | 76,784 | 4,676,804 | 3,429,493 | 309,668 | 421,882 | 168,271 | 66,331 | 1,194,882 | 10,344,115 |

(1) An Extraordinary General Meeting of January 30, 2015 authorized the Bank to charge wealth tax as authorizxed by Law 1739/2014, against equity reserves for 2015, 2016 and 2017.
(2) Corresponds dividends received on profits prior to the first adoption of IFRS

See the Notes accompanying the separate financial statements.

**JUAN CARLOS HERNÁNDEZ NÚÑEZ**
**Legal Representative**

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

**GUSTAVO ADOLFO ROA CAMARGO**
**Statutory Auditor of Banco Davivienda S.A.**
**TP. No. 90879-T**
**Member of KPMG S.A.S.**
**(See my report of February 12, 2019)**

**Banco Davivienda S.A.**
**Separate Statement of Cash Flows**
**(Millions of Colombian pesos)**

| Years ended on December 31: | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the period** | | 1,194,882 | 1,108,467 |
| **Reconciliation of profit for the period and net cash provided (used) by operating activities** | | | |
| Provision (recovery) in financial instrument investments, net | 12.3.6 | 375 | (839) |
| Provision against loans and leases, net | 12.5.15 | 2,239,441 | 1,857,650 |
| Provision against accounts receivable, net | 12.6 | 161,566 | 80,354 |
| Provision against assets held for sale, net | 12.7.4 | 12,929 | 27,787 |
| Provision against property and equipment and investment property, net | 12.8.3/12.9.2 | 3,944 | 293 |
| Provision against other assets | 12.13 | 38,889 | 25,679 |
| Severance provision | | 46,129 | 45,508 |
| Accruals provision, net | 12.20 | 229,097 | 71,019 |
| Depreciation | 13.5 | 54,102 | 45,304 |
| Amortizations | 13.5 | 15,487 | 13,464 |
| Exchange difference, net | | (133,039) | (67,451) |
| (Profit) on loan sales, net | 12.5.11 | (5,771) | (14,411) |
| (Profit) on equity method, net | 13.3 | (338,125) | (258,162) |
| Valuation of investments, net | | (357,169) | (424,946) |
| (Profit) Loss on sale of trading investments, net | | (1,029) | 483 |
| (Profit) on sale of investments available for sale, net | | (2) | (6) |
| Profit on sale of investments held to maturity, net | | - | (4,143) |
| Loss on sale of equity investments, net | | 35 | - |
| Valuation of derivatives and spot operations, net | | 42,992 | (385) |
| (Profit) Loss on sale of assets held for sale, net | 12.7.3 | (1,393) | 1,379 |
| (Profit) on sale of property, equipment and leasing assets, net | 12.8.1 | (16,377) | (31,364) |
| (Profit) on sale of investment property, net | 12.9.3 | (1,709) | (5,040) |
| Loss (Profit) on sale of other assets | | 3,991 | (190) |
| Severance payments | | (40,740) | (43,236) |
| Income tax | 13.7 | 223,456 | 271,825 |
| **Changes in operating assets and liabilities** | | | |
| (Increase) Decrease in money market liability operations | | (65,628) | 84,990 |
| Decrease in trading investments | | 103,117 | 56,634 |
| (Increase) in loans and leasing operations | | (8,144,516) | (13,792,661) |
| Proceeds of loan sales | 12.5.11/12.5.12 | 329,561 | 724,121 |
| (Increase) Decrease in accounts receivable | | (7,957,226) | 318,181 |
| (Additcions) to assets held for sale | 12.7.2 | (61,027) | (90,856) |
| Proceeds of sale of assets held for sale | 12.7 | 22,876 | 24,598 |
| (Increase) in other assets | | (104,852) | (30,190) |
| Proceds of sale of other assets | | 29,964 | 12,001 |
| Increase in deposits and demand accounts | | 8,342,771 | 5,474,829 |
| Increase (Decrease) in interbank funds purchased | | 175,079 | (172,112) |
| Increase in liability derivatives | | 153,088 | 108,379 |
| Increase in accounts payable | | 268,392 | 203,538 |
| Increase (Decrease) in employment obligations | | 9,425 | (34,029) |
| (Decrease) Increase in accruals and provisions | | (123,188) | 93,741 |
| Wealth tax | | - | (21,841) |
| Income taxes paid | | (366,300) | (353,526) |
| Interest paid | | (2,662,943) | (2,909,989) |
| Interest received | | 7,217,069 | 7,103,273 |
| **Net cash provided (used) by operating activities** | | **537,623** | **(501,878)** |
| **Cash flows from nvestment activities** | | | |
| Dividends received | | 117,659 | 102,408 |
| (Increase) in investments available for sale | | (57,296) | (1,141,817) |
| Decrease in investments held to maturity | | 74,484 | 77,168 |
| (Increase) in equity investments | | (166,374) | (48,063) |
| (Increase) in acceptances, spot operations and derivatives | | (130,158) | (93,224) |
| (Increase) Decrease in property and equipment | | (28) | 2,033 |
| (Additions) to investment property | 12.8/12.9 | (98,026) | (65,109) |
| Proceeds of sale of property and equipment | 12.8.1 | 67,483 | 30,286 |
| Proceeds of sale of investment property | 12.9.3 | 7,580 | 6,425 |
| Decrease in intangibles | | 7,586 | 41,007 |
| **Net cash (used) provided by investment activities** | | **(177,090)** | **(1,088,884)** |

**Banco Davivienda S.A.**
**Separate Statement of Cash Flows (continued)**
**(Millions of Colombian pesos)**

| **Years ended on December 31:** | **Note** | **2018** | **2017** |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Debt issued | 12.17 | 452,870 | 2,999,843 |
| Debt issue redemptions | 12.17 | (2,015,423) | (857,889) |
| Increase (Decrease) in debt issued | | 139,805 | (1,065) |
| New borrowings | 12.16 | 9,440,639 | 4,166,552 |
| Financial debt repayments | 12.16 | (8,061,502) | (3,873,632) |
| (Decrease) in financial debt | | (317,691) | (10,157) |
| Cash dividends paid | | (361,336) | (429,087) |
| **Net cash (used) provided by financing activities** | | **(722,638)** | **1,994,564** |
| (Decrease) Increase net in cash and cash equivalents | | (362,105) | 403,802 |
| Effect of the variation in exchange difference on results | | 450,365 | 14,187 |
| Cash and cash equivalents at the beginning of the period | | 5,419,221 | 5,001,232 |
| **Cash and cash equivalents at the end of the period. (*)** | | **5,507,481** | **5,419,221** |

(*) Includes cash equivalents under 90 days in money market operations for $347.801 at December 31, 2018 and $1.337.235 at December 31, 2017.

See the Notes accompanying the separate financial statements.

**JUAN CARLOS HERNÁNDEZ NÚÑEZ**
**Legal Representative**

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

**GUSTAVO ADOLFO ROA CAMARGO**
**Statutory Auditor of Banco Davivienda S.A.**
**TP. No. 90879-T**
**Member of KPMG S.A.S.**
**(See my report of February 12, 2019)**

## 1. Reporting Entity

Banco Davivienda S.A, ("the Bank") is a private entity which has its registered offices in Bogotá D.C. at Avenida El Dorado 68C-61. It was incorporated by Public Deed 3892 of October 16, 1972 (Notary 14; Bogotá). Its operating license was granted on June 10, 1997 in Resolution 562 of the Financial Superintendency ("SFC", "the SFC"). The Articles expire on December 30, 2065 (Deed 7811 of April 2018) but may be extended or terminated before that date. The Bank forms part of Grupo Bolivar and its business is to engage in all operations permitted to commercial banks by local regulations. At December 31, 2018, the Bank had 5,339,954 customers located in Colombia and the Miami International Branch.

As of December 31, 2018, the Bank operated with 12,554 staff through 21 branches and agencies in Colombia and one branch in Miami, U.S.A.; 570 offices in Colombia and one in Miami; and at December 31, 2017 operated 12,630 staff through 21 branches and agencies in Colombia and one branch abroad, in Miami U.S.A..with 584 offices in Colombia and one in Miami.

## 2. Significant Facts

At December 31, 2018 the following significant events were recorded in the Bank's operations affecting the Separate Financial Statements.

Dividends declared

On March 14, 2018 the Annual General Meeting approved payment of $800 per share for a total of $361,336, a distribution of 32.6% of individual profits: half the dividend was paid on April 4, 2018 and the other half on September 19. The Shareholders´ decisions on distribution is detailed in note 12.21.

Bond issues

Three local bond issues were made for a total of $452,870 on November 15, 2018. Details are shown in Note 12.17.

Mobilization of Assets

During 2018, the Bank sold and subsequently leased back property worth $52,137, at a net profit of $16,362, of which $15,546 was the net profit on sale and $816 was recovery of taxes. Assets worth $17,477 net of tax were realized in first-time application of IFRS, credited to accumulated profits from valuation gains; and $5,864 of deferred tax was also realized.

Effect of the exchange rate

At December 2018 the Market Reference Rate (TRM) was $3,249.75, up $165.75 on the level of $2,984 at December 2017. This increased income by $998,396 on asset balances (cash $450,365, loans $464,490 and other assets $65,407. Exchange expense rose $865,358, within which $145,415 was deposits and demand accounts, $805,232 financial debt, other liabilities $5,329, while bonds fell $90,618. The net effect of results was $133,039.

The effect of hedging arises from foreign currency investments in Central America. At the close of 2018 there was a net equity reduction of $3,306, re-expression of equities for $170,350; and a re-expression reduction in financial debt designated as hedging, of $173,656.

## 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 the decrees 2496/2015, 2131/2016 and 2170/2017, 2483/2018 and SFC instructions, in accordance with the provisions of Decrees 1851/2013 and 2267/2014 and the external circulars 034 and 036 of 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 in the first half 2016. Items excepted from the Colombian regulations re those of Title 4 – Special regimes – in Chapter I of Decree 2420/2015, as follows.

| Items | Regulation | Exception |
|---|---|---|
| Classification and valuation of investment portfolio | Decree 2267 of November 11, 2014<br><br>SFC Circular 034/ 2014 | It exempts the application of the IFRS 9, in relation to the classification and valuation of investments, , defining the application to the established in chapter I -1 “Classification, Valuation and accounting of investments for individual or separate financial statements”, of the Basic Accounting and Financial Circular Letter (CBCF in Colombia).<br><br>In accordance with article 35 of Law 222 of 1995, investments in subsidiaries must be valued in such a way that the books of the parent or controlling interest are recognized by the equity method in the separate financial statements |
| Treatment of the loan portfolio and its impairment | Decree 1851/ 2013 | It exempts the application of the IAS 39 and IFRS 9, only in respect to the treatment of the loan portfolio in all its aspects and provisions, it maintains application of chapter II of the la Basic Accounting and Financial Circular Letter of the Financial Superintendence of Colombia in the individual or separate financial statements. |
| Provision for foreclosed assets | SFC Circular 036/2014 | It maintains the provisions of goods received in lieu of payment or restituted, independently of their accounting classification, in conform with the instructions established in Chapter III of the Basic Accounting and Financial Circular Letter. |

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 and decide on dividends and appropriations. The separate financial statements record the Bank´s investments with the Bank as Parent. 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.

Separate financial statements

The separate Financial Statements present information of the Bank as an individual entity and do not contain consolidated financial information.

Davivienda acts as the parent company of the following subsidiaries:

| Name | Country | % Share |
|---|---|---|
| Corredores Davivienda S.A. | Colombia | 91.6% |
| Fiduciaria Davivienda S.A. | Colombia | 94.7% |
| Cobranzas Sigma S.A.S. | Colombia | 94.0% |
| Grupo del Istmo Costa Rica S.A. | Costa Rica | 80.8% |
| Inversiones Financieras Davivienda S.A. | Salvador | 96.1% |
| Banco Davivienda Panamá S.A. | Panamá | 100% |
| Banco Davivienda Panamá Internacional S.A. | Panamá | 100% |
| Seguros Bolívar Honduras S.A. | Honduras | 88.6% |
| Banco Davivienda Honduras S.A. | Honduras | 94.2% |

These separate financial statements were prepared to comply with regulations applicable to Banco Davivienda as an independent legal entity; some accounting principles may differ in relation to those applied in the consolidated financial statements, and additionally do not include the adjustments or eliminations necessary for the consolidated financial situation and the consolidated comprehensive results of the Company and its subsidiaries. Consequently, the separate financial statements should be read jointly with the consolidated financial statements of Banco Davivienda S.A. and its subsidiaries. For legal effects in Colombia the main financial statements are the separate financial statements.

### b. Going Concern

The preparation of the separate 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 it was determined that the Bank is a going concern 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 the impact of such factors on future operations was also considered. 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. Therefore the Bank 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 (NCIF).

### d. Materiality

The Bank´s management determined the relative importance of the figures to present in separate 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 NCIF do not require the Bank to make a specific disclosure.

### e. Uniformity of presentation

The Bank's management will maintain the presentation and classification of the items disclosed in the separate 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, taking into account 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 separate financial statements except for the policy for receivables impairment (not including loan impairment) and hedge accounting under the new IFRS9 – Financial Instruments -; and policies related to the recognition of income with the application of the new IFRS15 - Revenue from Contracts with Customers - as of January 1, 2018. (see Note 4)

### f. Presentation of separate financial statements

i. Statement of Financial Position

The Statement is presented showing the different accounts of assets and liabilities in order of descending liquidity, by considering that, for a financial entity, this form of presentation provides the most relevant reliable information. Consequently, each of the notes of financial assets and liabilities is disclosed in the amount expected to be recovered or cancelled within twelve months or after twelve months.

ii. Statement of Income and Other Comprehensive Income

These two statements are presented separately as permitted by IAS 1 "Presentation of Financial Statements". Further, the Statement of Results is presented by the nature of the income and expenses because that is a more reliable and relevant presentation of the information of a financial entity.

iii. Statement of Cash flows

This statement is presented by the indirect method. The income and expenditures for interests are presented as operating activities of operation, the dividends received as investment activities, and the dividends paid as financing activities.

## 4. Principal accounting policies

Changes in accounting policy:

Except for changes in accounting policy related to the application after January 1, 2018 of IFRS9 – Financial Instruments – and IFRS15 – Revenues from Contracts with Customers – the Bank has consistently applied accounting policies for all periods presented in these financial statements. Comparative information has not been re-expressed, however: this is a result of the transition method adopted by the Bank.

For the separate financial statements, the implementation of IFRS9 had no impact on accounting policy for accounts receivable or the investment portfolio, but did require changes to be made in the model for accounts receivable impairment, applying the IFRS9 simplified model and the hedge accounting application based on IFRS9.

The implementation of IFRS15 had no material impact on the timing or amounts recognized in operating revenues, The new standard requires revenues from customer contracts other than those arising from financial instruments and leasing arrangements, to be recognized with specific rules for recording. IFRS15 requires recognition of revenues in such a way that they reflect the transfer of control over goods and services committed to customers to changes of amounts that express the consideration to which the Bank expects to be entitled.

This new premise means that the Bank recognizes revenues other than financial yields, such as commissions for banking services and the sale of goods and services of various kinds by applying the following stages:

- Identification of the customer contract
- Identification of contract performance obligations
- Determination of the price of the transaction
- Allocation of the transaction price to the performance obligation
- Recognition of revenue as and when a performance obligation is satisfied.

The most important items requiring review under IFRS15 were:

Management commission: There was a review of frequency and timing of revenue accruals in order to align them with performance obligation compliance identified for contracts in savings, checking accounts and credit cards.

Guarantees and endorsements. There was a review of accruals of revenues associated with guarantee/endorsement commissions to align them with performance obligation compliance over the terms of related contracts.

Contracts for collaboration and network use. There was a review of performance obligations for this type of agreement to identify contracts that fell under the IFRS15 regime; and contracts affected were reviewed for the frequency and timing of recognition of revenues.

Other commissions and revenues falling under IFRS15, In general, the scope of the Bank´s implementation required a review of contracts that could be held to be commissions, services and revenues for the sale of goods.

Following the practical options in the application of IFRS15, the Bank did not re-express information about contracts that terminated prior to application date.

The following are the principal accounting policies in force, reviewed and authorized as required by the Bank´s management.

### 4.1. Basis of measurement

The separate financial statements were prepared on the basis of historical costs, except for the items shown below, as explained in the accounting policies included below:

| **Rubro** | **Base de medición** |
|---|---|
| Derivatives | Fair Value |
| Financial instruments at fair value through Results and Other Comprehensive Results | Fair Value |
| Long-Term Employee Benefits | Actuarial |

i. Historic cost

The historic cost generally is based on the fair value of 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” of IAS 36.

### 4.2. Functional currency, currency of presentation

The separate financial statements have been prepared and presented in Colombian pesos to comply to 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 peso – COP). All information is presented in millions of pesos and has been rounded to the nearest unit.

### 4.3. Transactions in foreign currencies

The Bank prepares its financial statements for transactions in currencies other than the functional currency of the Bank (foreign currency) recognizing the exchange rate in effect at the dates when the operations were conducted. At the end of each period, foreign currency monetary items are reconverted at the exchange rate in effect on that date. Non-monetary items t are measured at historic cost, in foreign currency, are not reconverted.

Differences in foreign currency arising on the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective and is presented in the reserve of Conversion of equity. To the extent that the hedge is not effective, such differences are recognized in income. When part of the hedge of a net investment is eliminated, the corresponding amount recognized in Other Comprehensive Income is transferred to profit or loss as part of those accounts.

The conversion rates applied at the close of December 31, 2018 and 2017 are $3,249.75 and $2,984.00 per USD1 respectively.

### 4.4. Cash and cash equivalents

Cash and equivalents of cash include available balances maintained with central banks, correspondent banks and highly-liquid financial instruments liquid, with original maturities of three months or less, subject to little significant risk and used by the Bank to manage its short-term obligations. The Bank defines as low significant risk 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 counterpart 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.

### 4.5. Interbank and overnight funds

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

Engagement in repos, simultaneous operations and temporary transfer 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 financings and are recognized initially at a fair value, the amount of cash being disbursed and received, respectively. The party that makes the payment takes possession of the securities that serve as a guarantee for the financing and they have a value equal or superior to the amount of capital lent.

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 the interbank interest are recorded in Gross Financial Margin in the Income Statement.

Interbank operations with a maturity of 90 days or less are considered as cash equivalents for cash flow presentation.

### 4.6. 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.

#### 4.6.1. Financial assets

The Bank has classified its financial assets 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 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, classified as trading investments, or investments available for sale.

All purchases and sales of financial assets completed in the normal course of business are recognized and eliminated based on the negotiation date. The purchases and sales made in the normal course of business 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.

##### 4.6.1.1. Investments

The SFC Basic Accounting and Financial Circular Chapter I-1, established the classification of investments according to the business model defined by the Bank. For this purpose, the Bank analyzes the financial instruments purchased as follows:

<u>Trading investments</u>

Securities acquired for sale or repurchase in the short term are classed as trading. The Bank manages them and takes decisions to buy or sell on a fair-value basis  in terms of risk management or investment strategy. They are initially recognized at acquisition cost and subsequently they are valued daily by the price reported by the Price Provider PIP Colombia appointed by the Bank following Chapter XVI of Title I of the SFC Basic Legal Circular. The changes in the fair value and the profits or losses in sale are registered in profit or loss.

Where fair exchange prices do not exist for the day of valuation, they should be calculated exponentially from the internal rate of return.  The fair value of the investment should be estimated or approximated through the calculation of the sum of the present values of the future flows of yield and capital.

<u>Investments to be held to maturity</u>

These are financial instruments which the Bank has the capacity to hold them to maturity, with the intention of collecting cash flows.

They are valued exponentially from the internal rate of return (IRR) at the moment of purchase, on a 365-day year. The updating of the present value of this class of investments should be recorded as an increased value of the investment, affecting Results of the period.

The future returns pending collection are recorded as an increased value of the investment. Therefore, amounts collected should be recorded as a lower value of the investment.

The reclassification of financial instruments should comply with SFC Chapter I-1 of the CBCF, in addition to Circular 034/2014.

<u>Investments available for sale</u>

Financial instruments designated at fair value with changes in equity are recognized at fair value on the trade date. Changes in fair value are recorded in OCI; the profit or loss generated on sale is calculated on the fair value and recognized in net income for profit (loss) in other operating income.

Securities classified as available for sale are valued daily according to the price provided by the supplier of authorized prices. Daily changes in the present value of the debt securities are recorded as the highest investment value charged to Profit and Loss, the difference between the fair value and the present value of these securities, shall be recorded in the Profit or unrealized losses (OCI - Other Comprehensive Income).

The yields pending collection are recognized as an increased value of the investment and collections are recorded as a decrease to the value of the investment; and at the time of sale, the unrealized profit or loss recorded in OCI, should be recognized in profit or loss on the date of the transaction.

Certain equity investments that complement the Bank's business in which there is no control or significant influence, are recognized at cost and their value is updated by subsequent changes in equity, because they are not exchange-listed. Changes in equities are recorded in OCI in proportion to the holding., reflecting the changes in the value of the issuer. Dividends from these investments are recognized in income on the date they are entitled to their collection.

#### 4.6.1.2. Derecognition of financial assets

The accounting treatment of transfers of financial assets 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 derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and the accumulated gain or loss that has been recognized in OCI and accumulated results are recognized in the Income Statement.

• If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to retain 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 repurchase at a fixed price or the sale price plus interest.

In this 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 derecognized and the expenses of the new financial liability are not netted.

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, the securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the asset transferred.

#### 4.6.1.3. Investments in subsidiaries

The Bank exercises control indirectly in companies in which subsidiaries consolidate other entities. All consolidated entities are subsidiaries. Subsidiaries are entities controlled by the Bank.

The subsidiaries are entities controlled by the Bank. An entity is controlled by the Bank when the Bank has power over the investee, it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to influence on those returns through its power over the investee. Generally, the control exercise is aligned to the risks and rewards taken up by the Subsidiaries. Moreover, the Subsidiaries are consolidated from the date on which control is obtained to the date when control ceases.

Investments in subsidiaries are recorded for in the separate financial statements by the equity method, in accordance with the provisions of SFC Circular 034 and Article 35 of Law 222/ 1995 applicable from January 1, 2015, variations in results are recorded in the Income Statement and equity changes in OCI. (See note 12.3.7).

#### 4.6.1.4. Provision against investments

The prices of debt securities, and low/minimum exchange movement or unquoted equities, are adjusted on each valuation date based on the credit risk rating, as follows:

- Securities that have one or several ratings granted by external rating agencies recognized by SFC, or securities issued by entities rated by them, may not be recorded for an amount exceeding the following percentages of face value less amortizations effected up to the valuation date.

| Long term rating | Max. value % |
|---|---|
| BB+, BB, BB- | 90 |
| B+, B, B- | 70 |
| CCC | 50 |
| DD, EE | 0 |

| Short term rating | Max value % |
|---|---|
| 3 | 90 |
| 4 | 50 |
| 5 and 6 | 0 |

– For securities that do not have an external rating, or debt securities issued by unrated entities or equity securities, the amount of provisions is determined on the basis of the internal methodology developed, as approved in advance by the SFC.

The credit risk rating follows the guidelines of Paragraph 8.2 of Chapter I of SFC Circular 100/ 1995 for investor entities that do not have an internal methodology approved for determining provisions, as shown below:

| Category | Concept | % |
|---|---|---|
| A | Normal risk investment | 0% |
| B | Acceptable investment, higher than normal risk | 80% |
| C | Appreciable risk investment | 60% |
| D | Significant investment risk | 40% |
| E | Non-collectable investment | 100% |

Sovereign-issued or guaranteed domestic or external public debt securities are not subject to credit risk, nor are issues of Banco de la República (the Central Bank) and those issued or guaranteed by the deposit insurance fund FOGAFIN; as established in SFC Chapter I Circular 100/1995.

### 4.6.1.5. Loan and Financial Leasing Operations Portfolio

This account records loans and financial leasing operations The funds used to make loans come from own resources, from the public in the form of deposits, and from other sources of external and internal financing.

Loans are recorded at disbursement value, except for portfolio purchases which are carried at cost; the agreed interest rate does not affect the value for which loans are recorded.

#### 4.6.1.5.1. Modes of credit

The structure of the loan portfolio includes the following modes of loans:

**Commercial**

These are loans defined as credit for individuals or corporate entities ed for the development of organized economic activities, other than those granted in the form of microcredit.

Financial Leasing

Financial Leasing operations should be recorded at the financed value of each of the assets that the entity, subject to contract, leased to the user for the latter´s use and enjoyment.

The financed value of financial leasing operations is amortized with the payment of amounts part of which are repayments of capital.

For leasing operations, the instalments in each contract are recognized based on payment of the oldest one pending payment. The leasing operation becomes past-due on the date on which it becomes payable on demand.

Contracts agreed with regular instalments over a number of months that exceed the number of months set to suspend accruals may only accrue what applies to that set number of months. The operation is “current” up to the date on which payment is due.

**Consumer**

Consumer loans, regardless of amount, are made to individuals to finance the purchase of consumer goods or payment of services for non-commercial or business purposes, other than those granted in the form of microcredit.

**Home Mortgage**

Home mortgage loans, regardless of amount, are made to individuals for the purchase of new or used housing, or individual housing construction. They must be agreed in UVR or pesos and be secured by a first mortgage on the home financed. The loan is to be repaid over 5-30 years.

Loans may be prepaid in whole or in part at any time without penalty. In case of partial prepayments, the debtor shall be entitled to choose whether the amount paid decreases the value of the fee or term obligations; to have a remunerative interest rate, which is applied to the balance of the debt denominated in UVR or pesos, depending on whether the loan is denominated in UVR or pesos, respectively.

Interest should be charged in arrears and may not be capitalized. The loan amount may be up to 70% of the value of the property. This value will be the purchase price or the result of an professional valuation made within six months prior to granting credit. In the appropriations to finance Social Housing, the loan amount may be up to 80% of the property value.

Financed real estate must be insured against fire and earthquake risks.

**Residential leasing**

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

The funded value of delivered housing real estate leased to the user for use and enjoyment, in exchange for the payment of a regular sum of money during the agreed term, when this period has expired the good is returned to its owner or transferred to the lessee if the lessee decides to exercise the agreed purchase option, and pay it.

**Microcredit**

A microenterprise is a unit of economic exploitation of an individual or legal entity person in business, agricultural, industrial, commercial or services, rural or urban, with a payroll of no more than ten and total assets of no more than 500 minimum monthly salaries , as defined in Law 590 of 2000.

The debtor may not be indebted for more than 120 minimum monthly salaries at the time of approval of the respective active credit transaction. Indebtedness includes the amount of existing obligations of the debtor to the financial sector and other sectors in the records of databank operators consulted by the creditor, excluding mortgage loans for home purchase; plus the value of the new loan

Decree 2267 of 2014 exempted the application of IFRS to the portfolio and related impairment

#### 4.6.1.5.2 Modified and Restructured Loans

A restructured loan is one in which legal business changes the initial conditions to allow the debtor to attend to his obligation punctually. Novations are considered to be restructurings. Before restructuring, the creditor should established that the same should reasonably be recovered under the new conditions.

If a loan subject to changes in its initial conditions meets the requirements olf Section 1.3.2.3.2.1 of Chapter II of the SFC Basic Accounting and Financial Circular, it will be classified as “modified” in the terms of the guidelines of SFC Circular 26/2017.

Loans re-negotiated in the terms of Law 546/ 1999 for the home mortgage portfolio are not classed as restructurings, nor are novations originating in situations other than that described above, provided that directing the last six months the loan has not been in arrears for more than 60 consecutive days for micro credit and consumer loans; and 90 days for commercial and home mortgage loans.

Rules for classifying restructured and modified loans:

The classification of modified and restructured loans is effected following SFC Circular 26/2017 for loans that face a real or potential impairment of the debtor´s capacity to pay and initial conditions are modified.

Modified loans

The initial classification received by a loan that meets the requirements of being classed as “modified” will be thee latest classification recorded for the loan to be modified.

For subsequent months, and provided that the loan does not fall into a classification of “restructured” due to failure to make the agreed payments, the modified classification will be that produced by application of the relevant model.

If the customer defaults on agreed payments, the loan is classified as restructrured and the classificsation criteria for this type of loan are subsequently applied.

Restructured loans

The initial classification of a restructured loan will be the most recent classification recorded for the loan(s) to be restructured. This classification will remain unchanged until the customer has completed a minimum number of consecutive payments for the class of loan involved (six months for microcredit, 1 year for other modes).

One month after meeting this requirement, the4 classification will be changed gradually, taking account of the initial classification of the restructuring and the classification required by the model.

Finally, in the next month the classification will be that assigned by the model, depending on the type of loan. Loans of any class classified as restructured that fall into arrears of 30 days or more will be held to be in default

Loans of any kind which are classed as restructured and fall into arrears of 30 days or more are classed as “default”.

For loans that do not require a monthly payment of capital, the classification will be modified gradually in the months when capital repayments are required.

**Suspension of interest accruals**

Accruals of interest, monetary correction, exchange adjustments, adjustments to lease-payments or for other items under a loan in arrears will not be recorded in the Income Statement when arrears reach the following limits:

| Mode of loan | Arrears in excess of |
|---|---|
| Commercial | 3 months |
| Consumer | 2 months |
| Home mortgage | 2 months |
| Microcredit | 1 month |

Accruals are recorded in Contingent Accounts and do not affect profit or loss until effectively collected-

In cases where, as a result of of restructuring agreements or any other form of agreement, there are calls for the capitalization of interest recorded in memorandum accounts or written-off loans including capital, interest and other items, these items are accounted for as deferred payments and are carried to profit and loss as and when effectively collected.

Loans in arrears for which interest, monetary correction, exchange differences or leasepayments or other forms of income have ceased to be accrued at any time will have accruals suspended from the first day of arrears onwards. When they are current again, accruals will resume. Until collected, these items will be recorded in Memorandum accounts

Where accruals of interest, monetary correction, exchange adjustments, leasepayments and other items of income are suspended, a provision should be made for all these items accrued and pending collection.

**4.6.1.5.3. Rules for write-offs**

In terms of the internal policies, loans are written off when considered unrecoverable; the provision then covers 100% of capital, interest and other items after being in arrears for the following lengths of time:

| Portfolio | Product | Days in arrears |
|---|---|---|
| Commercial | Vehicles | Over 360 days |
| | Others | Over 570 days |
| | Loans over $ 500 M | According to evaluation |
| Home mortgage | Housing and residential leasing | Over 900 days |
| Consumer | Vehicles | Over 540 days |
| | Vehicles with no lien | Over 120 days |
| | Others | Over 180 days |
| | Private brand credit cards | Over 120 days |
| | Restructured | Over 120 days |
| Microcredit | Microcredit | Over 180 days |

Credit card, accounts receivable and other asset write-offs are approved by the Board of Directors.

A write-off does not relieve Bank management from continuing with collection efforts as appropriate.

**4.6.1.5.4. Criteria for evaluation and reclassification of credit risk**

The Bank adopted a Risk Management Credit System (SARC), which includes policies, processes, models and control mechanisms to identify, measure and adequately mitigate credit risk; not only from the perspective of its coverage through a system of provisions, but also through management of the lending process and permanent monitoring.

The Bank evaluates and classifies customer credit operations for all types of credit. Customer borrowing performance is updated monthly, with respect to repayments, cancellations, write-offs and ageing of arrears.

There are methodologies and analytical techniques to measure the credit risk inherent in a credit operation and potential future changes in the conditions of servicing it. These methods and techniques are based on the information related to the historical behavior of the portfolio and loans; the particular characteristics of the debtors, their credits and collateral that supports them; the credit performance of the debtor in other entities and financial information of this or other information which will provide appropriate knowledge of his financial situation; and sector and macroeconomic variables affecting the normal course of business.

In assessing the capacity to pay of local public entities, the Bank verifies compliance with the indicators of Law 617 - Operating Expenses, Law 358 Solvency and Sustainability and Law 819 Primary Surplus.

The Bank makes the evaluation and reclassification of the loan portfolio at least every May and November, and must records the results at the end of the following month.

**Rules of Alignment**

The alignment process for each debtor is adjusted monthly.The Bank takes loans of the same type to higher risk category, unless there are sufficient reasons under the rules for classifications in a lower risk category.

For ordinary customers of the Bank and subsidiaries with which financial statements are consolidated, all loans of the same type are assigned the same rating for loans to the same debtor, unless it can be shown that there are sufficient reasons for classification in a lower risk category.

**Credit Risk rating for reports**

The table below applies for purposes of standardizing risk ratings for reports to credit bureaus, reports of loans and the records in the financial statements:

**Commercial portfolio**

| Type of risk | Report rating | Group rating | Ageing of arrears (days) |
|---|---|---|---|
| Normal | AA | A | 0-29 |
| Acceptable | A | B | 30-59 |
| Acceptable | BB | B | 60-89 |
| Appreciable | B | C | 90-119 |
| Appreciable | CC | C | 120-149 |
| In default | D | D | 150-569 |
| Unrecoverable | E | E | Over 569 |

A commercial loan is considered to be in default when it is in arrears for 150 days or more, along with treasury loans in arrears.

**Consumer Portfolio**

To determine the rating of consumer loans depending on the segment, the reference model calculates a score which is a product of the particular characteristics of each debtor as set out in Annex 5 of Chapter II of SFC Circular 100/1995, as shown below:

| Type of risk | Report category | Group rating | Vehicles score | Other score | Credit cards score |
|---|---|---|---|---|---|
| Normal | AA | A | 0.2484 | 0.3767 | 0.3735 |
| Normal | A (*) | A | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | A | B | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | BB | B | 0.81507 | 0.89 | 0.9382 |
| Appreciable | B | C | 0.94941 | 0.9971 | 0.9902 |
| Appreciable | CC | C | 1 | 1 | 1 |
| In default | D | D | 1 | 1 | 1 |
| Unrecoverable | E | E | 1 | 1 | 1 |

A consumer loan is considered failed when it is in arrears for more than 90 days.

(*) In order not to affect portfolio indicators, the SFC defined for this classification the characteristics of the reference model of consumer credit, a range of 0 - 30 days, to be recorded based on the group classification A.

**Home mortgages and microcredit**

The Bank classifies credit operations of home mortgages and microcredit and classified them into one of the following categories of credit risk:

| Classification | Risk | Home Mortgage | Microcredit |
|---|---|---|---|
| | | Months arrears | |
| A | Normal | 0 - 2 | 0 - 1 |
| B | Acceptable | 2 - 5 | 1 - 2 |
| C | Appreciable | 5 - 12 | 2 - 3 |
| D | Significant | 12 - 18 | 3 - 4 |
| E | Unrecoverable | Over 18 | Over 4 |

**4.6.1.5.5. Rules for loan provisions**

Provisions are made charged to the income statement, as follows:

#### 4.6.1.5.5.1. General provision

The Bank records a general provision for microcredit and home mortgages equivalent to 1% of the total gross loan portfolio.

#### 4.6.1.5.5.2. Individual provisions under reference models

The SFC rules that for commercial and consumption reference models loan portfolio individual provisions are to be made as the sum of two individual components one procyclical and other countercyclical.

The procyclical individual component reflects the credit risk of each debtor in the present.

The countercyclical individual component reflects possible changes in the credit risk of debtors at the time in which the deterioration of these assets increases. This portion is constituted in order to reduce the impact on the income statement when the situation arises.

The two components are calculated separately for capital and accounts receivable of the loans and leasing portfolios

The following indicators should be assessed monthly to determine the calculation methodology to be used from the following for individual provisions:

| Indicators | Activation Threshold |
|---|---|
| 1. Increase of provisions in risk category B, C, D, E | >= 9% |
| 2. Net expense provisions as% of income from portfolio | >= 17% |
| 3. Net expense provisions as% of Gross Adjusted Net Interest Income | <= 0% ó >= 42% |
| 4. Annual real growth of Gross Portfolio | < 23% |

Once these indicators are evaluated, the Bank applies the cumulative phase.

**Cumulative phase calculation methodology**

Procyclical individual component (CIP): Procyclical individual component (CIP): for the consumer and commercial portfolios, this is the expected loss calculated with the Matrix A, i.e. the result obtained by multiplying the exposure value of the debtor, the probability of default (PD) of Matrix A and the Loss Given Default (LGD).

Countercyclical individual component (CIC): This is the maximum value among the countercyclical individual component in the previous period affected by exposure, and the difference between the expected loss calculated with Matrix B and the expected loss calculated with the Matrix at the time of calculation of the provision.

In no case, may the countercyclical individual component of each obligation may be less than zero, nor may it exceed the value of the expected loss calculated with the Matrix B; likewise the sum of these two components may not exceed the amount of exposure.

The SFC circulates the matrices in the first half of each year, for application with effect from July of that year.

The countercyclical component will allow entities to have a reserve (counter-cyclical individual provision) to be used during periods of deterioration in credit quality, to meet the increase in provisions without significantly impacting the profits generated in the unfavorable environment.

As of December 31, 2018 and 2017, the Bank applied the cumulative phase methodology.

#### 4.6.1.5.5.3. Individual provision

In addition to the general provision, individual provisions are made for the protection of loans classified in all risk categories, calculated as follows:

**Commercial portfolio**

The Bank adopted the SFC Commercial Reference Model (MRC) to calculate provisions.

There are differentiated segments to estimate expected losses by the level of the assets of debtors, as follows:

| Company Size | Asset Level |
|---|---|
| Large | More than 15,000 SMMLV (current legal minimum monthly salary) |
| Medium | Between 5,000 and 15.000 SMMLV |
| Small | Less than 5,000 SMMLV |

The ,minimum monthly salary of the preceding year is used as the multiplier to estimate the level of assets..

The MRC also has a category "individuals " which groups all natural Commercial loan debtors.

Provisions for residential leasing operations are charged in compliance with the policies of commercial loans "individual businessmen ".

The estimated expected loss (provisions) results from the application of the following formula:

Expected loss = [Probability of default] x [Exposure of the asset at the time of default] x [loss given default].

Where:

- The probability of default (PD)

Corresponds to the probability that debtors of a given portfolio of commercial loans incur in default. Within the next 12 months.

Individual provisions are calculated with the rates shown in the following matrix:

| Rating | Large Business | | Medium Business | | Small Business | | Individuals | |
|---|---|---|---|---|---|---|---|---|
| | Matrix A | Matrix A | Matrix A | Matrix B | Matrix A | Matrix B | Matrix A | Matrix B |
| AA | 1.53% | 2.19% | 1.51% | 4.19% | 4.18% | 7.52% | 5.27% | 8.22% |
| A | 2.24% | 3.54% | 2.40% | 6.32% | 5.30% | 8.64% | 6.39% | 9.41% |
| BB | 9.55% | 14.13% | 11.65% | 18.49% | 18.56% | 20.26% | 18.72% | 22.36% |
| B | 12.24% | 15.22% | 14.64% | 21.45% | 22.73% | 24.15% | 22.00% | 25.81% |
| CC | 19.77% | 23.35% | 23.09% | 26.70% | 32.50% | 33.57% | 32.21% | 37.01% |
| Default | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Loss given default (LGD)

LGD is defined as the economic impairment that would occur if any of the situations of default materializes. The LGD for debtors classified as being in default will increase in line with the days elapsed after classifying in that category. The LGD applied by the Bank includes two ranges of guarantee type "unsecured" and "Assets in residential leasing ", which are described below

| Type of guarantee | L.G.D | Days after default | New L.G.D | Days after default | New L.G.D |
|---|---|---|---|---|---|
| Commercial and residential property | 40% | 540 | 70% | 1,080 | 100% |
| Admissible financial collateral - SBLC | 0% | - | 0% | - | 0% |
| Admissible financial collateral – Guarantees fund | 12% | - | 12% | - | 12% |
| Property leasing assets | 35% | 540 | 70% | 1,080 | 100% |
| Leasing assets other than real property | 45% | 360 | 80% | 720 | 100% |
| Collection rights | 45% | 360 | 80% | 720 | 100% |
| Other Collateral - admissible | 50% | 360 | 80% | 720 | 100% |
| Other personal guarantees | 55% | 210 | 80% | 420 | 100% |
| No guarantee | 55% | 210 | 80% | 420 | 100% |

Property leasing contracts are classified into the category Properties in Leasing

The past-due loan portfolio is evaluated monthly and according to the MRC reference model, quality of customer collateral the percentage of cover on debt and additional criteria, additional individual provisions may be estimated.

- Exposed asset value

Exposed asset value is the outstanding balance of principal, interest, interest receivable and other receivables, in commercial portfolio loans.

**Consumer portfolio**

The Bank adopted the SFC Reference Model for consumer loans (MRCO) , used to calculate provisions.

It is based on differentiated segments by product - general-vehicles, general-others, and credit cards - in order to preserve the particularities of market niches and products granted.

Expected losses are determined and provisions are charged according to the following formula:

Expected loss = [Probability of default] x [Exposure of the asset at the time of default] x [loss default given] x [Adjustment by term].

Where:

- The probability of default (PD)

corresponds to the probability that a given portion of the portfolio will default within the next 12 months

The probability of default is defined in accordance with the following matrix.

| **Rating** | **General vehicles** | | **General other** | | **Credit cards** | |
|---|---|---|---|---|---|---|
| | **Matrix A** | **Matrix A** | **Matrix A** | **Matrix A** | **Matrix A** | **Matrix A** |
| AA | 0.97% | 2.75% | 2.10% | 3.88% | 1.58% | 3.36% |
| A | 3.12% | 4.91% | 3.88% | 5.67% | 5.35% | 7.13% |
| BB | 7.48% | 16.53% | 12.68% | 21.72% | 9.53% | 18.57% |
| B | 15.76% | 24.80% | 14.16% | 23.20% | 14.17% | 23.21% |
| CC | 31.01% | 44.84% | 22.57% | 36.40% | 17.06% | 30.89% |
| Default | 100% | 100% | 100% | 100% | 100% | 100% |

Loss given default (LGD)

Defined as the economic deterioration that would occur if any of the situations of default materializes. The LGD for qualified debtors in the default category will increase according to the days elapsed after qualifying in that category. The LGD applied by the Bank includes three ranges of guarantee type: "unsecured", "eligible collateral" and other collateral, which are described below:

| Collateral type | LGD | Days arrears | New LGD | Days arrears | New LGD |
|---|---|---|---|---|---|
| Commercial/residential property | 40% | 360 | 70% | 720 | 100% |
| Property leasing assets | 35% | 360 | 70% | 720 | 100% |
| Non-property leasing assets | 45% | 270 | 70% | 540 | 100% |
| Collection rights | 45% | 360 | 80% | 720 | 100% |
| Other admissible collateral | 50% | 270 | 70% | 540 | 100% |
| Non-admissible collateral | 60% | 210 | 70% | 420 | 100% |
| Non-admissible collateral – | 45% | - | 0% | - | 0% |
| Unsecured | 75% | 30 | 85% | 90 | 100% |

The type of inadmissible collateral applies to consumer loans covered by payroll instalment agreements.

The type of security - other admissible collateral - is applied to the vehicle portfolio.

Adjustment by term (AT)

Where, $\text{Adjusment by term (AT)} = \left[\frac{\text{Remaining Term}}{72}\right]$

Remaining Term = Corresponds to the number of months remaining to repay in the agreed term. In the event that the agreed term or remaining term is less than 72, AT shall be equal to 1. For the Credit Card and Revolving segments, AT will be equal to1.

For loans originated, disbursed, restructured or acquired before December 1, 2016, AT shall be equal to 1.

This factor applies to loans originated, disbursed, restructured or acquired as of December 1, 2016; the expected loss must be calculated applying the resulting term adjustment (AT).

An additional individual provision of 0.5% is temporarily added to the procyclical component when the rolling α parameter is greater than 0 ($\alpha > 0$). A is the 6-month rolling average of the six-monthly real annual rate opf growth in past-due consumer loan accounts.

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- Exposed asset value

In the MRCO, the exposure value of the asset is the current balance of principal, interest, interest receivable and other receivables, of the obligations of the consumer portfolio.

**Home mortgage Portfolio**

Individual provisions for the protection of rated credits in all categories of credit risk have at least the following percentages at December 31, 2018 and 2017.

| Rating | % Standard minimum | |
|---|---|---|
| | Covered part | Non-covered part |
| A | 1.0% | 1.0% |
| B | 3.2% | 100.0% |
| C | 10.0% | 100.0% |
| D | 20.0% | 100.0% |
| E | 30.0% | 100.0% |

If during two (2) consecutive years, credit remains in the "E" category, the provisioning rate on the guaranteed portion will increase to 60.0%. If a further year passes under these conditions, the provision percentage on the guaranteed portion will rise to 100.0%.

**Microcredit portfolio**

Individual provisions for the protection of loans classified in all categories of credit risk apply at least the following percentages at December 31, 2018 and 2017.

| Rating | % Standard minimum | |
|---|---|---|
| | Covered part | Non-covered part |
| A | 1.0% | 0.0% |
| B | 2.2% | 1.0% |
| C | 0.0% | 20.0% |
| D | 0.0% | 50.0% |
| E | 0.0% | 100.0% |

**Effect of admissible collateral on Individual Provisions**

• To estimate individual portfolio provisions guarantees only support the capital of credit, therefore, outstanding balances of loans backed by securities classed as admissible collateral, are provisioned for the percentage that corresponds according to their classification applying that percentage to the difference between the unpaid balance and the value of collateral.

• In the case of the unsecured portion of home mortgage loans, provision is for the difference between the unpaid balance and 100% of the value of the collateral. For the collateralized portion, (100%) of the balance collateralized.

#### 4.6.1.5.6. Portfolio sales

Portfolio sales are a means by which the Bank transfer the rights and inherent risks - or derived rights and risks - inherent in loans 100% to a third party as an outright sale where the payment obligation is received in money or other assets; the assets sold are derecognized from the financial statements at their net book value on the date of the operation and the difference between the book value and the value received is recorded as profit or loss for the year, being recorded for an amount assessed in an expert study.

The Bank has management contracts for securitized portfolios where, through its applications, a third party controls the operation of the portfolio, receiving in return of the service a defined percentage as a commission for its work.

#### 4.6.1.6. Accounts receivables

Receivables other than loans and financial leasing operations are classified and subsequently measured at amortized cost and there are regular assessments of losses which may arise form impairment provisions. Impairment provisions are calculated using the simplified model.

Provision against receivables

The Bank measures adjustments for losses as the expected credit loss over the lifetime of receivables other thn loans, using the simplified method of impairment based on track record and ageing of balances. Where the term, functionality and control do not require this treatment, the accou t is excluded from it, as follows:

| Short ranges of arrears | Up to 30 days | 31-180 days | 181-360 days | 361+ days |
|---|---|---|---|---|
| % impairment applicable | 0.20% | 5% | 63% | 100% |

#### 4.6.1.7. Derivatives

Derivatives are financial instruments that change in 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 and risk management purposes associated with the balance sheet structure. They are recognized at fair value in the Statement of Financial Position. There is also a credit risk charge using the CVA and DVA for each contract counterparty. " CVA" is the Counterparty risk to Davivienda, and it causes a negative fair value adjustment; "DVA" is Davivienda´s risk to the Counterparty, and this naturally generates a positive fair value adjustment.

The notional amounts of derivatives are not recognized as assets or liabilities because they represent the face value of the contract for which a rate or price is applied to determine the flows to be exchanged between the parties under the conditions of contract..

Derivatives held for trading purposes

Profits in trading activities can be generated in three ways: i) by distribution activity, defined as intermediation executed by Treasury between professional markets, offshore customers, institutional and real sector; ii) by the activity of own position, by which positions are taken for short periods of time to take advantage of rising or falling trends in the value of financial assets and derivatives; iii) by arbitrage activity, which combines financial assets and derivatives, to generate financial margins without incurring market risks.

Realized or unrealized profits of trading derivatives are recognized in the Income Statement as revenue associated with the business model for trading.

Derivatives held for the purposes of risk management

Derivatives held to manage risks are those that the Bank uses to cover market, interest rate or foreign currency risks within traditional banking business operations. If derivatives are held to manage risks and also meet hedge accounting requirements, they are recognized at fair value in the Statement of Financial Position, and changes in fair value are recognized in profit or loss together with changes in the fair value of the hedged item attributable to the hedging risk, in the same line of the Statement of Comprehensive Income as the hedged item. Certain derivatives held for hedging purposes that do not meet the hedging requirements are recognized as derivatives for risk management and their changes in fair value are recognized in profit or loss.

Embedded derivatives

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 with changes through profit or loss in the case of financial asset contracts.

#### 4.6.1.8. Netting of financial instruments in the statement of financial position

Financial assets and liabilities are netted and the net amount is reported in the Separate Statement of Financial Position when there is a legal right to net the amounts recognized and there is an intention of the Bank to liquidate them on a net basis or to realize the asset and settle the liability simultaneously. Information on netting of financial assets and liabilities at December 31, 2018 and 2017 is disclosed in Note 11.

### 4.7. Hedge accounting

Taking account of changes arising from IFRS 9 (2014 version) the Bank has decoded to apply the hedge accounting requirements of this standard from initial application date (January 1, 2018).

The Bank designates certain instruments as hedging instruments. They include derivatives and non-derivatives, as either fair value hedges, cash flow hedges or hedges of net investment in an operation outside Colombia..

At the inception of the hedge, the Bank documents the relationship between the hedging instrument and the hedged item, as well as the objectives of risk management and management strategy for undertaking a range of hedge transactions. Additionally, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting the exposure to changes in fair value or changes in cash flows of the hedged item.

Additionally, there is identification of he risk component or hedged components provided that they can be separated and measures reliably; and there is a specification of whether hedging covers all or a percentage of the face value of the item hedged, or whether it covers only the part of individual cash flows. The Bank also evaluates whether it needs to effect regular renewals to maintain hedging ratios depending on the hedging strategy and the characteristics of the hedged portion of the item.

-Hedges of a net investment in an operation outside Colombia

Hedges of a net investment in a foreign operation are accounted in a similar way to the 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 translation reserve of foreign operations. The gain or loss related to the ineffective portion is recognized in profit or loss.

Gains and losses 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 coverage (successive), in order to maintain the rate coverage of change of net investment abroad by replacing the non-derivate liability in dollars at maturity given that there are no expected sales of these investments in the short term.

Currently the Bank has net investment hedges in only one operation outside Colombia.

### 4.8. Assets held for sale

Assets are classified as available for sale when their present conditions allow their sale and it is highly probable that their sale will occur in the next year; and from the second year they are classified as Other Assets. For the sale to be probable the Bank's management must have made sales plans to sell and start an active marketing program to ensure that the asset is sold.

Assets that are classified as “held for sale” are recorded at the lower of their carrying amount and the fair value less selling costs. In this classification, the asset is no longer depreciated or amortized and subsequent changes in its fair value less sales costs are carried to the profit or loss.

In compliance with external circular 036 of 2014 issued by the SFC provisions of BRP's should be kept independent of the classification of the good received in payment, according to seniority, as follows:

| Frequency | Real property % | Movable property % |
|---|---|---|
| Year 1 | 30% | 35% |
| Year 2 | 30% | 35% |
| **Total** | **60%** | **70%** |
| Over 2 years | 40% | 30% |
| Provision assets held over 2 years | 100% | 100% |

In addition to the monthly installments, the shortfall on valuation is provisioned when the market value of the property is less than the carrying amount, as required by Circular 034 of August 2003.

Sales plan

The following are the plans to sell assets held for sale:

- The available assets, once legally and administratively approved by the collection area, are received by the Bank and are delivered to the sales channels (real estate, specialized individuals and vehicle suppliers) who work with the Bank, for them to start the marketing process.

- All available assets are published in the Bank's official intranet, Informador Express, and in the official external channels such as www.davivienda.com through the link "Inmuebles al Alcance de Todos". In addition, emails are sent to internal and external customers; and, the sales channels also publish in other media such as newspapers, their own websites, radio and regional television among others.

- In the case of assets which are difficult to sell – classed as such when they have already been available more than twelve months for property, or more than 3 months for vehicles without receiving any offer from the beginning of their publication - specific action plans are implemented, with greater emphasis on those which have been available for so long, analyzing each case and creating strategies to achieve disposal.

- In matters of pricing, the general policy is determined by a commercial appraisal (no more than six months old for property and three months for private vehicles), salability of good, physical condition and the market for real estate or vehicles in the specific area, among others.

- There is monthly follow-up of business to check that actions taken on sales channels to comply with times specified in advertisements for the goods; and both parties make commitments designed to find effective solutions for the sale.

### 4.9. Joint operations and joint ventures

Joint ventures are activities in which the Bank has joint control, established by contractual agreements and requiring unanimous consent for decisions on financial and operational policies. In joint operations, the assets, liabilities, income and expenses relating to the participation in the joint operation of each of the joint ventures are accounted for and in joint ventures the participation is recognized as an investment using the equity method.

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

### 4.10. Property and equipment

Land and buildings, computer equipment, furniture and fixtures and other equipment are recognized at cost, less depreciation and impairment. Costs include expenditures that are directly attributable to the acquisition of the asset. Land is not depreciated. Gains or losses on sale of assets are recorded in Other Income or Expense in the Income Statement.

The carrying amount of an item of Property and Equipment is derecognized on disposal; or when no future economic benefits from its use or disposal are expected.

The costs of replacing a portion of the property and equipment are recorded as greater value of the asset if they meet the requirements for their registration and 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.

Transfers are recorded when there mis a change of use, but control of the asset is not lost.

Depreciation

Depreciation is charged on a straight-line basis, on the cost of the asset less its residual value. Land is not subject to depreciation. Depreciation charged to profit and loss is calculated based on the following useful lives:

| Category | Useful life (years) | Residual value |
|---|---|---|
| Buildings | 30 - 100 | 10% Cost |
| Vehicles | 3 - 5 | 20% Cost |
| Furniture and fixtures | 3 - 10 | Up to 5% |
| Computers and other equipment | 3 - 20 | Up to 5% |

The useful lives and residual values are reviewed each year and adjusted if necessary.

### 4.11. Investment properties

Real estate not in use by the Bank and held to earn rent and / or goodwill is classified as Investment Property.

Investment Property is initially valued at acquisition cost, including costs incurred in the transaction. After initial recognition, Investment Property is valued using the cost model indicated in the policy for Property and Equipment.

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 profit or loss arising from the derecognition of the property (calculated as the difference between the net disposal income and the carrying value of the asset) is included in Profit and Loss in the period in which the property is derecognized.

Investment property is recognized as an asset 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 property can be reliably measured.

Transfers between Investment Properties and Property and Equipment do not alter the carrying amount or cost of the assets for measurement or disclosure purposes.

### 4.12. Investments in associates

Associates are those entities in which the Bank has significant influence, but does not have control or joint control over financial and operating policies, or it owns more than 20% and less than 50% stake. Investments in associates are initially recognized at cost including transaction costs, and their value is increased or reduced by the equity method to recognize the interest in profit or loss and in changes in equity and in any other reduction to reflect impairment provisions affecting the value of the investment. Changes in the investment are recognized in the Income Statement and in OCI in the equity section and an evaluation is subsequently made of indications of impairment by applying the requirements of IAS 36. Dividends from associates are recognized in profit or loss when the right to receive payment is taken.

When the Bank conducts transactions with an associate or joint venture, the profit or loss resulting from such transactions with the associate or joint venture is recognized in the Separate Financial Statements only to the extent of its interest in the associate or joint venture that is not related to the Bank.

The Bank determines that it has significant influence over the following investments: Redeban S.A. and Titularizadora de Colombia S.A.

### 4.13. Business combinations

The acquisition of a business is recorded using the purchase 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, less liabilities incurred by the entity with the previous owners of the business acquired and equity securities issued by the entity in exchange for control over the business. Costs related to the acquisition are generally recognized in the income statement as and when incurred.

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

• 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 shares of the Bank held to replace share-based payment agreements for acquisition, measured in accordance with IFRS 2 - Share-based payments - at the date of acquisition; and

• Assets (or groups of assets for disposal) classified as held for sale in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations - measured in accordance with that Standard.

Goodwill is measured as the excess of the amount of the consideration transferred, the amount of any non- controlling interest in the business acquired, and the fair value of the previous shareholder's holding in the acquired company (if any) on the net value of identifiable assets acquired and the value of liabilities assumed at the date of acquisition. If, after a revaluation, the net of the value of identifiable assets acquired and the value of liabilities assumed at the acquisition date exceeds the amount of the consideration transferred, the amount of any non-controlling interest in the business acquired and the fair value of the previous shareholding of the acquirer in the acquired company (if any), the excess is recognized immediately in the Consolidated Income Statement as a gain for purchase at a bargain price.

Non-controlling equity interests which give their holders a proportional share of the net assets of the business in the event of liquidation may be initially measured either at fair value or at the value of the proportional share of the non-controlling interest in the recognized amounts of the identifiable net assets of the business acquired. The option to choose the basis of measurement is exercised on each transaction. Other types of non-controlling interests 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 trade credit. The adjustments of the measurement period are adjustments that arise from additional information obtained during the 'measurement period' (which may not exceed one year from the acquisition date) about facts and circumstances that existed at the date of acquisition.

Combinations subject to common control

Combinations of companies under common control are accounted for using the Book Value method, with all identifiable assets, liabilities and contingent liabilities acquired at incorporation recognized at the book value of the company absorbed.

Identifiable assets acquired and liabilities assumed must nonetheless be recognized and measured, and the date of acquisition is the date of registration with the competent authority. It is considered that this date is that on which the control of the subordinate is acquired, and that is normally established by reference to registration of the Public Deed for the merger at the Chamber of Commerce.

There will be no recognition of intangible assets, such as goodwill, in this type of operations and the costs related to the merger processes will be recognized in the profit or loss for the period.

### 4.14. Intangible assets and goodwill

The Bank records an intangible asset once it has established the existence of control, the separability of the asset, and the expectation that it will generate a future economic benefit. These characteristics are essential conditions of recognition. The initial measurement of intangible assets depends on the way that the Bank obtains the asset. An intangible asset may be obtained by separate acquisition, or as part of a business combination, or it may be internally generated by the Bank.

An intangible asset acquired in a separate transaction is measured at cost, which includes the acquisition price, tariffs, non-recoverable taxes and any costs directly attributable to the preparation of the asset for its intended use. In business combinations, the value of the cost of the asset will be that corresponding to its fair value at the acquisition date. For internally generated intangible assets, all disbursements in the research phase are recognized in the expense and those incurred in the development phase necessary to create, produce and prepare the asset to be able to operate as intended, will be capitalized.

Subsequent disbursements are capitalized only when future economic benefits increase, incorporated into the specific asset related to these disbursements. All other disbursements, including disbursements to generate capital gains and trademarks internally, are recognized in profit or loss when incurred.

The Bank will decide whether the useful life of an intangible asset is finite or indefinite. An intangible asset with a finite useful life is amortized, an intangible asset with an indefinite life is not. In the subsequent recognition intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life.

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

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

#### 4.14.1. Impairment of tangible and intangible assets except goodwill

At the end of each period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there are indications that they have suffered an impairment loss. If there are indications that they have, 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 individual cash-generating units, or otherwise, they are assigned to the smallest cash-generating units for which a reasonable and consistent distribution base could be identified.

Intangible assets with an indefinite life or which are not yet available for use, are subject to impairment testing at least once a year.

The recoverable amount is the higher between the fair value less the cost to sell and the value of the asset in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate before tax that reflects the current market view of 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 carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately in the Income Statement.

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

#### 4.14.2. Goodwill

Goodwill represents the excess paid over the fair value of assets and liabilities acquired in a business combination. Goodwill is initially recorded at fair value and subsequently updated by decreasing its value due to impairment losses.

Goodwill represents the future economic benefits arising from the business combination that are not individually identified and cannot be recognized separately. It is assigned to a cash-generating unit or a bank 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 subjected to impairment testing annually or whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with its recoverable value. If the carrying amount of the unit exceeds the recoverable amount, the entity will immediately recognize the impairment loss in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit, in the following order: first, the carrying amount of any goodwill allocated to the generating unit is reduced; and then, the other assets of the unit are reduced pro rata, on the basis of the carrying amount of each asset in the unit.

### 4.15. 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 asset groups; they are to be classified in the category of “other non- financial assets”; among them, for example, are works of arts and culture, prepaid expenses, foreclosed assets with restrictions on sale. They are measured at cost and are subject to impairment assessment using a matrix based on the risks of default with impact on profit or loss.

### 4.16. Leases

Leases are classified as financial when the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

-The Bank as Lessor

The amounts payable by lessees under financial leases are recognized as receivables (loan portfolio) for the amount of the loan made to the customer. Income from financial leases is distributed in the accounting periods to reflect a constant and regular rate of return on the net investment of the Bank with respect to leases.

The Bank´s Statement of Financial Position will present assets subject to operating leases in accordance with the nature of the asset. Costs incurred in obtaining leasing income, including depreciation of the asset, are recognized as expenses. Leasing income is recognized on a straight-line basis over the life of the lease. Depreciation and impairment of leased assets will be consistent with the policies for similar assets.

-The Bank as lessee

Assets held under operating leases are recorded in the income statement for the value of leasepayments using the straight-line method over the term of the leasing operation.

If incentives are received for having entered into an operating lease, they are recognized as a liability. The aggregate benefit of the incentives is recognized as a reduction of lease expense, on a straight-line basis.

### 4.17. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or other financial assets and when it is deemed to be or may be settled within a variable number of equity instruments; and if it is not a derivative.

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when the financial liability is (i) held for trading or (ii) is 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 repurchase in the near future; or

• It is 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 effective.

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 income includes any interest earned from the financial liability and it is recorded under the heading of 'other income and expenses' in the separate income statement. Fair value is determined as described in Note 8. The Bank designated derivatives as liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities (including loans and accounts payable) are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method is used to calculate the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts precisely 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 liability on initial recognition.

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

Subordinated debt and bonds are recorded at traded value, and are subsequently recorded at amortized cost, paid interest are recorded using the effective interest rate method, the costs of the issue are recognized and are charged as interest expenses.

This item also includes rediscount operations, in Colombian government programs for development lending to specific sectors of the economy, including foreign trade, agriculture, tourism, housing construction and other industries.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities if and only if its obligations have been discharged, or have been canceled or have expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in the Income Statement.

### 4.18. Income taxes

Strategy and tax policy

Based on its analysis and interpretation of tax regulations, the Bank complies with its fiscal obligations promptly and appropriately, identifying opportunities for improvement and optimizing resources for payment of taxes.

Updating, analysis and ongoing research of the regulations allow for the planning, implementation and effective decision-making and risk management in tax matters.

Current taxes

The current tax is the amount to be paid or recovered for the income tax, which is calculated based on the tax law sin force at the date of the Statement of Financial Position. Management regularly evaluates the position assumed in tax returns, regarding situations in which the tax laws are subject to interpretation and, if necessary, set up provisions on the amounts that it expects will have to be paid to the tax authorities.

Current tax is recognized in the Income Statement, omitting items recognized in the equity section or as Other Comprehensive Income .

Deferred taxes

Deferred tax is recognized in the income statement for the period, except for items that are recognized as equity or Other Comprehensive Income. Deferred tax liabilities are the amounts to be paid in the future for income tax related to taxable temporary differences, whereas deferred tax assets are the amounts to be recovered as income tax due to the existence of temporary deductible differences, compensable negative tax bases or deductions pending application. Temporary difference is defined as the difference between the carrying amount of the assets and liabilities and their tax base.

For buildings classified in property and equipment, and investment property, the applicable rate for the calculation of deferred tax corresponds to the approach of use of property, except in cases that are classified as held for sale, in which the rate used is the ordinary statutory rate; and for land, the applicable rate is the windfall profit rate if the asset has been owned for more than two years.

Recognition of tax timing differences

Deferred tax liabilities arising from taxable temporary differences are recognized in all cases unless they correspond to differences associated with investments in subsidiaries, associates and joint ventures where there is a capacity for control of the timing of reversion in the foreseeable future and it is expected that there will be future taxable profits to offset the differences.

Recognition of deductible timing differences

Deferred tax assets arising from deductible temporary differences are recognized provided that:they correspond to timing differences associated with investments in subsidiaries, associates and joint ventures to the extent that the timing differences will be reversed in the foreseeable future, and are expected to generate positive future tax gains to compensate for differences.

Tax planning opportunities are only considered in the evaluation of the recovery of deferred tax assets, if the Group intends to adopt them or is likely that it will adopt them.

Measurement

Deferred tax assets and liabilities are measured using the tax rates that apply in the periods in which it is expected to realize the asset or settle the liabilities, based on the regulations approved or are about to be approved, and once considered the tax consequences that will arise from the way in which the Bank expects to recover assets or liquidate liabilities.
At the balance sheet date, the Bank and its subsidiaries revise the carrying amount of deferred tax assets, and this is reduced to the extent that sufficient taxable income is no longer likely to be available to allow full or partial use of the deferred tax asset.

Netting and classification

The Bank only nets deferred income tax assets and liabilities if there is a legal right to do so with the tax authorities, and where the assets and liabilities refer to a single tax authority and a single taxpayer.

### 4.19. 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 surrounding the obligation. When a provision is valued using cash flows estimated to settle the present obligation, the carrying vaklue 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

Disputes analyzed are those with a probability of failure against the Bank, which should be recognized at fair value, recognizing the likely value of the fault and the estimated resolution date. 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 12.20.

### 4.20. Bank guarantees

Bank guarantees correspond to documents issued by the Bank to ensure compliance with one or more obligations in whole or in part, contracted by the customer in favor of third parties. In case of default by customers, the Bank will respond to the third party by paying the sum of money agreed in the document, and a credit 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 evaluated in accordance with IAS 37.

### 4.21. 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 by the funds received, net of direct issuance 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 and is not guaranteed.

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 mandatory reserve that is higher than regulatory parameters. At December 31, 2018 the reserve stood at $3,429,493 million, the required level being $38,392 million.

ii) Statutory and voluntary reserves – This account includes the following appropriations that must be approved by the General Meeting

• Reserve available to the General Meeting for future distributions of profits
• Voluntary reserve with irrevocable commitment to capitalization (Decree 2555/2010), applying benefits of calculation of the solvency margin
• Others

Other Comprehensive Income

This statement includes income and expenses items that are not recognized in profit or loss, such as unrealized gains on debt securities valued as equity, the effective portion of gains and losses on hedging instruments of net investment outside Colombia and the effect of the deferred tax of items 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.

### 4.22. Contingent accounts

These accounts record operations through which the Bank acquires a right or assumes an obligation whose coverage is conditional upon the future occurrence or lack of occurrence of a given event, depending on future, possible or remote factors. Among the debtor contingencies, financial yields are recorded from the time the accrual in the account receivable is suspended.

Contingencies for fines and penalties are analyzed by the Legal Department and its external advisors. The estimated contingent loss necessarily involves an exercise of judgment; it evaluates among other things: the merits of claims, case law on the point and the current state of the process.

A legal contingency by definition is a condition, situation or set of existing circumstances, which implies doubt as to possible gain or loss by the Bank of court proceedings or actions advanced against it that generate passive contingency; and this doubt is finally resolved when one or more future events occur or fail to occur.

### 4.23. Recognition of revenue and expense

Revenue is recognized when its amount 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 income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognized as earned using the effective interest method.

Operating income is recognized when performance obligations committed to the customer have been satisfied, in exchange for an amount of money reflecting the consideration agreed in a contract and to which the Bank is entitled. Operating income is therefore recognized upon completion of the following five stages:

Stage 1: Identify the contract(s) with the customer. The contract is an agreement between two or more parties that creates enforceable rights and obligations.
Stage 2. Identify performance obligations in the contract. Performance obligations are those arising from customer contracts to transfer an asset or provide a service (or group of goods and services)
Stage 3. Determine the transaction price. The transaction price is the contractual consideration to which a party expects to be entitled in exchange for the transfer of goods or services committed to the customer.
Stage 4. Allocate the transaction price across the performance obligations: the contract or transaction price (Stage 3) has to be distributed across the performance obligations determined in Stage 2.
Stage 5. Recognize revenues when (or to the extent) performance obligation is satisfied. The recognition of revenue takes place when the performance obligation committed to the customer has been effectively completed.

Commissions for banking services are recognized when performance obligations have been satisfied.

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 for profit on the sale of goods is recognized when the five stages doe recognition of operating incomes have been completed i.,e. when performance obligations related to the transfer of goods are satisfied.

### 4.24. 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 (MITDO - the senior 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.

## 5. Use of estimates and judgment

The Bank's management provided criteria, judgments and estimates In the preparation of these separate financial statements, 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. In the application of accounting policies, different types of estimates and assumptions were used. The administration made these value judgments, on the analysis of assumptions that were based articulately on historical experience and factors deemed 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 judgment in applying accounting policies

Instances of critical judgment 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 Separate Financial Statements.

Assessment of significant influence

The Bank determined that it has significant influence in the following companies:

| Name | % Held | No. Shares |
|---|---|---|
| Redeban Multicolor S.A. | 26.04% | 4,080,051 |
| Titularizadora Colombiana S.A. | 26.85% | 16,072,773 |

Key sources of uncertainty in estimates

The following are some of the key assumptions concerning the future and other key sources of uncertainties in estimates made at the end of the period. They carry a significant risk of causing significant adjustments to be made to the carrying amounts of assets and liabilities within the next year are as follows:

Fair value measurements and evaluation processes

Financial assets and liabilities that are 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 carried out with sufficient 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 External Circular
034 of 2014 indicating the use of information supplied by price providers in accordance with the instructions provided in the 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, mainly loans and long-term debt, although it does not involve a risk of adjustment to the carrying instruments is disclosed. The above is described in Note 12.4.

The fair values described are estimated using valuation techniques that include data that are observable and unobservable in a market. The main assumptions used in the valuation are described in the 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. The Bank makes this valuation with an external, specialized, independent consultant who is approved by the SFC.

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

As described in Note 4.10, 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. There were no changes of these estimates during the periods reported.

Impairment of fixed assets

The Bank reviews fixed assets for indications of impairment, and then calculates amounts recoverable on them to discover whether an impairment loss has in fact arisen. The recoverable amount is calculated by measuring fair value in a professional valuation,

Income tax

The Bank assesses the performance over time of deferred income tax asset, which represents income tax recoverable through future deductions from taxable profits and is recorded in the Separate Statement of Financial Position. Deferred tax assets are recoverable to the extent that the realization of the relative tax benefits is likely. As of 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 as taxable differences in the calculation of deferred taxes, will reflect the values to be paid for income tax in future periods.

Provisions and contingencies

A contingency needs to be classified with the use of  a reliable estimate of 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 Col-IFRS, as follows:

The classification of a contingency establishes the manner in which provisions should be recognized. Bank provisions are determined based on the probability established by the Legal Department 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 loan portfolio

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.

This evidence may include data indications that there has been an adverse change in the behavior of debtors in each loan portfolio (commercial, consumer, housing mortgages, microcredit and leasing) in the Bank or in the country or in local conditions of the economy that correlate with defaults on the assets of the Bank. Management uses estimates based on historical experiences of loans with similar risk characteristics and objective evidence of impairment similar to those loan portfolios when their future cash flows expire. The methodologies and assumptions used to estimate the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of investments

The Bank reviews its investments at the end of each period to discover whether the portfolio classifications justify recognition of an impairment provision where the investment is a low- or minimum-turnover security or is not listed. An adjustment is made at each valuation date based on the credit risk classification.

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: The effect on th Income Statement is recorded as and when customers redeem points.

Employee Benefits

- Short term benefits

Employee benefits in the short term are those that the Bank expects to pay completely 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 implicit obligation of the Bank shall be limited to the recognition of the amount that has been agreed with the employee, and are calculated based on a reliable estimate of the amounts payable. Spending is generated only based 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 purchase 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 Income Statement.

Post-employment benefits

These are different from the termination benefits and short-term benefits, and are paid after the employee terminates 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 constructive 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 Other Comprehensive Income.

Rate hedge benefit

A provision is made to match the hedging given as a hedging benefit for home-purchase loans under Bank policy.

Dismantling costs

The makes an annual estimate of the costs of dismantling, withdrawal from and rehabilitation of rented premises, as required by contracts, and as a consequence of installations required to use those premises.

## 6. Seasonality

The activities of the Bank and Subsidiaries have no cyclical or seasonal component and these Notes therefore do not include any specific breakdown at December 31, 2018.

## 7. New standards and interpretations issued but not yet effective

In the context of Decrees 2496 of December 2015, 2170 of December 2017 and 2483 of December 2018, the following applicable standards were issued to take effect in 2019. The Bank´s management is making an assessment of the impact of these standards.

**Standards applicable as of January 1, 2019**

**IFRS 16** - Leases

The Bank is required to adopt IFRS 16-Leases-as of January 1, 2019. An assessment been made of the estimated impact of initial application on the separate financial statements, as described below. The real impact may be different, because:

a) the Bank has not completed tests and assessments of controls of new applications; and
b) the new accounting policies are subject to change until the first financial statements including the date of the initial application are presented.

IFRS 16 introduces a uniform accounting model for leases on the Statement of Financial Position. The lessee recognizes the right use to use, which represents his right to use the underlying asset, and a liability for the lease payments, representing his obligation to make payments. The standard defines exemptions from recognition of short-term leases and rentals of low-value items. The accounting for the lessor continues to be similar to the current regulations, that is, the lessor continues to classify these payments as financial or operating items.

IFRS 16 replaces the existing guide for leases, including IFRIC17-Leases-and IFRIC 4, which determines whether an agreement contains a lease; IAS 15-Operating Leases,-Incentives, and IFRIC 27, Evaluation of the substance of transactions involving the legal format of a lease.

Leases in which the entity is the lessee

The Bank has initiated an evaluation of the potential impact on the financial statements; however, detailed work has not yet been completed. The real impact of the application of IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the leasing portfolio, and an evaluation as to whether any option for renewal of leases will be exercised, and the extent the extent to which the choice made to use| options and exceptions of recognition. The following is the main difference between standards IFRIC 17 and IFRS 16.

The Bank as lessee

The Bank will recognize new assets and liabilities for the present operating lease terms. The nature of the expenses related to these leases will change, because an expense will be recognized through the amortization charge on the asset for the right of use, and the interest expense on the liability for the lease.

With the previous standard -IAS 17- there was straight-line recognition of the lease expense along the whole term of the contract, and assets and liabilities were only recognized to reflect differences between the date of payment by the payment of the lease, and the date of recording of the expense.

With IFRS 16, the accounting of lease contracts in which the Bank is lessee will be similar to the current standard (IAS 17-Leases), that is, it will continue to classify financial leasing or operating leasing.

| **IAS 17** | **IFRS 16** |
|---|---|
| The Bank recognized the operating lease expense on a straight-line basis over the term of the lease, and the assets and liabilities were recognized only to the extent of which the timing difference is arises between real payments of rent and the expense recognized. | The Bank will recognize new assets and liabilities principally as operating leases. The nature of the expenses related to leases will change because IFRS 16 replaces the lease expense with a depreciation charge for the right of use of assets and interest expenses on liabilities for leases. |

At December 31, , 2018 future minimum lease payments of the Bank under a non-cancellable contract for operating leases totals approximately $1,377,442. This figure does not include the discount that the Bank expects from additional rentals

no significant impact expected from non-financial leases

Transition

The Bank plans to apply IFRS 16 on January 1, 2019 using the modified retrospective approach. The cumulative effect of the adoption of what IFRS 16 will therefore be recognized as an adjustment to the opening balance of retained profits at January 1, 2017, with no re-expression of comparative information

The Bank will apply IFRS 16 to all contracts current and made prior to January 1, 2019 and identified as leases under IFRS 17 and IFRIC 4.

**IAS 12** - Income Tax

This change refers to paragraphs on the recognition of the consequences of dividends on income tax as defined in IFRS9, when a dividend liability is recognized. The consequences of dividends will be recognized in income tax in results for the period, in OCI or in equity, depending on where these transactions or past events were previously recognized.

**IAS 23** - Loan Costs

This change affects paragraphs related to loan costs which should be excluded were applicable to loans specifically agreed to finance a suitable asset until substantially all the activities necessary for that asset to commence its expected use or sale have been completed.

**IAS 28** - Investments in Associates and Joint Ventures

This change establishes the option for an entity to measure an investment in associates or joint-venture at fair value through profit or loss.

**IAS 40 -** Investment Properties

This change modifies a paragraph referring to transfers from or to investment properties, only where there is a change of use of an asset

**IFRS 9 -**Financial Instruments

Characteristics of prepayment negative offset. This clarifies that the financial assets that contain the characteristics of prepayment with negative offset can now be measured at amortized cost or fair value through OCI, if they meet the other requirements of IFRS 9 as relevant.

**IFRS 3** - Business Combinations and **IFRS 11 -** Joint Ventures

When an entity obtains a controllable business which was formerly a joint venture, the requirements for a business combination made in stages will apply. When a party that participates in a joint venture without having joint control obtains that control of the joint venture which constitutes a business, it would not be necessary to make a new measurement of the interest previously held.

**IFRS 12** - Information to be disclosed on interests in other entities

The change clarifies the scope of the standard referring to subsidiaries, joint ventures and associates which are classified as non-current assets held for sale, or within a group for disposal.

**IFRS 22** - Foreign Currency Transactions and Advance Considerations

This is a new interpretation which clarifies when a foreign currency transaction should be recognized as a non-financial asset or liability arising from the payment or collection of an advance consideration before the entity recognizes the assets, expense or related the related asset expense or income.

The impact of these standards is in the process of evaluation by Bank management. The preliminary investigation suggests that there is no material impact.

## 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 makes the valuation taking into account the market in which the transaction would normally be conducted with the most available information.

The Bank assesses 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 and allocates them according to the 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.

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 each period reported. If circumstances require it, they are classed as non-recurring.

The following is the recurring measurement of assets and liabilities by type of instrument, indicating the level of hierarchy for each at December 31, 2018 and 2017.

| | Fair value December 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets | | | | |
| Investments in debt instruments issued and guaranteed | 6,033,176 | 5,542,423 | 328,869 | 161,884 |
| in pesos | 5,813,411 | 5,411,887 | 239,640 | 161,884 |
| Colombian Government | 4,208,044 | 4,193,572 | 14,472 | - |
| Financial institutions | 1,354,293 | 1,171,727 | 182,566 | - |
| Real sector entities | 42,831 | 229 | 42,602 | - |
| Other | 208,243 | 46,359 | - | 161,884 |
| in foreign currency | 219,765 | 130,536 | 89,229 | - |
| Colombian Government | 60,302 | 60,302 | - | - |
| Financial institutions | 133,088 | 58,148 | 74,940 | - |
| Real sector entities | 26,375 | 12,086 | 14,289 | - |
| Equity investments | 383,862 | 184,710 | 37,724 | 161,428 |
| through profit or loss | 51,562 | 13,838 | 37,724 | - |
| through OCI | 332,300 | 170,872 | - | 161,428 |
| Trading derivatives (*) | 433,671 | - | 433,671 | - |
| Currency forwards | 201,424 | - | 201,424 | - |
| Securities forwards | 119 | - | 119 | - |
| Interest rate swaps | 174,064 | - | 174,064 | - |
| Currency swaps | 34,218 | - | 34,218 | - |
| Other | 23,846 | - | 23,846 | - |
| *Total assets* | 6,850,709 | 5,727,133 | 800,264 | 323,312 |
| Liabilities | | | | |
| Trading derivatives (*) | 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 | - |
| *Total liabilities* | 507,580 | - | 507,580 | - |

(*) Not including spot operations

| | Fair value December 31, 2017 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets | | | | |
| Investments in debt instruments issued and guaranteed | 5,845,076 | 5,395,465 | 279,258 | 170,353 |
| in pesos | 5,645,207 | 5,195,596 | 279,258 | 170,353 |
| Colombian Government | 3,461,912 | 3,441,535 | 20,377 | - |
| Financial institutions | 1,888,279 | 1,659,984 | 228,295 | - |
| Real sector entities | 30,586 | - | 30,586 | - |
| Other | 264,430 | 94,077 | - | 170,353 |
| in foreign currency | 199,869 | 199,869 | - | - |
| Colombian Government | 58,085 | 58,085 | - | - |
| Financial institutions | 98,027 | 98,027 | - | - |
| Real sector entities | 29,302 | 29,302 | - | - |
| Other | 14,455 | 14,455 | - | - |
| Equity investments | 336,195 | 190,299 | - | 145,896 |
| through profit or loss | 17,621 | 17,621 | - | - |
| through OCI | 318,574 | 172,678 | - | 145,896 |
| Trading derivatives (*) | 335,359 | - | 335,359 | - |
| Currency forwards | 82,581 | - | 82,581 | - |
| Securities forwards | 225 | - | 225 | - |
| Interest rate swaps | 216,823 | - | 216,823 | - |
| Currency swaps | 13,899 | - | 13,899 | - |
| Other | 21,831 | - | 21,831 | - |
| *Total assets* | 6,516,630 | 5,585,764 | 614,617 | 316,249 |
| Liabilities | | | | |
| Trading derivatives (*) | 354,482 | - | 354,482 | - |
| Currency forwards | 91,838 | - | 91,838 | - |
| Securities forwards | 1,086 | - | 1,086 | - |
| Interest rate swaps | 229,828 | - | 229,828 | - |
| Currency swaps | 13,842 | - | 13,842 | - |
| Other | 17,888 | - | 17,888 | - |
| *Total liabilities* | 354,482 | - | 354,482 | - |

(*) Not including spot operations

The levels of fair value hierarchy were determined by an assessment was made of the methodologies used by the supplier of official prices and the expert judgment of the areas of treasury and risk, those with knowledge of the markets, inputs and approximations used for the estimation of fair values.

Methodologies applicable to the valuation of investments in debt and equity securities:

• Market Price: methodology applied to assets and liabilities that have sufficiently large markets in which the sufficient volume and number of transactions are generated to establish a starting price for each traded reference. This methodology, equivalent to a Level 1 hierarchy is generally used for investments in sovereign debt, 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 regarding recent quotes from the asset or liability in question or similar. This methodology, equivalent to a Level 2 is usually used for investments in debt titles of financial institutions and local corporate debt market infrequent issuers with low amounts outstanding. In the same way the credit content securities and senior portfolio mortgage securitizations are located at this level under this methodology.

• 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 2.92% of the 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.

Methodologies applicable for the valuation of financial derivatives

• 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.

During 2018 there were no transfers between fair value levels caused by valuation methods and variations in fair value are due to changes in the period of inputs used in the valuation of financial instruments.

The following is the movement of recurring-measurement financial instruments at fair value classed at Level 3:

| | Opening balance December 31, 2017 | Total profit (loss) P&L | OCI | Reclassifications | Purchases | Settlements | Closing balance December 31, 2018 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments in debt instruments issued and guaranteed | 170,353 | (2,015) | - | - | - | (6,454) | 161,884 |
| In pesos | 170,353 | (2,015) | - | - | - | (6,454) | 161,884 |
| Other | 170,353 | (2,015) | - | - | - | (6,454) | 161,884 |
| Equity investments | 145,896 | - | 4,032 | - | 11,500 | - | 161,428 |
| Through OCI | 145,896 | - | 4,032 | - | 11,500 | - | 161,428 |
| **Total assets** | **316,249** | **(2,015)** | **4,032** | **-** | **11,500** | **(6,454)** | **323,312** |

| | Opening balance December 31, 2016 | Total profit (loss) P&L | OCI | Reclassifications | Purchases | Settlements | Closing balance December 31, 2017 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Investments in debt instruments issued and guaranteed | 183,440 | (2,735) | - | - | - | (10,352) | 170,353 |
| In pesos | 183,440 | (2,735) | - | - | - | (10,352) | 170,353 |
| Financial institutions | 3,016 | (16) | - | - | - | (3,000) | - |
| Other | 180,424 | (2,719) | - | - | - | (7,352) | 170,353 |
| Equity investments | 117,630 | - | 37,339 | - | - | (9,073) | 145,896 |
| Through OCI | 117,630 | - | 37,339 | - | - | (9,073) | 145,896 |
| **Total assets** | **301,070** | **(2,735)** | **37,339** | **-** | **-** | **(19,425)** | **316,249** |

Fair-value measurement of instruments measured at amortized cost

The following are the Bank´s assets and liabilities at carrying value on December 31, 2018 and 2017:

| | Carrying value | December 31, 2018 Level 1 | 2 | 3 | Fair value |
|---|---|---|---|---|---|
| Assets | | | | | |
| Loans (net) | 64,425,872 | - | - | 65,395,393 | 65,395,393 |
| Investments at amortized cost (net) | 1,393,279 | - | 871,998 | 522,879 | 1,394,877 |
| Total financial assets | 65,819,151 | - | 871,998 | 65,918,272 | 66,790,270 |
| Liabilities | | | | | |
| Term deposits | 22,696,899 | - | 22,611,433 | - | 22,611,433 |
| Debt issued | 9,665,377 | 10,058,981 | - | - | 10,058,981 |
| Bank borrowings and other debt | 7,624,354 | - | - | 7,552,962 | 7,552,962 |
| Total liabilities | 39,986,630 | 10,058,981 | 22,611,433 | 7,552,962 | 40,223,376 |

| | Carrying value | December 31, 2018 Level 1 | 2 | 3 | Fair value |
|---|---|---|---|---|---|
| Assets | | | | | |
| Loans (net) | 58,380,096 | - | - | 58,406,641 | 58,406,641 |
| Investments at amortized cost (net) | 1,392,427 | 906 | 836,394 | 556,165 | 1,393,465 |
| Total financial assets | 59,772,523 | 906 | 836,394 | 58,962,806 | 59,800,106 |
| Liabilities | | | | | |
| Term deposits | 21,893,816 | - | 21,769,588 | - | 21,769,588 |
| Debt issued | 11,179,368 | 11,506,357 | - | - | 11,506,357 |
| Bank borrowings and other debt | 5,663,504 | - | - | 5,649,974 | 5,649,974 |
| Total liabilities | 38,736,688 | 11,506,357 | 21,769,588 | 5,649,974 | 38,925,919 |

## 9. Operating segments

The Bank determines the presentation of business operating segments based on the way information is organized and received. The segments are components of the business engaged in financial and banking activities that generate revenue and expenses and which are subject to effective accountability to secure optimum measurement of results, assets and liabilities. The Strategic Committee, led by the Bank´s President (MITDO) regularly evaluates the segments to ensure that the correct decisions are taken, appropriate resources are assigned to them and they perform as expected. With this organization, the operating segments are determined with the following considerations:

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 MITDO
c) The relationship with which differentiated financial information is available.

The operating segments are components of the Matrix, which include the results of the different countries where Davivienda is present, so that its results are classified and presented in the segments established by the Bank:

1. Personal 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. Business
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. Differentiated Financial Information ALM
The Differentiated Financial Information segment 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 re-expression by change, 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.

The results by segment of Banco Davivienda S.A. which were prepared under International Financial Reporting Standards and following the guidelines established by senior management for follow-up, are as follows:

**Results by segment**

December 31, 2018

| Income Statement | Personal | Business | Differentiated ALM (1) | Total Bank |
|---|---|---|---|---|
| Interest income | 4,615,637 | 2,612,953 | 473,547 | 7,702,137 |
| Interest expense | (330,219) | (1,521,195) | (1,005,205) | (2,856,619) |
| Net FTP (*) | (1,109,782) | 593,455 | 516,327 | - |
| Loan and receivables provisions net | (1,413,309) | (759,598) | (4,222) | (2,177,129) |
| Net financial margin | 1,762,327 | 925,615 | (19,553) | 2,668,389 |
| Revenues from commissions and services | 553,855 | 182,318 | 39,780 | 775,953 |
| Result of equity securities | - | - | 338,125 | 338,125 |
| Dividends | - | - | 68,257 | 68,257 |
| Operating expenses | (1,593,061) | (727,024) | (232,961) | (2,553,046) |
| Exchange and derivatives,. Net | - | - | 90,047 | 90,047 |
| Other incom,e and expenses, net | (10,939) | 27,266 | 14,286 | 30,613 |
| Operating margin | 712,182 | 408,175 | 297,981 | 1,418,338 |
| Income taxes | (92,621) | (148,262) | 17,427 | (223,456) |
| Net profit | 619,561 | 259,913 | 315,408 | 1,194,882 |
| Assets | 34,686,601 | 32,013,132 | 19,349,434 | 86,049,167 |
| Liabilities | 14,096,905 | 35,122,169 | 26,485,978 | 75,705,052 |

(1) Asset and liability management

* Net FTP: refers to transfer costs of funds between segments, systematically and consistently allocated internally in the Bank.

December 31, 2017

| Income Statement | Personal | Business | Differentiated ALM (1) | Total Bank |
|---|---|---|---|---|
| Interest income | 4,283,583 | 2,746,334 | 531,989 | 7,561,906 |
| Interest expense | (353,452) | (1,861,052) | (1,010,622) | (3,225,126) |
| Net FTP (*) | (1,096,015) | 567,580 | 528,435 | - |
| Loan and receivables provisions net | (1,311,013) | (464,891) | (1,243) | (1,777,147) |
| Net financial margin | 1,523,103 | 987,971 | 48,559 | 2,559,633 |
| Revenues from commissions and services | 541,438 | 204,589 | 33,710 | 779,737 |
| Result of equity securities | - | - | 262,305 | 262,305 |
| Dividends | - | - | 22,188 | 22,188 |
| Operating expenses | (1,499,640) | (665,462) | (211,945) | (2,377,047) |
| Exchange and derivatives,. Net | - | - | 67,836 | 67,836 |
| Other incom,e and expenses, net | (35,827) | 12,392 | 89,075 | 65,640 |
| Operating margin | 529,074 | 539,490 | 311,728 | 1,380,292 |
| Income taxes | (52,443) | (201,042) | (18,340) | (271,825) |
| Net profit | 476,631 | 338,448 | 293,388 | 1,108,467 |
| Assets | 31,276,463 | 28,985,966 | 18,229,452 | 78,491,881 |
| Liabilities | 12,891,477 | 33,610,510 | 22,445,178 | 68,947,165 |

(1) Asset and liability management

* Net FTP: refers to transfer costs of funds between segments, systematically and consistently allocated internally in the Bank.

During 2017 the method of calculation of FTP was changed to incorporate best practices. In order to produce comparative results, the methods were applied on a historic basis. This means that there are differences with figures presented for the close of 2016 in previous reports. Further, customer segmentation is reviewed each year and reclassifications are made where necessary, and this causes changes in the business units.

**Personal banking**

Accumulated profit at December 2018 in the personal banking segment totaled $ 619,561 million, up 30% on the accumulated results at December 2016. This was mainly due to growth in interest income, up 7.8% on 2017. The result of this segment accounted for 51.9% of the Bank´s total profit (2017, 43%).

The net financial margin of the personal banking segment in December 2018 was 15.7%
$ 239,224 million, mainly due to the increase in interest income (up $332,054 million compared to 2017) with growth in Home Mortgage (up 13.81%) Fixed Consumer (up 11-7%) and Payroll Installment credit (up 9.37%).

Loan provisions held the financial margin down, rising 7.8% compared to 2017. The increase carried greater weighting in Home Mortgage (up 190.11%) due to rollovers in Social Interest + residential leasing operations. Consumer Fixed operations rose 20.6%. There were also increased provisions in Home Mortgage and Consumer Fixed operations, due to risk policy adjustments introduced to ensure health growth in the portfolio.

Income from services increased by 2.3% or $12,417 million. The main increases came from Payments, up 5.36% and Payroll Installment credit, up 25.14%

Finally. Operating expenses increased 6.2% in 2018 to $93,421 million compared to 2017. There were major increases in the Deposit-Taking business lines – up 8.9% - due to across-the-board support expenses in leases for the new phase of Asset Mobilization; there was an increase in the tax expense, in particular, the Bank Transaction Tax, and in Deposit Insurance. There was also a major increase in transaction costs, when a digital strategy was implemented and this entailed extra expenses in areas such as biometric authentication, cloud services and transaction monitoring tools. Consumer Fixed operations grew 71.6%, due to selling expenses related to the large quantity of products disbursed (sales) which doubled over the year as a result of the mobile credit initiative.

**Business Banking**

The profit for 2018 fell 23.2% ($78,535 million) in 2018, accounting for 21.8% of the Bank´s total profit.

The net financial margin for this segment to December 2018 was 6.3% ($62,356 million) down on the total for 2017, as a result of a decline of 4.9% ($133,381 million) in interest income compared to 2017. This was due to an increase in non-performing loans (a decline of 180bp), in addition to the general fall in market rates. The Construction sector grew 8.31%(30,029 million).

Interest expense largely compensated for the reduction in income, down 18.3% ($339,857 million). Income was lower in all banks, but the main variation took place in Corporate Banking, down 19.23% ($337,038 million) compared to 2017, after a re-composition of deposit-taking by type of cost in which low-cost items increased 160bp.

Loan Provisions increased 63.4% ($294,707 million), affecting the segment´s financial margin. The main change came from Corporate Banking, where provisions rose 87.87% ($204,854 million) given that commercial lending risks were affected by the general slowdown in the economy, and further, by the effect of tax reforms on some sectors. The indicator for non-performing loans (classed C, D, E) rose 178 bp year-on-year. Corporate Banking was the worst affected due to specific exposure among customers with complicated financial situations in Engineering and Civil Works. Coverage was stable in line with 2017.

Commission and Service revenues fell 10.9% for the year. Again, Corporate Banking was the main cause, down 15.15% due mainly to changes in ATM commission revenues.

Finally, operating expenses increased 9.3% ($61,562 million) compared to 2017, due mainly to growth in Corporate Banking o 9.39%; and this in turn was justified by increases in Support costs of 16.31%, Deposit Insurance of 9.63% and support 23.65%, explained by rentals in the new phase if asset mobilization, higher tax liability – in particular Deposit Insurance and Bank Transaction Tax and Selling expenses 5.7%, in turn explained by the number of products disbursed (sold) which doubled in the year as a result of the Crédito Móvil initiative.

**Differentiated Financial Information ALM**

This segment closed with a profit growth of 7.5% ($22,020 million) during the year, This represents 26.4% of the Bank´s profits.

The net financial margin for this segment in December 2018 fell 140.3% ($68,112 million), due to a reduction in interest received by $58,442 million, reflecting the fall in market rates, and growth of $2,979 million in Loan and Receivables Provisions.

Investment profits rose 28.9% ($75,820 million), mainly due to the performance of the affiliates outside Colombia, with the strongest growth in Costa Rica and Honduras. Exchange and Derivatives grew 37.2% ($22.211 million) due to re-expression of own position. Other Income and Expense fell 84% ($74,789 million) compared to 2017, when there was windfall income due to asset mobilization and the sale of CIFIN.

Operating expenses grew 9.9% ($21,016 million) because the Bank is now in a new phase of asset mobilization; there were increased taxes – in particular Bank Transaction Tax – and Deposit Insurance, directly related to deposit-taking products.

## 10. Risk management

The Bank's 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 2014.

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.

**Principles and Policies**

• Risk management must match the nature and activities of the business. We only act in business that we understand and that will not upset economic stability or reputation. Companies will take the greatest care of their reputation

• The Bank has sector and regional specializations in its business. Any investment in different sectors or regions must be approved by the Board and the Holding Company after analysis of particular features and applicable regulations.

• 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 achievement of growth objectives must not lead the Bank to overexposures that generate present and future losses outside its appetite for risk.

• Companies will maintain sufficient liquidity levels on an ongoing basis.

• Companies 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 financial reporting objectives are the responsibility of the three lines of defense: the areas of business, sales and operations; risk; and 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 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 academic background, competences and experience needed

• 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 the Bank to manage conflicts of interest that may arise in decision-making.

• The organizational structure and design of processes must respond to business development, operational capacity and risk management requirements.

• Key areas and important processes must have specific follow-up in risk management to permit permanent stability in the Bank.

• There must be a robust system of processes to support the range of business needs and solid base of management of the risks special to the organization.

• The customer service model must assure clarity, promptness and transparency in information and communications to produce simple, friendly and reliable relations and provide effective attention to requests, complaints and claims arising.

• Relevant action must be taken to strengthen the culture of risk and compliance. Every officer must know and apply the risk management framework and have a clear and accurate idea of the types of activity and risk associated with his or her duties.

**General Framework**

The process of the Bank's comprehensive risk management is aligned to comprehensive corporate 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. Similarly 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 with two visions (1) a "top-down" vision in order to ensure its integrity, its consistency and interrelationship of the various risks; and (2) a "bottom-up," vision 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) 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.

**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 administered through the Vice President of Risk and Financial Control and the Investment Risk Vice-President, who report to the three-member Corporate Risk Committee of the Bank.

Board of directors

The members of the Davivienda's Board of Directors, as senior managers of corporate governance, make in-depth assessments of the risks associated with the business; and they support the work done by the oversight and control functions.

The authority, guidance and oversight of senior management all come from the Board of Directors; therefore its members must have adequate 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 comprehensive risk management mechanisms are aligned to the strategy and objectives of the Bank.

Audit Committee

• 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 control processes of the Corporate Risk Committee directives and the Board or equivalent authority
• Evaluation of workings of the corporate risk management process, ensuring that regulations for each risk are observed; identification of weaknesses and introduction of recommendations as 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.
• Proposals for the framework for appetite for risk for Board approval.

### 10.1. Risk management model

The Risk Management Division comprehensively identifies assesses and manages credit risk through the Credit Risk Division, with specialized Risk Departments for each banking segment: Personal, SME and Corporate and Business.

The Personal Banking Credit Vice Presidency is responsible for the assessment, management and collection of all credit lines in that segment. Approvals are based on a pyramid structure with defined authority limits. Similarly, there are credit committees which make collegiate decisions. There is a system of points or scores for each credit product, based on the Bank´s own historical information and there are evaluations of customer variables, record and indebtedness in the financial sector, the product and collateral. There are also methods developed to segment the universe of credit into homogeneous groups in order to arrive at a definition of individual risk levels. The Personal Banking Division manages and monitors products by business management area: payments, consumer business and home mortgages.

SME banking loan evaluations are the business of the Corporate Credit Division, responsible for applications, follow up of active accounts and recovery of delinquent accounts. The SME Credit Risk Department manages and monitors its area credit risk – Performing Assets, Agriculture, SME business.

The Corporate Credit Division manages credit facilities for domestic and foreign-owned businesses subject to oversight of rules and conditions set by the Superintendency of Corporations or other competent authority 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.

Market and liquidity risks are the responsibility of the Bolivar Group Investment Risk Division which defines method of calculation and suggests policies and controls for the various risks, all within the bounds of current general regulation.

The Board relies on the Financial Risks Committee and Investment and Risk Committees of the Unit Funds for evaluations and for authorization of alternative operations and investments of each company´s Treasury. The Asset and Liability Management Committee (C-GAP) has been delegated to define, follow up and control general policy in asset and liability management (market risk in the balance sheet structure) and liquidity risk management policies.

The Risk Division is responsible for managing operating risks by designing, implementing and maintaining the strategies, policies and procedures needed for information security and the definition of guidelines and policies for Operating Risk management in the Bank and Subsidiaries in Colombia. The Operating Risk Department and the Transaction Risk Department are responsible for this area of activity.

### 10.2. Risk Management system

#### 10.2.1. Credit risk

Credit risk is defined as the possibility that a borrower or counterparty fails to meet its obligations under the agreed terms, negatively affecting the value of the Bank's portfolio.

The object of credit risk management is to maximize the Bank's profitability, in line with the desired risk levels. This aim is achieved by maintaining the expected loss levels within acceptable parameters, without ignoring other phenomena of uncertainty which could affect portfolio performance.

There are three subprocesses for the successful implementation of the general process of credit risk management:

<u>Monitoring and Management of the Credit Portfolio</u>
The monitoring process and portfolio management have as their main objective the monitoring of the composition and quality of the portfolio, detecting concentrations, relevant segments, risk factors and articulating their management with the control and monitoring process of the credit risk. In this process, adjustments to business rules and credit policies according to the desired risk level for the product or strategy are proposed. Potential loan losses are monitored and analyzed. Strategies and effectiveness of collection efforts and their effect on the mitigation of loan losses are analyzed.

<u>Credit Risk Methodologies and Models</u>
This process involves the study, design, development and implementation of methodologies, models and tools for proper management of credit risk, and sensitization of portfolios to changes in economic scenarios.

<u>Credit Risk Monitoring and Control</u>
The main purpose of the control process and the monitoring of credit risk is to ensure compliance and proper implementation of the definitions established by the Board and the Risk Committees. The controls and monitoring are put in place, implemented and coordinated with the Credit Cycle units in the context of actions required to prevent deviations from the strategy defined by the Bank.

**Organizational Structure for Credit Risk Management**

The Bank manages credit risk for Colombia from the Risk Division, whose internal structure is aligned with the internal segmentation of the Bank with credit risk functions for Personal banking, SME business and Corporate banking. There are two transverse areas – Credit Risk Models mand Methods and Risk Information Management and Analysis – that promote and protect appropriate control systems for each credit risk.

In line with Credit Risk Management processes, the Board is responsible for setting up the Credit Risk Management System and elements needed to harmonize it with the organization´s strategy and current regulations.

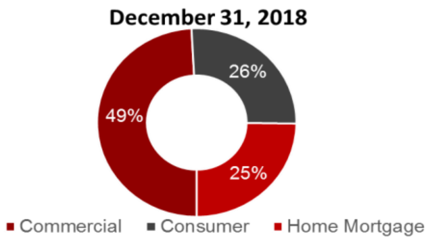
The Board defines and establishes the structure of the four Credit Risk Committees for personal Banking, SME and corporate Banking the Credit Risk for loan classification as specialized bodies and coordinators in credit risk management and the only collegiate bodies with attribution to recommend policies and authorization rules and / or provisions relating to the management of credit risk, portfolio recovery and loan classification under the government process established and with the sole purpose of materializing the policies established by the Board.

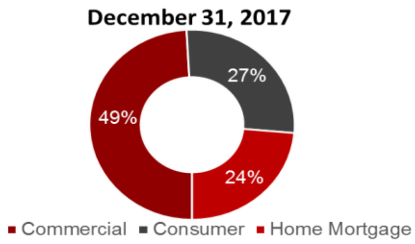
Credit Risk Management Procedure Manual (MARC) represents the navigation chart for the Credit Risk Management System, describing our culture, policies, methods, rules and general procedures. It is the instrument, for the re4cording, and orderly and systematic transmission of information to the organization in this area.

## Credit risk exposure - Portfolio Composition

The Bank's portfolio 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 Housing –VIS-, Traditional – High-value VIS- and Residential Leasing) respectively and the commercial portfolio corresponds to loans to finance corporate and business needs.

At December 31, 2018, the portfolio has a value of $68,083,745 million; of which Personal banking accounted for 51% and business banking 49%, showing that personal banking had gained share since the close of 2017:




The commercial portfolio includes a microcredit portfolio

At the close of 2018, the loan portfolio of Banco Davivienda grew 10.98% over the previous year. It is still plain, however, that performance is associated with that of the economy in general in Colombia. The home mortgage portfolio was strongest (up 16.68%) compared to 2017, in particular Social Housing + loans(up 29.5%) and Residential Leasing (up 167.7%) . Social Housing grew 9.1%.

Consumer credit increase 6% as a result of policy adjustments introduced to mitigate the results of the current economic situation. Consumer Fixed credit rose most strongly (20%), driven by the Bank´s digital strategies.

Commercial lending grew 11.01%, the largest element being Corporate Banking. The dynamics of growth were felt mainly in economic sectors related to Official Banking (up 10.8%) , Capital and Service Investment (up 17.3%)

SME has grown more slowly than in 2017, up only 7.5% at December 2018,, mainly due to growth of 9.1% in Medium Enterprises (companies with sales of US$1.7 - 10 million equivalent) and 12.1% in agro-sector business. The slowdown in this segment matched the slowdown in the real sector as a whole and in small (sales under US$1.7 million equivalent) in particular, which grew only 1.6%.

The chart below shows loan quality, provisions and provision coverage:

| Business line | Balance | Loans CDE | Provision | Coverage | Δ Balance | Δ Provision |
|---|---|---|---|---|---|---|
| Commercial (1) | | | | | | |
| December 31, 2017 | 30,148,459 | 7.77% | 1,309,004 | 55.89% | 4.55% | 36.34% |
| December 31, 2018 | 33,466,585 | 9.47% | 1,899,294 | 59.91% | 11.01% | 45.09% |
| Consumer | | | | | | |
| December 31, 2017 | 16,713,093 | 6.88% | 1,292,869 | 112.51% | 9.97% | 19.84% |
| December 31, 2018 | 17,716,376 | 6.89% | 1,304,451 | 106.93% | 6.00% | 0.90% |
| Home mortage (2) | | | | | | |
| December 31, 2017 | 14,485,157 | 2.62% | 364,740 | 95.95% | 14.82% | 14.28% |
| December 31, 2018 | 16,900,784 | 3.57% | 454,128 | 75.19% | 16.68% | 24.51% |
| **Total** | | | | | | |
| **December 31, 2017** | **61,346,709** | **6.31%** | **2,966,613** | **76.63%** | **8.29%** | **25.81%** |
| **December 31, 2018** | **68,083,745** | **7.34%** | **3,657,873** | **73.24%** | **10.98%** | **23.30%** |

(1) Includes microcredit portfolio
(2) Includes staff loans – staff benefits deducted
The variation from December 2017 is calculated as Dec 2016 to Dec 2017. The variation for Dec 2018 is Dec 17 – Dec 2018

The commercial portfolio was affected in its risk levels as a result of the economic slowdown, and the impact of a tax reform on some sectors of the economy. The indicator for non-performing loans (Classed C, D, E) increased170 bp on 2017, Corporate Banking being the worst affected. This situation arose from specific exposure to customers in Engineering and Civil Works. Cover was stable over the year.,

At the close of 2017 SME loans increase 100bp in the CDE indicator, from 8.1% in December 2017 to 9.1% in December 2018. This was due to the impairment of SME Business (sales under US$10 million, equivalent excluding commercial leasing and performing vehicle purchase loans) and customers in transport, textiles, commerce and contractors. This was in line with the decline in the economy as a whole. SME cover was down 600bp to 73.245 in December 2018.

The indicator for non-performing loans (Categories C, D and E) increased 69 bp from 2016, and the portfolios most affected by growth in CDE loans were Personal loans and vehicle purchase loans. Performance in this portfolio is stable as a result of policy implementation and loan follow-up.

As a consequence of these factors, while loan balances increase slightly, the consumer loan provision rose $11,582 million. The movement of the loan indicator and the provisions brought cover down from 112.5%. in 2017 to 106.9% in 2018.

The non-performing loan indicator for Home Mortgage loans rose 95bp compared to 2017. This was due to growth in the portfolio and rollovers in Social Housing and Social Housing. There are policy adjustments in train, however, which should secure health growth in the portfolio.

The investment portfolio concentrates mainly on sovereign debt of countries where Davivienda operates, and in the interest in of keep to a chief aim of forming a liquidity reserve. The portfolio concentrates on low-risk high-liquidity assets. There are also positions in corporate debt issues – most of the debtors are well-known, habitual users of the market and with good credit ratings – and securitizations of mortgage loans. For 2018, 57% of investments were in Colombian public debt, 33% were private debt, and 10% in securitizations. The composition of the portfolio reflects the Bank´s appropriately conservative risk management- following management policy.

The consolidated exposure to credit risk includes Davivienda-Colombia´s loan portfolio and treasury operations subject to counterparty credit risk. The following table shows the comparative exposure separating the book value of financial assets between those that are guaranteed with some collateral that depends on the nature of the product and / or the counterparty and those that are granted without guarantee.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | With collateral | No collateral | With collateral | No collateral |
| Debt instruments at fair value | 3,048 | 6,463,824 | 13,381 | 6,167,107 |
| Colombian government | - | 4,268,346 | - | 3,519,998 |
| Financial institutions | - | 1,487,381 | - | 1,986,306 |
| Real sector | - | 69,207 | - | 59,888 |
| Other | - | 208,243 | - | 278,884 |
| Derivatives | 3,048 | 430,647 | 13,381 | 322,031 |
| Debt at amortized cost | - | 1,397,372 | - | 1,395,386 |
| Investments in debt | - | 1,397,372 | - | 1,395,386 |
| Loans | 35,913,340 | 32,170,405 | 32,703,816 | 28,642,893 |
| Commercial | 17,149,613 | 16,316,972 | 16,287,872 | 13,860,588 |
| Consumer | 1,862,943 | 15,853,433 | 1,930,787 | 14,782,305 |
| Home mortgage | 16,900,784 | - | 14,485,157 | - |
| Total financial asets with credit risk | 35,916,388 | 40,031,601 | 32,717,197 | 36,205,386 |
| Off-balance sheet credit risk | 7,844,193 | 16,852,814 | 13,251,331 | 6,967,521 |
| Credit limits | 7,844,193 | 16,852,814 | 13,251,331 | 6,967,521 |
| **Total maximum exposure to credit risk** | **43,760,581** | **56,884,415** | **45,968,528** | **43,172,907** |

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 year-end 2018, el 53% of the portfolio exposure is backed by collateral: The commercial portfolio has collaterals like mortgages, liens, cash collateral, escrows, guarantees granted by the National Guarantee Fund (FNG) and the Agricultural Guarantee Fund (FAG) among others, covering 51% of the exposure.

Consumer loans are mostly unsecured, except for vehicle loan pledges, free-use personal loans with mortgage guarantees (11% of consumer exposure). In particular , unsecured consumer include payroll installment loans with guaranteed collection. The balance of payroll installment loans represents about 36% 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.

**Collateral**

Collateral is a means of reducing expected loss (EL) in the event of default. Collateral represents a right which the Bank acquires that a debtor defaults and ceases payments.

The Bank´s credit approvals must include the collateral backing involved.

The analysis of the collateral must consider the following:

• Suitability: As defined in law.

• Legality; Formal documentation must provide legal support for collection of loan amounts.

• Value: established in technical and objective criteria.

• Possibility of realization: There must be a reasonable possibility of collecting against the collateral.

For consumer loans, the Bank applies a valuation process that omits collateral values but applies the practice of recording only the “no-collateral” in provisioning LGD except in payroll instalment.

Home mortgage loans must carry an open first mortgage on the property financed, Mortgages are to be formalized as a public deed, notarized and recorded in the Urban and Rural Property Register and with a Property Valuation Index.

The updating of the realizable value of the collateral for mortgage-guaranteed loans applies annual adjusment values of the Official Indicators IVIUR and IVP, as the case may be.

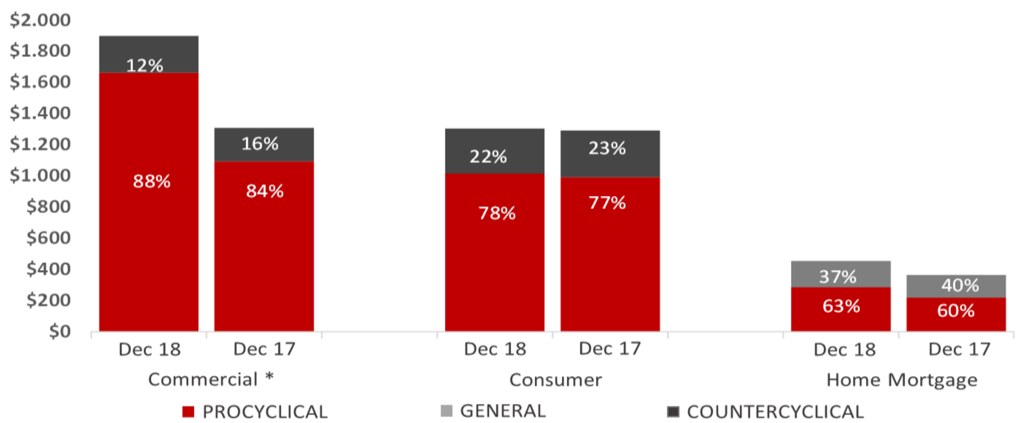
**Provisions estimated for credit risk**

The Bank in its credit risk policy measurement has implemented the CRM (Commercial Reference Model) and the Consumer Reference Model (MRCO) as established by the Colombian Financial Superintendence. In the case of the restructured portfolio, the Bank has a methodology of internal rating that recognizes the risk of this portfolio during the first months after the restructuring, estimating risk levels in some cases above of what results from applying the reference models.

Similarly, the Bank implemented the provisions’ calculation methodology with a countercyclical approach, as required by the SFC, for consumer and commercial loans.

As for the housing and microcredit portfolios, the Bank continues to apply the existing SFC rules to classify and charge provisions.

The composition of commercial, consumer and home mortgage loan provisions is as follows:




* Includes microcredit

At December 31, 2018, the total provision of the Bank's portfolio was $ 3,657,873 million, equivalent to 5.4% of the total portfolio, which implies a 23% increase over the provision at December 2017. This increase is explained among other factors by the regulatory changes in SFC Circular 26/2017 and the impairment of the portfolios mentioned.

The increase in provisions deriving from the commercial portfolio is mainly reflected in sectors such as: energy and mass transportation, with increases from 35.6% to 46.9% over last year.

**Changes in provisions during the year**

The SFC, aiming to promote a healthy origination and growth in consumer credit, published Circular 026 in 2012, setting a transitory percentage of additional individual provisions on consumer loans. The percentage applies to consumer loans conditional on a positive figure on the indicator for the accelerator that measures the acceleration of the annual indicator for accounts in arrears. It ceases to be mandatory if the indicator is zero or less for six consecutive months or more. The indicator has been negative for the Bank since October 2017, and therefore no provisions have been made at this close to set a figure for 2018.

In July 2018 the loan provision for payroll instalment operations as made as required in Circular 13/2018, setting LGD percentages for loans of this product disbursed as o f that month.

As a result of SFC Circular 26/2017, it should be noted that SFC has given instructions to change the process of redefinition of terms for loans to debtors whose capacity to pay has deteriorated in line with the economy ass a whole.

**Risk Management for Derivatives**

The operation of derivative financial instruments and products structured in Banco Davivienda's Treasury is part of the scheme of risk policies based on the following minimum guidelines:

• Authorized market or product.
• Counterparty limits and authorized credit, admissible collateral mechanisms in credit risk mitigation, concentration of credit exposure by the counterparty and / or sector, and overall credit exposure of the company.
• Conclusion of framework contracts and / or ISDA considering in due diligence an analysis if clauses related to credit risk mitigation, early termination and breach.
• Counterparts authorized, even for cases where a central counterparty risk clearing house is involved..

The Bank applies these criteria in focusing its derivatives business between distribution and speculation, concentrating its counterparties in the financial sector and in high-rating short and medium term real sector operations.

The information of financial derivative instruments is presented in note 12.4.

### 10.2.2. Market Risk and Liquidity Risk Management

The Investment Risk Division is the instance to which the Board of Directors of each company delegates the responsibility for the assessment of existing risks, the identification of new ones, and the definition of calculation methodologies, policy suggestions, and control of risks of all kinds.

The Administration and Risk Management the companies owned by Grupo Bolívar is conducted through a strategy for synergy between the companies, consolidating a Market and Liquidity Risk Department for all of the companies, in order to optimize technological and human resources. The Market and Liquidity Risk Department accountable to the Vice-President of Investment Risk of Grupo Bolívar, following the guidelines of the Vice-President for Risk and Financial Control and of the Corporate Risk Committee.

For this purpose it has been established that the Financial Risk Committee (FRC) of Grupo Empresarial Bolivar, the Assets and Liabilities Management Committee (C-ALM) or his substitute, the Assets and Liabilities Foreign Currency Management Committee ( C-ALM ME), the Market Risk Committee, and the Board of Directors of each entity in the Group are the bodies responsible for defining institutional policies regarding exposure to various financial risks, in line with the financial structure and operation of each of the entities, as well as its strategy and corporate objectives.

Further, the Financial Risk Management Manual for Grupo Empresarial Bolivar (MARF) consolidates management and financial risk aspects as well as management and treasury liquidity in Group companies; and it is the document that establishes the management system required.

The companies thus have a robust structure designed and implemented for risk exposure limits, helping them to be able to control the portfolios and the activities undertaken in managing them m. They are defined for each company, among others, to set limits in investments and counterparty portfolios, operator limits, value at risk, sensitivity, duration, term, and various early warnings to monitor and control the operation.

The Board delegates to CRF and to the Investment and Risk of Mutual Funds Committees as appropriate, the responsibility to evaluate and authorize the various operating alternatives and investments between the Treasuries of each of the Companies, and the C-ALM, or its successor, the definition, monitoring and control of general policies for the managing of assets and liabilities (market risk of the Balance Sheet structure), as well as the management policies for liquidity risk.

### 10.2.2.1. 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 relevant to the >Bank´s activities.

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

• Consistency between expected return and level of exposure tolerated.
• Participation 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.

**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 2018 was at $7,814,410 million, according to the business models mentioned:

| | | | Variation | |
|---|---|---|---|---|
| Business model | December 31, 2018 | December 31, 2017 | $ | % |
| Trading | 2,020,616 | 1,221,757 | 798,859 | 65.39 |
| Structural | 5,793,794 | 6,354,900 | (561,106) | (8.83) |
| Liquidity reserve | 4,678,810 | 5,194,468 | (515,658) | (9.93) |
| Balance sheet management | 1,114,984 | 1,160,432 | (45,448) | (3.92) |
| Total | 7,814,410 | 7,576,657 | 237,753 | 3.14 |

The most significant amount of the investments corresponds to the reserve to meet liquidity demands, followed by trading investments, the area which grew fastest in 2018 due to expectations of changes in central bank monetary policy. There was no change in volumes of trading for balance sheet management.

The accounting classification rules for investments are associated with the business models with which the portfolios are managed. As of December 2018, gross portfolios were classified as follows:

| | | | Variation | |
|---|---|---|---|---|
| Accounting | December 31, 2018 | December 31, 2017 | $ | % |
| Trading | 4,489,505 | 4,386,980 | 102,525 | 2.34 |
| Available for sale | 1,927,533 | 1,794,291 | 133,242 | 7.43 |
| Held to maturity | 1,397,372 | 1,395,386 | 1,986 | 0.14 |
| | 7,814,410 | 7,576,657 | 237,753 | 3.14 |

Most investments are classified as negotiable and available for sale, as liquidity reserve and trading portfolios, given their nature of possible sale at market prices, should reflect the settlement price or fair value. At December 2018, the volume of trading investments increased 3.14% as a result of changes in strategy.

**Measurement of market risk**

The measurement of market risk quantifies the potential loss due to changes in risk factors that affect the valuation of the institution's expected results. For this the setting of the parameters and tools for measuring as well as for the generation of reports, analysis, and periodic assessments of the senior management and risk taking areas is required.

The market risk management system in Davivienda allows the Bank to identify, measure and control the risk to which the positions of the balance sheet are exposed to, based on the principle of business model. For this, it has a limit scheme that serves the purpose of each business unit. The trading portfolios, which are composed by 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 serve a structural mandate consist of debt instruments whose structure is defined by a long-term vision which can be complemented with derivative financial instruments in order to reduce the sensitivity of the portfolios to adverse movements in interest rates.

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

**Interest rate and exchange risk**

Davivienda uses the SFC standard measurement model, control and management of market risk, focusing on consumption and capital allocation. This methodology starts from the mapping of the asset and liability positions of the investment portfolio subject to changes in interest rates in certain areas and bands starting from the duration of each instrument. It also includes the net exposure to exchange rates of the Treasury and Bank books.

As a complement the Bank uses the RiskMetrics methodology developed by JP Morgan, which provides a parametric VaR approach. Likewise, the calculation scheme includes measurements of absolute VaR, Component VaR (CVaR) and relative VaR. Depending on the type of portfolio, it define which are the best complementary
measures to be used. The model has tools to analyze the effects on the portfolios in the face of market stress scenarios (stress test), as well as mechanisms for performance evaluation of the model through backtesting analysis. These measurements are applied at a consolidated level, at company level and at product level.

The backtesting process is intended to validate the VaR model and its predictive power with respect to the actual evolution of income / loss from the investment portfolios. This performance test is based on the Kupiek test (1995), generating a statistical measure of confidence in the model taking a significant number of observations (255 data). Also, clean and dirty tests of the model are performed by portfolio, asset class and product on a weekly and monthly basis.

According to the standard model, the value at risk for the investment portfolio of the consolidated balance sheet as of December 31, 2018 and December 31, 2017 was as follows:

Maximum, minimum and average values of the Value at Risk

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Minimum | Average | Maximum | Final |
| Interest rate | 129,007 | 146,026 | 166,111 | 129,007 |
| Exchange rate | 112,318 | 141,696 | 176,269 | 176,269 |
| Equities | 769 | 1,070 | 1,292 | 769 |
| Unit funds | 448 | 1,360 | 6,080 | 6,080 |
| VaR | 254,407 | 290,151 | 319,415 | 312,125 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Minimum | Average | Maximum | Final |
| Interest rate | 100,991 | 130,044 | 181,995 | 150,157 |
| Exchange rate | 52,712 | 66,590 | 120,955 | 120,955 |
| Equities | 972 | 1,930 | 3,472 | 1,188 |
| Unit funds | 268 | 639 | 1,522 | 448 |
| VaR | 159,786 | 199,203 | 272,748 | 272,748 |

In addition to management under normal conditions, Davvienda makes stress scenario measurements based primarily on quantitative techniques, seeking to find through relationships between variables and the worst historical scenarios in order to assess how the generated volatilities and devaluations that were evidenced under these scenarios may impact the current portfolio and thus quantify the capital that the company would require if it were in a crisis. Davivienda uses, statistical tools to apply these worst scenarios to the current situation of the portfolio.

Two stress estimation methodologies, have been implemented in the framework of quantitative techniques,. The first, is a stressed VaR, which represents the maximum expected extreme loss in one day according to historical events (stress scenarios). It represents the estimated value at stressed risk for a given time using volatilities and EWMA correlations.

The second technique is a sensitivity analysis based on the largest depreciations, recorded along local and international financial crisis, with which portfolios are impacted in the different risk factors.

**Risk of changes in exchange rates**

Davivienda is exposed to changes in the exchange rates, first as a product of its international presence through its subsidiaries in the Central American and U.S. markets, and secondly because of its trading activities in the foreign exchange market.

The Bank Book has exposure to currencies such as the U.S. dollar, the Honduras Lempira and the Costa Rica Colon. These exposures are the result of the presence that Davivienda has in these countries through its Subsidiaries and are managed by hedging strategies that seek to reduce the sensitivity of the income statement and of the equity. The hedges are defined in terms of the depth of market instruments for each currency and on the basis of a prospective analysis of economies and the situation of the market.

The exchange position in the balance sheet is managed in the context of Colombian Central Bank regulations, which impose certain restrictions depending on the assets of the entity, and maximum long and short currency positions.

The most significant balance sheet positions in foreign currency are in U.S. dollars, followed by the positions of the Central American currencies, as detailed below.

The net positions (assets minus liabilities) in currencies are presented below.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Currency balance | Peso currency | Currency balance | Peso currency |
| US Dollar | (137) | (445,052) | (118) | (353,261) |
| Lempira | 3,550 | 473,984 | 3,327 | 420,850 |
| Colons | 161,258 | 867,299 | 94,017 | 495,163 |
| Other* | (1) | (2,358) | (9) | (27,100) |
| Total | | 893,873 | | 535,652 |

* Figures in US dollars

The estimated effect for the increase or decrease by 1% in the exchange rate of the US dollar, keeping the other exchange rates constant, compared to the current exchange rate on December 31, 2018, would be +/- 8,962 million for all relevant positions on the currency balance sheet (US Dollar, Lempira, Colon).

**Interest rate risk in the balance sheet structure**

The financial assets and liabilities of the Bank are exposed to possible fluctuations in market rates and prices. These variations have a direct impact on net interest income and results of the entity. For this reason, methodologies are used to sensitize financial instruments to changes in rates, and track the assets and liabilities, their maturities and repricing.

The sensitivity of interest-bearing assets and liabilities at financial cost is presented below. At December 31, 2018, an increase or decrease of 50 basic points in interest rates could have caused a decrease or increase, respectively, of $34,582 in the Bank's margin throughout the year. For 2017 this sensitivity would have been 35,848.

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Month average | Income/expense | Average rate | Impact Δ50 pb Increase | Impact Δ50 pb Decrease |
| Interest earning financial assets | | | | | |
| Money-market operations | 692,703 | 32,841 | 4.7% | 3,463 | (3,463) |
| Local currency | 581,236 | 26,969 | 4.6% | 2,906 | (2,906) |
| Foreign currency | 111,467 | 5,872 | 5.3% | 557 | (557) |
| Investment in trading debt and avaialable for sale | 5,543,048 | 287,357 | 5.2% | (5,185) | 5,185 |
| Local currency | 5,335,354 | 282,332 | 5.3% | (4,324) | 4,324 |
| Foreign currency | 207,694 | 5,025 | 2.4% | (861) | 861 |
| Investments in debt held to maturity | 1,385,128 | 76,471 | 5.5% | 6,926 | (6,926) |
| Local currency | 1,385,128 | 76,471 | 5.5% | 6,926 | (6,926) |
| Loans | 64,550,910 | 7,312,783 | 11.3% | 204,709 | (204,709) |
| Local currency | 59,554,140 | 7,023,526 | 11.8% | 179,752 | (179,752) |
| Foreign currency | 4,996,770 | 289,257 | 5.8% | 24,957 | (24,957) |
| Total assets in in local currency | 66,855,858 | 7,409,298 | 11.1% | 185,260 | (185,260) |
| Total assets in foreign currency | 5,315,931 | 300,154 | 5.6% | 24,653 | (24,653) |
| **Interest earning assets** | **72,171,789** | **7,709,452** | **10.7%** | **209,913** | **(209,913)** |
| Interest-bearing liabilities | | | | | |
| Public deposits | 50,350,297 | 1,859,464 | 3.7% | 176,142 | (176,142) |
| Local currency | 48,952,145 | 1,836,620 | 3.8% | 172,255 | (172,255) |
| Foreign currency | 1,398,152 | 22,844 | 1.6% | 3,887 | (3,887) |
| Bonds | 9,303,727 | 660,842 | 7.1% | 27,310 | (27,310) |
| Local currency | 7,796,190 | 566,043 | 7.3% | 27,310 | (27,310) |
| Foreign currency | 1,507,537 | 94,799 | 6.3% | - | - |
| Money market operations | 1,622,184 | 56,252 | 3.5% | 8,111 | (8,111) |
| Local currency | 1,586,623 | 55,593 | 3.5% | 7,933 | (7,933) |
| Foreign currency | 35,561 | 659 | 1.9% | 178 | (178) |
| Boank borrowings | 6,586,292 | 266,687 | 4.0% | 32,931 | (32,931) |
| Local currency | 2,081,005 | 120,006 | 5.8% | 10,405 | (10,405) |
| Foreign currency | 4,505,287 | 146,681 | 3.3% | 22,526 | (22,526) |
| Liabilities in local currency | 60,415,963 | 2,578,262 | 4.3% | 217,903 | (217,903) |
| Liabilities in foreign currency | 7,446,537 | 264,983 | 3.6% | 26,591 | (26,591) |
| **Total interest-bearing liabilities** | **67,862,500** | **2,843,245** | **4.2%** | **244,494** | **(244,494)** |
| **Total net financial assets exposed to interest rate risk** | **4,309,289** | **4,866,207** | | **(34,582)** | **34,582** |
| Local currency | 6,439,894 | 4,831,036 | | (32,643) | 32,643 |
| Foreign currency | (2,130,605) | 35,171 | | (1,939) | 1,939 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | | | Impact Δ50 pb | |
| | Month average | Income/expense | Average rate | Increase | Decrease |
| Interest earning financial assets | | | | | |
| Money-market operations | 953,393 | 42,012 | 4.4% | 4,767 | (4,767) |
| Local currency | 857,641 | 38,235 | 4.5% | 4,288 | (4,288) |
| Foreign currency | 95,752 | 3,777 | 3.9% | 479 | (479) |
| Investment in trading debt and avaialable for sale | 4,940,145 | 335,191 | 6.8% | (2,608) | 2,608 |
| Local currency | 4,758,789 | 331,281 | 7.0% | (1,625) | 1,625 |
| Foreign currency | 181,356 | 3,910 | 2.2% | (983) | 983 |
| Investments in debt held to maturity | 1,427,385 | 97,371 | 6.8% | 7,137 | (7,137) |
| Local currency | 1,427,385 | 97,371 | 6.8% | 7,137 | (7,137) |
| Loans | 59,435,160 | 7,097,054 | 11.9% | 184,537 | (184,537) |
| Local currency | 54,469,766 | 6,842,790 | 12.6% | 159,750 | (159,750) |
| Foreign currency | 4,965,394 | 254,264 | 5.1% | 24,787 | (24,787) |
| Total assets in in local currency | 61,513,581 | 7,309,677 | 11.9% | 169,550 | (169,550) |
| Total assets in foreign currency | 5,242,502 | 261,951 | 5.0% | 24,283 | (24,283) |
| **Interest earning assets** | **66,756,083** | **7,571,628** | **11.3%** | **193,833** | **(193,833)** |
| Interest-bearing liabilities | | | | | |
| Public deposits | 47,475,322 | 2,202,114 | 4.6% | 167,384 | (167,384) |
| Local currency | 46,096,003 | 2,187,311 | 4.7% | 163,802 | (163,802) |
| Foreign currency | 1,379,319 | 14,803 | 1.1% | 3,582 | (3,582) |
| Bonds | 10,022,678 | 687,539 | 6.9% | 28,731 | (28,731) |
| Local currency | 7,037,388 | 553,544 | 7.9% | 28,731 | (28,731) |
| Foreign currency | 2,985,290 | 133,995 | 4.5% | - | - |
| Money market operations | 1,591,811 | 95,285 | 6.0% | 7,959 | (7,959) |
| Local currency | 1,584,597 | 95,238 | 6.0% | 7,923 | (7,923) |
| Foreign currency | 7,214 | 47 | 0.7% | 36 | (36) |
| Boank borrowings | 5,121,591 | 218,111 | 4.3% | 25,608 | (25,608) |
| Local currency | 1,785,305 | 124,538 | 7.0% | 8,927 | (8,927) |
| Foreign currency | 3,336,286 | 93,573 | 2.8% | 16,681 | (16,681) |
| Liabilities in local currency | 56,503,293 | 2,960,631 | 5.2% | 209,383 | (209,383) |
| Liabilities in foreign currency | 7,708,109 | 242,418 | 3.1% | 20,299 | (20,299) |
| **Total interest-bearing liabilities** | **64,211,402** | **3,203,049** | **5.0%** | **229,682** | **(229,682)** |
| **Total net financial assets exposed to interest rate risk** | **2,544,681** | **4,368,579** | | **(35,848)** | **35,848** |
| Local currency | 5,010,288 | 4,349,046 | | (39,832) | 39,832 |
| Foreign currency | (2,465,607) | 19,533 | | 3,984 | (3,984) |

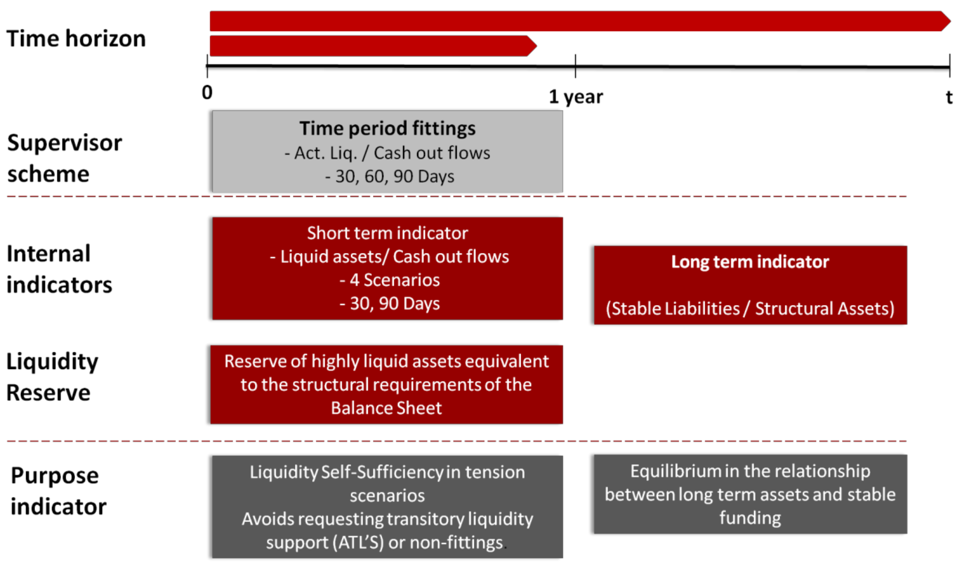
### 10.2.2.2. Liquidity risk

Liquidity risk is materialized in the contingency of being unable to comply fully, in a timely and efficient manner the cash flows expected and unexpected, current and future, without affecting the course of daily operations or the financial condition of the entity. This contingency (funding liquidity risk) is manifested in insufficient liquid assets available to it and / or the need to assume unusual funding costs. In turn, the ability of institutions to generate or break financial positions at market prices, is limited either because there is no adequate market depth or because drastic changes occur in rates and prices (liquidity risk market). Similarly, for businesses that are funded through deposits, liquidity risk includes the ability to generate a structure of stable long-term funding to maintain illiquid assets, in line with the business strategy, and able to serve unexpected stress situations.

The strategic principles under which liquidity risk management is governed are:

• Permanent availability of high quality liquid assets, according to the balance sheet structure and appetite for risk.
• Davivienda's balance sheet and that of each Subsidiaries should be self-sufficient in a liquidity crisis.
• The availability of liquid assets should not be overestimated; that is, 1we must constantly assess the level of liquidity of the assets that are part of the reserves and anticipate changes.
• Mitigate reputational risk, using own resources to be able to address adverse situations without compromising compliance with regulations and reduce the likelihood of requiring temporary support from State entities.

The risk management scheme, which complements the SFC standard models, must also comply with these principles. The Treasury manages a number of short and long term indicators, limits and alerts. The areas responsible for the balance sheet structure also regularly review the situation, as follows:




For short-time analysis, the methods used to estimate liquidity risk consist of calculating the cash flows of the assets, liabilities and off-balance-sheet positions in different time bands, as a way to monitor immediate liquidity problems. For long-term management, the methodologies focus on the analysis of funding sources, its composition at the segment and product's level, and the characterization of assets and liabilities that are not of a permanent nature.

It is Bank policy to hold a required minimum size portfolio invested in highly liquid assets so that a crisis can be addressed in a moderate scenario, without resorting to temporary Central Bank liquidity support. The size of the portfolio or the liquidity reserve is determined based on an estimate of withdrawal volumes, in a stress situation, affecting the volatile components of individual and institutional depositors. This leads to an estimate of the liquidity reserve to be incorporated prospectively into the funding strategy in the Bank's growth plan, in order to guarantee sufficient liquidity assets in accordance with the balance sheet structure and the desired risk profile.

Further, the assets forming the liquidity reserve must have minimum characteristics: they must be eligible as collateral for Central Banks, and they must have low credit and market risks and be quoted in broad and widely- recognized markets. Additionally, these assets must be free of any contractual commitment, and must not have been previously pledged as collateral for market liability operations or otherwise.

The SFC standard indicator of liquidity risk (IRL) compares liquid assets available versus net short-term cash outflows is characterized by the acidity that defines liquidity needs. The main variables in the model consist of a run on deposits of at least 10%, contractual disbursement flows that do not consider renewal rates, or cash inflows written off.

IRL is measured for time bands of 7, 15, 30, and 90 days. The SFC sets limits for the first and third band, forcing the liquidity gap to be zero or more. The 90- day band is a highly adverse scenario, in which at least 30% of the deposits are withdrawn, along with the outflow of funds from all contractual liability maturities. Given these assumptions, this scenario is taken as a reference only.

The result of standard liquidity indicator is presented below - IRL for December 31, 2017, December 31, 2016 ($millions).

| | | December 31, 2018 | | |
|---|---|---|---|---|
| Bands | Miinimum | Average | Maximum | Final |
| 7 days | 6,525,301 | 7,748,512 | 9,175,191 | 6,525,301 |
| 15 days | 3,996,657 | 5,232,386 | 6,201,933 | 3,996,657 |
| 30 days | 1,285,131 | 2,844,157 | 4,379,994 | 1,285,131 |

| | | December 31, 2017 | | |
|---|---|---|---|---|
| Bands | Miinimum | Average | Maximum | Final |
| 7 days | 6,045,468 | 7,266,663 | 9,041,471 | 9,041,471 |
| 15 days | 3,562,398 | 5,548,023 | 7,818,480 | 7,818,480 |
| 30 days | 1,909,725 | 3,225,568 | 4,661,958 | 4,211,340 |

As a result of internal policies and the conservative profile of Davivienda in liquidity management, the standard model of the SFC reflects an excess of liquid assets for a 30-day horizon of 2.8 billion pesos on average for 2018. The liquid assets of Bank, according to the standard model of the SFC, are located around eight billion pesos. These are mainly composed of cash, securities accepted in monetary expansion operations by the Central Bank, and other debt securities.

The contractual capital and interest flows of the financial liabilities of the balance sheet are as follows, up to December 31, 2018 and December 31, 2017.

Liability flows

December 31, 2018

| | Up to 1 month | 1-3 months | 3-12 months% | 12-60 months | Over 60 months | Total |
|---|---|---|---|---|---|---|
| TDs | 2,371,387 | 5,298,532 | 10,155,431 | 5,893,949 | 53,136 | 23,772,435 |
| Savings and checking accounts (*) | 28,123,621 | - | - | - | - | 28,123,621 |
| Bonds | 72,708 | 87,545 | 1,001,132 | 7,288,013 | 4,304,203 | 12,753,601 |
| Borrowings | 673,723 | 1,244,541 | 2,510,103 | 2,303,210 | 2,066,936 | 8,798,513 |
| | 31,241,439 | 6,630,618 | 13,666,666 | 15,485,172 | 6,424,275 | 73,448,170 |

December 31, 2017

| | Up to 1 month | 1-3 months | 3-12 months% | 12-60 months | Over 60 months | Total |
|---|---|---|---|---|---|---|
| TDs | 1,929,572 | 4,241,421 | 9,341,243 | 7,691,993 | 57,606 | 23,261,835 |
| Savings and checking accounts (*) | 25,885,769 | - | - | - | - | 25,885,769 |
| Bonds | 1,583,911 | 545,972 | 641,319 | 7,302,824 | 4,745,779 | 14,819,805 |
| Borrowings | 132,187 | 1,157,036 | 1,928,252 | 2,119,471 | 1,022,131 | 6,359,077 |
| | 29,531,439 | 5,944,429 | 11,910,814 | 17,114,288 | 5,825,516 | 70,326,486 |

(*) Savings and checking accounts are classified in the 1-month band, because some are sight deposits, but this does not imply maturity at that term.

### 10.2.3. Internal Control System - SCI

The Bank permanently reviews and updates its controls, taking into account the regulatory changes, the environment, new products and services, the processes, it also considers the materialization of events to determine the causes of events and draw up action plans to minimize exposure to risks.

All the policies and guidelines developed for each of the elements of the Internal Control System (SCI), contribute to achievement of the Bank´s objectives.

During 2018, we continued to enhance the culture through a strategy of learning and communication that seeks to sensitize staff to the importance of risk management and internal control. We also continued to strengthen controls with the participation of the various lines of defense.

Additionally, optimization continued in elements of the Internal Control System, based on international best practices.

The Bank complies with the legal requirements established in External Circular 029 of 2014 (Part I / Title I / Chapter IV - Internal Control System) of the SFC, formerly Circular 038 of 2009.

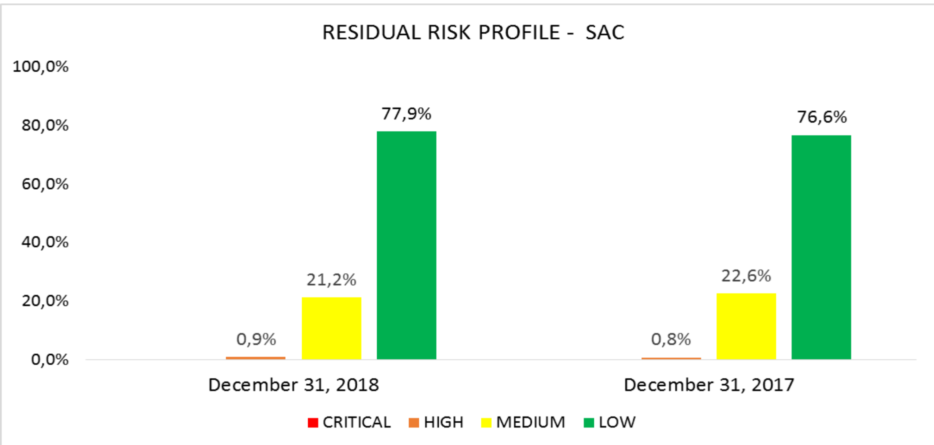
### 10.2.4. Financial Consumer Service System– SAC

In 2018, the Bank continued to develop its customer service model ensuring that interaction with the customer is predominantly a friendly, reliable and simple one, strengthening the following basic elements:

• Culture of attention, respect and service.
• Clarity and transparency in information and communications
• Prompt and efficient attention to requests, complaints and claims arising.
• Security in operational procedures

We evaluate all events that affect the interest of the financial consumer and build up a range of strategies to avoid the repetition of any adverse event and we permanently monitor and evaluate the effectiveness of controls implemented to mitigate them. We also monitor operating risk and execute action plans.

In compliance with the policies approved by the Board of Directors in accordance with the regulatory framework, SAC risks are adequately controlled as shown in the chart as of December 31, 2018:




| December 31, 2018 Risks | | | | | December 31, 2017 Risks | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Low | Medium | High | Critical | Controls | Low | Medium | High | Critical | Controles |
| 427 | 116 | 5 | - | 1,421 | 472 | 139 | 5 | - | 1,660 |

### 10.2.5. Operating Risk Management System - SARO

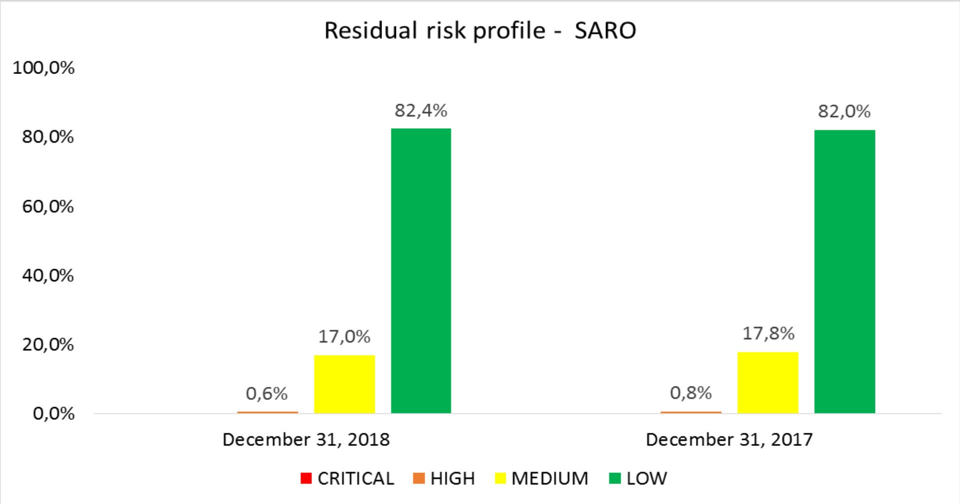
In 2018 the Bank continued to develop action plans to strengthen the foundations of new strategies to secure key controls relevant to sensitive processes that could materially affect the Bank.

The key operating risk controls of the Operating Risk System require permanent monitoring for compliance with results to be applied to the mitigation of risk, in the most important processes.

Our operating risk model also enables us to evaluate whether direction, control and efficiency is maintained over important processes with technological support and continuity plans.

A detailed analysis is made of events arising in order to identify causes and define and develop action plans as required to be monitored by units and collegiate bodies set up for the task.

Operating Risk management follows Board-approved policies and is adequately executed, as seen in the comparative charts at December 31, 2018:




| | December 31, 2018 | | | | | | December 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Risks | | | | | | Risks | | | | |
| Processes | Low | Medium | High | Critical | Controls | Processes | Low | Medium | High | Critical | Controls |
| 136 | 1,196 | 247 | 8 | - | 3,609 | 133 | 1,274 | 278 | 12 | - | 3,686 |

### 10.2.6. System of Risk Management of Money Laundering and Financing of Terrorism (SARLAFT) and Anti-Corruption Program

The Bank has adopted and implemented an Anti-Money Laundering and Terrorist Financing Control (AML-FT) Compliance Program, based on the premise of managing the AML-FT risk events and their controls, which includes Its identification, measurement, control and monitoring, through the consolidation of information, implementation of a robust technological platform, use of data mining methodologies, customer knowledge and its financial operations, risk profile of the different risk factors, the design and implementation of mitigating controls, definition and management of risk segments and characteristics of customers, products, distribution channels and jurisdictions, generation of alerts, analysis and monitoring of unusual transactions and reports of suspicious transactions to the competent authorities. This should mitigate the risk of being used to create the appearance of legality to assets arising from illicit activities and / or to finance terrorist activities, in accordance with SFC Basic Legal Circular 029/ 2014 as amended.

Tas a basic element in its anti-corruption program, the Bank has introduced zero-tolerance commitments in relation to any act of corruption: it has produced policies that prohibit any form of direct or indirect bribery involving officers, staff, customers, suppliers and other stakeholders and those that regulate conflict of interest events that may arise with a public servant or a private individual. The Program has procedures and controls to secure compliance with the related policies.

The Compliance Officer presents a quarterly report to the Board, covering the following points amongst others:

**-Pronouncements from the supervisor, visits and inspections**

On-the-spot visits. The SFC did not make a visit to Banco Davivienda in 2018.

Internal Audit: Internal Audit delivered its annual report in October, evaluating the Internal Controls System of SARLAFT by stages and components checking that internal and external regulations and policies and procedures had been observed and were aligned with the strategic objectives. The conclusion was satisfactory.

Statutory Audit: This function presented quarterly reports applying audit procedures related to SFC compliance and related regulations in the areas of SARLAFT. The conclusion was satisfactory, and action plans to exploit opportunities for improvement were developed within times set.

**-Optimization OF IT**

A quarterly report was presented to the Board to mark progress in IT projects designed to optimize the administration of the Compliance Program.

**- Projects**

Implementation of SFC Circular 17/2018 (Changes in Official Reports) began. The changes will apply as of mid-2019.

**- Indicators of Quality, Settlement and Updates**

There were monthly evaluations of quality, settlement and updates as permanent processes or optimization. The Compliance Officer and the Board are responsible for this activity.

**- Operations follow-up**

A monitoring process for customer operations was applied and operations reports sent to UIAF.

**- Scheme OF sanctions**

No SARFLAFT administrative sanctions were imposed in Banco Davivienda in 2018.

**- Reports to authorities and Supervisors**

Requirements of authorities and supervisors were met on time.

**- Results of corrective measures ordered by the Board**

Recommendations of the Board´s quarterly meetings were attended to.

**- Updates to the Compliance Manual**

Updates were made to the Compliance Manual in relation to the optimization of policy and procedures and to implement regulatory changes, in particular, SFC Circular 5/2018 and SFC Circular 8/2018

**- Training**

The Annual Training Program was designed, approved and executed. It included annual SARLAFT retraining, certification of reading of the Compliance Manual and of the Code of Ethics; and there was induction for new staff.

**- Risk Management**

The Board made quarterly follow-up of performance and progress in risk factors, customer segmentation and risk certification. This was stable over the year and within the LOW risk classification. The Board was kept informed of the administration of risk events and the effectiveness of controls.

**- FATCA**

Banco Davivienda has adopted an organizational culture, policies, controls and procedures to comply with FATCA and CRS.

The FATCA/CRS Fiscal Transparency Program was designed and satisfactorily implemented to cover documentation processes, training, technological infrastructure, monitoring and correction. Mandatory Transparency Law reports were also sent to the tax authority DIAN and the IRS promptly.

**- Compliance Committee**

The Compliance Committee supports the Board. It meets quarterly and is responsible for implementation, supervision and follow-up of the Bank´s Compliance Program. In 2018, the Committee reported on the follow-up and progress of the Program with an opinion setting tasks and commitments to improve SARLAFT activities.

**- Organizational Structure**

The Compliance Officer and his Deputy were formally sworn in by the SFC, as required by law.

### 10.2.7. Environmental and Social Risk Management System (SARAS)

The Environmental and Social Risk Management System SARAS allows the Bank to identify, classify, evaluate and control environmental and social risks associated to the individual projects and activities financed.

The SARAS methodology takes into account the environmental and local labor norms and covers aspects such as pollution prevention, biodiversity protection, climate change and human rights.

In the application of policies established regarding amounts, terms and sensitive sectors for the Bank in Colombia, in 2017, 269 loans in the Corporate, Construction and Business segments were evaluated through SARAS, for a total amount of $6,000,000 million pesos. The system has also been used to accompany and dimension the structuring and approval of loans for the fourth generation national infrastructure projects (4G).
It is also applied in the evaluation of strategic suppliers of the Bank.

### 10.2.8. Fraud Risk Management System (SARFRA)

Fraud risk, defined as any illegal act using deceit, concealment, or betrayal of trust, aimed at the appropriation of funds, goods, services and/or individual advantages or benefits[1], has been managed by the Davivienda bank through the Fraud Risk Management System (SARFRA) in harmony with the regulatory framework of the Operating Risk Management System (SARO).

Actions performed in SARFRA cover each step of the fraud management cycle (prevention, detection, mitigation, analysis, government, investigation, court action and dissuasion) creating controls, policies and reports of activities and expenses incurred due to fraud, evaluated against the Bank´s budget projections; these expenses reports are implicit in the management of operating risk and presented to the Fraud Risk Committee which makes decisions that protect the organization, it's customers, shareholders and others interested in efforts to maintain a balance between the level of fraud to be prevented and impact on customers and the business.

In 2018 Banco Davivienda´s anti-fraud strategy made progress in the protection of its digital products, introducing on-line response and analytical reports which provided effective reaction in the face of potential fraud. Robust authentication methods were also introduced, such as fingerprint biometrics, in the engagement and creation of new customers. New methods and statistical models were tested in physical channels to identify new modes and patterns of fraud, with priority for customer experience.

There is a working plan for 2019 to continue with the anti-fraud strategy for digital products with the implementation of tools to prevent, mitigate and manage fraud and to strengthen analytical capacity within the Bank and subsidiaries in Colombia and in subsidiaries outside Colombia.

### 10.2.9. Information Security - Cybersecurity

During 2018, the Bank´s Department of Information Security, focused on new strategies to enhance management and policies and alignment with digital strategies. The Cybersecurity Committee became an official body in the bank, and with that, the Cybersecurity Strategy at regional level.

Technology and process updates were introduced to maintain the holistic approach to security and cybersecurity, increase prevention capacity, detect threats promptly and recover from possible cyberattacks. The following were the most important developments:

- Planning and introduction of a broader scope and new services in the Security Operations Center (SOC) to detect insecure practices, threats, cyberattacks and provide prompt responses to security incidents and disaster recovery.
- Design of an information asset protection plan and implementation of tools to prevent information leaks.
- Design of a fraud risk model, a model for authentication and verification and a self-service module as part of the fraud management cycle.
- Execution of specialized tests (ethical hacking and intrusion) to evaluate the security situation in technological infrastructure
- Start of a project to implement a tool to orchestrate transaction security through the integration of enrolment factors.
- Development of the management processes for identities and access to applications.

Reference: [1]Documento de investigación – las mejores prácticas antifraude – AMV

In the area of culture, the ongoing training and sensitization plan was implemented through several channels for internal staff and third parties. This was designed to create awareness and commitment to the protection of information and to mitigate related risks.

In terms of regulatory compliance, the Bank complies with the security requirements required by SFC Circular 042 of October 17, 2012 and Circular 7 of June 5, 2018 on Cybersecurity Management. There was also compliance with the SWIFT-CSP. Plans for compliance with Law 1581 (Personal Data Protection) were implemented and improved. The Information Security area, internal monitoring is carried out to identify the level of compliance and possible risks.

The Bank continues to research market trends for new threats, tools and mechanisms of control that will help to mitigate risks and keep them to acceptable levels for the business as support for the delivery of products and services with adequate levels of security for the customer.

## 11. Netting of financial assets and liabilities

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, 2018 and December 31, 2017 and the impact of Master Netting Agreements and the remittance of collateral.

December 31, 2018

| | Gross financial assets recognized | Gross financial liabilities recognized and netted in Statement of Financial Position | Net assets shown in Statement of Financial Position | Not netted in Statedment of Financial Position | | | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | Impact of Master Netting Aggrements | Cash collateral | Securities collateral | |
| **Assets** | | | | | | | |
| Money market operations | 413,332 | - | 413,332 | - | - | 217,469 | 195,863 |
| Derivatives(*) | 433,671 | - | 433,671 | 332,325 | 16,835 | - | 84,511 |
| | 847,003 | - | 847,003 | 332,325 | 16,835 | 217,469 | 280,374 |
| **Liabilities** | | | | | | | |
| Money market operations | 3,543,323 | - | 3,543,323 | - | - | 3,674,889 | (131,566) |
| Derivatives (*) | 507,580 | - | 507,580 | 332,004 | 52,600 | - | 122,976 |
| | 4,050,903 | - | 4,050,903 | 332,004 | 52,600 | 3,674,889 | (8,590) |

(*) Spot operations not included

December 31, 2017

| | Gross financial assets recognized | Gross financial liabilities recognized and netted in Statement of Financial Position | Net assets shown in Statement of Financial Position | Not netted in Statedment of Financial Position | | | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | Impact of Master Netting Aggrements | Cash collateral | Securities collateral | |
| **Assets** | | | | | | | |
| Money market operations | 1,337,235 | - | 1,337,235 | - | - | 1,170,953 | 166,282 |
| Derivatives(*) | 335,359 | - | 335,359 | 283,519 | 28,368 | - | 23,472 |
| | 1,672,594 | - | 1,672,594 | 283,519 | 28,368 | 1,170,953 | 189,754 |
| **Liabilities** | | | | | | | |
| Money market operations | 1,036,602 | - | 1,036,602 | - | - | 1,032,406 | 4,196 |
| Derivatives (*) | 354,482 | - | 354,482 | 283,519 | 19,672 | - | 51,291 |
| | 1,391,084 | - | 1,391,084 | 283,519 | 19,672 | 1,032,406 | 55,487 |

(*) Spot operations not included

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 interbank and overnight operations.

## 12. Specific items of the Statement of Financial Position

### 12.1. Cash

#### 12.1.1 Details of cash

The following is the detailed account of cash and cash equivalent:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Local currency | | |
| Cash and bank balances | 3,640,563 | 2,763,111 |
| Clearing and remittances in transit | 80,928 | 29,850 |
| | 3,721,491 | 2,792,961 |
| Foreign Currency | | |
| Cash and bank balances | 1,420,659 | 1,280,183 |
| Clearing and remittances in transit | 17,530 | 8,842 |
| | 1,438,189 | 1,289,025 |
| | 5,159,680 | 4,081,986 |

Regulations state that Cash and Central Bank balances in local currency are part of the mandatory cash reserve calculated against customer deposits. These deposits are not remunerated.

Restricted deposits existed on deposits and demand accounts to support customer withdrawals compliance with reserve requirements, as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Average of required reserve | 3,415,465 | 3,389,598 |
| Average of available reserve | 3,437,412 | 4,196,469 |

Additionally, according to present regulations, the Miami Branch must maintain a cash reserve with the Federal Reserve Bank. The average amount was approximately US$4 and US$12 million at December 31, 2018 and December 31, 2017, respectively.

#### 12.1.2. Credit Quality

Detailed below is the credit quality determined by independent risk rating agents of the major financial institutions where the Bank maintains cash funds:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Sovereign/Central Bank guarantee | 1,791,917 | 1,202,228 |
| Investment grade | 3,367,763 | 2,879,758 |
| | 5,159,680 | 4,081,986 |

### 12.2. Interbank and overnight funds

December 31, 2018

| | Amount in Million Dollars | Rate | Date (dd/mm/yyyy) Initial | Final | Amount in Col$ |
|---|---|---|---|---|---|
| Foreign Currency | | | | | |
| Interbank funds (*) | USD 53 | 2.55% - 3.80% | 06/09/2018 | 30/08/2019 | 172,806 |
| Moneda legal | | | | | |
| Simultáneas | | | | | |
| Sociedades comisionistas de bolsa de valores | | 4.35% - 5.00% | 11/12/2018 | 17/01/2019 | 31,675 |
| Otros | | 0.00% - 4.65% | 13/12/2018 | 10/01/2019 | 208,851 |
| | | | | | 413,332 |

(*) Includes interbank funds at under 90 days for $65,531

December 31, 2017

| | Amount in Million Dollars | Rate | Date (dd/mm/yyyy) Initial | Final | Amount in Col$ |
|---|---|---|---|---|---|
| Foreign Currency | | | | | |
| Interbank funds | USD 26 | 1.21% - 1.55% | 03/10/2017 | 05/02/2018 | 77,704 |
| Local currency | | | | | |
| Simultaneous operations | | | | | |
| Brokers | | 4.75% - 5.75% | 07/12/2017 | 30/01/2018 | 60,258 |
| Trusts | | 4.75% - 4.80% | 26/12/2017 | 04/01/2018 | 66,732 |
| Other | | 4.25% - 4.80% | 05/12/2017 | 17/01/2018 | 1,043,494 |
| Interbank | | | | | |
| Investment banks | | 4.52% - 4.55% | 26/12/2017 | 02/01/2018 | 89,047 |
| | | | | | 1,337,235 |

The following is the detail of the credit quality of interbank and overnight funds

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Investment grade | 413,332 | 1,337,235 |
| | 413,332 | 1,337,235 |

### 12.3. Investments, net

#### 12.3.1. Investments by rating, type and provisions

Detailed below is the investments in financial instruments rating by issuer and provisions:

| | December 31, 2018 Cost | Provision | Net | December 31, 2017 Cost | Provision | Net |
|---|---|---|---|---|---|---|
| Trading Instruments | | | | | | |
| Equity Instruments | 51,562 | - | 51,562 | 17,621 | - | 17,621 |
| Private Debt Bonds | 115,497 | - | 115,497 | 205,182 | - | 205,182 |
| Public Debt issues except TES | 80,406 | - | 80,406 | 78,462 | - | 78,462 |
| CDT | 122,886 | - | 122,886 | 195,722 | - | 195,722 |
| Other nations Sovereign debt | 85,508 | - | 85,508 | - | - | - |
| Collective Investment, Pension and Trust Funds | 1,158,368 | - | 1,158,368 | 1,644,466 | - | 1,644,466 |
| Mortgage Securities and Securitizations | 82,971 | 305 | 82,666 | 93,882 | 1,065 | 92,817 |
| TES Securities | 2,792,307 | - | 2,792,307 | 2,151,645 | - | 2,151,645 |
| | 4,489,505 | 305 | 4,489,200 | 4,386,980 | 1,065 | 4,385,915 |
| Available for sale | | | | | | |
| Debt | | | | | | |
| Foreign private debt | 61,869 | - | 61,869 | 15,279 | - | 15,279 |
| Non-TES public debt | 6,828 | - | 6,828 | - | - | - |
| Mortgage securities and TIPS | 125,272 | 140 | 125,132 | 170,548 | 139 | 170,409 |
| TES securities | 1,401,264 | - | 1,401,264 | 1,289,890 | - | 1,289,890 |
| Equity Instruments (*) | 332,300 | 4,375 | 327,925 | 318,574 | 4,375 | 314,199 |
| | 1,927,533 | 4,515 | 1,923,018 | 1,794,291 | 4,514 | 1,789,777 |
| Held to maturity | | | | | | |
| Mandatory Investments | 874,493 | - | 874,493 | 838,323 | - | 838,323 |
| Mortgage Securities and Securitizations | 522,879 | 4,093 | 518,786 | 557,063 | 2,959 | 554,104 |
| | 1,397,372 | 4,093 | 1,393,279 | 1,395,386 | 2,959 | 1,392,427 |
| | 7,814,410 | 8,913 | 7,805,497 | 7,576,657 | 8,538 | 7,568,119 |

(*) Dividends of $18,733 recognized at December 31, 2018; $16,819 were recorded in the Income Statement

The following is the detail of provisions:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| By Issuer | | |
| Corporate | 4,375 | 4,375 |
| Securitizations | 4,538 | 4,163 |
| | 8,913 | 8,538 |

### 12.3.2. Investments by rating according to risk rating agent and Provision

Detailed below is the investment in financial instruments rating by rating and Provision:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Cost | % share | Provision | Cost | % share | Provision |
| Long-term rating | | | | | | |
| AAA | 1,334,219 | 17.1% | - | 1,305,658 | 17.2% | - |
| AA+ | 73,930 | 0.9% | - | 92,907 | 1.2% | - |
| AA | 8,462 | 0.1% | - | 36,749 | 0.5% | - |
| AA- | 27,628 | 0.4% | - | 80,129 | 1.1% | - |
| A+ | 20,449 | 0.3% | - | 38,412 | 0.5% | - |
| A | 4,161 | 0.1% | - | 21,219 | 0.3% | - |
| A- | 129,537 | 1.7% | - | 48,613 | 0.6% | - |
| BBB+ | 181,887 | 2.3% | - | 210,261 | 2.8% | - |
| BBB | 96,707 | 1.2% | - | 98,091 | 1.3% | - |
| BBB- | 38,496 | 0.5% | - | 35,331 | 0.5% | - |
| BB+ | 14,271 | 0.2% | 1,485 | 13,783 | 0.2% | 1,502 |
| BB | 9,275 | 0.1% | 961 | 2,749 | 0.0% | 287 |
| B+ | - | 0.0% | - | 7,954 | 0.1% | 2,374 |
| CCC | 4,560 | 0.1% | 2,092 | - | 0.0% | - |
| Equity Instruments | 346,138 | 4.4% | 4,375 | 336,195 | 4.4% | 4,375 |
| Sovereign (*) | 4,266,334 | 54.6% | - | 3,519,998 | 46.5% | - |
| No rating | 1,196,091 | 15.3% | - | 1,644,466 | 21.7% | - |
| Short-term rating | | | | | | |
| 1 | 38,212 | 0.5% | - | 65,065 | 0.9% | - |
| 2 | 24,053 | 0.3% | - | 19,077 | 0.3% | - |
| | 7,814,410 | 100.0% | 8,913 | 7,576,657 | 100.0% | 8,538 |

(*) Sovereign reflects the balance of Debt Securities issued by the Colombian government and other nations.

### 12.3.3. Investments by issuers

The following is the rating detail by issuers:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Cost | Provision | Cost | Provision |
| Foreign Currency | | | | |
| Foreign Banks | 104,395 | - | 72,867 | - |
| Corporate | 12,086 | - | 46,923 | - |
| Colombian government | 60,302 | - | 58,085 | - |
| Financial Institutions | - | - | 26,147 | - |
| Multilaretal Credit organizations | 29,849 | - | 14,455 | - |
| | 232,063 | - | 218,477 | - |
| Local currency | | | | |
| Corporate | 58,032 | 4,375 | 86,647 | 4,375 |
| Colombian government | 4,208,043 | - | 3,461,914 | - |
| Financial Institutions | 2,426,837 | - | 2,988,127 | - |
| Securitizations | 731,122 | 4,538 | 821,492 | 4,163 |
| | 7,582,347 | 8,913 | 7,358,180 | 8,538 |
| | 7,814,410 | 8,913 | 7,576,657 | 8,538 |

### 12.3.4. Classification by currency

The following are investment financial instruments by currency:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Pesos | 5,876,075 | 5,905,954 |
| UVR (*) | 1,706,272 | 1,452,226 |
| US Dollars | 220,921 | 200,856 |
| Canadian Dollars | 11,142 | 17,621 |
| | 7,814,410 | 7,576,657 |

(*) Real Value Unit

### 12.3.5. Classification by investment maturities (does not include equity investments)

The following is the detail of classification by investment maturities (does not include equities):

December 31, 2018

| | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Negotiable Instruments | 2,054,407 | 1,460,781 | 768,856 | 153,899 | 4,437,943 |
| Available for sale | 1,158,072 | 311,889 | 41,508 | 83,764 | 1,595,233 |
| To be maintained until expiry | 874,493 | 17,165 | 261,849 | 243,865 | 1,397,372 |
| | 4,086,972 | 1,789,835 | 1,072,213 | 481,528 | 7,430,548 |

December 31, 2017

| | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Negotiable Instruments | 2,295,123 | 1,674,089 | 298,853 | 101,294 | 4,369,359 |
| Available for sale | 155,108 | 1,150,061 | 86,783 | 83,765 | 1,475,717 |
| To be maintained until expiry | 838,323 | 6,525 | 339,879 | 210,659 | 1,395,386 |
| | 3,288,554 | 2,830,675 | 725,515 | 395,718 | 7,240,462 |

The following is the credit quality of investments:

December 31, 2018

| | Fair Value | | |
|---|---|---|---|
| Credit Quality | Debt | Equity | Amortized cost |
| Investment grade | 604,102 | - | 1,373,638 |
| Issued and guaranteed by the Nation and/or the Central Bank | 4,266,334 | - | - |
| Speculative | 4,372 | - | 23,734 |
| No rating or no rating available | 1,158,368 | 383,862 | - |
| | 6,033,176 | 383,862 | 1,397,372 |

December 31, 2017

| | Fair Value | | |
|---|---|---|---|
| Credit Quality | Debt | Equity | Amortized cost |
| Investment grade | 675,360 | - | 1,376,151 |
| Issued and guaranteed by the Nation and/or the Central Bank | 3,519,998 | - | - |
| Speculative | 5,252 | - | 19,235 |
| No rating or no rating available | 1,644,466 | 336,195 | - |
| | 5,845,076 | 336,195 | 1,395,386 |

### 12.3.6. Provision (Impairment) of investments

The following is the detail of the provision against investments in financial instruments :

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 8,538 | 9,377 |
| Plus: | | |
| Provision | 1,534 | 1,891 |
| Less: | | |
| Recoveries | (1,159) | (2,730) |
| Closing balance | 8,913 | 8,538 |

### 12.3.7. Investment in Subsidiaries and associates

The following is the detail of investment in Subsidiaries and Associates:

December 31, 2018

| Name | Country | % share | Acquisition cost | EM (*) | Adjusted cost | Dividends (1) |
|---|---|---|---|---|---|---|
| International Subsidiaries | | | | | | |
| Banco Davivienda Panamá S.A. | Panamá | 100.0% | 218,290 | 283,748 | 513,188 | - |
| Banco Davivienda Panamá Internacional S.A. | Panamá | 100.0% | 77,507 | 55,470 | 197,314 | - |
| Grupo del Istmo Costa Rica S.A. | Costa Rica | 80.8% | 553,872 | 319,846 | 931,446 | - |
| Inversiones Financieras Davivienda S.A. | El Salvador | 96.1% | 746,487 | 447,589 | 1,178,462 | 37,712 |
| Banco Davivienda Honduras S.A. | Honduras | 94.2% | 229,889 | 163,004 | 425,866 | 13,650 |
| Seguros Bolívar Honduras S.A. | Honduras | 88.6% | 68,895 | 51,238 | 104,081 | 12,845 |
| | | | 1,894,940 | 1,320,895 | 3,350,357 | 64,207 |
| Colombian Subsidiaries | | | | | | |
| Corredores Davivienda S.A. | Colombia | 91.6% | 123,269 | 32,285 | 150,969 | 6,611 |
| Fiduciaria Davivienda S.A. | Colombia | 94.7% | 150,320 | 128,575 | 209,669 | 27,842 |
| Cobranzas Sigma S.A.S. | Colombia | 94.0% | 475 | 939 | 1,125 | 658 |
| | | | 274,064 | 161,799 | 361,763 | 35,111 |
| Associates | | | | | | |
| Redeban Multicolor S.A. | Colombia | 26.0% | 18,816 | 9,762 | 27,235 | 1,342 |
| Titularizadora Colombiana S.A. | Colombia | 26.9% | 28,741 | (1,707) | 36,127 | 2,810 |
| | | | 47,557 | 8,055 | 63,362 | 4,152 |
| | | | 2,216,561 | 1,490,749 | 3,775,482 | 103,470 |

(*) Equity Method

(1) Subsidiary and Associte dividends at December 31, 2018 totaled $51,438; they were recorded in the Income Statement

December 31, 2017

| Name | Country | % share | Acquisition cost | EM (*) | Adjusted cost | Dividends |
|---|---|---|---|---|---|---|
| International Subsidiaries | | | | | | |
| Banco Davivienda Panamá S.A. | Panamá | 100.0% | 218,290 | 234,537 | 463,978 | - |
| Banco Davivienda Panamá Internacional S.A. | Panamá | 100.0% | 77,507 | 26,029 | 167,873 | - |
| Grupo del Istmo Costa Rica S.A. | Costa Rica | 80.8% | 553,872 | 239,549 | 851,149 | - |
| Inversiones Financieras Davivienda S.A. | El Salvador | 96.1% | 746,487 | 315,396 | 1,046,269 | 63,260 |
| Banco Davivienda Honduras S.A. | Honduras | 94.2% | 229,889 | 120,934 | 383,796 | - |
| Seguros Bolívar Honduras S.A. | Honduras | 88.6% | 68,895 | 27,405 | 93,016 | - |
| | | | 1,894,940 | 963,850 | 3,006,081 | 63,260 |
| Colombian Subsidiaries | | | | | | |
| Corredores Davivienda S.A. | Colombia | 91.6% | 123,269 | 17,786 | 143,080 | - |
| Fiduciaria Davivienda S.A. | Colombia | 94.7% | 150,320 | 86,802 | 195,738 | 27,179 |
| Cobranzas Sigma S.A.S. | Colombia | 100.0% | 475 | 746 | 944 | 877 |
| | | | 274,064 | 105,334 | 339,762 | 28,056 |
| Associates | | | | | | |
| Redeban Multicolor S.A. | Colombia | 26.0% | 18,816 | 6,135 | 24,951 | 1,229 |
| Titularizadora Colombiana S.A. | Colombia | 26.9% | 28,741 | (6,552) | 34,092 | 3,106 |
| | | | 47,557 | (417) | 59,043 | 4,335 |
| | | | 2,216,561 | 1,068,767 | 3,404,886 | 95,651 |

(*) Equity Method

The following is the value of homogenized assets, liabilities and equity, as the basis to calculate the equity method:

December 31, 2018

| | Share | Total Assets | Total Liabilities | Total Equity | P&L |
|---|---|---|---|---|---|
| Subsidiaries | | | | | |
| Fiduciaria Davivienda S.A. | 94.7% | 251,911 | 30,511 | 221,400 | 41,708 |
| Corredores Davivienda S.A. | 91.6% | 223,745 | 139,030 | 84,714 | 12,916 |
| Cobranzas Sigma S.A.S. | 94.0% | 1,638 | 441 | 1,197 | 857 |
| Banco Davivienda Panamá S.A. | 100.0% | 4,140,225 | 3,630,810 | 509,415 | 28,248 |
| Banco Davivienda Panamá Internacional S.A. | 100.0% | 573,288 | 375,975 | 197,314 | 25,278 |
| Grupo del Istmo Costa Rica S.A. | 80.8% | 9,874,040 | 8,969,729 | 904,310 | 79,296 |
| Inversiones Financieras Davivienda S.A. | 96.1% | 8,572,134 | 7,571,251 | 1,000,883 | 93,477 |
| Banco Davivienda Honduras S.A. | 94.2% | 3,660,716 | 3,268,628 | 392,088 | 28,325 |
| Seguros Bolívar Honduras S.A. | 88.6% | 289,642 | 183,437 | 106,204 | 19,986 |
| | | 27,587,339 | 24,169,812 | 3,417,525 | 330,091 |
| Associates | | | | | |
| Redeban Multicolor S.A. | 26.0% | 199,395 | 94,799 | 104,596 | 15,469 |
| Titularizadora Colombiana S.A. | 26.9% | 151,447 | 16,911 | 134,536 | 14,923 |
| | | 350,842 | 111,710 | 239,132 | 30,392 |
| | | 27,938,181 | 24,281,522 | 3,656,657 | 360,483 |

December 31, 2017

| | Share | Total Assets | Total Liabilities | Total Equity | P&L |
|---|---|---|---|---|---|
| Subsidiaries | | | | | |
| Fiduciaria Davivienda S.A. | 94.7% | 231,949 | 25,260 | 206,689 | 39,896 |
| Corredores Davivienda S.A. | 91.6% | 224,833 | 148,727 | 76,106 | 9,701 |
| Cobranzas Sigma S.A.S. | 100.0% | 1,519 | 575 | 944 | 658 |
| Banco Davivienda Panamá S.A. | 100.0% | 3,859,746 | 3,399,541 | 460,205 | 38,200 |
| Banco Davivienda Panamá Internacional S.A. | 100.0% | 468,334 | 300,460 | 167,873 | 11,371 |
| Grupo del Istmo Costa Rica S.A. | 80.8% | 8,692,799 | 7,887,878 | 804,921 | 42,397 |
| Inversiones Financieras Davivienda S.A. | 96.1% | 7,521,755 | 6,658,399 | 863,357 | 73,041 |
| Banco Davivienda Honduras S.A. | 94.2% | 3,054,648 | 2,697,643 | 357,006 | 24,081 |
| Seguros Bolívar Honduras S.A. | 88.6% | 263,007 | 167,686 | 95,321 | 14,093 |
| | | 24,318,590 | 21,286,169 | 3,032,422 | 253,438 |
| Associates | | | | | |
| Redeban Multicolor S.A. | 26.0% | 175,359 | 79,535 | 95,823 | 9,725 |
| Titularizadora Colombiana S.A. | 26.9% | 614,032 | 487,073 | 126,959 | 8,161 |
| | | 789,391 | 566,608 | 222,782 | 17,886 |
| | | 25,107,981 | 21,852,777 | 3,255,204 | 271,324 |

The following is the investment detail in Associates:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 59,043 | 59,459 |
| Share of annual profit | (4,152) | - |
| Implementation of Associates equity method | 8,471 | (416) |
| Closing blance | 63,362 | 59,043 |

* All dividends were received in cash.

### 12.3.8. Joint Ventures

The following is the summary of Joint Ventures corresponding to share in the retail business:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | % Share | Assets | Liabilities | % Share |
| Loan Portfolio | 79,998 | - | | 71,890 | - | |
| Interest | 2,931 | - | 50% | 1,426 | - | 50% |
| Other collections | 542 | - | | 532 | - | |
| | 83,471 | - | | 73,848 | - | |

Shares in Joint operations in assets include:

| In Colombian Pesos | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Loan Portfolio | 79,998 | 71,890 |
| Interest | 2,931 | 1,426 |
| Other collections | 542 | 532 |
| | 83,471 | 73,848 |

Joint operations shares do not include balances in liabilities.

The following is the movement of Joint operations:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 73,848 | 49,332 |
| Growth of loan portfolio, interest and other collections | 9,623 | 24,516 |
| Closing balance | 83,471 | 73,848 |

### 12.4. Derivatives

The following is the summary of derivatives made by the Bank:

December 31, 2018

| Product | Assets | | Liabilities | | Total |
|---|---|---|---|---|---|
| | Notional Amount | Fair Value | Notional Amount | Fair Value | |
| Spot operations | 25,921 | 24 | 28,433 | 57 | (33) |
| Options Contracts | 2,084,557 | 23,846 | 1,962,133 | 49,036 | (25,190) |
| Swaps Contracts | 11,090,696 | 208,282 | 11,794,509 | 257,112 | (48,830) |
| Forwards Contracts | 13,206,464 | 201,543 | 10,001,563 | 201,432 | 111 |
| | 30,720,700 | 433,695 | 23,786,638 | 507,637 | (73,942) |

December 31, 2017

| Product | Assets | | Liabilities | | Total |
|---|---|---|---|---|---|
| | Notional Amount | Fair Value | Notional Amount | Fair Value | |
| Spot operations | 29,619 | 53 | 57,128 | 67 | (14) |
| Options Contracts | 1,337,431 | 21,831 | 1,373,317 | 17,888 | 3,943 |
| Futures Contracts | 3,157,738 | - | - | - | - |
| Swaps Contracts | 15,382,156 | 230,722 | 16,463,122 | 243,670 | (12,948) |
| Forwards Contracts | 7,145,950 | 82,806 | 8,295,476 | 92,924 | (10,118) |
| | 27,052,894 | 335,412 | 26,189,043 | 354,549 | (19,137) |

The result of speculative derivatives is the following:

December 31, 2018

| | | Forward | Futures | Swaps | Options | Total |
|---|---|---|---|---|---|---|
| Currency purchases | Right | 8,350,547 | 2,304,426 | 480,069 | - | 11,135,042 |
| | 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 | 8,830,862 | 1,444,424 | 729,621 | - | 11,004,907 |
| 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 | Right | - | - | 2,725,961 | - | 2,725,961 |
| | Obligation | - | - | 2,740,855 | - | 2,740,855 |
| Call options | Purchase | - | - | - | 17,522 | 17,522 |
| | Sell | - | - | - | (47,886) | (47,886) |
| Put Options | Purchase | - | - | - | 6,324 | 6,324 |
| | Sell | - | - | - | (1,150) | (1,150) |
| Total rights | | 18,329,801 | 3,752,218 | 3,867,496 | - | 25,949,515 |
| Total obligations | | 18,329,690 | 3,752,218 | 3,916,326 | - | 25,998,234 |
| Total Net | | 111 | - | (48,830) | (25,190) | (73,909) |

December 31, 2017

| | | Forward | Futures | Swaps | Options | Total |
|---|---|---|---|---|---|---|
| Currency purchases | Right | 7,236,021 | 1,816,320 | 776,994 | - | 9,829,335 |
| | Obligation | 7,303,135 | 1,816,320 | 771,817 | - | 9,891,272 |
| Currency sales | Right | 7,500,608 | 1,592,871 | 804,578 | - | 9,898,057 |
| | Obligation | 7,442,751 | 1,592,871 | 809,697 | - | 9,845,319 |
| Securities purchases | Right | 26,727 | 40,920 | - | - | 67,647 |
| | Obligation | 26,580 | 40,920 | - | - | 67,500 |
| Securities sales | Right | 680,530 | 147,249 | - | - | 827,779 |
| | Obligation | 681,538 | 147,249 | - | - | 828,787 |
| Interest rate | Right | - | - | 3,031,733 | - | 3,031,733 |
| | Obligation | - | - | 3,044,739 | - | 3,044,739 |
| Call options | Purchase | - | - | - | 778 | 778 |
| | Sell | - | - | - | (16,649) | (16,649) |
| Put Options | Purchase | - | - | - | 21,053 | 21,053 |
| | Sell | - | - | - | (1,239) | (1,239) |
| Total rights | | 15,443,886 | 3,597,360 | 4,613,305 | - | 23,654,551 |
| Total obligations | | 15,454,004 | 3,597,360 | 4,626,253 | - | 23,677,617 |
| Total Net | | (10,118) | - | (12,948) | 3,943 | (19,123) |

The following is the detail of maturity periods of Derivatives: Assets y Liabilities:

December 31, 2018

| | Less than 1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Spot operations | (33) | - | - | - | (33) |
| Options Contracts | (25,190) | - | - | - | (25,190) |
| Swaps Contracts | (42,399) | (1,993) | (3,761) | (677) | (48,830) |
| Forwards Contracts | 1,697 | (1,586) | - | - | 111 |
| | (65,925) | (3,579) | (3,761) | (677) | (73,942) |

December 31, 2017

| | Less than 1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Spot operations | (14) | - | - | - | (14) |
| Options Contracts | 3,943 | - | - | - | 3,943 |
| Swaps Contracts | 1,983 | (13,273) | (1,658) | - | (12,948) |
| Forwards Contracts | (10,974) | 856 | - | - | (10,118) |
| | (5,062) | (12,417) | (1,658) | - | (19,137) |

**Credit Quality of derivatives**

The following is the credit quality of derivatives portfolio, according to the rating by independent ratings for the counterparties with whome the Bank has derivates contracts:

December 31, 2018

| Credit Quality | Options Contracts | Futures Contracts | Swaps Contracts | Forwards Contracts |
|---|---|---|---|---|
| Investment grade | 21,409 | - | 204,226 | 170,661 |
| No rating or no rating available | 2,116 | - | 4,056 | 30,882 |
| | 23,846 | - | 208,282 | 201,543 |

December 31, 2017

| Credit Quality | Options Contracts | Futures Contracts | Swaps Contracts | Forwards Contracts |
|---|---|---|---|---|
| Investment grade | 21,576 | - | 230,439 | 63,090 |
| No rating or no rating available | 255 | - | 283 | 19,716 |
| | 21,831 | - | 230,722 | 82,806 |

## 12.5. Loans and financial leasing operations, net

### 12.5.1. Loans and financial leasing by mode

The following is the detail of loans and leasing operations by mode:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial Loans | | |
| Corporate and construction | 21,047,478 | 18,877,093 |
| Other commercial lines | 8,632,359 | 7,505,709 |
| Financial Leasing | 2,618,538 | 2,317,622 |
| Credit Card | 452,972 | 425,324 |
| Vehicles | 485,388 | 753,500 |
| Overdraft | 173,017 | 168,993 |
| | 33,409,752 | 30,048,241 |
| Consumer Loans | | |
| Credit Card | 4,079,828 | 3,871,617 |
| Other consumer lines | 11,468,990 | 10,698,282 |
| Vehicles | 2,122,550 | 2,092,198 |
| Overdraft | 27,325 | 31,427 |
| Financial Leasing | 17,683 | 19,569 |
| | 17,716,376 | 16,713,093 |
| Home Mortgage (1) | | |
| Home Mortgage | 8,187,686 | 7,081,219 |
| Residential Leasing | 8,713,098 | 7,403,938 |
| | 16,900,784 | 14,485,157 |
| Microcredit Loans | | |
| Financial Leasing | 283 | 545 |
| Microcredit | 56,550 | 99,673 |
| | 56,833 | 100,218 |
| Gross Loans | 68,083,745 | 61,346,709 |
| Less individual Provision | (3,487,848) | (2,820,331) |
| Less general Provision | (170,025) | (146,282) |
| | (3,657,873) | (2,966,613) |
| Total loans, net | 64,425,872 | 58,380,096 |

(1) Includes employee loans of $192,195 at December 31, 2018 and $ 196,039 at December 31, 2017.

### 12.5.2. Social Housing (VIS)

The Bank placed funds for $2,129,012 corresponding to individual loans for $973,451 and construction loans for $1,155,561 at December 31, 2018, and $2,192,420 corresponding to individual loans for $1,355,549 and constructiion loans for $836,871 at December 31, 2017.

The following is the balance and amount of porfolio loans for Social Housing (VIS):

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | # of Obligations | Value | # of Obligations | Value |
| Individual loans | 163,876 | 5,258,559 | 157,146 | 4,810,774 |
| Construction loans | 183 | 885,401 | 162 | 648,414 |
| Leasing | 229 | 4,211 | 278 | 5,246 |
| | 164,288 | 6,148,171 | 157,586 | 5,464,434 |

### 12.5.3. Subsidized Loans

The following are the subsidized loan balances:

December 31, 2018

| Decree | Value of property in monthly min. Wage (MMW) | Rate coverage % | Number of loans | Disbursement Value | Capital Balance |
|---|---|---|---|---|---|
| 1143/2009 | VIS up to 135 | 5.0% | 24,564 | 698,188 | 293,483 |
| | >135 up to 235 | 4.0% | 3,651 | 223,905 | 44,348 |
| | >235 up to 335 | 3.0% | 2,545 | 223,096 | 49,469 |
| | | | 30,760 | 1,145,189 | 387,300 |
| 1190/2012 | VIS up to 135 | 5.0% | 14,254 | 325,780 | 272,814 |
| | >70 up to 135 | 4.0% | 51,106 | 2,314,937 | 2,043,574 |
| | | | 65,360 | 2,640,717 | 2,316,388 |
| 0701/2013 | >135 MMW up to 235 MMW<br>>235 MMW up to 335 MMW | 2.5% | 6,758 | 630,580 | 365,945 |
| 2480/2014<br>161/2014 | 0 MMW up to 70 MMW | 5.0% | 17,925 | 414,306 | 401,373 |
| 428/2015<br>1442/2017 | >70 MMW up to 135 MMW | 4.0% | 11,836 | 597,374 | 581,217 |
| | 135 MMW up to 435 MMW | 5.0% | 1,182 | 29,540 | 29,252 |
| | | | 13,018 | 626,914 | 610,469 |
| 2500/2015 | >135 MMW up to 235 MMW<br>>235 MMW up to 335 MMW | 2.5% | 15,525 | 1,871,924 | 1,635,945 |
| | | | 149,346 | 7,329,630 | 5,717,420 |

December 31, 2017

| Decree | Value of property in monthly min. Wage (MMW) | Rate coverage % | Number of loans | Disbursement Value | Capital Balance |
|---|---|---|---|---|---|
| 1143/2009 | VIS up to 135 | 5.0% | 25,153 | 715,874 | 354,130 |
| | >135 up to 235 | 4.0% | 3,725 | 228,854 | 54,987 |
| | >235 up to 335 | 3.0% | 2,556 | 224,152 | 63,041 |
| | | | 31,434 | 1,168,880 | 472,158 |
| 1190/2012 | VIS up to 135 | 5.0% | 14,022 | 318,570 | 287,078 |
| | >70 up to 135 | 4.0% | 47,504 | 2,087,811 | 1,910,888 |
| | | | 61,526 | 2,406,381 | 2,197,966 |
| 0701/2013 | >135 MMW up to 235 MMW<br>>235 MMW up to 335 MMW | 2.5% | 7,449 | 693,380 | 431,534 |
| 2480/2014<br>161/2014 | 0 MMW up to 70 MMW | 5.0% | 18,659 | 431,524 | 426,207 |
| 428/2015<br>1442/2017 | >70 MMW up to 135 MMW | 4.0% | 6,086 | 306,522 | 300,544 |
| | 135 MMW up to 435 MMW | 5.0% | 109 | 2,824 | 2,824 |
| | | | 6,195 | 309,346 | 303,368 |
| 2500/2015 | >135 MMW up to 235 MMW<br>>235 MMW up to 335 MMW | 2.5% | 10,289 | 1,163,624 | 1,015,571 |
| | | | 135,552 | 6,173,135 | 4,846,804 |

### 12.5.4. Loan and Financial Leasing Portfolio by risk level

The folllowing are portfolio loans by risk rating:

December 31, 2018

| Rating | Capital | Interest | Others (1) | Total | Admissible Collateral | Provisions Capital | Provisions Interest | Provisions Others (1) |
|---|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | | |
| A - Normal | 26,556,213 | 228,300 | 10,594 | 26,795,107 | 12,389,616 | (378,185) | (4,451) | (480) |
| B - Acceptable | 1,269,380 | 15,616 | 893 | 1,285,889 | 676,370 | (62,378) | (1,337) | (162) |
| C - Appreciable | 1,438,246 | 9,673 | 582 | 1,448,501 | 448,996 | (252,298) | (6,508) | (508) |
| D - Significant | 1,116,076 | 34,293 | 6,344 | 1,156,713 | 402,741 | (700,857) | (34,293) | (6,344) |
| E - Uncollectible | 411,299 | 4,650 | 1,450 | 417,399 | 98,865 | (375,067) | (4,650) | (1,450) |
| | 30,791,214 | 292,532 | 19,863 | 31,103,609 | 14,016,588 | (1,768,785) | (51,239) | (8,944) |
| Consumer | | | | | | | | |
| A - Normal | 15,979,990 | 141,373 | 43,655 | 16,165,018 | 3,488,772 | (421,361) | (5,365) | (1,719) |
| B - Acceptable | 500,184 | 11,339 | 2,224 | 513,747 | 129,788 | (60,319) | (2,261) | (519) |
| C - Appreciable | 352,434 | 8,134 | 1,523 | 362,091 | 107,832 | (69,402) | (7,713) | (1,424) |
| D - Significant | 663,677 | 21,603 | 3,743 | 689,023 | 184,315 | (579,185) | (21,603) | (3,743) |
| E - Uncollectible | 202,408 | 5,399 | 2,209 | 210,016 | 156,451 | (173,223) | (5,399) | (2,209) |
| | 17,698,693 | 187,848 | 53,354 | 17,939,895 | 4,067,158 | (1,303,490) | (42,341) | (9,614) |
| Home mortgage | | | | | | | | |
| A - Normal | 7,616,691 | 38,056 | 10,052 | 7,664,799 | 18,688,323 | (75,229) | (381) | (664) |
| B - Acceptable | 218,445 | 3,650 | 1,254 | 223,349 | 574,102 | (6,988) | (3,650) | (1,254) |
| C - Appreciable | 108,997 | 2,772 | 1,241 | 113,010 | 282,345 | (10,873) | (2,772) | (1,241) |
| D - Significant | 195,328 | 2,552 | 2,213 | 200,093 | 512,097 | (39,081) | (2,552) | (2,213) |
| E - Uncollectible | 48,225 | 335 | 1,745 | 50,305 | 119,572 | (15,063) | (335) | (1,745) |
| | 8,187,686 | 47,365 | 16,505 | 8,251,556 | 20,176,439 | (147,234) | (9,690) | (7,117) |
| General Provision (impairment Home) | - | - | - | - | - | (82,103) | - | - |
| | 8,187,686 | 47,365 | 16,505 | 8,251,556 | 20,176,439 | (229,337) | (9,690) | (7,117) |
| Microcredit | | | | | | | | |
| A - Normal | 44,911 | 415 | 219 | 45,545 | 40,485 | (449) | (52) | (48) |
| B - Acceptable | 2,800 | 19 | 22 | 2,841 | 2,458 | (72) | (11) | (20) |
| C - Appreciable | 1,711 | 10 | 15 | 1,736 | 1,547 | (125) | (6) | (13) |
| D - Significant | 2,130 | 25 | 23 | 2,178 | 1,715 | (462) | (25) | (23) |
| E - Uncollectible | 4,998 | 59 | 134 | 5,191 | 4,216 | (2,084) | (59) | (134) |
| | 56,550 | 528 | 413 | 57,491 | 50,421 | (3,192) | (153) | (238) |
| General Provision (impairment Microcredit) | - | - | - | - | - | (565) | - | - |
| | 56,550 | 528 | 413 | 57,491 | 50,421 | (3,757) | (153) | (238) |
| Loan portfolio (*) | 56,734,143 | 528,273 | 90,135 | 57,352,551 | 38,310,606 | (3,305,369) | (103,423) | (25,913) |

* Does not include Leasing

(1) Mainly management commission, insurance and payment for customer account.

December 31, 2017

| Rating | Capital | Interest | Others (1) | Total | Admissible | Provisions Capital | Provisions Interest | Provisions Others (1) |
|---|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | | |
| A - Normal | 24,167,096 | 219,219 | 10,075 | 24,396,390 | 25,083,700 | (359,059) | (4,339) | (485) |
| B - Acceptable | 1,365,833 | 14,201 | 1,398 | 1,381,432 | 1,074,504 | (97,482) | (1,435) | (236) |
| C - Appreciable | 1,352,099 | 10,321 | 659 | 1,363,079 | 702,922 | (239,988) | (6,649) | (583) |
| D - Significant | 704,125 | 15,293 | 4,284 | 723,702 | 637,770 | (387,588) | (15,293) | (4,284) |
| E - Uncollectible | 141,466 | 3,623 | 1,008 | 146,097 | 196,351 | (122,909) | (3,623) | (1,008) |
| | 27,730,619 | 262,657 | 17,424 | 28,010,700 | 27,695,247 | (1,207,026) | (31,339) | (6,596) |
| Consumer | | | | | | | | |
| A - Normal | 14,983,218 | 139,916 | 40,207 | 15,163,341 | 3,640,741 | (462,381) | (5,574) | (1,549) |
| B - Acceptable | 563,043 | 12,750 | 2,274 | 578,067 | 137,920 | (75,792) | (2,632) | (613) |
| C - Appreciable | 368,505 | 8,018 | 1,425 | 377,948 | 121,978 | (80,422) | (7,545) | (1,338) |
| D - Significant | 531,758 | 13,353 | 2,892 | 548,003 | 136,127 | (457,736) | (13,353) | (2,892) |
| E - Uncollectible | 247,000 | 4,770 | 2,360 | 254,130 | 122,278 | (214,647) | (4,770) | (2,360) |
| | 16,693,524 | 178,807 | 49,158 | 16,921,489 | 4,159,044 | (1,290,978) | (33,874) | (8,752) |
| Home mortgage | | | | | | | | |
| A - Normal | 6,653,412 | 32,643 | 9,191 | 6,695,246 | 15,946,888 | (65,683) | (585) | (1,075) |
| B - Acceptable | 212,765 | 825 | 1,251 | 214,841 | 550,927 | (6,847) | (825) | (1,251) |
| C - Appreciable | 87,711 | 384 | 1,025 | 89,120 | 227,516 | (8,790) | (384) | (1,025) |
| D - Significant | 105,026 | 304 | 1,437 | 106,767 | 262,472 | (21,023) | (304) | (1,437) |
| E - Uncollectible | 22,305 | 119 | 855 | 23,279 | 61,506 | (7,049) | (119) | (855) |
| | 7,081,219 | 34,275 | 13,759 | 7,129,253 | 17,049,309 | (109,392) | (2,217) | (5,643) |
| General Provision (impairment Home) | - | - | - | - | - | (71,040) | - | - |
| | 7,081,219 | 34,275 | 13,759 | 7,129,253 | 17,049,309 | (180,432) | (2,217) | (5,643) |
| Microcredit | | | | | | | | |
| A - Normal | 85,802 | 853 | 367 | 87,022 | 134,685 | (858) | (73) | (54) |
| B - Acceptable | 4,304 | 22 | 32 | 4,358 | 5,936 | (106) | (20) | (32) |
| C - Appreciable | 2,106 | 12 | 17 | 2,135 | 3,359 | (93) | (12) | (17) |
| D - Significant | 1,515 | 12 | 18 | 1,545 | 2,131 | (219) | (12) | (18) |
| E - Uncollectible | 5,946 | 58 | 158 | 6,162 | 7,282 | (1,791) | (58) | (158) |
| | 99,673 | 957 | 592 | 101,222 | 153,393 | (3,067) | (175) | (279) |
| General Provision (impairment Microcredit) | - | - | - | - | - | (997) | - | - |
| | 99,673 | 957 | 592 | 101,222 | 153,393 | (4,064) | (175) | (279) |
| Loan portfolio (*) | 51,605,035 | 476,696 | 80,933 | 52,162,664 | 49,056,993 | (2,682,500) | (67,605) | (21,270) |

* Does not include Leasing

(1) Mainly management commission, insurance and payment for customer account

The following is the Financial Leasing by risk rating:

December 31, 2018

| Rating | Capital | Interest | Others (1) | Total | Admissible | Provisions Capital | Provisions Interest | Provisions Others (1) |
|---|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | | |
| A - Normal | 2,280,076 | 13,904 | 3,289 | 2,297,269 | 3,662,964 | (42,974) | (676) | (321) |
| B - Acceptable | 142,534 | 1,567 | 603 | 144,704 | 251,654 | (5,707) | (193) | (114) |
| C - Appreciable | 59,840 | 1,155 | 417 | 61,412 | 123,161 | (5,394) | (966) | (369) |
| D - Significant | 96,086 | 2,693 | 1,996 | 100,775 | 170,957 | (43,078) | (2,693) | (1,996) |
| E - Uncollectible | 40,002 | 1,316 | 3,241 | 44,559 | 121,861 | (29,574) | (1,316) | (3,241) |
| | 2,618,538 | 20,635 | 9,546 | 2,648,719 | 4,330,597 | (126,727) | (5,844) | (6,041) |
| Consumer | | | | | | | | |
| A - Normal | 15,840 | 142 | 43 | 16,025 | 21,967 | (231) | (3) | (1) |
| B - Acceptable | 413 | 7 | 5 | 425 | 670 | (25) | (1) | (1) |
| C - Appreciable | 411 | 3 | 3 | 417 | 525 | (67) | (2) | (3) |
| D - Significant | 510 | 6 | 71 | 587 | 850 | (317) | (6) | (71) |
| E - Uncollectible | 509 | 13 | 189 | 711 | 1,053 | (321) | (13) | (189) |
| | 17,683 | 171 | 311 | 18,165 | 25,065 | (961) | (25) | (265) |
| Home mortgage | | | | | | | | |
| A - Normal | 8,260,861 | 39,519 | 9,357 | 8,309,737 | 19,526,255 | (84,011) | (395) | (439) |
| B - Acceptable | 200,847 | 3,698 | 1,444 | 205,989 | 442,654 | (6,463) | (3,698) | (1,444) |
| C - Appreciable | 85,377 | 3,018 | 1,303 | 89,698 | 184,447 | (8,598) | (3,018) | (1,303) |
| D - Significant | 115,084 | 1,757 | 1,714 | 118,555 | 238,575 | (23,018) | (1,757) | (1,714) |
| E - Uncollectible | 50,929 | 385 | 1,943 | 53,257 | 100,192 | (15,347) | (385) | (1,943) |
| | 8,713,098 | 48,377 | 15,761 | 8,777,236 | 20,492,123 | (137,437) | (9,253) | (6,843) |
| General Provision (impairment Home) | - | - | - | - | - | (87,354) | - | - |
| | 8,713,098 | 48,377 | 15,761 | 8,777,236 | 20,492,123 | (224,791) | (9,253) | (6,843) |
| Microcredit | | | | | | | | |
| A - Normal | 216 | 2 | 1 | 219 | 216 | (2) | - | - |
| E - Uncollectible | 67 | - | 5 | 72 | - | (20) | - | (5) |
| | 283 | 2 | 6 | 291 | 216 | (22) | - | (5) |
| General Provision (impairment Microcredit) | - | - | - | - | - | (3) | - | - |
| | 283 | 2 | 6 | 291 | 216 | (25) | - | (5) |
| Financial Leasing | 11,349,602 | 69,185 | 25,624 | 11,444,411 | 24,848,001 | (352,504) | (15,122) | (13,154) |

(1) Mainly management commission, insurance and payment for customer account

December 31, 2017

| Rating | Capital | Interest | Others (1) | Total | Admissible | Provisions Capital | Provisions Interest | Provisions Others (1) |
|---|---|---|---|---|---|---|---|---|
| Commercial | | | | | | | | |
| A - Normal | 2,034,795 | 15,075 | 2,661 | 2,052,531 | 3,474,096 | (37,328) | (719) | (343) |
| B - Acceptable | 147,819 | 1,941 | 481 | 150,241 | 264,954 | (5,655) | (187) | (77) |
| C - Appreciable | 42,096 | 908 | 283 | 43,287 | 63,105 | (4,674) | (769) | (248) |
| D - Significant | 59,197 | 1,525 | 1,639 | 62,361 | 116,965 | (26,456) | (1,525) | (1,639) |
| E - Uncollectible | 33,715 | 1,134 | 4,255 | 39,104 | 126,339 | (23,752) | (1,134) | (4,255) |
| | 2,317,622 | 20,583 | 9,319 | 2,347,524 | 4,045,459 | (97,865) | (4,334) | (6,562) |
| Consumer | | | | | | | | |
| A - Normal | 17,364 | 147 | 50 | 17,561 | 11,457 | (451) | (4) | (2) |
| B - Acceptable | 341 | 6 | 2 | 349 | 174 | (37) | (1) | - |
| C - Appreciable | 424 | 2 | 13 | 439 | 39 | (107) | (2) | (13) |
| D - Significant | 271 | 2 | 22 | 295 | 401 | (205) | (2) | (22) |
| E - Uncollectible | 1,169 | 32 | 367 | 1,568 | 1,392 | (1,091) | (32) | (367) |
| | 19,569 | 189 | 454 | 20,212 | 13,463 | (1,891) | (41) | (404) |
| Home mortgage | | | | | | | | |
| A - Normal | 7,049,319 | 33,744 | 8,248 | 7,091,311 | 16,367,452 | (71,809) | (574) | (666) |
| B - Acceptable | 189,543 | 876 | 863 | 191,282 | 392,880 | (6,295) | (876) | (863) |
| C - Appreciable | 69,217 | 409 | 723 | 70,349 | 138,656 | (6,930) | (409) | (723) |
| D - Significant | 58,857 | 258 | 747 | 59,862 | 111,821 | (11,772) | (258) | (747) |
| E - Uncollectible | 37,002 | 352 | 2,212 | 39,566 | 77,164 | (13,261) | (352) | (2,212) |
| | 7,403,938 | 35,639 | 12,793 | 7,452,370 | 17,087,973 | (110,067) | (2,469) | (5,211) |
| General Provision (impairment Home | - | - | - | - | - | (74,241) | - | - |
| | 7,403,938 | 35,639 | 12,793 | 7,452,370 | 17,087,973 | (184,308) | (2,469) | (5,211) |
| Microcredit | | | | | | | | |
| A - Normal | 465 | 3 | 2 | 470 | - | (5) | - | - |
| B - Acceptable | 37 | - | 1 | 38 | - | (1) | - | (1) |
| D - Significant | 9 | - | - | 9 | - | (4) | - | - |
| E - Uncollectible | 34 | - | 1 | 35 | - | (34) | - | (1) |
| | 545 | 3 | 4 | 552 | - | (44) | - | (2) |
| General Provision (impairment Microcredit) | - | - | - | - | - | (5) | - | - |
| | 545 | 3 | 4 | 552 | - | (49) | - | (2) |
| Financial Leasing | 9,741,674 | 56,414 | 22,570 | 9,820,658 | 21,146,895 | (284,113) | (6,844) | (12,179) |

(1) Mainly management commission, insurance and payment for customer account

### 12.5.5. Loan and Financial Leasing Portfolio by economic sector

The following is the Loan and Financial Leasing Portfolio by economic sector:

December 31, 2018

| Sector | Commercial | Consumer | Home | Financial Leasing | Microcredit | Total | % Share |
|---|---|---|---|---|---|---|---|
| Farming, livestock, forestry and fishing | 1,625,059 | - | - | 132,729 | 715 | 1,758,503 | 2.58% |
| Mining and quarries | 200,567 | - | - | 15,812 | - | 216,379 | 0.32% |
| Manufacturing industry | 4,763,506 | - | - | 427,322 | 1,283 | 5,192,111 | 7.63% |
| Electricity, Gas, Steam & Air conditioning supply | 2,766,744 | - | - | 31,861 | 40 | 2,798,645 | 4.11% |
| Water supply, removal of wastewater, waste and decontamination management | 146,826 | - | - | 29,503 | 64 | 176,393 | 0.26% |
| Construction | 6,277,257 | - | - | 163,104 | 325 | 6,440,686 | 9.46% |
| Wholesale and retail; Vehicles and motorcycles | 3,919,756 | - | - | 521,757 | 2,727 | 4,444,240 | 6.53% |
| Transport and storage | 2,643,881 | - | - | 353,222 | 39,501 | 3,036,604 | 4.46% |
| Accommodation and catering services | 333,512 | - | - | 67,413 | 152 | 401,077 | 0.59% |
| Information and communication | 671,698 | - | - | 32,101 | 128 | 703,927 | 1.03% |
| Finance and Insurance | 2,049,595 | - | - | 26,455 | 40 | 2,076,090 | 3.05% |
| Real Property | 735,407 | - | - | 165,676 | 41 | 901,124 | 1.32% |
| Professional, scientific and technical | 950,240 | - | - | 100,106 | 2,211 | 1,052,557 | 1.55% |
| Administrative and support services | 613,028 | - | - | 161,141 | 581 | 774,750 | 1.14% |
| Public administration and defense; mandatory social security schemes. | 1,322,015 | - | - | 4,604 | 1 | 1,326,620 | 1.95% |
| Education | 256,725 | - | - | 40,664 | 112 | 297,501 | 0.44% |
| Health care and social assistance | 656,397 | - | - | 98,533 | 159 | 755,089 | 1.11% |
| Artistic, entertainment and recreational activities | 93,422 | - | - | 49,139 | 63 | 142,624 | 0.21% |
| Other service activities | 145,937 | - | - | 8,378 | 106 | 154,421 | 0.23% |
| Household activities as employers; undifferentiated activities of household as goods and services producers for own use. | 20,956 | - | - | 6,254 | 17 | 27,227 | 0.04% |
| Salaried workers | 365,704 | 17,698,693 | 8,187,686 | 8,875,269 | 7,825 | 35,135,177 | 51.61% |
| Rentiers (Individuals) | 232,982 | - | - | 38,559 | 459 | 272,000 | 0.40% |
| | 30,791,214 | 17,698,693 | 8,187,686 | 11,349,602 | 56,550 | 68,083,745 | 100.00% |

December 31, 2017

| Sector | Commercial | Consumer | Home | Financial Leasing | Microcredit | Total | % Share |
|---|---|---|---|---|---|---|---|
| Farming, livestock, forestry and fishing | 1,631,631 | - | - | 112,704 | 2,530 | 1,746,865 | 2.85% |
| Mining and quarries | 408,497 | - | - | 15,323 | 4 | 423,824 | 0.69% |
| Manufacturing industry | 4,070,806 | - | - | 362,634 | 2,620 | 4,436,060 | 7.23% |
| Electricity, Gas, Steam & Air conditioning supply | 2,957,812 | - | - | 176,513 | 70 | 3,134,395 | 5.11% |
| Water supply, removal of wastewater, waste and decontamination management | 111,555 | - | - | 7,799 | 161 | 119,515 | 0.19% |
| Construction | 4,716,669 | - | - | 140,092 | 676 | 4,857,437 | 7.92% |
| Wholesale and retail; Vehicles and motorcycles | 3,855,717 | - | - | 438,488 | 6,755 | 4,300,960 | 7.01% |
| Transport and storage | 2,573,447 | - | - | 281,956 | 63,444 | 2,918,847 | 4.76% |
| Accommodation and catering services | 197,760 | - | - | 49,593 | 438 | 247,791 | 0.40% |
| Information and communication | 933,611 | - | - | 22,034 | 215 | 955,860 | 1.56% |
| Finance and Insurance | 1,470,234 | - | - | 12,697 | 72 | 1,483,003 | 2.42% |
| Real Property | 1,369,321 | - | - | 186,646 | 139 | 1,556,106 | 2.54% |
| Professional, scientific and technical | 821,711 | - | - | 103,571 | 3,671 | 928,953 | 1.51% |
| Administrative and support services | 460,999 | - | - | 111,959 | 1,452 | 574,410 | 0.94% |
| Public administration and defense; mandatory social security schemes. | 493,438 | - | - | 1,142 | 2 | 494,582 | 0.81% |
| Education | 257,995 | - | - | 42,870 | 238 | 301,103 | 0.49% |
| Health care and social assistance | 623,375 | - | - | 65,644 | 324 | 689,343 | 1.12% |
| Artistic, entertainment and recreational activities | 118,767 | - | - | 17,161 | 132 | 136,060 | 0.22% |
| Other service activities | 133,240 | - | - | 7,553 | 340 | 141,133 | 0.23% |
| Household activities as employers; undifferentiated activities of household as goods and services producers for own use. | 11,664 | - | - | 3,274 | 48 | 14,986 | 0.02% |
| Salaried workers | 350,645 | 16,693,524 | 7,081,219 | 7,544,078 | 15,078 | 31,684,544 | 51.65% |
| Rentiers (Individuals) | 161,725 | - | - | 37,943 | 1,264 | 200,932 | 0.33% |
| | 27,730,619 | 16,693,524 | 7,081,219 | 9,741,674 | 99,673 | 61,346,709 | 100.00% |

### 12.5.6. Loan and Financial Leasing Portfolio by geographical zone

The following is Loan Portfolio by geographical zone:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial Loans | | |
| Bogotá | 13,318,120 | 12,735,576 |
| Antioquia | 6,810,946 | 6,031,786 |
| Northeast | 5,660,824 | 4,743,412 |
| Southwest | 3,706,060 | 3,283,025 |
| **Total Colombia** | 29,495,950 | 26,793,799 |
| Miami Branch | 1,295,264 | 936,820 |
| | 30,791,214 | 27,730,619 |
| Consumer Loans | | |
| Bogotá | 8,357,902 | 7,827,589 |
| Antioquia | 3,242,500 | 3,106,760 |
| Northeast | 3,631,699 | 3,473,564 |
| Southwest | 2,464,280 | 2,283,746 |
| **Total Colombia** | 17,696,381 | 16,691,659 |
| Miami Branch | 2,312 | 1,865 |
| | 17,698,693 | 16,693,524 |
| Home Mortgage | | |
| Bogotá | 4,844,129 | 4,418,317 |
| Antioquia | 1,013,949 | 800,192 |
| Northeast | 1,432,191 | 1,171,577 |
| Southwest | 897,417 | 691,133 |
| **Total Colombia** | 8,187,686 | 7,081,219 |
| Microcredit | | |
| Bogotá | 42,763 | 77,414 |
| Antioquia | 5,330 | 9,316 |
| Northeast | 7,826 | 12,073 |
| Southwest | 631 | 870 |
| **Total Colombia** | 56,550 | 99,673 |
| | 56,734,143 | 51,605,035 |

The following is the Financial Leasing Portfolio by geographical zone:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial | | |
| Bogotá | 1,907,970 | 1,545,739 |
| Antioquia | 328,432 | 287,656 |
| Northeast | 226,770 | 206,959 |
| Southwest | 155,366 | 131,673 |
| **Total Colombia** | 2,618,538 | 2,172,027 |
| Miami Branch | - | 145,595 |
| | 2,618,538 | 2,317,622 |
| Consumer | | |
| Bogotá | 13,821 | 16,377 |
| Antioquia | 1,807 | 1,779 |
| Northeast | 1,226 | 905 |
| Southwest | 829 | 508 |
| **Total Colombia** | 17,683 | 19,569 |
| Home | | |
| Bogotá | 3,936,246 | 3,456,680 |
| Antioquia | 1,944,282 | 1,610,753 |
| Northeast | 1,775,961 | 1,463,184 |
| Southwest | 1,056,609 | 873,321 |
| **Total Colombia** | 8,713,098 | 7,403,938 |
| Microcredit | | |
| Bogotá | 249 | 501 |
| Antioquia | 34 | 44 |
| **Total Colombia** | 283 | 545 |
| | 11,349,602 | 9,741,674 |
| **Gross Loans** | 68,083,745 | 61,346,709 |

### 12.5.7. Loan and Financial Leasing Portfolio by monetary unit

The following is the Loan and Financial Leasing Portfolio by monetaryunit:

December 31, 2018

| Item | Local currency | Foreign Currency | UVR | Total |
|---|---|---|---|---|
| Commercial | 22,240,524 | 5,069,942 | 3,480,748 | 30,791,214 |
| Consumer | 17,613,843 | 84,850 | - | 17,698,693 |
| Home Mortgage (1) | 6,334,328 | - | 1,853,358 | 8,187,686 |
| Microcredit | 56,550 | - | - | 56,550 |
| Financial Leasing (1) | 10,656,817 | - | 692,785 | 11,349,602 |
| | 56,902,062 | 5,154,792 | 6,026,891 | 68,083,745 |

(1) Includes employees loans

December 31, 2017

| Item | Local currency | Foreign Currency | UVR | Total |
|---|---|---|---|---|
| Commercial | 20,126,307 | 4,661,229 | 2,943,083 | 27,730,619 |
| Consumer | 16,610,281 | 83,243 | - | 16,693,524 |
| Home Mortgage (1) | 5,310,281 | - | 1,770,938 | 7,081,219 |
| Microcredit | 99,673 | - | - | 99,673 |
| Financial Leasing (1) | 9,013,011 | 145,595 | 583,068 | 9,741,674 |
| | 51,159,553 | 4,890,067 | 5,297,089 | 61,346,709 |

(1) Includes employees loans

### 12.5.8. Loan and Financial Leasing Portfolio by maturities

The following is the Loan Portfolio by maturity:

December 31, 2018

| Item | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Commercial | 9,368,451 | 11,843,084 | 7,131,153 | 2,448,526 | 30,791,214 |
| Consumer | 260,149 | 9,283,304 | 3,976,431 | 4,178,809 | 17,698,693 |
| Home Mortgage | 6,327 | 186,310 | 1,543,583 | 6,451,466 | 8,187,686 |
| Microcredit | 7,358 | 49,106 | 86 | - | 56,550 |
| | 9,642,285 | 21,361,804 | 12,651,253 | 13,078,801 | 56,734,143 |

December 31, 2017

| Item | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Commercial | 7,745,919 | 11,333,174 | 7,320,188 | 1,331,338 | 27,730,619 |
| Consumer | 1,284,636 | 11,636,260 | 3,515,525 | 257,103 | 16,693,524 |
| Home Mortgage | 5,782 | 157,209 | 1,234,914 | 5,683,314 | 7,081,219 |
| Microcredit | 6,414 | 88,931 | 4,328 | - | 99,673 |
| | 9,042,751 | 23,215,574 | 12,074,955 | 7,271,755 | 51,605,035 |

The following is the Financial Leasing Portfolio by maturity:

December 31, 2018

| Item | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Commercial | 50,178 | 964,983 | 1,427,965 | 175,412 | 2,618,538 |
| Consumer | 1,269 | 16,154 | 260 | - | 17,683 |
| Home Mortgage | 4,876 | 177,236 | 1,589,982 | 6,941,004 | 8,713,098 |
| Microcredit | 44 | 239 | - | - | 283 |
| | 56,367 | 1,158,612 | 3,018,207 | 7,116,416 | 11,349,602 |

December 31, 2017

| Item | 0-1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Commercial | 187,211 | 880,778 | 1,135,188 | 114,445 | 2,317,622 |
| Consumer | 1,149 | 18,080 | 340 | - | 19,569 |
| Home Mortgage | 3,650 | 142,144 | 1,093,163 | 6,164,981 | 7,403,938 |
| Microcredit | 68 | 477 | - | - | 545 |
| | 192,078 | 1,041,479 | 2,228,691 | 6,279,426 | 9,741,674 |

### 12.5.9. Restructured loans

The following is the detail of restructured loans:

December 31, 2018

| Item | # of Obligations | Ordinary Restructured | Provision | Collateral |
|---|---|---|---|---|
| Commercial | 2,754 | 683,657 | 285,106 | 361,495 |
| Consumer | 42,035 | 964,468 | 470,290 | 178,001 |
| Home mortgage | 8,584 | 287,621 | 45,296 | 797,407 |
| Microcredit | 179 | 5,717 | 1,548 | 4,718 |
| | 53,552 | 1,941,463 | 802,240 | 1,341,621 |

December 31, 2017

| Item | # of Obligations | Ordinary Restructured | Provision | Collateral |
|---|---|---|---|---|
| Commercial | 2,548 | 873,116 | 278,345 | 913,523 |
| Consumer | 50,847 | 1,188,372 | 411,870 | 124,280 |
| Home mortgage | 7,321 | 230,426 | 24,536 | 628,628 |
| Microcredit | 82 | 2,606 | 593 | 3,426 |
| | 60,798 | 2,294,520 | 715,344 | 1,669,857 |

The following is the detail of restructured Financial Leasing:

December 31, 2018

| Item | # of Obligations | Ordinary Restructured | Provision | Collateral |
|---|---|---|---|---|
| Commercial | 505 | 82,122 | 29,621 | 202,206 |
| Microcredit | 6 | 144 | 70 | 230 |
| Consumer | 854 | 141,144 | 21,985 | 307,377 |
| | 1,365 | 223,410 | 51,676 | 509,813 |

December 31, 2017

| Item | # of Obligations | Ordinary Restructured | Provision | Collateral |
|---|---|---|---|---|
| Commercial | 353 | 46,452 | 11,966 | 125,613 |
| Consumer | 4 | 75 | 52 | 207 |
| Home Mortgage | 731 | 107,728 | 11,193 | 228,725 |
| | 1,088 | 154,255 | 23,211 | 354,545 |

#### 12.5.9.1. Restructured loans by rating

The following is the detail of the restructured loans by rating:

December 31, 2018

| Item | Commercial | | Consumer | | Home | | Microcredit | |
|---|---|---|---|---|---|---|---|---|
| | No. Loans | Value | No. Loans | Value | No. Loans | Value | No. Loans | Value |
| A - Normal | 193 | 24,062 | 13,763 | 310,490 | 1,168 | 31,204 | 21 | 605 |
| B - Acceptable | 465 | 169,741 | 3,869 | 91,386 | 1,081 | 36,651 | 20 | 556 |
| C - Deficient | 269 | 151,242 | 5,647 | 123,462 | 935 | 27,626 | 11 | 362 |
| D - Doubtful | 1,482 | 231,136 | 14,165 | 329,832 | 4,893 | 171,542 | 47 | 1,445 |
| E - Unrecoverable | 345 | 107,476 | 4,591 | 109,298 | 507 | 20,598 | 80 | 2,749 |
| | 2,754 | 683,657 | 42,035 | 964,468 | 8,584 | 287,621 | 179 | 5,717 |

December 31, 2017

| Item | Commercial | | Consumer | | Home | | Microcredit | |
|---|---|---|---|---|---|---|---|---|
| | No. Loans | Value | No. Loans | Value | No. Loans | Value | No. Loans | Value |
| A - Normal | 323 | 43,263 | 23,712 | 569,522 | 2,571 | 71,572 | 17 | 512 |
| B - Acceptable | 630 | 246,808 | 5,515 | 137,093 | 1,012 | 37,629 | 6 | 120 |
| C - Deficient | 272 | 388,344 | 6,451 | 141,434 | 935 | 27,411 | 4 | 81 |
| D - Doubtful | 986 | 109,985 | 10,629 | 239,322 | 2,563 | 86,219 | 7 | 190 |
| E - Unrecoverable | 337 | 84,716 | 4,540 | 101,001 | 240 | 7,595 | 48 | 1,703 |
| | 2,548 | 873,116 | 50,847 | 1,188,372 | 7,321 | 230,426 | 82 | 2,606 |

The following is the detail of restructured leasing operations by rating:

December 31, 2018

| Item | Commercial | | Consumer | | Home | | Microcredit | |
|---|---|---|---|---|---|---|---|---|
| | No. Loans | Value | No. Loans | Value | No. Loans | Value | No. Loans | Value |
| A - Normal | 34 | 6,506 | - | - | 151 | 17,328 | - | - |
| B - Acceptable | 60 | 11,494 | - | - | 128 | 21,449 | - | - |
| C - Deficient | 41 | 11,320 | - | - | 49 | 7,173 | - | - |
| D - Doubtful | 193 | 34,391 | 2 | 14 | 464 | 82,182 | - | - |
| E - Unrecoverable | 177 | 18,411 | 4 | 130 | 62 | 13,012 | - | - |
| | 505 | 82,122 | 6 | 144 | 854 | 141,144 | - | - |

December 31, 2017

| Item | Commercial | | Consumer | | Home | | Microcredit | |
|---|---|---|---|---|---|---|---|---|
| | No. Loans | Value | No. Loans | Value | No. Loans | Value | No. Loans | Value |
| A - Normal | 58 | 9,260 | 1 | 15 | 329 | 28,618 | - | - |
| B - Acceptable | 60 | 13,750 | - | - | 223 | 30,295 | - | - |
| C - Deficient | 26 | 5,063 | - | - | 129 | 8,148 | - | - |
| D - Doubtful | 95 | 10,302 | 2 | 17 | 27 | 36,413 | - | - |
| E - Unrecoverable | 114 | 8,077 | 1 | 43 | 22 | 4,254 | - | - |
| | 353 | 46,452 | 4 | 75 | 730 | 107,728 | - | - |

### 12.5.9.2. Restructured loans by geographical zone

The following is the restructured loan porfolio by geographical zone:

December 31, 2018

| Item | Commercial | Consumer | Home | Microcredit | Total |
|---|---|---|---|---|---|
| Bogotá | 265,975 | 492,474 | 216,560 | 4,018 | 979,027 |
| Antioquia | 77,387 | 135,922 | 10,944 | 327 | 224,580 |
| Northeast | 264,349 | 218,668 | 39,774 | 1,372 | 524,163 |
| Southwest | 75,946 | 117,404 | 20,343 | - | 213,693 |
| | 683,657 | 964,468 | 287,621 | 5,717 | 1,941,463 |

December 31, 2017

| Item | Commercial | Consumer | Home | Microcredit | Total |
|---|---|---|---|---|---|
| Bogotá | 470,376 | 609,377 | 173,226 | 1,798 | 1,254,777 |
| Antioquia | 74,849 | 174,465 | 9,591 | 196 | 259,101 |
| Northeast | 264,243 | 270,207 | 30,616 | 612 | 565,678 |
| Southwest | 63,648 | 134,323 | 16,993 | - | 214,964 |
| | 873,116 | 1,188,372 | 230,426 | 2,606 | 2,294,520 |

The following is the detail of  restructured leasing operations by geographical zone:

December 31, 2018

| Item | Commercial | Consumer | Home | Microcredit | Total |
|---|---|---|---|---|---|
| Bogotá | 63,044 | 144 | 83,206 | - | 146,394 |
| Antioquia | 6,138 | - | 16,406 | - | 22,544 |
| Northeast | 7,994 | - | 29,303 | - | 37,297 |
| Southwest | 4,946 | - | 12,229 | - | 17,175 |
| | 82,122 | 144 | 141,144 | - | 223,410 |

December 31, 2017

| Item | Commercial | Consumer | Home | Microcredit | Total |
|---|---|---|---|---|---|
| Bogotá | 33,369 | 75 | 60,491 | - | 93,935 |
| Antioquia | 4,842 | - | 15,647 | - | 20,489 |
| Northeast | 2,990 | - | 21,776 | - | 24,766 |
| Southwest | 5,251 | - | 9,814 | - | 15,065 |
| | 46,452 | 75 | 107,728 | - | 154,255 |

### 12.5.10. Shareholder and employee loans

Loans to shareholders and home loans to employees at preferential rates are as follows:

| Item | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Shareholders* | 320 | 97 |
| Employees Home Mortgage | 96,991 | 105,075 |
| Employees Residential Leasing | 95,204 | 90,965 |
| | 192,515 | 196,137 |

* Shareholders holding more than 5%

The Bank, in compliance with IFRS 9 and IAS 19, incorporated in its financial statements the effect of preferential rates granted to its staff who apply for home loans, to be recognized as a personnel expense for $ 10,410 at December 2018 and $9,698 for the same period of 2017.

### 12.5.11. Performing loan portfolio sales

The following is the detail of portfolio sales:

December 31, 2018

Titularizadora Colombiana S.A.

| Issue | Date | Number | Rate | Capital | Interest | Others | Total | Profit | Proceeds of sale | Provisions recovery |
|---|---|---|---|---|---|---|---|---|---|---|
| TIPS PESOS N-17 | Feb-27-2018 | 2,504 | 7.10% | 157,884 | 985 | 189 | 159,058 | 3,930 | 163,732 | 3,176 |
| TIPS UVR U3 | Jul-19-2018 | 2,421 | 3.40% | 90,990 | 382 | 130 | 91,503 | 1,841 | 92,894 | 1,824 |
| | | 4,925 | | 248,874 | 1,367 | 319 | 250,561 | 5,771 | 256,626 | 5,000 |

December 31, 2017

Titularizadora Colombiana S.A.

| Issue | Date | Number | Rate | Capital | Interest | Others | Total | Profit | Proceeds of sale | Provisions recovery |
|---|---|---|---|---|---|---|---|---|---|---|
| TIPS Pesos N-14 | Mar-02-2017 | 3,278 | 8.20% | 205,792 | 984 | 228 | 207,004 | 2,675 | 210,173 | 4,179 |
| TIPS Pesos N-15 | Jun-20-2017 | 1,834 | 7.00% | 175,999 | 864 | 168 | 177,031 | 3,536 | 181,175 | 3,549 |
| TIPS UVR U-2 | Oct-30-2017 | 4,554 | 3.50% | 183,930 | 911 | 297 | 185,138 | 5,666 | 191,164 | 3,745 |
| TIPS Pesos N-16 | Nov-29-2017 | 1,699 | 7.10% | 105,789 | 594 | 136 | 106,519 | 2,534 | 109,307 | 2,135 |
| | | 11,365 | | 671,510 | 3,353 | 829 | 675,692 | 14,411 | 691,819 | 13,608 |

### 12.5.12. Venta de cartera castigada

The following is the detail of written-off loans.

December 31, 2018

| Operating month | No. of loans | Capital | Interest | Other items | Total | Proceeds of sale |
|---|---|---|---|---|---|---|
| April | 48,502 | 403,962 | 13,603 | 60,779 | 478,344 | 22,083 |
| June | 23,790 | 266,158 | 6,957 | 21,823 | 294,938 | 17,670 |
| August | 449 | 1,411 | 55 | 23 | 1,489 | 85 |
| September | 11,422 | 86,979 | 2,815 | 13,598 | 103,392 | 4,535 |
| October | 483 | 1,347 | 57 | 40 | 1,444 | 278 |
| November | 64,204 | 498,749 | 19,522 | 58,723 | 576,994 | 20,876 |
| December | 26,240 | 145,830 | 8,968 | 6,987 | 161,785 | 7,154 |
| December | 386 | 1,056 | 34 | 26 | 1,116 | 254 |
| | 175,476 | 1,405,492 | 52,011 | 161,999 | 1,619,502 | 72,935 |

December 31, 2017

| Mes operación | Número de créditos | Capital | Intereses | Otros Conceptos | Total | Producto de la venta |
|---|---|---|---|---|---|---|
| February | 44 | 1,087 | 15 | 1,271 | 2,373 | 282 |
| April | 9,740 | 61,017 | 2,205 | 10,372 | 73,594 | 4,332 |
| July | 40,135 | 274,541 | 9,724 | 24,538 | 308,803 | 13,876 |
| November | 2,666 | 5,847 | 688 | 556 | 7,091 | 234 |
| November | 31,870 | 235,684 | 7,444 | 15,961 | 259,089 | 13,578 |
| | 84,455 | 578,176 | 20,076 | 52,698 | 650,950 | 32,302 |

### 12.5.13. Loans written-off

The following is the detail of written-off loans:

December 31, 2018

| Item | Capital | Interest | Other items | Total |
|---|---|---|---|---|
| Commercial | 145,856 | 9,247 | 8,064 | 163,167 |
| Consumer | 1,364,009 | 74,058 | 11,170 | 1,449,237 |
| Home | 43,819 | 394 | 2,898 | 47,111 |
| Microcredit | 4,887 | 66 | 205 | 5,158 |
| Other accounts receivable | - | - | 412 | 412 |
| | 1,558,571 | 83,765 | 22,749 | 1,665,085 |

December 31, 2017

| Item | Capital | Interest | Other items | Total |
|---|---|---|---|---|
| Commercial | 121,988 | 6,246 | 3,305 | 131,539 |
| Consumer | 1,115,359 | 38,052 | 8,144 | 1,161,555 |
| Home | 12,775 | 85 | 804 | 13,664 |
| Microcredit | 4,845 | 75 | 226 | 5,146 |
| Other accounts receivable | - | - | 382 | 382 |
| | 1,254,967 | 44,458 | 12,861 | 1,312,286 |

### 12.5.14. Purchases and interests in Loan portfolios

At December 31, 2018 and 2017, there were no loan purchases

The following is the detail of interests in Loan Portfolio:

At December 31, 2018 and 2017, the balance of the loan portfolio interest with Miami was $582,209 and $ 251,632 respectively, corresponding to credit operations in whose funding structure the Miami branch participates and its registration is proportional to the transaction ;due to the above, this type of transactions does not generate an effect on P&L.

December 31,2018

| Number of Loans | Capital | Interest | Others | Total | Premium | Purchase profit |
|---|---|---|---|---|---|---|
| 40 | 582,209 | 4,324 | - | 586,533 | - | - |

At December 31, 2018, the balances of the portfolio loans sold to the Panama subsidiary by the Miami Branch were USD $ 57.3 million, equivalent to COP $186,219

December 31, 2017

| Number of Loans | Capital | Interest | Others | Total | Premium | Purchase profit |
|---|---|---|---|---|---|---|
| 10 | 251,632 | 3,802 | - | 255,434 | - | - |

At December 31, 2017, loans sol to the Panama subsidiary by Miami Branch totaled US$69 million, equivaloent to $205,198.

### 12.5.15. Provision against Loan and Financial Leasing Portfolio

December 31, 2018

| | Commercial | Consumer | Home Mortgage | Microcredit | Total |
|---|---|---|---|---|---|
| Opening balance | 1,304,891 | 1,292,869 | 364,740 | 4,113 | 2,966,613 |
| Plus: | | | | | |
| Provision charged to operating expenses | 1,383,276 | 1,921,483 | 175,368 | 6,344 | 3,486,471 |
| Others | 2,095 | - | - | - | 2,095 |
| Less: | | | | | |
| Written-off loans | (145,856) | (1,364,009) | (43,819) | (4,887) | (1,558,571) |
| Written-off loans deferred | 524 | 7,280 | 491 | - | 8,295 |
| Recoveries | (649,418) | (553,172) | (42,652) | (1,788) | (1,247,030) |
| | 1,895,512 | 1,304,451 | 454,128 | 3,782 | 3,657,873 |

December 31, 2017

| | Commercial | Consumer | Home Mortgage | Microcredit | Total |
|---|---|---|---|---|---|
| Opening balance | 946,979 | 1,078,812 | 319,155 | 13,100 | 2,358,046 |
| Plus: | | | | | |
| Provision charged to operating expenses | 971,490 | 1,776,530 | 122,423 | 4,103 | 2,874,546 |
| Less: | | | | | |
| Written-off loans | (121,988) | (1,115,359) | (12,775) | (4,845) | (1,254,967) |
| Written-off loans deferred | 124 | 5,587 | 173 | - | 5,884 |
| Recoveries | (491,714) | (452,701) | (64,236) | (8,245) | (1,016,896) |
| | 1,304,891 | 1,292,869 | 364,740 | 4,113 | 2,966,613 |

### 12.5.16. Maturities of financial leasing operations

The following is the maturity of financial leasing:

December 31, 2018

| | 0-1 years | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|
| Gross investment in financial leases | 2,079,390 | 7,485,635 | 12,713,528 | 22,278,553 |
| Financial income not accrued by financial leasing interest | (557,930) | (3,353,637) | (7,017,384) | (10,928,951) |
| Total minimum payments of financial leases receivable, at present value | 1,521,460 | 4,131,998 | 5,696,144 | 11,349,602 |

December 31, 2017

| | 0-1 years | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|
| Gross investment in financial leases | 1,827,253 | 6,341,677 | 10,762,448 | 18,931,378 |
| Financial income not accrued by financial leasing interest | (488,352) | (2,890,989) | (5,810,363) | (9,189,704) |
| Total minimum payments of financial leases receivable, at present value | 1,338,901 | 3,450,688 | 4,952,085 | 9,741,674 |

### 12.6. Accounts Receivable, Net

The following is the detail of Accounts Receivable, net:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Interest | 534,810 | 481,188 |
| Financing, Financial Leasing operations | 69,106 | 56,293 |
| Funds transferred to Icetex - abandoned accounts(*) | 183,900 | 163,436 |
| Head office, Subsidiaries, related parties and Associates | 12,055 | 7,675 |
| Deposits | 56,544 | 23,473 |
| Tax Advance | 241,694 | 122,504 |
| Advances to contractors and suppliers | 689,022 | 353,706 |
| Payments on customers account | 22,624 | 11,768 |
| Payments on customers account - loans | 115,758 | 103,502 |
| Overhead leasing operations | 42,798 | 29,022 |
| Interest payable - TIPS | 6,749 | 15,201 |
| Colombian Treasury | 20,920 | 19,797 |
| Banco de la República - Rate cover | 13,500 | 12,018 |
| Sale of loans written off | 30,503 | 10,977 |
| International trade clearing | 96,009 | 28,841 |
| Sale of real property | 5,129 | 60,039 |
| Other | 107,661 | 83,124 |
| Accounts receivable | 2,248,782 | 1,582,564 |
| Impairment provision | (181,705) | (127,557) |
| Accounts receivable, net | 2,067,077 | 1,455,007 |

The following is accounts receivable ageing:

December 31, 2018

| | Up to 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest | 521,297 | 13,491 | 22 | 534,810 |
| Financing, Financial Leasing operations | 65,860 | 3,227 | 19 | 69,106 |
| Funds transferred to Icetex - abandoned accounts(*) | 183,900 | - | - | 183,900 |
| Head office, Subsidiaries, related parties and Associates | 12,055 | - | - | 12,055 |
| Deposits | 56,544 | - | - | 56,544 |
| Tax Advance | 241,694 | - | - | 241,694 |
| Advances to contractors and suppliers | 593,527 | 95,362 | 133 | 689,022 |
| Payments on customers account | 22,624 | - | - | 22,624 |
| Payments on customers account - loans | 101,302 | 14,347 | 109 | 115,758 |
| Overhead leasing operations | 42,798 | - | - | 42,798 |
| Interest payable - TIPS | 6,749 | - | - | 6,749 |
| Colombian Treasury | 20,920 | - | - | 20,920 |
| Banco de la República - Rate cover | 13,500 | - | - | 13,500 |
| Sale of loans written off | 30,503 | - | - | 30,503 |
| International trade clearing | 96,009 | - | - | 96,009 |
| Sale of real property | 5,129 | - | - | 5,129 |
| Other | 98,984 | 8,339 | 338 | 107,661 |
| Accounts receivable | 2,113,395 | 134,766 | 621 | 2,248,782 |
| Impairment provision | (151,852) | (29,703) | (150) | (181,705) |
| Accounts receivable, net | 1,961,543 | 105,063 | 471 | 2,067,077 |

December 31, 2017

| | Up to 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest | 474,358 | 6,816 | 14 | 481,188 |
| Financing, Financial Leasing operations | 54,291 | 1,861 | 141 | 56,293 |
| Funds transferred to Icetex - abandoned accounts(*) | 163,436 | - | - | 163,436 |
| Head office, Subsidiaries, related parties and Associates | 7,675 | - | - | 7,675 |
| Deposits | 23,473 | - | - | 23,473 |
| Tax Advance | 122,504 | - | - | 122,504 |
| Advances to contractors and suppliers | 324,330 | 29,376 | - | 353,706 |
| Payments on customers account | 11,768 | - | - | 11,768 |
| Payments on customers account - loans | 91,102 | 10,988 | 1,412 | 103,502 |
| Overhead leasing operations | 29,022 | - | - | 29,022 |
| Interest payable - TIPS | 15,201 | - | - | 15,201 |
| Colombian Treasury | 19,797 | - | - | 19,797 |
| Banco de la República - Rate cover | 12,018 | - | - | 12,018 |
| Sale of loans written off | 10,977 | - | - | 10,977 |
| International trade clearing | 28,841 | - | - | 28,841 |
| Sale of real property | 60,039 | - | - | 60,039 |
| Other | 67,728 | 15,223 | 173 | 83,124 |
| Accounts receivable | 1,516,560 | 64,264 | 1,740 | 1,582,564 |
| Impairment provision | (106,844) | (19,175) | (1,538) | (127,557) |
| Accounts receivable, net | 1,409,716 | 45,089 | 202 | 1,455,007 |

The following is the movement for the provision of accounts receivable:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 127,557 | 104,579 |
| Plus: | | |
| Provision charged to | 207,273 | 130,437 |
| Less: | | |
| Impairment recovery | (45,707) | (50,083) |
| Write-offs | (107,418) | (57,318) |
| Reclassifications | - | (58) |
| Closing balance | 181,705 | 127,557 |

## 12.7. Assets held for sale

### 12.7.1. Detail of Assets held for sale

The following is the detail of assets held for sale:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Intended for housing | | |
| Voluntary release | 12,252 | 6,999 |
| Award | 1,583 | 934 |
| | 13,835 | 7,933 |
| Other than housing | | |
| Voluntary release | 7,427 | 29,888 |
| | 7,427 | 29,888 |
| Movable property | | |
| Vehicles | 906 | 741 |
| Rights | 224 | 37,616 |
| | 1,130 | 38,357 |
| Recovered property from Leasing contracts | | |
| Machinery and Equipment | 135 | 174 |
| Vehicle | 1,705 | 1,908 |
| Real Property | 2,093 | 19,243 |
| Real Property - Residential Leasing | 23,887 | 21,764 |
| | 27,820 | 43,089 |
| Subtotal | 50,212 | 119,267 |
| Provision (impairment) | (6,260) | (32,943) |
| Total | 43,952 | 86,324 |

### 12.7.2. Movement of assets held for sale:

The following is the movement of assets held for sale:

December 31, 2018

| | Intended for housing | Other than housing | Recovered property from Residential Leasing contracts | Total |
|---|---|---|---|---|
| Cost | | | | |
| Opening balance | 7,933 | 68,244 | 43,089 | 119,266 |
| Additions (received) | 17,824 | 9,049 | 34,154 | 61,027 |
| Withdrawals (sales) | (4,947) | (3,444) | (13,091) | (21,482) |
| Transfers | (6,975) | (65,292) | (36,332) | (108,599) |
| Closing balance | 13,835 | 8,557 | 27,820 | 50,212 |
| Impairment | | | | |
| Opening balance | (1,604) | (20,684) | (10,655) | (32,943) |
| Additions (received) | (3,843) | (4,565) | (8,075) | (16,483) |
| Transfers | 2,175 | 22,118 | 15,319 | 39,612 |
| Recoveries | 693 | 1,805 | 1,056 | 3,554 |
| Provision (impairment) | (2,579) | (1,326) | (2,355) | (6,260) |
| | 11,256 | 7,231 | 25,465 | 43,952 |

December 31, 2017

| | Intended for housing | Other than housing | Recovered property from Residential Leasing contracts | Total |
|---|---|---|---|---|
| Cost | | | | |
| Opening balance | 7,647 | 48,264 | 37,260 | 93,171 |
| Additions (received) | 7,307 | 38,244 | 45,305 | 90,856 |
| Withdrawals (sales) | (1,749) | (5,357) | (18,871) | (25,977) |
| Transfers | (5,272) | (12,906) | (20,605) | (38,783) |
| Closing balance | 7,933 | 68,245 | 43,089 | 119,267 |
| Impairment | | | | |
| Opening balance | (2,254) | (9,961) | (8,152) | (20,367) |
| Additions (received) | (2,842) | (17,370) | (13,039) | (33,251) |
| Transfers | 2,972 | 3,386 | 8,854 | 15,212 |
| Recoveries | 520 | 3,261 | 1,682 | 5,463 |
| Provision (impairment) | (1,604) | (20,684) | (10,655) | (32,943) |
| | 6,329 | 47,561 | 32,434 | 86,324 |

### 12.7.3. Time during which assets have been held for sale

The following is the detail of time during which assets have been held for sale:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Up to 1 year | 48,531 | 74,270 |
| Between 1 and 3 years | 1,681 | 44,997 |
| | 50,212 | 119,267 |

During this period, the Bank has performed several different strategies in the sale of assets held, with the following results:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Item | Quantity | Value | Quantity | Value |
| Foreclosed assets | 190 | 21,483 | 167 | 25,977 |
| Total sales | 190 | 21,483 | 167 | 25,977 |
| Profit on sale | | 1,843 | | 618 |
| Amortization of deferred profit | | 1,339 | | 1,702 |
| sales profit in previous years (Residential Leasing) | | 303 | | 441 |
| Total profit on sale | | 3,485 | | 2,761 |
| Loss on sale on foreclosed assets | | 450 | | 1,997 |
| Sales loss in previous periods (Residential Leasing) | | 1,199 | | 1,020 |
| Loss on sale | | 1,649 | | 3,017 |
| Net effect on Income Statement | | 1,836 | | (256) |

### 12.7.4. Movement of the provision

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 32,943 | 20,367 |
| Plus: | | |
| Provision | 16,482 | 33,251 |
| Transfers | (39,612) | (15,211) |
| Less: | | |
| Recoveries | (3,553) | (5,464) |
| Closing balance | 6,260 | 32,943 |

### 12.8. Property and Equipment, net

The following is the movement of Property and Equipment:

| | Land | Buildings and improvements | Computer equipment | Furniture and fittings | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **Balance at December 31, 2017** | 115,031 | 151,930 | 91,690 | 327,893 | 11,226 | 697,770 |
| Additions | 10,336 | 25,190 | 31,836 | 15,587 | 2,977 | 85,926 |
| Purchases | 10,336 | 25,190 | 31,836 | 15,587 | 2,977 | 85,926 |
| Withdrawals | (16,231) | (32,854) | (6,310) | (1,936) | (2,072) | (59,403) |
| Sales | (16,231) | (32,854) | (5,747) | (1,929) | (2,072) | (58,833) |
| Derecognition of assets designated at cost | - | - | (563) | (7) | - | (570) |
| Reexpression of foreign currency | - | - | 196 | 172 | - | 368 |
| Transfers | (4,349) | (6,184) | (17,906) | 12,842 | - | (15,597) |
| Provision | - | (2,079) | - | - | - | (2,079) |
| **Balance at December 31, 2018** | 104,787 | 136,003 | 99,506 | 354,558 | 12,131 | 706,985 |

| | Land | Buildings and improvements | Computer equipment | Furniture and fittings | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | |
| **Balance at December 31, 2017** | - | (6,606) | (66,745) | (169,082) | (4,554) | (246,987) |
| Withdrawals | - | 1,520 | 3,212 | 1,979 | 1,588 | 8,299 |
| Sales | - | 1,520 | 2,649 | 1,972 | 1,588 | 7,729 |
| Derecognition of assets designated at cost | - | - | 563 | 7 | - | 570 |
| Accumulated movment of depreciation | - | (1,695) | (28,111) | (21,575) | (2,384) | (53,765) |
| Re-expression of foreign currency | - | - | (175) | (166) | - | (341) |
| Transfers | - | 354 | 13,781 | (8,718) | - | 5,417 |
| **Balance at December 31, 2018** | - | (6,427) | (78,038) | (197,562) | (5,350) | (287,377) |

| | Land | Buildings and improvements | Computer equipment | Furniture and fittings | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **Balance at December 31, 2016** | 152,359 | 211,916 | 102,675 | 284,057 | 11,403 | 762,410 |
| Additions | 2,318 | 5,513 | 16,106 | 37,993 | 2,558 | 64,488 |
| Purchases | 2,318 | 5,513 | 16,106 | 37,993 | 2,558 | 64,488 |
| Withdrawals | (39,198) | (63,223) | (10,086) | (14,529) | (2,735) | (129,771) |
| Sales | (39,198) | (63,223) | (10,086) | (10,779) | (2,735) | (126,021) |
| Derecognition of assets designated at cost | - | - | - | (3,750) | - | (3,750) |
| Reexpression of foreign currency | - | - | (12) | (11) | - | (23) |
| Transfers | (448) | (1,361) | (16,993) | 20,383 | - | 1,581 |
| Provision | - | (915) | - | - | - | (915) |
| **Balance at December 31, 2017** | 115,031 | 151,930 | 91,690 | 327,893 | 11,226 | 697,770 |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **Balance at December 31, 2016** | - | (7,109) | (70,652) | (142,009) | (4,232) | (224,002) |
| Withdrawals | - | 2,846 | 8,643 | 11,624 | 2,092 | 25,205 |
| Sales | - | 2,846 | 8,643 | 9,952 | 2,092 | 23,533 |
| Derecognition of assets held at cost | - | - | - | 1,672 | - | 1,672 |
| Accumulated movment of depreciation | - | (2,406) | (19,361) | (20,752) | (2,414) | (44,933) |
| Re-expression of foreign currency | - | - | 60 | 11 | - | 71 |
| Transfers | - | 63 | 14,565 | (17,956) | - | (3,328) |
| **Balance at December 31, 2017** | - | (6,606) | (66,745) | (169,082) | (4,554) | (246,987) |
| | | | | | | |
| **Book Value** | | | | | | |
| **Balance at December 31, 2016** | **152,359** | **204,807** | **32,023** | **142,048** | **7,171** | **538,408** |
| **Balance at December 31, 2017** | **115,031** | **145,324** | **24,945** | **158,811** | **6,672** | **450,783** |
| **Balance at December 31, 2018** | **104,787** | **129,576** | **21,468** | **156,996** | **6,781** | **419,608** |

### 12.8.1. Proceeds of sale

The following is the detail of proceeds of sale of Property and Equipment

December 31, 2018

| | Quantity | Book Value | Proceeds of sale | Profit | Loss |
|---|---|---|---|---|---|
| Real property | 50 | 47,565 | 65,285 | 20,698 | (2,978) |
| Computer equipment | 3,159 | 2,640 | 1,647 | 488 | (1,480) |
| Furniture and fittings | 622 | 415 | 84 | 82 | (415) |
| Vehicles | 25 | 484 | 467 | 1 | (19) |
| | 3,856 | 51,104 | 67,483 | 21,269 | (4,892) |

December 31, 2017

| | Quantity | Book Value | Proceeds of sale | Profit | Loss |
|---|---|---|---|---|---|
| Real property | 180 | 99,575 | 130,823 | 38,066 | (6,818) |
| Computer equipment | 3,350 | 1,443 | 1,671 | 137 | (30) |
| Furniture and fittings | 1,254 | 827 | 711 | 37 | (32) |
| Vehicles | 30 | 644 | 647 | 7 | (3) |
| | 4,814 | 102,489 | 133,852 | 38,247 | (6,883) |

At December 31, 2018 the Bank acquired contractual commitments to acquire 4 properties for $6,603 and computer equipment for $5,180

There are no restrictions of ownership or pledged in guarantee of performance of obligations for the periods reported.

### 12.8.3. Movement of the provision

The following is the detail of movement of the provision for property and equipment

December 31, 2018

| | Land | Buildings and improvements | Computer equipment | Furniture and fittings | Vehicles | Total |
|---|---|---|---|---|---|---|
| Opening balance | - | 1,227 | - | - | - | 1,227 |
| Plus: | | | | | | |
| Provision | - | 2,079 | - | - | - | 2,079 |
| Closing balance | - | 3,306 | - | - | - | 3,306 |

December 31, 2017

| | Land | Buildings and improvements | Computer equipment | Furniture and fittings | Vehicles | Total |
|---|---|---|---|---|---|---|
| Opening balance | - | 312 | - | - | - | 312 |
| Plus: | | | | | | |
| Provision | - | 915 | - | - | - | 915 |
| Closing balance | - | 1,227 | - | - | - | 1,227 |

### 12.9. Investment Properties, net

The following is the movement of investment properties

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cost | | |
| Opening balance | 35,018 | 52,164 |
| Additions | | |
| Property received | 12,100 | 621 |
| Withdrawals | | |
| Sales | (6,138) | (15,280) |
| Transfers | 33,115 | (2,487) |
| Closing balance | 74,095 | 35,018 |
| Accumulated Depreciation | | |
| Opening balance | (1,064) | (1,223) |
| Withdrawals | | |
| Sales | 266 | 585 |
| Movement of accumulated depreciation | (336) | (370) |
| Transfers | (354) | (56) |
| Closing balance | (1,488) | (1,064) |
| Provision | (1,954) | (89) |
| Book value | 70,653 | 33,865 |

### 12.9.1. Effect on the Income Statement

The results recognized for Investment Properties in the separate Statement of Income Statement are the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Lease income | 1,449 | 1,526 |
| Direct operating expenses from investment properties that generate income | (10) | (236) |
| Direct operating expenses from investment properties NOT generating lease income | (1,036) | (955) |
| Net | 2,495 | 2,717 |

### 12.9.2. Movement of the provision

The following is the movement of the provision for investment properties:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 89 | 5,056 |
| Plus: | | |
| Provision | 1,865 | 49 |
| Reclassification | - | (4,345) |
| Less: | | |
| Recoveries | - | (671) |
| Closing balance | 1,954 | 89 |

The fair value on investment properties at Decembe 31, 2018 and 2017 is $70,576 and $55,863, respectively.

### 12.9.3. Proceeds of sale

The following is the detail of proceeds of sale on investment properties:

December 31, 2018

| | Quantity | Book Value | Proceeds of sale | Profit | Loss |
|---|---|---|---|---|---|
| Investment property | 4 | 5,872 | 7,580 | 3,217 | (1,508) |
| | 4 | 5,872 | 7,580 | 3,217 | (1,508) |

December 31, 2017

| | Quantity | Book Value | Proceeds of sale | Profit | Loss |
|---|---|---|---|---|---|
| Investment properties | 21 | 14,044 | 19,063 | 5,571 | (552) |
| Foreclosed assets | 1 | 651 | 672 | 21 | - |
| | 22 | 14,695 | 19,735 | 5,592 | (552) |

There are no restrictions on investment properties and no contractual obligaions to purchase, build or devdlop them in the periods reported.

### 12.10. Operating leases

Operating leases are related to leases on land and buildings for terms of up to 20 years. Leases for more than 5 yerars contain 5-yearly review clauses. The Bank has no option to purchase these properties upon expiry of the leases.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Up to 1 year | 156,417 | 142,813 |
| 1-5 years | 490,530 | 467,334 |
| over 5 years | 479,269 | 421,451 |
| | 1,126,216 | 1,031,598 |

The operating lease expense is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The operating lease expense is as | 179,170 | 141,548 |
| | 179,170 | 141,548 |

### 12.11. Goodwill

The following is the detal of goodwill generated in the purchase of Granbanco:

| | |
|---|---|
| Acquiree | Granbanco |
| Date acquired | February 2007 |
| % participation | 99% |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cost | | |
| Goodwill Granbanco | 1,080,775 | 1,080,775 |
| | 1,080,775 | 1,080,775 |

Granbanco Purchase

The purchase of Granbanco completed on February 16, 2017, originated goodwill for $1,372,458; the following are the main characteristics in the evaluation of goodwill :

The definition and determination of business lines takes into account potential synergies; goodwill value was assigned to six business lines with market prices valuation and based on the figures at December 31, 2006 for Davivienda and January 31 for Granbanco; the lines identified are: Consumer, Commercial, SME, Credit card, Home Mortgages and subsidiaries (Panamá and Fiducafé).

The general criteria to define above business lines were: characteristics of the business lines (Average placement rate average balance by customer/product, customer profile, growth of loan portfolio and assignation of expenses), feasibility of independent and international accounting norms. The business lines are defined and their assets identified; profit and loss statements and balances were then established for each of the business lines, for a projection period of 5 years.

The valuation by business lines was made using the dividend flow methodology, discounted at shareholder cost, which according to experts, is the most appropriate for measuring ffinancial institutions,and is widely used by the leading investment banks. This methodology consists in estimating the flow of available dividends during 5 years, plus a terminal value, and discouning them at an appropriate rate. For Fidudavivienda, the Free Cash Flow funds method was applied.

For the purposes of impairment tests, the goodwill was assigned to the following cash generating units:

| Business Line | Share | Goodwill | Accumulated amortization Colgaap | NCIF Balance |
|---|---|---|---|---|
| Consumer | 21.3% | 292,103 | 61,276 | 230,827 |
| Commercial | 43.8% | 600,872 | 126,049 | 474,823 |
| SME | 6.9% | 95,195 | 19,970 | 75,225 |
| Credit Card | 16.2% | 222,395 | 46,653 | 175,742 |
| Home mortgage | 11.2% | 153,150 | 32,127 | 121,023 |
| Subsidiaries | 0.6% | 8,743 | 5,608 | 3,135 |
| | 100.0% | 1,372,458 | 291,683 | 1,080,775 |

Impairment tests made at October 31, 2018 by external consultants , concluded that there was no impairment loss for any business line.

The following are the main assumptions for the projections used in impairment testing, they reflect the past experience of the Bank.

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Placement rate (%) | 12.5% | 12.3% | 12.4% | 12.5% | 12.5% | 12.5% |
| Deposit rate (%) | 2.8% | 1.9% | 1.3% | 1.3% | 1.3% | 1.3% |
| Growth of operating income | 8.5% | 4.5% | 5.6% | 6.2% | 5.9% | 5.5% |
| Growth of operating expenses (CPI) | 4.0% | 3.1% | 3.6% | 3.2% | 3.8% | 3.7% |
| Inflation | 3.3% | 2.9% | 3.1% | 2.7% | 3.5% | 3.3% |
| Annual Growth Rate GDP | 4.5% | 4.1% | 4.1% | 4.1% | 4.1% | 4.1% |

The discount rate to determine the capital cost that generates income is determined by the average cost of capital at market value of the cost of all financial sources in the Bank’s capital structure, estimated at 15%; the sensitivity analysis of value in use and the impairment test of each IGU identified for goodwill vs. the discount rate structure reveals that a higher risk allocation of the discount rate would not generate Impairment in most of the IGUs.

### 12.12. Intangibles

The following is the movement of intangibles:

| Item | Licencias | Computer programs and applications | Total |
|---|---|---|---|
| Balance at December 31, 2017 | 84,452 | 20,798 | 105,250 |
| Acquisitions | 18,813 | 403 | 19,216 |
| Amortizations | (13,151) | (2,336) | (15,487) |
| Reclassifications | 4,380 | (4,380) | - |
| Re-expression | - | (9) | (9) |
| Balance at December 31, 2018 | 88,129 | 12,527 | 100,656 |

| Item | Licencias | Computer programs and applications | Total |
|---|---|---|---|
| Balance at December 31, 2016 | 54,754 | 22,603 | 77,357 |
| Acquisitions | 40,139 | 1,994 | 42,133 |
| Amortizations | (10,113) | (3,351) | (13,464) |
| Reclassifications | (328) | (437) | (765) |
| Re-expression | - | (11) | (11) |
| Balance at December 31, 2017 | 84,452 | 20,798 | 105,250 |

There are no commitments to purchase or restrictions of ownership or pledges in guarantee of of performance of obligations for the periods reported.

### 12.13. Other assets, net

The following is the detail of other assets:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Foreclosed assets | 274,609 | 149,546 |
| Prepaid expenses | 81,097 | 82,404 |
| Deferred payment letter of credit | 51,988 | 17,756 |
| Trust rights | 56 | 56 |
| Works of art | 2,670 | 2,544 |
| Assets pending activation | 9,132 | 8,209 |
| Impairment | (166,873) | (88,372) |
| | 252,888 | 172,143 |

The movement of the provision for other assets is as follows

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 88,372 | 43,138 |
| Plus: | | |
| Provision | 59,424 | 29,339 |
| Reclassification | 39,612 | 19,555 |
| Less: | | |
| Recoveries | (20,535) | (3,660) |
| Closing balance | 166,873 | 88,372 |

### 12.14. Deposits and demand accounts

Deposits and demand accounts are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance | Interest paid | Balance | Interest paid |
| Interest-bearing liabilities | | | | |
| Checking accounts | 1,303,329 | 30,935 | 1,669,792 | 29,290 |
| Savings accounts | 22,371,109 | 468,268 | 20,071,135 | 746,365 |
| Term deposits | 22,696,899 | 903,359 | 21,893,816 | 935,451 |
| | 46,371,337 | 1,402,562 | 43,634,743 | 1,711,106 |
| Non-interest-bearing liabilities | | | | |
| Checking accounts | 4,357,623 | - | 4,029,447 | - |
| Savings accounts | 91,560 | - | 115,395 | - |
| Demand accounts for services | 630,140 | - | 527,344 | - |
| Electronic deposits | 116,638 | - | 86,330 | - |
| Other * | 471,298 | - | 245,283 | - |
| | 5,667,259 | - | 5,003,799 | - |
| | 52,038,596 | 1,402,562 | 48,638,542 | 1,711,106 |

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

Deposits by currency and rate are as as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance | % implied rate | Balance | % implied rate |
| Local currency | | | | |
| Deposits and demand accounts | | | | |
| Checking accounts | 5,151,566 | 0.67% | 5,043,348 | 1.75% |
| Savings accounts | 22,395,591 | 2.15% | 20,118,870 | 3.61% |
| Term deposits | 21,555,279 | 5.80% | 21,253,313 | 6.68% |
| Demand accounts for services | 539,205 | | 439,411 | |
| Electronic deposits | 116,638 | | 86,330 | |
| Other * | 454,382 | | 216,840 | |
| | 50,212,661 | | 47,158,112 | |

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Saldo | % Tasa Implícita | Saldo | % tasa Implícita |
| Foreign currency | | | | |
| Deposits and demand accounts | | | | |
| Checking accounts | 509,386 | | 655,891 | |
| Savings accounts | 67,078 | 4.14% | 67,660 | 2.86% |
| Term deposits | 1,141,620 | 2.53% | 640,503 | 2.03% |
| Demand accounts for services | 90,935 | | 87,933 | |
| Other * | 16,916 | | 28,443 | |
| | 1,825,935 | | 1,480,430 | |

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

The maturuties of financial liabilities are as follows:

December 31, 2018

| | Under 1 year | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|
| Checking account | 5,660,952 | - | - | 5,660,952 |
| Savings accounts | 22,449,590 | 13,079 | - | 22,462,669 |
| Term deposits | 16,022,677 | 6,623,197 | 51,025 | 22,696,899 |
| Demand accounts for services | 630,140 | - | - | 630,140 |
| Electronic deposits | 116,638 | - | - | 116,638 |
| Other (*) | 471,298 | - | - | 471,298 |
| | 45,351,295 | 6,636,276 | 51,025 | 52,038,596 |

December 31, 2017

| | Under 1 year | 1-5 years | 5-10 years | Total |
|---|---|---|---|---|
| Checking account | 5,699,239 | - | - | 5,699,239 |
| Savings accounts | 20,174,674 | 11,856 | - | 20,186,530 |
| Term deposits | 14,115,240 | 7,727,451 | 51,125 | 21,893,816 |
| Demand accounts for services | 527,344 | - | - | 527,344 |
| Electronic deposits | 86,330 | - | - | 86,330 |
| Other (*) | 245,283 | - | - | 245,283 |
| | 40,848,110 | 7,739,307 | 51,125 | 48,638,542 |

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

### 12.15. Money-market and related liability operations

The following are the money-market and related operations

December 31, 2018

| | | Date (dd/mm/yyyy) | | |
|---|---|---|---|---|
| | Rate | Initial | Final | Amount |
| Local currency | | | | |
| Interbank liabilities | | | | |
| Banks | 4.1% | 28/12/2018 | 02/01/2019 | 180,082 |
| Simultaneous operations | | | | |
| Brokers | 4.2% | 28/12/2018 | 02/01/2019 | 668 |
| Other | 4.24% - 4.26% | 26/12/2018 | 02/01/2019 | 2,438,914 |
| Liability repos | 4.3% | 28/12/2018 | 02/01/2019 | 900,410 |
| Short position commitments | 3.3% | 31/12/2018 | 04/01/2019 | 23,249 |
| | | | | 3,543,323 |

December 31, 2017

| | Rate | Date (dd/mm/yyyy) Initial | Final | Amount |
|---|---|---|---|---|
| Local currency | | | | |
| Interbank liabilities | | | | |
| Banks | 4.5% | 27/12/2017 | 02/01/2018 | 5,003 |
| Simultaneous operations | | | | |
| Other | 4.00% - 4.70% | 20/12/2017 | 03/01/2018 | 1,031,599 |
| | | | | 1,036,602 |

**12.16. Bank borrowings and other financial debt**

The following is the detail of financial debt:

| | Currency | Range of interest rates | Range of years/maturity | Balance |
|---|---|---|---|---|
| Balance at December 31, 2017 | | | | 5,663,504 |
| New loans | | | | |
| | COP | 0.30% - 13.04% | 2018 a 2030 | 959,510 |
| | USD | 1.65% - 3.99% | 2018 - 2030 | 8,481,129 |
| Payments in the period | | | | |
| | COP | 0.30% - 12.50% | 2018 a 2030 | (872,288) |
| | USD | 1.65% - 6.26% | 2011 -2034 | (7,189,214) |
| Other movements | | | | |
| Interest payable | | | | 107,125 |
| Re-expression | | | | 487,541 |
| Cost pending amortization | | | | (12,953) |
| Balance at December 31, 2018 | | | | 7,624,354 |

| | Currency | Range of interest rates | Range of years/maturity | Balance |
|---|---|---|---|---|
| Balance at December 31, 2016 | | | | 5,292,891 |
| New loans | | | | |
| | COP | 1.70% - 7.96% | 2022 - 2025 | 683,230 |
| | USD | 0.54% - 4.91% | 2017 - 2034 | 3,483,322 |
| Payments in the period | | | | |
| | COP | 1.70% - 9.34% | 2017 - 2030 | (540,557) |
| | USD | 1.16% - 7.20% | 2017 - 2030 | (3,333,075) |
| Other movements | | | | |
| Interest payable | | | | 117,344 |
| Re-expression | | | | (39,651) |
| Balance at December 31, 2017 | | | | 5,663,504 |

At December 31, 2018 the Bank was in compliance with covenants made on acquiring long-term debt.

The following is the detail of the Bank´s borrowings:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Institutions in Colombia | | |
| Local currency | | |
| Borrowings | 2,162,609 | 1,991,274 |
| Other financial debt | 339,990 | 360,283 |
| Entities outside Colombia | | |
| Borrowings | 4,647,292 | 2,876,283 |
| Designated hedging instruments | 474,463 | 435,664 |
| | 7,624,354 | 5,663,504 |

The following are the maturities of borrowings:

December 31, 2018

| | Under 1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Other institutions in Colombia | | | | | |
| Local courrency | | | | | |
| Bancoldex | 74,590 | 411,507 | 43,409 | - | 529,506 |
| Finagro | 11,036 | 108,851 | 56,958 | 3,854 | 180,699 |
| Findeter | 7,163 | 128,720 | 1,031,283 | 285,238 | 1,452,404 |
| Foreign currency | | | | | |
| Bancoldex | 94,037 | 29,810 | 75,036 | 22 | 198,905 |
| Findeter | 288 | - | 63,708 | 77,089 | 141,085 |
| Institutions outside Colombia | 3,596,304 | 735,762 | - | 789,689 | 5,121,755 |
| | 3,783,418 | 1,414,650 | 1,270,394 | 1,155,892 | 7,624,354 |

December 31, 2017

| | Under 1 year | 1-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|
| Other institutions in Colombia | | | | | |
| Local currency | | | | | |
| Bancoldex | 34,569 | 283,658 | 46,820 | - | 365,047 |
| Finagro | 12,056 | 93,944 | 78,317 | 8,177 | 192,494 |
| Findeter | 14,216 | 199,571 | 895,604 | 324,343 | 1,433,734 |
| Foreign currency | | | | | |
| Bancoldex | 4,683 | 25,757 | 132,658 | - | 163,098 |
| Findeter | 59,071 | - | 137,731 | 383 | 197,185 |
| Entities outside Colombia | 2,656,828 | 4,405 | 583,634 | 67,079 | 3,311,946 |
| | 2,781,423 | 607,335 | 1,874,764 | 399,982 | 5,663,504 |

### 12.17. Debt instruments issued

The following is the movement of bonds:

| | Date | Issue amount | Term (months) | Yield | Maturity | Balance |
|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | | | | | | 11,179,368 |
| New issues (*) | | | | | | |
| CPI | 15/11/2018 | 165,845 | 96 | CPI + 1.00% - 3.39% | 15/11/2026 | 165,845 |
| IBR | 15/11/2018 | 87,025 | 36 | IBR + 1.09% | 15/11/2021 | 87,025 |
| CPI | 15/11/2018 | 200,000 | 120 | CPI +3.67% | 27/07/2023 | 200,000 |
| | | | | | | 452,870 |
| Redemptions | | | | | | (2,015,423) |
| Variation TRM | | | | | | 44,238 |
| Variation UVR | | | | | | 4,949 |
| Interest | | | | | | (13,581) |
| Cost pending amortization | | | | | | 12,956 |
| Balance at December 31, 2018 | | | | | | 9,665,377 |

* At December 31, 2018 the Bnak had no covenants to disclose on its issues.

| | Date | Issue amount | Term (months) | Yield | Maturity | Balance |
|---|---|---|---|---|---|---|
| Balance at December 31, 2016 | | | | | | 9,063,260 |
| New issues (*) | | | | | | |
| CPI | 29/03/2017 | 200,066 | 96 | CPI + 3.83% | 29/03/2025 | 200,066 |
| Fixed rate | 29/03/2017 | 198,947 | 84 | FR 7.40% | 29/03/2025 | 198,947 |
| IBR | 25/04/2017 | 433,000 | 120 | IBR + 2.13% | 25/04/2027 | 433,000 |
| CPI | 07/06/2017 | 173,666 | 84 | CPI + 3.13% | 07/06/2024 | 173,666 |
| CPI | 07/06/2017 | 169,000 | 120 | CPI + 3.39% | 07/06/2027 | 169,000 |
| Fixed rate | 07/06/2017 | 357,334 | 36 | FR 6.48% | 07/06/2020 | 357,334 |
| Fixed rate | 24/10/2017 | 1,467,830 | 60 | FR 7.5% | 24/10/2022 | 1,467,830 |
| | | | | | | 2,999,843 |
| Redemptions | | | | | | (857,889) |
| Variation TRM | | | | | | (15,281) |
| Variation UVR | | | | | | 5,924 |
| Interest | | | | | | (1,861) |
| Cost pending amortization | | | | | | (14,628) |
| Balance at December 31, 2017 | | | | | | 11,179,368 |

The following is the detail of debt instruments issued:

| Issue type | Date | Issue amount | Term | Yield | Maturity | December 31, 2018 Book Value | December 31, 2017 Book Value |
|---|---|---|---|---|---|---|---|
| Bonds issued in Colombia | | | | | | | |
| Unsecured subordinated bonds | | | | | | | |
| CPI | 25-Apr-12 - 29-Mar-17 | 1,358,655 | 96 - 180 | CPI+3.83% - CPI+4.56% | 25-Apr-2022 - 25-Apr-27 | 1,358,655 | 1,358,655 |
| Fixed rate | 29-Mar-17 | 198,947 | 84 | TF 7.40% | 29-Mar-24 | 198,947 | 198,947 |
| UVR | 24-Feb-10 | 111,503 | 120 | UVR+5.50% | 24-Feb-20 | 155,617 | 150,669 |
| Interest | | | | | | 17,937 | 11,624 |
| In dollars | | | | | | | |
| International bonds* | 09-Jul-12 | 895,125 | 120 | FR 5.87% | 09-Jul-22 | 1,624,875 | 1,492,000 |
| Interest | | | | | | 45,396 | 41,684 |
| | | | | Total Subordinated bonds | | 3,401,427 | 3,253,579 |
| Ordinary bonds (unsecured) | | | | | | | |
| CPI | 10-Mar-11 - 15-Nov-18 | 3,286,668 | 60-180 | CPI+2.84% - CPI+4.50% | 15-May-19 - 27-Jul-28 | 3,652,513 | 3,521,953 |
| Fixed rate | 27-Jul-16 - 24-Oct-17 | 2,047,549 | 36 - 60 | FR + 6.48% - FR + 8.64% | 27-Jul-19 - 24-Oct-22 | 2,047,549 | 2,426,305 |
| IBR | 25-Apr-17 - 15-Nov-18 | 433,000 | 36 - 120 | IBR + 2.13% | 15-Nov-21 - 25-Apr-27 | 520,025 | 433,000 |
| Interest | | | | | | 58,907 | 61,993 |
| In dollars | | | | | | | |
| International bonds | 29-Jan-13 | 889,920 | 60 | FR 2.95% | 29-Jan-18 | - | 1,492,000 |
| Interest | | | | | | - | 18,539 |
| | | | | Total Ordinary bonds | | 6,278,994 | 7,953,790 |
| | | | | Costs pending amortization | | (15,044) | (28,001) |
| | | | | Total bonds | | 9,665,377 | 11,179,368 |

* Debt issues designated as hedging

Liabilities by monetary unit

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Local currency | 7,842,443 | 7,993,580 |
| Foreign currency | 1,666,485 | 3,035,388 |
| UVR | 156,449 | 150,400 |
| | 9,665,377 | 11,179,368 |

The maturities of the bonds are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Under 1 year | 521,515 | 2,128,189 |
| 1-5 years | 5,456,803 | 5,170,394 |
| 5-10 years | 3,687,059 | 3,447,057 |
| Over 10 years | - | 433,728 |
| | 9,665,377 | 11,179,368 |

The following redemptions have been made:

December 31, 2018

| Date | Term | Rate | Maturity | Amount |
|---|---|---|---|---|
| 12/02/2015 | 36 | FR 5.94% | 12/02/2018 | 378,756 |
| 10/03/2011 | 84 | CPI+3.88% | 10/03/2018 | 76,055 |
| 10/03/2011 | 90 | CPI+3.99% | 10/09/2018 | 159,230 |
| 29/01/2013 | 60 | FR 2.95% | 29/01/2018 | 1,401,382 |
| | | | | 2,015,423 |

December 31, 2017

| Date | Term | Rate | Maturity | Amount |
|---|---|---|---|---|
| 24/02/2010 | 84 | CPI+5.25% | 24/02/2017 | 138,497 |
| 15/05/2014 | 36 | IBR+1.29% | 15/05/2017 | 255,686 |
| 07/10/2010 | 36 | CPI+3.63% | 07/10/2017 | 196,050 |
| 09/10/2014 | 36 | IBR+1.25% | 09/10/2017 | 90,235 |
| 10/11/2015 | 36 | IBR + 2.05% | 10/11/2017 | 177,421 |
| | | | | 857,889 |

Liabilities allocated to hedging

The Bank elected to record a liability of US$500 million to hedge its investments in Central America (item hedged) as of January 1, 2015, considering its intention to hedge the associated exchange risk. Management tests showed that hedging was effective at December 31, 2018

During 2018 the Bank renewed financial debt designated as hedging for US$146 million to cover the net investment in subsidiaries outside Colombia. The intention was to eliminate the asymmetry arising between income and equity as a result of the reexpression of exchange values between the investment and the loans.

Evaluation of hedging of net investment abroad

The subsidiaries outside Colombia make the Bank Book sensitive to exchange rates. This risk affects two very important variables: i) economic value, i.e. aggregate profit or loss results and OCI; and ii) capital adequacy/capital ratios- :

The Bank´s strategy is intended to protect economic value in the face of a revaluation of the Colombian peso and to reduce sensitivity of capital ratios in a devaluation scenario. The combined strategy means that long positions are held in currency for certain ranges of exchange rate to protect loss of economic value and maintain sensitivity of the capital ratios within the range established in the context of appetite for risk.

Another important point is the diversity of currencies to which the Bank Book is exposed. This includes the Honduran lempira, the Costa Rican colón and the US dollar. The markets of Costa Rica and Honduras lack depth and therefore recurrent hedging instruments are not available, due either to cost or simple non-availability. Hedging therefore aims to protect mainly the USD - COP risk.

The following are the items hedged. They correspond to the value of equity investments of Davivienda in Subsidiaries in Costa Rica, Honduras, El Salvador and Panama with related hedging instruments.

| | Costa Rica | Honduras | El Salvador | Panamá | Total |
|---|---|---|---|---|---|
| Coverage | 66% | 72% | 78% | 66% | 71% |
| Item hedged | | | | | |
| Origin currency investment | 136,355 | 3,751 | 308 | 222 | |
| USD equity | 226 | 154 | 308 | 222 | 910 |
| Hedging instrument position | | | | | |
| USD bonds | 148 | 111 | 241 | - | 500 |
| USD correspondent loans | - | - | - | 146 | 146 |

Amounts in millions

Hedging Efficiency

This hedging operation only covers the USD/COP risk and is directly and inversely related to the primary item and the hedging instrument - both are sensitive to USD-COP rate changes in the same proportion: The backtesting for effectiveness - based on the dollar offset method - compares the change in value of the item hedged with the change of value in the hedging instruments; and the result for 2018 was 100% effectiveness.

### 12.18. Accounts payable

The following is the detail of accounts payable

| | December 31, 2018 | December 31, 2017 (*) |
|---|---|---|
| Commissions and fees | 4,364 | 7,485 |
| Taxes | 43,633 | 42,666 |
| Dividends and other capital surpluses | 3,726 | 3,532 |
| Bank transaction tax | 27,738 | 20,618 |
| Purchase commitments | 8,047 | 9,116 |
| Suppliers and services payable | 716,466 | 515,475 |
| Payroll withholdings and contributions | 115,030 | 100,291 |
| Payable to Parent - Subsidiaries | 17,110 | 17,502 |
| Colombian Treasury Law 546 | 6,775 | 12,111 |
| Deposit insurance | 68,682 | 62,369 |
| Creditors for pending disbursements | 20,242 | 27,006 |
| Corredores avocados (1) | - | 25,915 |
| Loan overages | 7,232 | 10,449 |
| Leasing assets recovered | 9,706 | 6,304 |
| Security bonds | 18,925 | 19,562 |
| Checks pending presentation | 21,275 | 19,030 |
| Settlement of third party forwards | 24,355 | 7,086 |
| Insurance | 21,353 | 22,896 |
| FNG and FNA | 8,144 | 2,855 |
| Franchises | 44,736 | 25,032 |
| Credit cards | 9,119 | 11,809 |
| Sundry | 62,866 | 82,606 |
| | 1,259,524 | 1,051,715 |

(1) The balance payable for the acquisition of Corredores Asociados was paid in September

(*) As of June 30, 2018 the Bank decided to show employee benefit obligations separately from receivables. The presentation of December 2017 was changed to provide comparative figures.

### 12.19. Employee benefits

The detail of employee benefits is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Short-term benefits | 91,907 | 80,838 |
| Long-term benefits | 38,820 | 35,930 |
| Post-employment benefits | | |
| Pension funds | 6 | - |
| Pensioner health policy | 13,593 | 12,744 |
| | 13,599 | 12,744 |
| | 144,326 | 129,512 |

The Bank provides the following long-term benefits:

a. Staff with two years service or more may take house purchase loans at a floating preferential rate, available while they remain on the payroll (i.e., this benefits is immediately lost if the employee ceases to work for the Bank). Two funds have been opened with a maximum limit set by management , regularly updated. The estimated amount of the benefit in the interest rate is the difference at the date of taking the loan between the present Value of the sum of payments at the market rate and the present Value of the sum of payments at the subsidized rate and this is recognized in the Statement of Financial Position

b. As part of the 2015-2018 collective bargaining agreement with staff, the Bank recognizes a discretionary service bonus equal to 15 days salary on completion of 5 years service and 30 days upon completion of 10 years service and subsequently for every 5 years service completed. At December 31, 2018, the liability recognized for this was $38,820.

Post-employment benefits are as follows:

Defined contribution plan

The Bank makes a contribution equivalent to the among defined by the employee up to 5% of salary applicable to staff with ten years or less to serve before qualifying for a pension . This is only granted when the employee qualifies for his pension , and there is no commitment to make payments on that date. This liability is recorded for the amounts contributed against Income and no actuarial assumptions are involved because the contributions are for predetermined amount into a fund in which the Bank runs no investment or actuarial risk.

Defined-benefits plan

There is a health policy for pensioners and their spouses, recognized by actuarial calculation through OCI.

The following is the detail of employee benefits.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Present Value of liabilities | 13,593 | 12,744 |
| Total employee benefits | 13,593 | 12,744 |
| Deficit in the plan | 13,593 | 12,744 |
| Total liability to employees | 13,593 | 12,744 |

At present, all Bank staff are entitled to access a group health policy while actively employed , and subsequently, when reaching pensionable age, the employee and spouse are entitled to a subsidy of 30% on an individual policy sponsored by the Bank subject to certain conditions.

Movement in the present Value of defined-benefit plans.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Defined obligations at the beginning of the period | 12,744 | 46,385 |
| Current cost of service | 769 | 3,976 |
| Interest cost | 913 | 3,181 |
| Re-measurement | | |
| Experience-related adjustments | 1,922 | (30,525) |
| Actuarial (Gain) loss in demographic | - | (7,124) |
| Actuarial gain (Loss) on financial assumptions (OCI) | (2,363) | (2,892) |
| Plan benefits paid | (392) | (257) |
| Defined benefit obligations at the end of the period | 13,593 | 12,744 |

Principal actuarial assumption

The following are the principal actuarial assumptions at the closing date (weighted average):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Discount rate at December 31 | 8.25% | 7.25% |
| Future salary increases | 3.50% | 3.50% |
| Inflation rate | 3.50% | 3.50% |

After an employee completes pensionable age, it is assumed that those receiving the benefit will die as projected in the 2008 Rentiers mortality table , as in SFC Resolution 1555 de 2010 .

Sensitivity analysis

Defined-benefit obligations and the cost of current services were calculated using the projected credit unit method. The following is a sensitivity analysis of the defined-benefit liability using the different financial and actuarial variables:

Discount rate

| | Current Value of defined-benefit obligations | Weighted average duration of defined-benefit obligation (years) | Assumptions |
|---|---|---|---|
| Discount rate -50bp | 14,808 | 15.60 | 7.75% |
| Discount rate +50bp | 12,706 | 15.01 | 8.75% |

Medical trend

| | Medical services rate | Assumptions |
|---|---|---|
| Medical service rate -50bp | 12,659 | 3.00% |
| Medical service rate +50bp | 14,856 | 4.00% |

Expected payments of future benefits

Expected payments of future benefits, which reflect future service , are estimated to be paid as follows:

| Year | Defined benefits |
|---|---|
| 2019 | 377 |
| 2020 | 420 |
| 2021 | 475 |
| 2022 | 533 |
| 2023 | 590 |
| 2024 - 2028 | 5,438 |

### 12.20. Other non-financial liabilities and accruals

The following is the detail of other non-financial liabilities and accruals

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Interest in cases | 111,541 | 90,634 |
| Other provisions (*) | 53,557 | 66,470 |
| Litigation (2) | 19,302 | 23,674 |
| Part payments pending application | 112,211 | 85,256 |
| Income received in advance | 85,887 | 63,573 |
| Deferred-payment letters of credit | 51,988 | 17,757 |
| Deferred credits | 4,336 | 4,198 |
| Sundry/other | 71,039 | 44,724 |
| | 509,861 | 396,286 |

(*)The most significant provisions refer to Banco de la República due to the difference in the rate for home mortgage loans covered by the Bank after the 8-year subsidy expires, worth $34,309 at December 31, 2018 and $46,575 at December 31, 2017.

(1)The following is the movement of the provision:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 66,470 | 29,625 |
| Plus: | | |
| Provision | 545,095 | 455,655 |
| Less: | | |
| Derecognitions | (246,382) | (36,290) |
| Recoveries | (311,626) | (382,520) |
| Closing balance | 53,557 | 66,470 |

(2) Litigation

The following is the movement:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 23,674 | 25,790 |
| Plus: | | |
| Provision | 5,928 | 10,259 |
| Less: | | |
| Recoveries | (10,300) | (12,375) |
| Closing balance | 19,302 | 23,674 |

The following is a summary of cases

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Quantity | Provision | Amount | Quantity | Provision | Amount |
| Cases covered by the Fogafin guarantee agreement | 22 | 10,262 | 6,252 | 37 | 10,905 | 10,832 |
| Tax cases | - | - | - | 1 | 200 | 200 |
| Labor cases | 19 | 3,557 | 3,557 | 26 | 5,684 | 5,684 |
| Civil cases | 161 | 5,483 | 5,483 | 158 | 6,885 | 6,885 |
| | 202 | 19,302 | 15,292 | 222 | 23,674 | 23,601 |

The cash outflows are as follows:

Other provisions

December 31, 2018

| | 1 year | 1-3 years | 3-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| FRECH Premium provision | 5,114 | 9,321 | 10,645 | 9,231 | - | 34,311 |
| Other | 19,246 | - | - | - | - | 19,246 |
| | 24,360 | 9,321 | 10,645 | 9,231 | - | 53,557 |

December 31, 2017

| | 1 year | 1-3 years | 3-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| FRECH Premium provision | 11,163 | 8,669 | 11,325 | 15,419 | - | 46,576 |
| Other | 19,894 | - | - | - | - | 19,894 |
| | 31,057 | 8,669 | 11,325 | 15,419 | - | 66,470 |

Litigation

December 31, 2018

| | 1 year | 1-3 years | 3-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| Litigation covered by the Fogafin guarantee contract | - | 10,262 | - | - | - | 10,262 |
| Labor cases | 1,953 | 1,604 | - | - | - | 3,557 |
| Civil cases | 1,809 | 3,400 | 274 | - | - | 5,483 |
| | 3,762 | 15,266 | 274 | - | - | 19,302 |

December 31, 2017

| | 1 year | 1-3 years | 3-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|
| Litigation covered by the Fogafin guarantee contract | - | 10,905 | - | - | - | 10,905 |
| Tax cases | 200 | - | - | - | - | 200 |
| Labor cases | 1,819 | 3,865 | - | - | - | 5,684 |
| Civil cases | 2,341 | 4,200 | 344 | - | - | 6,885 |
| | 4,360 | 18,970 | 344 | - | - | 23,674 |

Proceedings brought to the Bank may be

Criminal

The Bank has been called on as a Third Party with Civil Liability under Colombian law and is required to respond for damages caused by a convicted person . According to the legal analysis made the assignation may or may not be made, depending on the case.

Ordinary civil, special, administrative disputes, labor cases

These types of case generate contingent liabilities for the Bank regardless of the procedural step put in effect, in general terms due to eventual civil, contractual or non-contractual liability, and similarly in case or fines or sanctions imposed by the competent entities. Each one of these proceedings has its own assessment, and provisions are made where necessary.

Presented below are cases that could have a significant economic impact on the Bank:

Class and group actions are court cases brought for the protection of rights belonging to a plural number of people. While class actions have the purpose of preventing ceasing and restoring collective rights, group actions seek the compensation of damages generated by the infringement of individual homogenous rights. The risk of these forms of litigations has been considered remote, however, the nature of the rights being discussed and the plurality of the claimants, turns these matters into legal proceedings important to the Bank, and therefore it has been decided to disclose them.

UPAC cases.

1. Alberto Botero brought a class action for allegedly over-invoicing the Nation for mortgage interest relief (Law 546/1999) in favor of UPAC debtors, claiming that the excess collected should be repaid to the Treasury. The judgment of the first and second instances was in favor of Davivienda. Therefore no contingency has been generated and process is exhausted.

2. Asociación Comité Nacional de Usuarios UPAC-UVR brought a class action against Davivienda and other lenders claiming a review of the mortgage interest relief (Law 546/1999) . They also claimed that TES not yet returned to the Treasury should be returned to the public purse, despite law support for not doing so. The final decision of the Tribunal de Cundinamarca is awaited on exceptions argued by the Bank. No amount has been set for the claim and the contingency is classed as "remote".- Davivienda was dissociated from the case in a decision of December 4, 2018, but the appeal against this decision is pending.

3. Ms. Clara Cecilia Murcia and others brought a class action in Administrative Court 5, Bogotá, against courts that had not observed Law 546/1999 on the termination of mortgage enforcement cases. The Bank became involved because at one point it presented enforcement claims where relevant. The case is i the evidence-gathering stage. The contingency is classed as "remote".

Cases related to other Bank activities.

1. In the Bogotá Chamber of Commerce there is an ongoing arbitration case in which Lotes y Proyectos S.A.S. and other individuals and corporate entities have against Davivienda. They aim to declare that Davivienda's conduct in negotiations and in completing a property conveyance caused them damages for $6,000. The Bank is contesting the claim. The contingency has been considered “REMOTE”.

2. In the Superintendency of Corporations Carlos Consuegra has sued Vandux de Colombia S.A. and a number of financial entities, including Davivienda, for payment of a Bancoldex loan owed by Vandux ,and made in a period of suspicion of fraud in the process of reorganization of the company. The case is pending the instruction hearing and judgment. The contingency is valued at $3,500 and the risk is rated as “possible”.

## 12.21. Equity

Comprises all items and amounts representing contributions or rights of shareholders in subscribed capital, reserves appropriated from profits of previous years by mandate of the Annual General Meeting in order to comply with the law, the Bank´s Articles or specific purposes , the surplus and dividends declared in shares and the related share premium.

### 12.21.1. Capital social

At December 31, 2018 and 2017 the authorized capital of the Bank was $77,350 represented by 455,000,000 shares at $170 par value each.

Subscribed and paid capital at the same dates was $76,784.

Authorized, subscribed and paid capital is represented by the following shares and the data of equity at each annual close:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Subscribed and paid ordinary shares | 343,676,929 | 343,676,929 |
| Preference shares | 107,993,484 | 107,993,484 |
| Total shares outstanding | 451,670,413 | 451,670,413 |
| Par Value at date | 170 | 170 |
| Equity Value | 10,344,116 | 9,544,716 |
| Book Value (pesos) | 22,901.91 | 21,132.03 |

The following is the movement of outstanding shares

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Shares at the beginning of the period | 451,670,413 | 451,670,413 |
| Shares at the end of the period | 451,670,413 | 451,670,413 |

The Bank´s shares are nominative, representing capital and may be a) ordinary, b) privileged, c) non-voting, with preferential dividends; the non-voting shares may not represent more than 50% of total subscribed capital.

The shares with preferential dividends give their owners the right to receive a minimum preferential dividend corresponding to 0.5% six-monthly over the price of subscription for the first issue of the program, that is, $80,65, to be paid by decision of the General Meeting preferentially over ordinary shares. Minimum preferential dividends are non-cumulative and not guaranteed.

The payment of the Minimum Preference Dividend is made as and when approved by the AGM, in pesos. The Bank´s accounting period is yearly.

If distributable profits are sufficient to pay an ordinary and preference dividend at the level of the minimum preference or higher, there is a pro rata distribution amongst ordinary and preference shareholders, as agreed by the AGM.

### 12.21.2. Share placement premium:

Premiums for share placements have been recorded in reserves as the excess over par obtained in share placement and the capitalization of voluntary reserves formed be the distribution of previous earnings with an increase in par Value, as determined by the General Meeting.

The following is the detail of share premium in equity:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Placement premium on ordinary shares | 2,902,187 | 2,902,187 |
| Placement premium on preference shares | 1,774,617 | 1,774,617 |
| | 4,676,804 | 4,676,804 |

### 12.21.3. Reserves

Decisions of the Annual General Meeting have made appropriations of annual profits. The figures for equity reserves are the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Mandatory reserve | | |
| by appropriation of profits | 3,429,493 | 2,419,516 |
| Statutory and voluntary reserves | | |
| At the disposal of the General Meeting commitments | 309,668 | 536,808 |
| | 3,739,161 | 2,956,324 |

**The Annual General Meeting of March 22, 2018 approved the following decisions:**

Distribution of profits

The General Meeting approved distribution at the close of 2017 totaling $1,108,467, as follows:

a) Increase to the Mandatory Reserve of $62,016 of taxed and untaxed profits for the period;

b) Declaration of cash dividends of $361,336, at $800 (pesos) per share payable 50% ($ 400 per share) on April 4 and 50% ($ 400 per share) on September 19, 2018;

c) Increase to voluntary reserves at the disposal of the Meeting by $241,728.

d) Increase the mandatory reserve following the AGM commitment of March 22, 2017, by $443,387.

Other decisions

a) To release $192,800 from voluntary reserves following a commitment from the AGM of March 22, 2017, to increase mandatory reserve.

b) To increase the mandatory reserve by $35,706 from previous profits, executed in 2017.

c) To release $276,068 of voluntary reserves at the disposal of the shareholders, to increase mandatory reserve.

d) To make an irrevocable commitment to increase the mandatory reserve at the end of 2018 by 40% of the year`s profits, for up to 10% of Tier 1 equity.

### 12.21.4. First application of IFRS

The following is the detail of the movement in relation to first-time adoption of IFRS:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Opening balance | 435,116 | 507,026 |
| Dividends of Subsidiaries | - | (15,291) |
| Increased valuations of fixed assets | (13,234) | (56,619) |
| Closing balance | 421,882 | 435,116 |

### 12.21.5. Capital management

Banco Davivienda defines its capital as the level of own funds that could be used to face a loss scenario created by the materialization of financial risks to which the Bank is currently exposed. The Bank has instituted a policy to maintain sufficient solvency levels to allow it to engage in its various activities with sufficient capital to match risks assumed, always with a view to the long-term sustainability of the Bank.

To this end. The Bank is governed by Colombian law which defines the rules for calculation and capital limits for credit entities. . According to Articles 2.1.1.2 and 2.1.1.1.3 of Decree 2555/2010, the minimum total capital ratio is 9% and the minimum basic ratio is 4.5% The Bank complies with these minimum levels of computable capital and basic capital, used to calculate total and basic ratios. .

Technical equity corresponds to the sum of Ordinary Basic Equity, Additional Basic Equity and Additional Equity, subtracting Ordinary Basic Equity deductions listed in Decree 2555/2010. SFC percentages are then applied to calculate risk-weighed assets; and market risk is included, using the regulatory methodology.

The Bank has complied with minimum capital requirements, maintaining capital levels in excess of the minimum total ratio by an average of about 652 bp During 2018 . The following is the capital ratio of the Bank at December 31, 2018 and 2017:

| | December 31, 2018 | December 31, 2017 | Variation dic18 - dic17 | % |
|---|---|---|---|---|
| Computable capital | 11,491,978 | 10,901,331 | 590,647 | 5.42% |
| Ordinary (Tier 1 ) capital | 7,326,192 | 6,315,968 | 1,010,224 | 15.99% |
| Deductions from basic capital | (856,890) | (857,137) | 247 | -0.03% |
| Additional capital (Tier 2) | 4,165,786 | 4,585,363 | (419,577) | -9.15% |
| Bonds and subordinated debt | 3,410,695 | 3,694,004 | (283,309) | -7.67% |
| Market VaR | 312,125 | 272,748 | 39,377 | 14.44% |
| Risk-weighted assets | 72,616,617 | 66,851,186 | 5,765,431 | 8.62% |
| Total solvency ≥ 9% | 15.10% | 15.60% | -0.50% | -3.21% |
| Basic solvency ≥ 4.5% | 9.63% | 9.04% | 0.59% | 6.53% |

Finally capital levels are monitored permanently in order to identify possible changes in the current solvency ratios and take prompt corrective action. Likewise for strategic planning effects, in the budget and the Stress Test Scheme[1], the Bank relies on tools to measure future capital levels, and to establish action required to ensure compliance with solvency levels necessary to implement proposed strategies. The Decree also defined risk-weighted assets in terms of their credit rating. This reduced the density of risk-weighted assets compared to current levels. The definition of Tier 1 and Tier 2 capital was also updated. SFC is due to publish regulations for the Decree by May 2019 and financial establishments will be required to apply them in reporting capital ratios as of February 2020. They will then have 4 years to complete minimum levels required.

In August 2018 Decree 1477 amended Decree 2555/2010 in aspects of capital adequacy of financial establishments.

Among the most important changes was a requirement for an additional 1.5% of Tier 1 capital and a "systemic cushion" of 1%. The minimum capital ratio thus rose from 9% to 11.5% including the two "cushions" The Decree also included a new capital ratio indicator, the "Leverage Ratio", at a minimum level of 3%.

The Decree also defined risk-weighted assets in terms of their credit rating. This reduced the density of risk-weighted assets compared to current levels. The definition of Tier 1 and Tier 2 capital was also updated.

SFC is due to publish regulations for the Decree by May 2019 and financial establishments will be required to apply them in reporting capital ratios as of February 2020. They will then have 4 years to complete minimum levels required.

1 Chapter XXVIII of the SFC Basic Accounting and Financial Circular published in December 2015

## 13. Specific items in the Income Statement

### 13.1. Investments and valuation, net

The following is the detail of interest income

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Debt instruments | | |
| Profit | 291,751 | 360,109 |
| Loss | (67,542) | (132,491) |
| Valuations of investments at fair value, net | 224,209 | 227,618 |
| Profit | 78,737 | 97,938 |
| Loss | (2,267) | (567) |
| Valuation of investments at amortized cost, net | 76,470 | 97,371 |
| Equities | | |
| Profit | 88,977 | 138,774 |
| Loss | (32,487) | (38,817) |
| Net valuation of equity investments | 56,490 | 99,957 |
| Profit | 12,902 | 14,693 |
| Loss | (11,906) | (15,170) |
| Sale of investments, net | 996 | (477) |
| | 358,165 | 424,469 |

### 13.2. Revenue from commissions and services, net

The following is the detail of income from commissions and services:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Income from commissions and services | 1,031,880 | 1,003,846 |
| Expenses in commissions and services | 255,927 | 224,109 |
| Total | 775,953 | 779,737 |

The principal items in commissions originate in operations: transactions, payments, banking-insurance foreign trade, and others.

### 13.3. Result of equities

The following is the result of equities:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Equity method | 338,125 | 258,162 |
| Profit on sale of equities, net | - | 4,143 |
| | 338,125 | 262,305 |

### 13.4. Payroll

The following is the detail of the payroll expense

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Salaries and benefits | 720,563 | 688,524 |
| Incentives | 131,344 | 143,477 |
| Staff benefits | 200,335 | 156,020 |
| | 1,052,242 | 988,021 |

### 13.5. Operating expenses

The following is the detail of operating expenses:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Maintenance and remodeling | 144,501 | 136,334 |
| Cleaning and security services | 80,852 | 88,883 |
| Advertising and public relations | 96,831 | 81,754 |
| Insurance | 61,159 | 59,917 |
| Contributions and other | 96,657 | 104,469 |
| Leases | 179,170 | 150,118 |
| Data processing | 62,795 | 53,527 |
| Fees | 206,924 | 196,445 |
| Transport | 90,737 | 90,607 |
| Tax | 187,494 | 159,786 |
| Deposit insurance | 136,302 | 121,819 |
| Operating risk | 17,534 | 20,593 |
| Other | 70,259 | 66,006 |
| Overhead and operating expenses | 1,431,215 | 1,330,258 |
| Depreciation | 54,102 | 45,304 |
| Amortizations | 15,487 | 13,464 |
| Total operating expenses | 2,553,046 | 2,377,047 |

### 13.6. Other income and expenses, net

The following is the detail of other income and expenses

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Other operating income | | |
| Recoveries of insurance - operating risk | 3,606 | 10,982 |
| Recoveries from the courts and other | 8,636 | 10,289 |
| Sale of assets held for sale | 27,971 | 46,579 |
| Recoveries of impairment losses | 24,340 | 15,411 |
| FRECH premium provision | 12,265 | - |
| Other income | 61,867 | 81,131 |
| | 138,685 | 164,392 |
| Other operating expenses | | |
| Court cases and other losses | 6,100 | 10,533 |
| Sale of assets held for sale | 12,937 | 10,600 |
| Impairment losses | 89,035 | 77,619 |
| | 108,072 | 98,752 |
| Total other income and expenses, net | 30,613 | 65,640 |

### 13.7. Income tax

Components of the income tax expense

The income tax expense for the periods ended at December 31, 2018 and 2017 is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Income tax | 234,215 | 282,710 |
| Surcharge on income tax | 27,297 | 52,291 |
| Discount | (26,234) | (27,942) |
| Recovery from previous periods | 1,232 | 404 |
| Total current tax | 236,510 | 307,463 |
| Deferred taxes | (13,054) | (35,638) |
| Total income tax | 223,456 | 271,825 |

In accordance with current regulations:

• Income tax is 37% for 2018 and 40% for 2017. This includes a surcharge of 4% and 6% respectively.

• Law 1943/2018 (the national budget) sets the following rates for income tax: 2019, 33%; 2020, 32%; 2021, 31%; and 2022, 30%. Financial entities earning taxable income of 120,000UVT or more pay a further 4% in 2019 and 3% in 2020 and 2021.

• "Presumed income", the minimum income tax base, is 3.5% of net assets at the close of the previous year, for 2017 and 2018.

• Law 1943/2018 reduces the level of "presumed income" to 1.5% of net assets at the close of the previous year for 2019 and 2020 and 0% for 2021.

•There is a partial exemption from official inspection for taxpayers increasing income tax paid compared to the previous year by 30% (2019) and by 20% (2020), in that returns will be considered to be in form 6 months after filing date for 2019 filings and 12 months after filing date for 2020 filings.

•As of 2017 tax losses can offset against taxable profits in the next 12 tax years.

•Excess over "presumed income" tax paid can be offset against results in the next 5 years.

•Capital gains tax is 10%.

Wealth tax.

Law 1739 of December 23, 2014(Art. 1) created a special Wealth Tax charged from January 1, 2015 and payable in 2015, 2016 and 2017, accruing on January 1 each year. The Bank has charged this tax to equity reserves, and (Art. 10) the tax does not affect the income statement for the period.

Reconciliation of the effective tax rate

The following is the detail of the reconciliation between income tax calculated at the standard current rates and the effective rate of the tax expense shown in the accumulated Income Statement:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | | Effective rate | | Effective rate |
| Profit before tax | 1,418,338 | | 1,380,292 | |
| Income tax | 468,052 | 33% | 469,299 | 34% |
| Surcharge | 56,733 | 4% | 82,818 | 6% |
| Tax at flat rate 2018 (37%) - 2017 (40%) | 524,785 | 37% | 552,117 | 40% |
| Discount | (26,234) | | (27,942) | |
| Non-allowable expenses, taxable income | 82,194 | | 206,292 | |
| Allowable deductions and untaxed income | (157,086) | | (217,057) | |
| Exempted income | (175,194) | | (223,396) | |
| Rate adjustment for timing differences | (34,990) | | (31,041) | |
| Special income, gross | 6,493 | | 6,968 | |
| Capital gains tax | 2,256 | | 5,480 | |
| Expense (Recovery) from previous periods | 1,232 | | 404 | |
| Subtotal income tax expense | 223,456 | 16% | 271,825 | 20% |

Itemized deferred taxes

The differences between asset and liability bases for NCIF purposes and the bases used for Colombian tax purposes produce timing differences that generate deferred taxes calculated and recorded at December 31 2018 and 2017, taking account of the different tax rates in the years in which those differences will revert.

| | December 31, 2017 | Effect on P&L | Effect on OCI | Reclassifications | December 31, 2018 |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| General loan provisions | 35,552 | (1,789) | - | - | 33,763 |
| Additional loan provisions | 36,695 | 4,320 | - | - | 41,015 |
| Other provisions for liabilities | 38,969 | (3,465) | (166) | - | 35,338 |
| Exchange difference on hedging bonds | - | - | 49,269 | - | 49,269 |
| Other | 7,769 | 6,108 | - | - | 13,877 |
| Derivatives | 7,081 | 20,278 | - | - | 27,359 |
| Total assets | 126,066 | 25,452 | 49,103 | - | 200,621 |

| | December 31, 2017 | Effect on P&L | Effect on OCI | Reclassifications | December 31, 2018 |
|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | |
| Investments in variable income | 20,023 | 2,938 | 896 | - | 23,857 |
| Fixed-yield investments | 1,556 | 19,768 | (1,071) | - | 20,253 |
| Unrealized exchange difference on hedging bonds | 28,182 | 42,937 | (3,487) | (19,214) | 48,418 |
| Property, equipment and investment assets | 49,760 | (8,258) | - | - | 41,502 |
| Goodwill | 462,397 | (30,865) | - | - | 431,532 |
| Residual rights | 58,219 | (15,090) | - | - | 43,129 |
| Other | 3,016 | 968 | - | - | 3,984 |
| Total liabilities | 623,153 | 12,398 | (3,662) | (19,214) | 612,675 |
| Net deferred tax | (497,087) | 13,054 | 52,765 | 19,214 | (412,054) |

| | December 31, 2016 | Effect on P&L | Effect on OCI | December 31, 2017 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| General loan provision | 42,142 | (6,590) | - | 35,552 |
| Additional loan provision | - | 36,695 | - | 36,695 |
| Turnover tax | 10,309 | (10,309) | - | - |
| Other liability provisions | 42,764 | 9,583 | (13,378) | 38,969 |
| Other | 7,746 | 23 | - | 7,769 |
| Derivatives | 3,066 | 4,015 | - | 7,081 |
| Total assets | 106,027 | 33,417 | (13,378) | 126,066 |
| Deferred tax liabilities | | | | |
| Variable income investments | 23,370 | (5,332) | 1,985 | 20,023 |
| Fixed-yield investments | 1,128 | (5,870) | 6,298 | 1,556 |
| Unrealized exchange difference on | - | 24,695 | 3,487 | 28,182 |
| Property, equipment and investment | 73,826 | (24,066) | - | 49,760 |
| Goodwill | 448,992 | 13,405 | - | 462,397 |
| Residual rights | 55,857 | 2,362 | - | 58,219 |
| Other | 10,431 | (7,415) | - | 3,016 |
| Total liabilities | 613,604 | (2,221) | 11,770 | 623,153 |
| Net deferred tax | (507,577) | 35,638 | (25,148) | (497,087) |

For the purposes of presentation of the Statement of Financial Position, deferred tax assets and liabilities have been netted (see IAS 12.74) and in consideration of current tax regulations in Colombia on netting rights for current taxes.

Effect of current and deferred tax on components of OCI in the equity section

| | December 31, 2017 | Movement in OCI component | Current tax | Deferred tax | Reclassifications | December 31, 2018 |
|---|---|---|---|---|---|---|
| Financial instruments at fair value | 15,789 | (2,356) | - | 900 | - | 14,333 |
| Exchange difference for investments in associates | 404,472 | 170,350 | - | - | - | 574,822 |
| Exchange difference on net hedging of investments outside Colombia | (185,267) | (173,656) | - | 52,756 | - | (306,167) |
| Financial instruments measured by equity variation | 51,241 | 4,032 | - | (725) | - | 54,548 |
| Equity method surplus | (79,902) | (85,786) | - | - | - | (165,688) |
| Employee benefits | (3,916) | 504 | - | (166) | - | (3,578) |
| | 202,417 | (86,912) | - | 52,765 | - | 168,270 |

| | December 31, 2016 | Movement in OCI component | Current tax | Deferred tax | Reclassifications | December 31, 2017 |
|---|---|---|---|---|---|---|
| Financial instruments at fair value | (223) | 22,310 | - | (6,298) | - | 15,789 |
| Exchange difference for investments in associates | 440,524 | (36,052) | - | - | - | 404,472 |
| Exchange difference on net hedging of investments outside Colombia | (191,205) | 9,426 | - | (3,487) | - | (185,266) |
| Financial instruments - equity variation | 19,441 | 33,785 | - | (1,985) | - | 51,241 |
| Equity method surplus | (62,745) | (17,157) | - | - | - | (79,902) |
| Employee benefits | (31,078) | 40,541 | - | (13,378) | - | (3,915) |
| | 174,714 | 52,853 | - | (25,148) | - | 202,419 |

Regulations require that exchange adjustments for foreign currency investments may only have an impact in tax terms at the time of disposal or liquidation of the investment. Therefore, a difference arises in which no deferred tax is recognized by virtue of the exception in IAS 12, because the Bank controls the investment and does not expect the exchange difference to revert in the foreseeable future.

Uncertainties in open tax positions

An analysis was made for the Statement of Financial Position at December 31, 2018 with respect to tax positions adopted in filings open to inspection. No facts or situations were identified that might cause uncertainty associated with any difference between those positions and that of the tax authorities.

Deferred tax related to Subsidiaries, Associates and Joint Ventures

In application of Para 39 of IAS 12, the Bank does not record deferred tax liability due to timing differences in investments in subsidiaries and associates. The reasons are that i) Davivienda controls the subsidiaries and the decision to sell its investments in them and therefore it can also decide on the timing of reversion of timing differences; and (ii) Davivienda does not expect to make any such disposal in the foreseeable future.

Timing differences for items indicated at December 31, 2018 and 2017 were $1,794, respectively.

Transfer prices

In the context of Law 788/2002 and Law 863/2003, 1607/2012 and Law 1819/2016 regulated by Decree 2120/2017 the Bank prepared a study of transfer prices on operations with related parties outside Colombia during 2017. The study did not give rise to any adjustments that would affect income, costs of expenses in the Bank´s tax position.

Although the transfer prices study for 2018 is still in the process of preparation, no significant change is expected in relation to 2017.

## 14. Related Parties

The Bank may undertake operations, agreements or contracts with related parties on the understanding that any such operations will be conducted in reasonable amounts and observing the following criteria, amongst others:

- Prevailing market conditions and rates in the sector of the operation.
- The activity of the companies involved.
- Growth prospects of the business

The following are considered to be related parties:

**1. Group companies:**

| | |
|---|---|
| Controlling interest: | Grupo Bolívar |
| Subsidiaries: | Fiduciaria Davivienda, Corredores Davivienda, Cobranzas Sigma, Banco Davivienda Panamá, Banco Davivienda Panamá Licencia Internacional, Inversiones 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, Valores Davivienda El Salvador. |
| Companies of Grupo Empresarial Bolívar: | Capitalizadora Bolívar, Compañía de Seguros Bolívar, Seguros Comerciales Bolívar, Investigaciones y Cobranzas el Libertador, Multinversiones Bolívar, Asistencia Bolívar, Riesgo e Inversiones Bolívar, Soluciones Bolivar, 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, Sociedades Bolívar , Inversora Anagrama, Inversiones Financieras Bolívar. |

**2. Associated businesses:** Redeban, Titularizadora.

**3. Key management personnel** Directors, members of the Strategic Committee (CEO and Executive Vice-Presidents)

**4. Others:** Shareholders holding 5-10%: Inversiones Cusezar and Inversiones Meggido; ACH, Finagro y Credibanco, companies in which the Bank holds more than 10%.

The Bank has office network agreements with Fiduciaria Davivienda and Corredores Davivienda, business collaboration agreements with Fiduciaria Davivienda; property leases with Promociones y Cobranzas Beta, Ediciones Gamma and Seguros Comerciales Bolívar; a commercial agreement with Asistencia Bolívar; collection management contracts with Cobranzas Beta and Cobranzas Sigma; a website management and maintenance agreement with Davivienda Empresarial Multilatina between Banco Davivienda El Salvador with Banco Davivienda Colombia, Banco Davivienda Costa Rica and Banco Davivienda Panamá.

There are also insurance placement and collection agreements and Banking-Insurance commercialization agreements with Compañía de Seguros Bolívar and Compañía de Seguros Comerciales Bolívar.

All operations are managed at market prices, deposit rates are between 0.1% and 6.72%, placement rates are between 0.01% and 29.08% including home mortgage loans for key management personnel at between UVR and UVR+2%; agreed as employee benefits.

At the close of 2018 there are no loans with interest, term, collateral or other conditions different from those agreed with third parties, for loans to Group companies.

At the December 31, 2018 there are no loan operations with shareholders holding less than 10% of the Bank´s shares and representing more than 5% of computable capital

Regulations require the Bank to hold mandatory investments in issues of Fondo para el Financiamiento del Sector Agropecuario as TDA (Agricultural Development Securities) for $889,129; in Class A at 4% nominal quarterly in arrears and in Class B at 8.2% nominal quarterly in arrears. These are not market rates.

The Bank also engaged in rediscount operations with Finagro, as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Small guarantees rediscount | 130,579 | 153,585 |
| Rediscount interest payable | 1,261 | 1,690 |
| Rediscount interest expense | 8,429 | 9,629 |

These operations correspond to a loan fund addressed to the agricultural sector at preferential rates.

The following is the detail of operations with related parties

December 31, 2018

| | Group companies | | | | | | |
|---|---|---|---|---|---|---|---|
| | Controlling | Subsidiary | Other | Associates | Key personnel (1) | Other | Total |
| Assets (2) | - | 232,345 | 159,271 | 39,435 | 3,354 | 707 | 435,112 |
| Cash | - | 168,017 | - | - | - | - | 168,017 |
| Money market asset operations | - | 60,559 | - | - | - | - | 60,559 |
| Loans and financial leasing | - | - | 136,805 | 41 | 3,308 | - | 140,154 |
| Accounts receivable | - | 3,769 | 8,626 | 39,197 | 46 | 707 | 52,345 |
| Other assets | - | - | 13,840 | 197 | - | - | 14,037 |
| Liabilities (3) | 284,869 | 29,138 | 226,375 | 48,696 | 1,372 | 319,533 | 909,983 |
| Financial liabilities | 284,869 | 28,764 | 209,612 | 20,254 | 1,330 | 299,083 | 843,912 |
| Accounts payable | - | 374 | 16,724 | 28,442 | 42 | 20,450 | 66,032 |
| Other | - | - | 39 | - | - | - | 39 |
| Income | 6 | 97,933 | 165,489 | 101,209 | 350 | 105,466 | 470,453 |
| Commissions | 3 | 33 | 148,210 | 99,791 | 5 | 91,014 | 339,056 |
| Interest | - | 3,015 | 12,361 | 2 | 342 | - | 15,720 |
| Dividends | - | 51,438 | - | - | - | 14,371 | 65,809 |
| Other | 3 | 43,447 | 4,918 | 1,416 | 3 | 81 | 49,868 |
| Expenses | 8,968 | 5,549 | 54,617 | 61,320 | 255 | 85,598 | 216,307 |
| Commissions | - | 1,365 | - | 57,200 | - | 72,197 | 130,762 |
| Other | 8,968 | 4,184 | 54,617 | 4,120 | 255 | 13,401 | 85,545 |

(1) Under IAS 24 key management personnel are those who have authority and responsibility to plan, direct and control, directly or indirectly; Members of the Strategic Committee and Directors of the Bank.

Includes all transactions with key management personnel except for employee benefits detailed below.

(2) Assets: The most important asset operations with related parties included home mortgage loans with employment benefits, a placement rate of UVR or UVR+2 approved by the Board at 15 years with admissible guarantees, and consumer credit at market rate maximum 29.08%.

Working capital loans, construction loans, corporate loans and credit card operations were closed with Group companies at rates of 0.01%-28.62%.

(3) Liabilities: the most important liability operations with Group companies were checking accounts at 0%-4.05% interest, savings accounts at 0% to 4.05% and TDs at 2.1%-6.72% with other shareholders , savings accounts at 4.5% for those with less than 10% and 5% or more of capital of the Bank and checking accounts at 0% and savings accounts at 3.7% for shareholders with 10% or more of the Bank´s capital.

December 31, 2017

| | Group companies | | | Associates | Key personnel (1) | Other | Total |
|---|---|---|---|---|---|---|---|
| | Controlling | Subsidiary | Other | | | | |
| Assets (2) | - | 277,084 | 178,104 | 5,533 | 4,027 | 23,609 | 488,357 |
| Cash | - | 272,994 | - | - | - | - | 272,994 |
| Loans and financial leasing | - | - | 140,348 | 4 | 3,977 | - | 144,329 |
| Accounts receivable | - | 4,090 | 26,123 | 5,332 | 50 | 23,609 | 59,204 |
| Other assets | - | - | 11,633 | 197 | - | - | 11,830 |
| Liabilities (3) | 198,198 | 56,792 | 132,738 | 38,602 | 2,499 | 291,297 | 720,126 |
| Financial liabilities | 198,198 | 55,136 | 115,771 | 9,323 | 2,457 | 264,380 | 645,265 |
| Derivatives | - | 1,185 | - | - | - | - | 1,185 |
| Accounts payable | - | 471 | 16,954 | 29,279 | 42 | 26,917 | 73,663 |
| Other | - | - | 13 | - | - | - | 13 |
| Income | 11 | 54,218 | 149,571 | 96,486 | 489 | 85,079 | 385,854 |
| Commissions | 7 | 19 | 135,300 | 90,621 | 6 | 80,205 | 306,158 |
| Interest | - | - | 9,816 | 17 | 400 | - | 10,233 |
| Dividends | - | 12,799 | - | 4,335 | - | 4,701 | 21,835 |
| Other | 4 | 41,400 | 4,455 | 1,513 | 83 | 173 | 47,628 |
| Expenses | 5,342 | 9,931 | 54,997 | 53,197 | 291 | 84,145 | 207,903 |
| Commissions | - | 1,416 | - | 49,042 | - | 67,477 | 117,935 |
| Other | 5,342 | 8,515 | 54,997 | 4,155 | 291 | 16,668 | 89,968 |

(1) Under IAS 24 key management personnel are those who have authority and responsibility to plan, direct and control, directly or indirectly; Members of the Strategic Committee and Directors of the Bank.

Includes all transactions with key management personnel except employee benefits as detailed below

(2) Assets: The most important asset operations with related parties included home mortgage loans with employment benefits, a placement rate of UVR or UVR+2 approved by the Board at 15 years with admissible guarantees, and consumer credit at market rate maximum 31.07%.

Working capital loans, construction loans, corporate loans and credit card operations were closed with Group companies at rates of 0.01%-31.06%.

(3) Liabilities: the most important liability operations with Group companies were checking accounts at 0%-4.5% interest, savings accounts at 0% to 4.6% and TDs at 0.1%-7.3% with other shareholders , savings accounts at 6% for those with less than 10% and 5% or more of capital of the Bank and checking accounts at 0% and savings accounts at 4.3% for shareholders with 10% or more of the Bank´s capital.

Transactions with key management personnel are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Max. Balance | Closing balance | Max. Balance | Closing balance |
| Home mortgage loans and other | 682 | 2,513 | 744 | 3,040 |
| Credit cards | 60 | 294 | 60 | 248 |
| Other loans | 229 | 501 | 240 | 688 |
| | 971 | 3,308 | 1,044 | 3,976 |

The detail of payments to key management personnel is as follows

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Short-term benefits | | |
| Salary | 5,555 | 5,118 |
| Other short term benefits | 1,128 | 1,579 |
| | 6,683 | 6,697 |
| | 6,683 | 6,697 |

No decisions of importance were taken, or were not taken, due to the influence or interests of Grupo Bolívar S.A., and no decisions were taken or not taken by Grupo Bolívar S.A. in the interests of Davivienda.

## 15. Contingent accounts

The following is the detail of debtor and creditor contingent accounts:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Creditor | | |
| Loans approved and not disbursed | 8,642,864 | 8,534,615 |
| Credit cards | 13,013,642 | 12,136,746 |
| Guarantee letters issued | 3,040,501 | 2,485,449 |
| Sundry | 3,615,951 | 3,189,854 |
| | 28,312,958 | 26,346,664 |
| Debtor | | |
| Loan interest | 472,689 | 264,657 |
| Financial leasing interest | 24,471 | 34,477 |
| Monetary correction on loans | 9,974 | 8,423 |
| Monetary correction on financial leasing operations | 3,107 | 2,538 |
| Leasepayments receivable | 3,909,932 | 3,253,345 |
| Purchase operations receivable | 2,151,932 | 1,488,421 |
| Sundry | 19,038 | 20,515 |
| | 6,591,143 | 5,072,376 |

## 16. Post-closing events

There were no post-closing events to be disclosed.

## 17. Approval of the Financial Statements

The Separate Financial Statements and accompanying notes were approved by the Board and the Legal Representative on January 29, 2019 , to be presented to the Annual General Meeting for approval; the Meeting may approve or reject them.