



# Report

from de Board of Directors  
and the President to the  
Shareholders' General Assembly

Semester January / June 2012



DAVIVIENDA



Banco Davivienda S.A.

## **Report from the Board of Directors and the President to the Shareholders' General Assembly**

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Davivienda was founded in 1972, as a Housing and Savings Colombian Corporation. In 1972, it changes into Davivienda S.A. Bank. In 2012, it is the third largest bank in Colombia, with regional presence in the United States (Miami), Panama, and soon in Costa Rica, Honduras and El Salvador.



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## Report from the Board of Directors and the President to the Shareholders' General Assembly

Semester January/ June 2012

### Shareholders:

It is our pleasure to present to you the report on activities and results corresponding to the first semester 2012. This period was internationally characterized by moments of instability of the markets due to the European crisis and to a slowdown in the economies of The United States and China. Countries such as Spain or Italy have seen how their country's risk rating and that of their principal banks have been reduced. In spite of this volatility, the Colombian economy continues growing at a moderate pace with respect to the previous year.

Despite this volatile environment, the bank made its debut in the international markets at the end of June with the first debt issue for US\$500 million in subordinated bonds achieving a good rate and obtaining a US\$3 billion demand. This result is a reflection of the investor's confidence in the country and in the Bank.

Davivienda continues to support the growth of the Colombian economy by financing strategic sectors such as the SME (small and medium size entities), infrastructure, international trade and transport where growths have remained above 20%. Likewise, the Bank continues with its support to the creation of wealth for Colombian families by financing housing to more than 15,000 families and thus maintaining the leadership in the Social Interest Housing Financial program (housing for poor people).

At a regional level, we finalized the purchase agreement for the operation that HSBC has in Honduras, El Salvador and Costa Rica. The above, together with the Bank's business dynamic, will contribute to consolidate it as an important player in the region.

These institutions have important participation in their local markets, excellent liquidity and deposit bases and a diversified credit portfolio. They also have suitable, responsible and committed equipment

**A regional Bank: Davivienda  
has completed the purchase  
agreement of the HSBC  
operation in Honduras,  
El Salvador and Costa Rica.**



that will facilitate the achievement of good results for the Bank in Central America. On the other hand, the countries have good growth prospects, good entrepreneurs and diversity of opportunities.

From the moment the announcement was made, the processes to obtain approval from the authorities in each one of the countries mentioned, and from the Colombian Financial Superintendence have been carried out. Simultaneously, the processes to integrate the companies with Davivienda are advancing. It is expected that these two activities will be concluded during this year's second semester.

During this period, the Bank joined the so-called Green Protocol, an Agreement of Intentions between the National Government and some financial institutions. The agreement seeks to promote sustainable development by means of specific strategies aimed at protecting the environment, the eco-efficiency and the general well being of society. At an internal level, there has been advancement in the implementation of the Social and Environmental Risk Administration System (Saras) which seeks to evaluate the impact over natural resources, human rights, biodiversity conservation and the climatic change among other aspects that contribute to the sustainable development.

In the search for the progress of the communities in which the Bank is located, so far this semester, there have been donations for around COP 4,500 million to foundations such as: Fundación Bolívar-Davivienda, Davivienda's Children's Home Foundation and "Dividendos por Colombia".

Moreover, the Bank's employees donated close to 6,000 hours of voluntary work which benefitted near 4,000 persons in the various initiatives of Davivienda's Fundación Bolívar.

We invite you to learn a little bit more about these and other activities that were carried out during this semester, as well as about the excellent results that we have obtained.





## Board of Directors

### Directors

Carlos Guillermo Arango Uribe

Javier Suárez Esparragoza

Alvaro Peláez Arango

Gabriel Humberto Zárate Sánchez

Bernard Pasquier

### Substitute Directors

Alvaro Carvajal Bonnet

David Peña Rey

Federico Salazar Mejía

Enrique Flórez Camacho

Mark Alloway



## Main figures

**4.1 million** clients

**COP 36 trillion** assets

**566** offices in **186** municipalities

**1,480** ATM's

**11,047** employees

**3.0 million** debit cards in units

**1.8 million** credit cards in units

### International ratings

**BBB-** Debt rating by Standard & Poor's  
(investment grade)

**BBB-** Debt rating by Fitch Ratings  
(investment grade)

**Baa3** Debt rating by Moody's  
(investment grade)

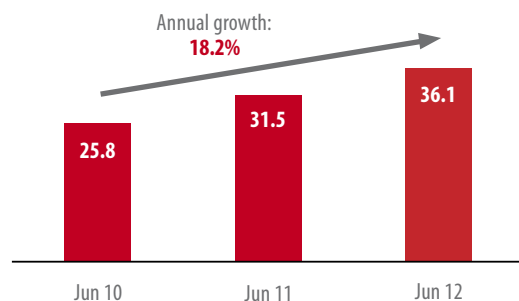
### National ratings

**AAA** Debt rating by BRC

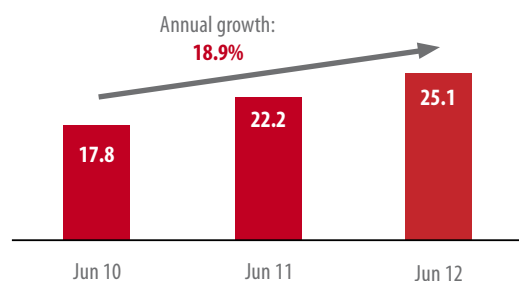
**AAA** Debt rating by Value & Risk



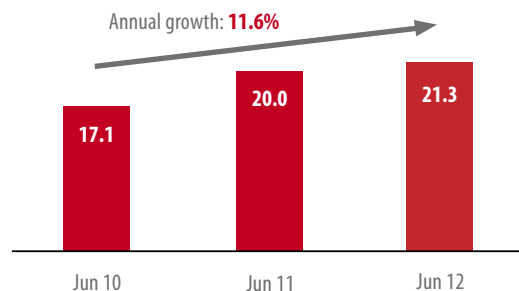
**ASSETS** (Figures are given in trillion pesos)



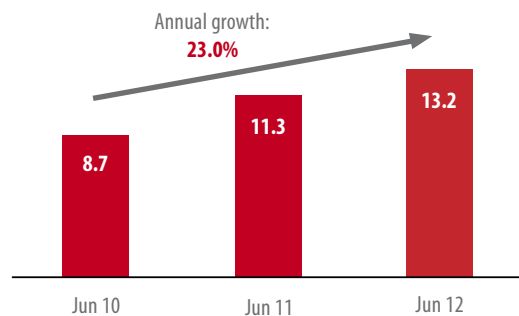
**PORTFOLIO** (Figures are given in trillion pesos)



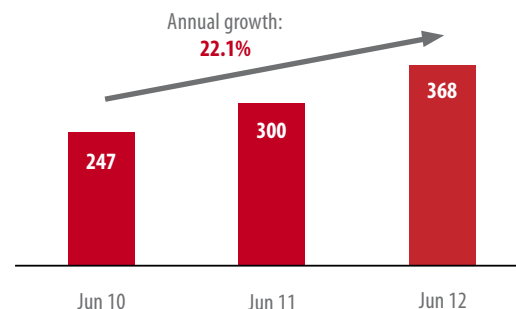
**DEPOSITS** (Figures are given in trillion pesos)



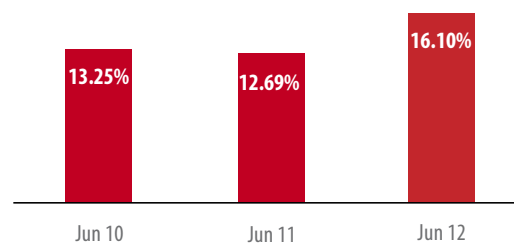
**CORPORATE PORTFOLIO** (Figures are given in trillion pesos)



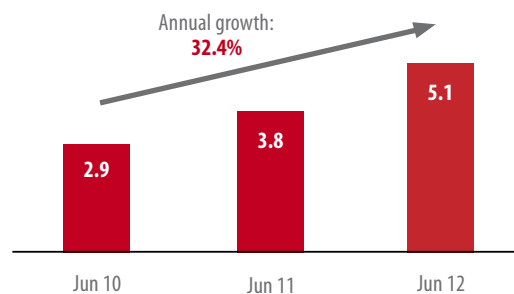
**PROFITS** (Figures are given in billion pesos)



**SOLVENCY**



**EQUITY** (Figures are given in trillion pesos)



**Note:** June 2010-June 2012 Annual Growth

**In 2012, the Bank continues showing growth in all of its strategic indicators.**

## Macroeconomic environment

After having had an excellent growth rate (5.9%) in 2011, the economy started to decelerate. This phenomenon is in agreement with the evolution of the world economic activity which has been affected by the euro zone recession as well as by slower growth in the USA and China. In regard to inflation, and due to the reduction in the international price of crude oil and to a better food supply, June indicators show an annual inflation of 3.2%. This figure compares favorably with the same data from the previous year. The main concern relates to the behavior of the peso exchange rate which in spite of the drop of export prices continues overvalued. Other worries are the development of the economic activity at the international level.

### Gross domestic product (GDP)

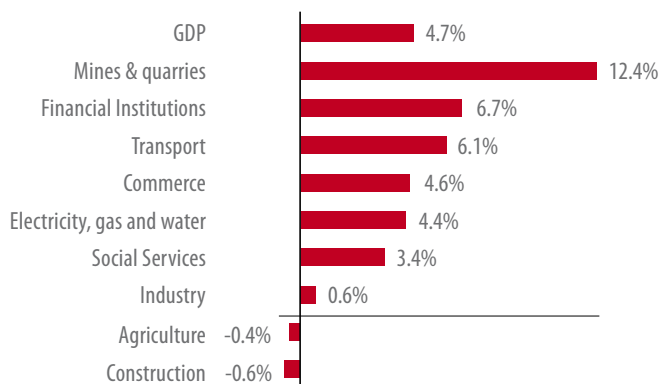
The Colombian economy grew by 4.7% in real terms in the first quarter 2012. This confirms a process of moderation in the economic growth when we take into account that in the last quarter 2011 the economy grew by 6.1%. If the GDP slow down continues throughout the year, the growth figure for the whole year could be slightly above 4%.

The analysis by sectors confirms that mining continues to be the most dynamic sector: Its growth in the first quarter was 12.4%. The other two sectors that expanded above the economy were the financial (6.7%) and the transport (6.1%) sectors. On the other hand, the agricultural and construction sectors show a decrease in activity.

If the growth during the first quarter of this year is analyzed by the components of aggregate demand, it is concluded that its main components

#### GDP GROWTH BY SECTORS

Var % real versus the same quarter the year before



Source: Dane

**The Colombian economy grew by 4.7% during 2012 first semester and the annual inflation rate to June 30<sup>th</sup> was 3.2%: COP 1,784.6 per dollar.**



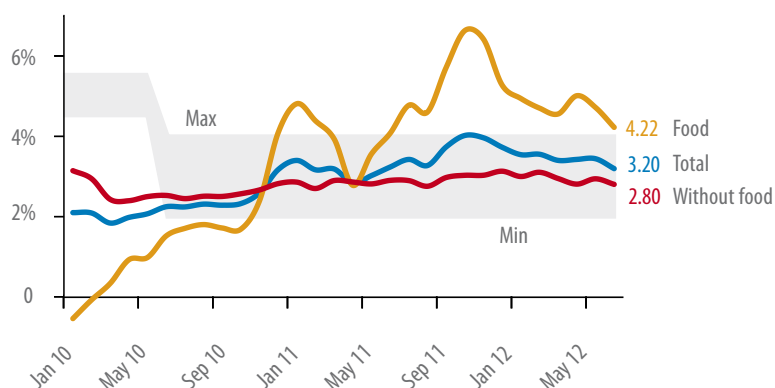
are slowing in growth: Investment increased by 8.3% while in the fourth quarter 2011 it did it at a rate of 14.2%. Household consumption growth dropped from 6.1% to 5.9% while government consumption growth remained at 3%.

## Inflation

In the first half of this year, the annual inflation rate dropped substantially from 3.73% at the closing of 2011 to 3.20% in June. The decrease in inflation rate, as can be seen in the graph, is mainly due to the behavior of food stuff inflation, which was much lower than what it was at the end of last year.

The analyst projections agree that inflation will close 2011 at a rate similar to the inflation goal of the Central Bank (3%). It is worth noting that the projected inflation for the second half of this year can be negatively affected by the weather phenomenon of El Niño, which probability of occurring is increasing.

**TOTAL ANNUAL INFLATION WITH AND WITHOUT FOOD-STUFF**

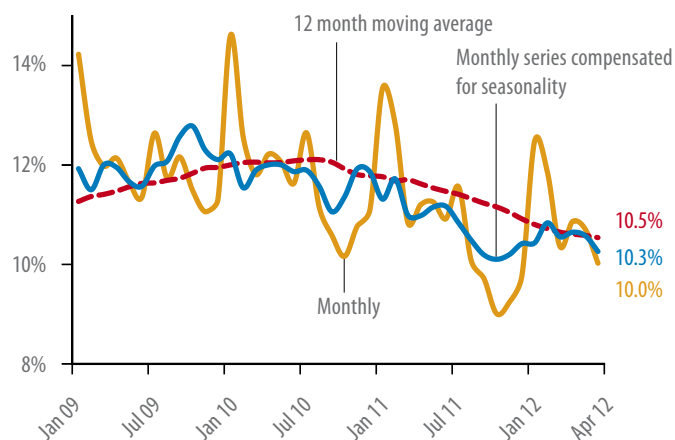


## Unemployment

In the first half 2012, the unemployment rate at a national level continued dropping. The rate decreased from 10.0% in June 2011 to 10% in June 2012.

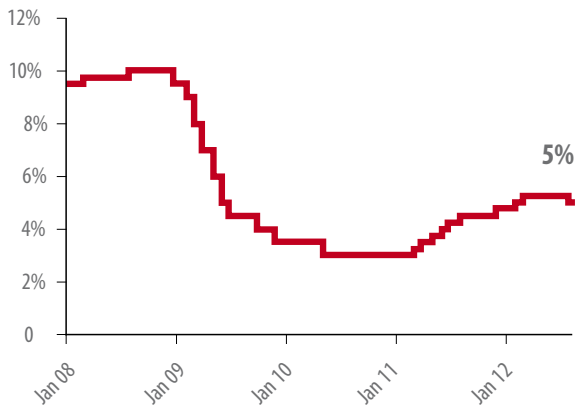
Regarding urban unemployment, the rate in the 13 main cities, slightly increased from 11% in June 2011 to 11.9% in June 2012. The cities which performed better were Barranquilla (7.6%) and Bogota D.C. (9.5%) while Quibdó and Popayán got the worst unemployment figures (18.0% and 17.6% respectively).

**MONTHLY UNEMPLOYMENT RATE**



## Monetary policy

INTERVENTION RATE - CENTRAL BANK

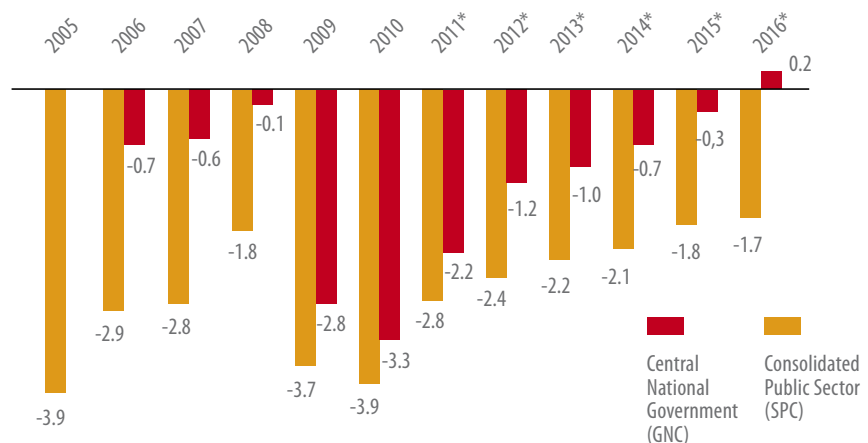


During the current year, the Central Bank has twice increased its interest rate: at the end of January and at the end of February. In this way, the rate changed from 4.75% at the beginning of the year to 5.25% in February. The rate remained unchanged until its new reduction at the end of July. With those increases in the nominal rate and with the reduction in the inflation, the monetary policy rate in real terms was above its historical average. Given the international developments, especially the European recession and the slowdown in the USA and China, the Central Bank decided to initiate a new stage of rate reduction. As mentioned before, the Colombian economy shows a slowdown in the first quarter of this year in line with the slowdown of the world economy.

## Fiscal policy

During 2011 the results in fiscal matters show a very positive behavior: the deficit for the Central National Government (GNC) was 2.9% as a portion of the GDP, and the deficit of the Consolidated Public Sector (SPC) was 2.2%. These figures were substantially more moderate than the goals established in the Medium Term Fiscal Frame 2010 that aimed at deficits of 4.2% and 3.2% for the GNC and SPC respectively.

FISCAL BALANCE EVOLUTION (% GNP)



\* MFMP. Source: Ministry of the Treasury



Following the improvement path of public finances proposed by the present administration, the Ministry of the Treasury set as fiscal goals a deficit of 2.4% of GDP for the GNC and of 1.2% for the SPC.

## Foreign trade

We saw a very positive dynamic in the foreign trade activities of the Colombian economy during 2011: Exports increased 43% on an annual basis due to the increase in the price of crude oil and the number of barrels exported. On the other hand, imports increased 34.4% annually mainly due to larger purchases of vehicles and parts.

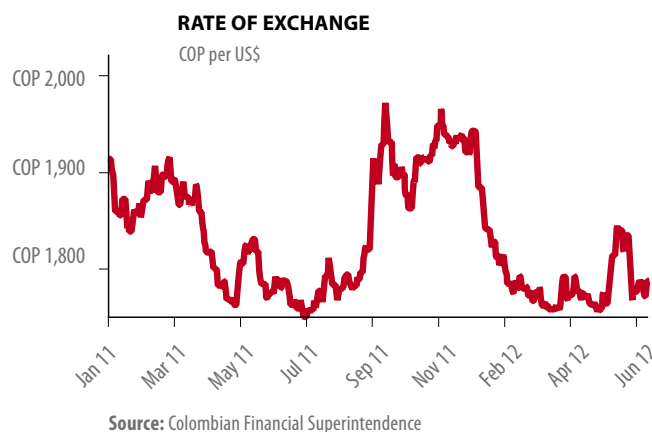
So far, during 2012 there has been a slowdown in the growth of foreign trade activities although a commercial surplus continues. Up to last May, Colombian exports reached US\$25.6 billion with an annual increase of 14.1%. Meanwhile, imports reached US\$23.8 million CIF with growth of 11.4% versus the same period 2011.

It is expected that these types of activities will benefit from the free trade agreement recently enforced with the USA.

**Up to May, Colombian exports had reached US\$25.6 billion, and importations had reached US\$23.8 billion CIF.**

## Rate of exchange

No doubt, one of the variables with a more surprising behavior during the current year has been the rate of exchange of the Colombian peso versus the US dollar. The year started at levels of COP 1,942.7 per dollar, and at the closing of the first semester it dropped to COP 1,784.6. This strong appreciation of the peso was due to local and international factors. Among the former, it is worth mentioning the reduction of world risk avoidance that happened between December and April of this year as result of ample liquidity of the European banks and the optimism about the solution of the Greek debt. Although that optimism vanished after the Greek elections of May 6<sup>th</sup>, the new elections of June 17<sup>th</sup> and the measures of the new government reduced again the international risk avoidance.

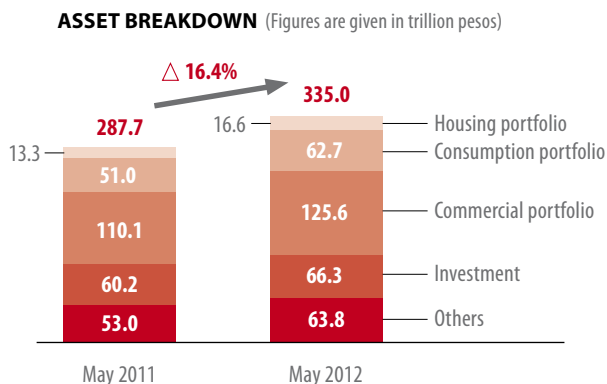


At a domestic level, the appreciation of the exchange rate favored an important commercial surplus in the first months of the year and the entrance of capitals, both direct foreign investment and portfolio. It is important to notice that the peso revaluation occurred in spite of the Central Bank reestablishment, on February 6<sup>th</sup>, of daily purchases of foreign currency.

## Financial sector up to May 2012

Although the financial sector reflected some slow down versus the dynamism it showed the year before, it continued staking out the growth of the country. The Credit Portfolio which between May 2010 and May 2011 grew at a rate superior to 25% shows a growth near 20% in the period May 2011 to May 2012.

### Principal results



In May 2012, the amount of assets of all financial institutions showed a 16.4% variation with respect to the same period last year. This was mainly due to the growth of the housing portfolio which registered a 25% increase followed by the consumption portfolio despite the fact that the latter showed a moderate growth. The investment portfolio reached COP 66.3 trillion and registered a 19.8% variation with respect to the same period the year before. The amount of liabilities reached COP 286 trillion, thus achieving a growth of 15.7% in the last twelve months.

### Credit Portfolio

In the last 12 months, the net portfolio grew above 17%. This was mainly due to the growths in housing, consumption and in relation to a lower growth in provisions.



### CREDIT PORTFOLIO - CREDIT INSTITUTIONS

(Figures are given in trillion pesos)

Portfolio	May 2011	May 2012	Growth	
	Value	Value	Value	Variation
Commercial	119.6	138.3	18.7	15.6%
Consumer	51.0	62.7	1.7	22.9%
Microcredit	5.1	6.2	1.1	21.2%
Housing	13.3	16.6	3.3	24.6%
Provision	6.8	7.9	1.0	14.8%
<b>Net Portfolio</b>	<b>182.2</b>	<b>215.9</b>	<b>33.7</b>	<b>18.5%</b>
Housing + Securitized	19.7	22.9	3.3	16.5%
<b>Net Portfolio + Securitized</b>	<b>188.6</b>	<b>222.3</b>	<b>33.7</b>	<b>17.8%</b>

**Note:** Housing includes housing leasing. **Source:** Colombian Financial Superintendence

In May 2012, the quality of the total portfolio shows a slight improvement; it goes from 1.93% compared to 1.90% last year. This is the result of an improvement in the housing portfolios, despite the deterioration presented by the consumption portfolio.

### PORTFOLIO QUALITY AND COVERAGE

	May 2011	May 2012
Consumer	2.83%	3.05%
Commercial	1.42%	1.35%
Housing	2.49%	1.97%
<b>Total</b>	<b>1.93%</b>	<b>1.90%</b>
<b>Coverage</b>	<b>240.85%</b>	<b>238.79%</b>

**Portfolio quality:** Unproductive portfolio by height of arrears  
(Consumer > 60 days, Commercial > 90 days and Housing > 60 days)  
Total Portfolio.

**Coverage:** Provisions/ Portfolio quality.

**Source:** Colombian Financial Superintendence

## Deposits

The growth in the financial system deposits was intensified by Time Deposits (CDT's) which obtained a 30.46% variation. Likewise, a tremendous growth is observed in Bond balances, mainly due to the

The sectors that most promoted the credit portfolio of the financial system were consumers and housing.

The equity of the financial system, up to May 2012, added COP 49 trillion and the solvency rate increased by 15.15%.

issuing of bonds carried out by Bank Davivienda, GNB Sudameris, Bancamía, Bank Falabella, Bank Finandina and Banco de Occidente.

#### DEPOSITS IN THE FINANCIAL SYSTEM

(Figures are given in trillion pesos)

	May 2011	May 2012	Variation
Savings Accounts and CDAT	87.4	99.1	13.3%
Current accounts	29.4	33.1	12.6%
Term deposits	55.2	72.0	30.5%
Others	5.6	6.1	7.9%
Bonds	18.1	24.9	38.0%
<b>Total</b>	<b>195.7</b>	<b>235.1</b>	<b>20.2%</b>

Source: Colombian Financial Superintendence

#### Equity

In May 2012, the equity of the financial system reached COP 49 trillion, 20.8% superior to that registered the previous year.

The solvency ratio increased; it went from 14.2 5% in May 2011 to 15.15% for the same period in 2012.

#### Housing

The amount of individuals' mortgage debt accumulated up to May 2012 registered an 11.3% increase over the same period 2011. This growth was smaller than the growths in 2011 in which construction credit disbursements grew at a 27% rate and individual credit disbursements at 16%.

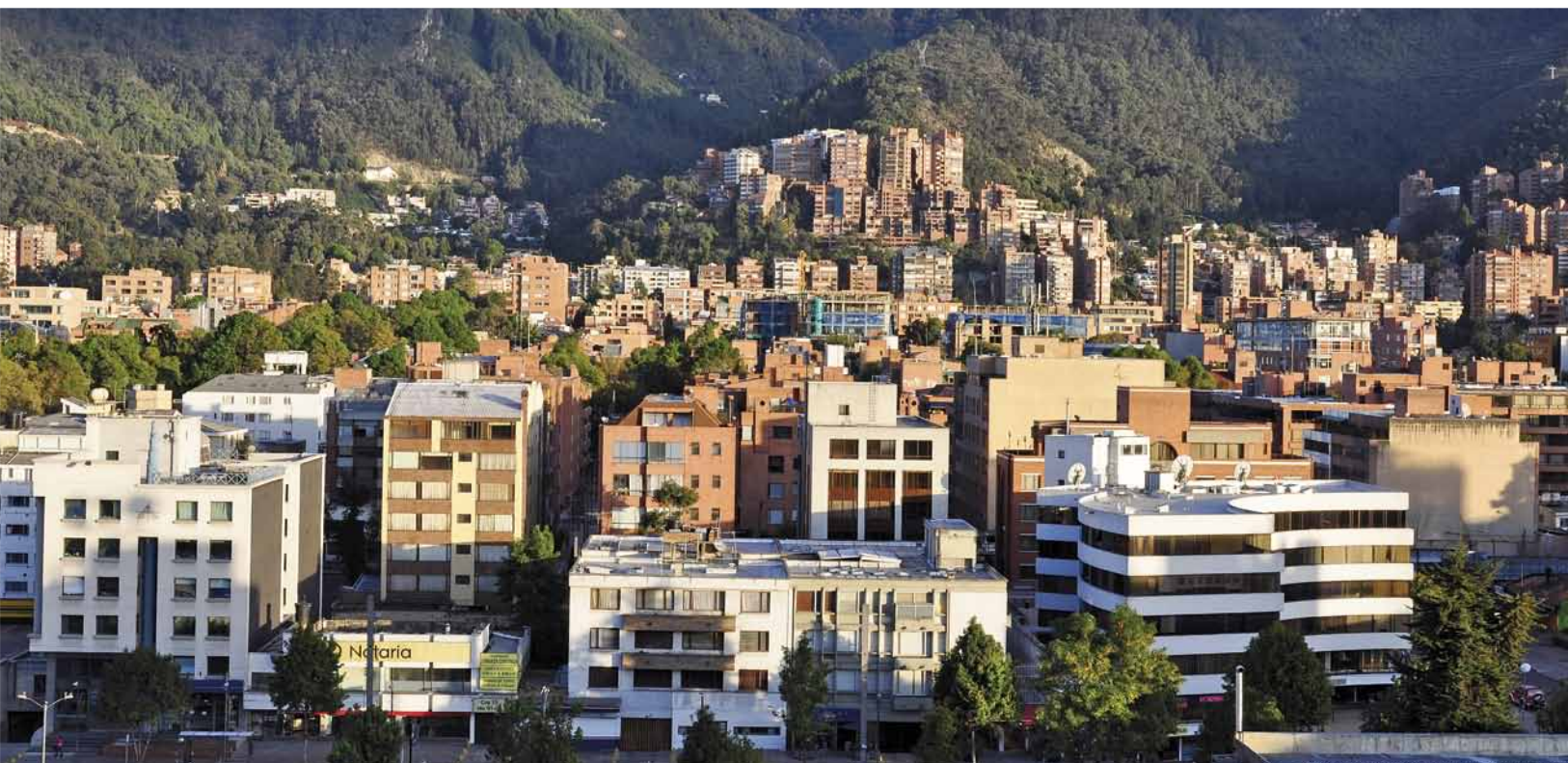
The sources of mortgage credit in the country grew in by 11.3% and totaled COP 2.95 trillion.

#### SOURCES OF ACCUMULATED MORTGAGE CREDIT

(Figures are given in billion pesos)

	Jan-May 2011	Jan-May 2012	Growth
Individual	2,279	2,496	9.5%
Subrogations	20	21	0.8%
Leasing	350	432	23.4%
<b>Total</b>	<b>2,650</b>	<b>2,949</b>	<b>11.3%</b>

Source: Asobancaria



## Credit cards

The credit card industry has presented a sustainable growth both in balances and in invoicing. Up to May 2012, the number of existing cards grew 16.1% with respect to the same period last year. This situation continues to remain constant with respect to the variation in May 2010 and that of May 2011 when it had a 17.5% increase. Nevertheless, the invoicing increased by almost 24%, a growth very superior to that of May 2010 and to that of May 2011 when it did not exceed 20%.

### CREDIT CARDS - FINANCIAL SYSTEM

(Figures are given in trillion pesos)

	May 2011	May 2012	Growth
Consumer balance	11.5	14.3	23.6%
Commercial balance	0.8	0.9	14.3%
<b>Total Balance</b>	<b>12.3</b>	<b>15.1</b>	<b>23.0%</b>
<b>Invoicing Jan-May</b>	<b>12.3</b>	<b>15.3</b>	<b>23.9%</b>
<b>Number of current credit cards</b>	<b>8,601,945</b>	<b>9,990,848</b>	<b>16.1%</b>

**In Colombia there are close to 10 million valid credit cards.**



## Davivienda

### Principal accomplishments during the first semester of 2012

During the first semester 2012, the Bank developed different projects that enabled it to continue with its growth and internationalization strategies.

#### Acquisition process of HSBC companies in Central America



From the day in which the agreement was signed with HSBC, Davivienda, along with HSBC started the transaction authorization process given by the regulatory entities in Honduras, El Salvador, Costa Rica, Panama and Colombia. Simultaneously, a series of activities have been carried out, so that once such authorizations are granted, the process of takeover and rebranding can be performed successfully.

This acquisition would represent a new potential market of Close to 30% for Davivienda. The outcome of this acquisition represents a significant growth in all its portfolios. In relation to assets, their growth will be 17% approximately, in portfolio 16%, and in deposits 20%. In terms of coverage, there is also an expected exponentially growth with a net of offices that would amount to almost 700 offices in six countries (24% growth), close to 1,800 ATM's (28% growth) and a number of employees close to 15,000 (35% growth); likewise, the number of customers would increase by 20% reaching almost 5 million.

Finally, the agreed value for this transaction was US\$801 million which represents a multiple (P/BV) of 1.4. The process is expected to be completed during the second semester 2012.



## Rating of the Bank

During this year, and because of the acquisition announcement of HSBC operations in Central America, two of the main international rating entities (Moody's and S&P) gave a negative Credit-watch rating to the Bank's investment grade waiting for the transaction while Fitch ratified its grade investment rating with stable perspective. It is worth noting that towards the middle of the semester, S&P retired the Credit-watch and maintained its stable perspective in the grade investment rating that it had already given to Davivienda.

In relation to local rating, during this semester, the two national rating agencies BRC and Value & Risk maintained their AAA rating for Davivienda because of its ability to pay both in the long term and in the short term; although, BRC gave a negative Credit-watch until the transaction is completed.

**During 2012 first semester, BRC and Value & Risk kept their AAA rating for Davivienda given its excellent payment capacity.**

**DaviPlata provides an invaluable service to the population with no access to the financial system.**

## **Collective agreement**

This year, the Bank subscribed its eighth Agreement with the premise of giving the employees a more participatory role. To achieve this, and in addition to the Benefits Survey, a new phase within the process was incorporated in which the definition of the terms of adjustments and improvements was carried in conjunction with the Board of Directors and the Social Control Committee of the Employees Fund.

Among the main benefits and improvements, there is an increase in the Housing Fund which will allow more employees to have access to homeownership with preferential rates; an increase in the amount given for educational assistance; improved benefits in uniforms for employees provided by the Bank, and more benefits for health services.

## **DaviPlata**

DaviPlata, the transactional platform that the Bank launched in 2011 via cell, was recognized this semester with awards and publications both at a national and international level:

- ▶ DaviPlata receives the CIT Golden Card prize in the "Innovation in Payment" category (international)
- ▶ DaviPlata receives the Harvard Business Review / McKinsey M Prize for "Management Innovation" (international)
- ▶ Corporate Sustainability Forum (international)
- ▶ Rio + 20 (International publication)
- ▶ Publicación Cecodes (national publication)

In addition to these awards, so far this semester, there have been substantial improvements that place the Bank at a subsequent phase in its consolidation process as a product of electronic cash management for the unbanked population of Colombia. Indeed, by June 2011, DaviPlata had already signed closed to 380 agreements with the government and Colombian companies reaching 568,000 customers of which more than half did not make part of the financial system; more than 4 million transactions have taken place since its launch at the beginning of 2011.

The social commitment of DaviPlata with the community is reflected in the philosophy of the product; a product which has given people



with no access to the financial system because the access to the system is expensive or because they are in geographically remote regions the possibility to access to it. This is the reason why during 2012, some initiatives have been implemented in the following sectors:

- ▶ **25,620 payments** for the Department of Social Prosperity of the Presidency of the Republic through its Social Action Program. These payments have reached municipalities such as Albania, Guajira, Tumaco and Nariño bringing progress to areas marginalized by difficult law and order conditions.
- ▶ **11,900 incentive payments** relief for families affected by the rainy season in the towns of Bosa and Kennedy in Bogotá. This humanitarian aid was given in May 2012 by Alianza Fopae-DaviPlata.
- ▶ **11,500 bonus** payments to high-school soldiers and to regular soldiers from our military forces that will now be able to send money to their families, and buy and recharge minutes in their cell phones despite the fact of finding themselves in combat zones; all this at no charge.

The Employability Alliance with Social Action (ICE), Sena, Sistemco-bro and DaviPlata is an alliance where we choose a select group of individuals who belong to the United Net Population (Displaced population and / or Sisben-1, 2 strata –low income population–) who will receive formal training at Sena in order to acquire skills and abilities for telephone support. This training will receive the subsidy given by Social Action (ICE), and the trainees will be later hired by our Call Center DaviPlata.

### Fusion with Confinanciera

During this semester, the Colombian Financial Superintendence approved the fusion with Confinanciera, a subsidiary acquired in 2006 and dedicated to financing vehicles, specially the commercial ones. The fusion process concluded last July 31<sup>st</sup>.



**The average demand in the issuing of Davivienda's bonds was 2.3 times over the value offered.**

### **Bond issuing**

Davivienda continues to be an important player in the Colombian private debt market. On April 2012, COP 400 billion were issued in subsidiary bonds; these bonds enter into the program with a quota of up to COP 3 trillion approved by the Colombian Financial Superintendence in 2010. It is worth mentioning that this program has had a significant success since the average demand in each one of the emissions has exceeded 2.3 times the value offered. The BVC recognized the fundamental role of the Bank in this segment with the award to the "Bond issuer more oversubscribed in 2011."

### **Green Protocol**

On June 7 2012, at the banking convention, Davivienda adhered to the green protocol: an Agreement of Intentions between the National Government and the financial sector which seeks to promote sustainable development through specific strategies aimed at protecting the environment, the eco-efficiency and the general well being of society.

In this way, the Bank committed voluntarily (there were entities which did not adhere to the protocol) to implement practical policies that can be recognized as exemplary in terms of environmental responsibility and that meet current necessities without compromising the possibilities of future generations.

Signing the Green Protocol includes a consultancy and disclosure process directed to the groups of interest in the financial sector, as well as the development of strategies aimed at advancing in three fundamental aspects:

- ▶ Finance development with sustainability through the promotion of credit and / or investment facilities, and also programs that promote the sustainable use of natural resources, the protection of the environment and programs which contribute to improving the quality of life of the population.
- ▶ Promote in the internal processes of the signatories, the sustainable consumption of natural resources and of materials derived there from.
- ▶ Consider in the investment and credit risk analysis, the impact and the environmental and social costs that are generated in the



activities and projects to be funded, based on compliance with Colombian environmental regulations.

## Financial education

During the first semester 2012, Davivienda focused its financial education strategy towards the employees of companies that have a payments agreement with the Bank. In the month of May, the Financial Education Program was launched officially in 400 companies in Bogota, 50 in Medellin, 50 in Cali and 20 in Manizales.

Furthermore, during the semester, the Bank structured and started the development of its financial education web site, whose mission is to provide sufficient knowledge for financial consumers, through understanding of basic concepts on savings, credit, investments, budgets, good financial services management and personal finances, so that they manage adequately the products and services.



## Bank results

During the first half 2012, Davivienda helped about 15,400 Colombian families purchase their home; of these houses, more than 9,400 corresponded to low-income people houses.

The bank surpassed 4 million customers, without taking into consideration DaviPlata's customers.

In the course of the year, we have linked 42,741 SMEs (small and medium enterprises) and corporate clients by offering them development possibilities due to our products; we have paid close to COP 1 trillion.

We support the agricultural development of the country, an important part of our SME segment, spending over COP 100 billion in the first half 2012.

**The infrastructure segments and agriculture portfolio surpassed the COP 2.5 trillion.**



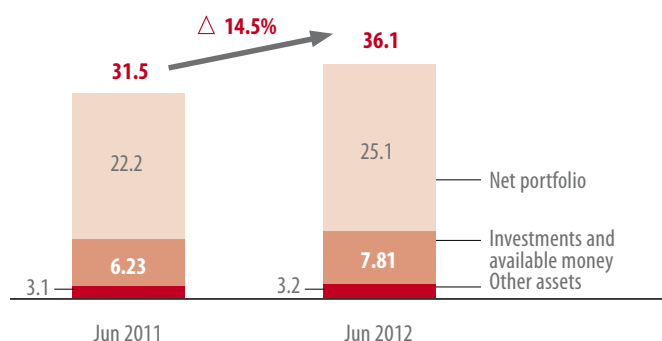
We have contributed to the use of banks in the country by allowing more than 568,000 individuals to manage their money through DaviPlata, and by permitting more than 380 public and private entities use the system.

The Bank has directed its strategy towards strategic sectors of the economy, obtaining a considerable increase in the agricultural infrastructure segment where the portfolio increased by 64% reaching COP 1.5 trillion while in the agricultural, it closed at COP 1 trillion with a 30% growth when compared to the previous year first semester. Likewise, the SME segment remained dynamic with growth close to 20% and reaching COP 2.5 trillion in June 2012 with disbursements close to COP 1 trillion.

On the other hand, the credit card invoicing reached COP 2.4 trillion, thus obtaining an important 21% growth in its balance and closing at COP 2.5 trillion. The construction segment reaches COP 0.9 trillion in June 2012 and increased by 36% while disbursements increased by 42%.

#### BEHAVIOR OF DAVIVIENDA'S ASSETS

(Figures are given in trillion pesos)



#### Analysis and structure of the assets

In June 2012, Davivienda remains as the third largest bank by assets in the country with COP 36.1 trillion and a 14.5% growth in the last year. This growth is explained by a growth in portfolio and investments given the COP 2.9 trillion and COP 1.8 trillion increase and which together represent 92% of the totality of the assets up to June 2012.

#### Credit portfolio

In June 2012, there was a 13% increase in the credit portfolio mainly as a result of the increase in the commercial and housing portfolios (the latter includes residential leasing).

In relation to the housing portfolio, it grows by 19%, close to COP 1 trillion. During the year, a securitized portfolio balance equal to COP 2.2 trillion was reached; of this amount, COP 348 billion were securitized in the first half 2012. When taking into consideration this portfolio, the growth of the business would be of 15%. The commercial



portfolio grows by 17% and closes at COP 13.2 trillion while the consumption portfolio, despite the hardening of policies that took place at mid-year last year, grows by 4%.

The indicators of portfolio quality have increased due to the deterioration of the indicators of some consumption products. This is the reason why adjustments to the granting of policies have been made since mid 2011. On the other hand, the commercial and housing portfolios show better deterioration levels in the quality of the portfolio with respect to the first half 2011.

#### DAVIVIENDA - NET PORTFOLIO

(Figures are given in billion pesos)

	Jun 2011	% Part.	Jun 2012	% Part.	Growth
Housing and residential leasing	3,772	17.0%	4,486	17.9%	18.9%
Commercial portfolio and microcredit	11,290	50.9%	13,177	52.5%	16.7%
Consumer portfolio	8,372	37.7%	8,731	34.8%	4.3%
Credit cards	2,099	9.5%	2,534	10.1%	20.8%
Vehicle	939	4.2%	1,009	4.0%	7.5%
Other personal credits	5,334	24.0%	5,188	20.7%	-2.7%
Credit portfolio provisions and financial leasing	-1,233	5.6%	-1,276	5.1%	3.5%
<b>Net portfolio</b>	<b>22,201</b>		<b>25,118</b>		<b>13.1%</b>

In relation to coverage, and within its risk management policies, the Bank has maintained its coverage levels well above 200%.

#### DAVIVIENDA

##### INDICATORS OF UNPRODUCTIVE PORTFOLIO AND COVERAGE

	Jun 2010	Jun 2011	Jun 2012
Consumer	3.15	2.98	3.82
Commercial	1.25	0.92	0.89
Housing	2.10	1.97	1.67
Total	2.02	1.76	1.94
Coverage	289.15	299.72	249.80

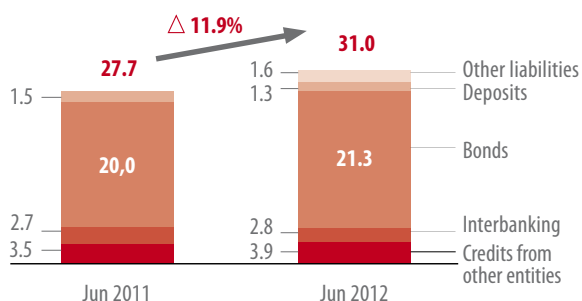
Commercial portfolio includes microcredit and leasing.

**Quality:** Quality of unproductive portfolio by height of arrears (consumption >60 days, commercial, microcredit, leasing > 90 days, housing > 60 days) / total.

**Coverage:** Provisions / unproductive x height of arrears.

#### DAVIVIENDA - BEHAVIOR OF LIABILITIES

(Figures are given in trillion pesos)



#### Analysis and structure of liabilities

In June 2012, the Bank's liabilities presented a COP 3.2 trillion growth with respect to those presented during the same period the year before, growing by 11.9% and thus reaching COP 30.9 trillion. The fastest growing traditional collection device in the Bank in the last 12 months has been the Term Deposits (CDTs) which grew close to 10%. Within the term policy structure, the rediscounts with other entities reached a 4.2% growth while the bonds reached a 12% growth; COP 400 billion have been placed in bonds so far this year.

#### DAVIVIENDA - COLLECTION DEVICES

(Figures are given in billion pesos)

	Jun 2011	% Part.	Jun 2012	% Part.	Growth
Saving accounts	11,144	47.5%	11,803	46.8%	5.9%
Current accounts	3,019	12.9%	3,230	12.8%	7.0%
Term deposits	5,631	24.0%	6,149	24.4%	9.2%
Other	166	0.7%	159	0.6%	-4.1%
Bonds	3,491	14.9%	3,905	15.5%	11.8%
<b>Collections from the public</b>	<b>23,451</b>		<b>25,246</b>		<b>7.7%</b>

The ratio of net portfolio over deposits reached 89.5%<sup>1</sup> versus 84.9% in the first semester 2011.

#### Structure of Equity

In June 2012, the Bank's equity was COP 5.1 trillion, COP 1.3 trillion more than in June 2011. This is due mainly to the capitalization through the second issuing of preferential stocks held in November 2011 for COP 716 billion, and to the internal production of benefits accumulated that reached COP 593 billion in 2011.

<sup>1</sup> Calculated as net portfolio / deposits + money on demand + bonds + credit with other entities.

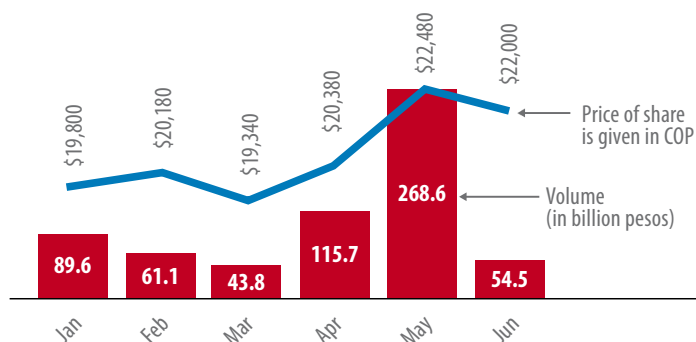


The technical equity was situated at COP 5.2 trillion while the weighted assets due to risk had reached COP 30.6 trillion by June 2012. Taking into account a market risk equal to COP 175 billion, these figures indicate the Bank's 16.1% solvency relation<sup>2</sup> versus a regulatory 9%.

Davivienda has 443,866,625 stocks, 22.7% of these correspond to preferential stocks that are in the local market. 31.8% of the latter belong to local pension funds, 20.3% to foreign investors, 18.6% correspond to companies, 18.5% to individuals and the remaining 10.8% to common stock holders.

During this semester, the monthly average traded volume of the stock was COP 106 billion versus COP 95 billion during the same period in 2011. This is mainly due to the Bank's second issuing which complemented the first one, thus allowing more investors to buy the stock. As a result, the BVC recognized the Bank with the award to the "recurrent issuer of stocks of the financial sector 2011."

#### DAVIVIENDA'S PREFERENTIAL SHARE BEHAVIOR IN 2012



Finally, the number of meetings held with investors has increased by nearly 30% with respect to previous years. We have met with 120 investors throughout the semester compared to the 95 ones with whom we met during the first semester 2011.

<sup>2</sup> Technical equity over weighted assets by level of risk plus 100/9 for the value of the risk.

**Davivienda's  
solvency rate up to  
June 2012: 16.1%.**

**Davivienda's net financial margin closed the semester with a 25% growth when compared to the first semester of the previous year.**

## Results

The accumulated results up to June 2012 reached COP 368 billion. These represent an increase of 22.6% versus the June 2011 accumulated results which had reached COP 300 billion.

### DAVIVIENDA - JUNE 2012 RESULTS

(Figures are given in million pesos)

	Jun 2011	Jun 2012	Growth	
			Value	Variation
Portfolio income	1,308,093	1,635,426	327,333	25.0%
Income investments*	106,420	165,404	58,983	55.4%
Financial expenses	377,653	581,793	204,140	54.1%
Provisions	292,657	372,424	79,767	27.3%
<b>Net financial margin</b>	<b>678,600</b>	<b>850,486</b>	<b>171,885</b>	<b>25.3%</b>
Operational incomes	388,998	415,394	26,396	6.8%
Operational expenditure	806,134	820,497	14,363	1.8%
<b>Operational Profit</b>	<b>358,546</b>	<b>512,159</b>	<b>153,613</b>	<b>42.8%</b>
Net non operational	2,504	-40,566	-43,071	-1,719.9%
<b>Profit before taxes</b>	<b>361,051</b>	<b>471,593</b>	<b>110,542</b>	<b>30.6%</b>
Taxes and other	60,900	103,475	42,575	69.9%
<b>Profit</b>	<b>300,150</b>	<b>368,117</b>	<b>67,967</b>	<b>22.6%</b>

\* Investments include derivative results from the profit on sale and purchase of securities and foreign currencies.

The net financial margin, at the end 2012 first semester, registered a 25% growth when compared to 2011 first semester; this thanks to the good performance of the financial income which grew by 25% in portfolio and by 55% in investments over the same period of time. This growth was greatly due to an increase in the commercial portfolio and in the segment of credit cards of the consumption portfolio: 42.1% and 40.2% respectively. The above is a consequence of an increase in the balances of the commercial portfolio, and to an increase in the interest rates where the usury rate increased by 424 basic points, going from 26.54% in June 2011 to a 30.78% in June 2012; the intervention rate from the Central Bank closed at 5.25% in June 2012.



Financial expenses are reflected by the growth in the balances of the savings accounts which generated a 54% increase in financial costs when compared to the first semester 2011, with growths of 131% in savings accounts and of 66% of credits with other entities. This can also be explained by an increase in interest rates.

Finally, the operational margin increased by 43% given that the operational income increased by 7% while the operational expenditure increased only by 2%. The accumulated net profit in June 2012 is COP 368 billion, partly due to an increase in taxes of COP 40 billion which correspond to 70% of this accumulated net profit.

**Up to June 2012, the  
Bank's accumulated  
net profit was  
COP 368 billion.**





**Bancafé Panamá**  
**Confinanciera**  
**Fiduciaria Davivienda**  
**Fiduciaria Fiducaf **  
**Davivalores**

## Performance of subsidiaries

### Bancafé Panamá

By the end of June 2012, Bancafé Panamá had reached US\$854 million in total assets; this represents a 36% growth with respect to the previous year. It is worth noticing a substantial increase in the following assets:

- ▶ Liquid assets which went from US\$98 million to US\$126 million, a 29% growth.
- ▶ The investment portfolio went from US\$217 million to US\$225 million, a 4% growth.
- ▶ The loan portfolio went from US\$302 million to US\$488 million, a 62% growth.

This growth is the result of the Bank's business strategy which is concentrated on serving credit to the corporative and commercial segment in Colon's Free Zone, as well as to companies in Colombia and Panama.

Its principal funding source is clients' deposits from Davivienda in Colombia, mostly by deposits made by the clients; of these, term deposits stand out and represent 22% of liabilities.

(Figures are given in million dollars)

	Jun 2011	Jun 2012	Value	%
Assets	631.7	857.3	225.6	35.7%
Liability	543.1	755.6	212.5	39.1%
Equity	88.6	101.7	13.1	14.7%
Profit	5.3	8.2	2.9	54.7%

### Confinanciera

On June 30<sup>th</sup> 2012, the value of the assets of Confinanciera amounted to COP 523 billion; this figure represents a growth close to COP 100 billion or of a 22% growth with respect to the same period the year before. Likewise, the liabilities close at COP 440 billion, a variation of 23% with respect to June 2011. The equity increases by 16% versus the first semester of 2011 and



closes at COP 83 billion. The above, generated a profit that by June 2012 had amounted to COP 12 billion.

(Figures are given in billion pesos)

	Jun 2011	Jun 2012	Value	%
Assets	429.6	522.8	93.2	21.7%
Liability	357.9	439.7	81.8	22.9%
Equity	71.7	83.1	11.4	15.9%
Profit	14.9	11.7	-3.2	-21.5%

## Fiduciary Davivienda

On June 30<sup>th</sup> 2012, the value of the assets managed by Fidudavivienda amounted to COP 3.8 trillion. Real estate trusts had a 37.0% participation followed by Superior collective portfolios with a balance of COP 874 billion, Consolidar with a balance of COP 241 billion and Davip-lus with COP 63 billion; together they represent 31.1% of the assets while the Voluntary Pension Fund: Dafuturo with a balance of COP 759 billion represents 20.1%, and finally, management businesses participate with 11.8%. This results in an increase of 10% when compared to the first semester 2011.

The assets amounted to COP 57 billion with a moderate growth of almost 2% while that of the equity closed at COP 51 billion, COP 3 billion more than in June 2011, an equivalence of 6%.

The income of the company amounts to COP 15.7 billion. This income was inferior by 1.3% to that obtained in the first semester 2011 while the net profit result was COP 7.6 billion.

(Figures are given in billion pesos)

	Jun 2011	Jun 2012	Value	%
Assets	56.1	57.2	1.1	2.0%
Liability	8.2	6.4	-1.8	-22.0%
Equity	47.9	50.8	2.9	6.0%
Managed asset	3,525	3,783	257.9	7.3%
Profit	8.2	7.6	0.6	-7.3%



## Fiduciary Fiducafé

On June 30<sup>th</sup> 2012, the value of the assets managed by Fiducafé amounted to COP 6.5 trillion. The trusteeships that negotiated pension resources (consortia included) had 53.0% participation, followed by administration and payments with 25.3% and trusts in warranty with 14.7%. The collective portfolios of Rentacafé with a balance of COP 281 billion and Rentalíquida with COP 172.5 billion had a 7.0% participation.

At the end 2012 first semester, the income received from fiduciary fees amounted to COP 11.6 billion, 2% less than those received during the same period the year before.

The greatest contribution corresponded to the structured trust business whose commissions decreased by 16.4%. Nevertheless, one has to consider that within the income referred to in the first semester 2011, the income from the consortium Fidufosyga was included. This income, which was considered 100% reserves, had zero effect on the results. Within this category, the business in consortium had, once again, the greatest participation with income for COP 4.4 billion, 30.6% inferior to that of the first semester 2011, nevertheless, the net of the consortia presents a 47.6% growth given the Fosyga effect previously described.

In relation to the Rentacafé and Rentalíquida collective portfolios, their commissions went from COP 2.1 billion to COP 3.4 billion, a substantial increase of 66.8%. The non-operational income amounted to COP 984.8 million; that is 274% superior to that of the first semester the year before, mainly due to the reimbursement of provisions from the consortium: Fisalud.

When we add the business commissions to the portfolio net income, and then we add this to the other operational and non-





operational income, the total income of the company amounts to COP 15 billion. This income is 7.5% superior to that of 2011 first semester.

Once COP 8.2 billion in operational expenses (which is 12.9% less than those of 2011) have been deducted, and once the extraordinary and the non-operational expenses for COP 103 billion have also been deducted, and the 31.6% effective tax burden has been applied, the net profit for the first semester 2012 was COP 4,693 million.

(Figures are given in billion pesos)

	Jun 2011	Jun 2012	Value	%
Assets	79.1	81.2	2.1	2.7%
Liability	12.2	10.2	-2.0	-16.4%
Equity	66.9	71.0	4.1	6.1%
Managed asset	6,790	6,498	-262.3	-3.9%
Profit	2.6	4.7	2.1	80.8%

## Davivalores

On June 30<sup>th</sup> 2012, the value of the assets of Davivalores amounted to COP 16.5 billion and represented a growth of close to COP 6 billion or an increase of 53% when compared to the same period last year. Meanwhile, liabilities reached COP 1.5 billion, a variation of 73% with respect to June 2011. The equity increased by 51% versus the same period the year before and closed at COP 15 billion; all this produced a profit that by June 2012 had reached COP 3 billion. Finally, the assets managed by this stock broker increased by 100% when compared to the previous year, closing at COP 2.5 trillion.

(Figures are given in billion pesos)

	Jun 2011	Jun 2012	Value	%
Assets	10.8	16.5	5.7	52.7%
Liability	0.9	1.5	0.6	66.7%
Equity	10.0	15.1	5.1	50.9%
Managed asset	1,233	2,467	1,234	100,0%
Profit	-0.6	2.7	3.3	546.0%



## Risk analysis

The administration and management of risk in Davivienda's Bank follow the Grupo Bolívar's guidelines which are agreed upon through a strategy of synergy between the companies. This type of strategy makes possible the optimization of academic and technological resources in order to develop tools to measure, analyze and control the risks assumed. Detailed instructions for each one of them are included in Note # 32 of the Financial Statements.

### Credit Risk Management System

(Sarc, for their first letters in Spanish)



The Bank has continued with the process of strengthening the model for the management of credit risk aimed at controlling and administering all the steps in the cycle: origination, follow-up, collection and warranty management. Changes have been made in relation to the quantification of provisions during the semester; they can be found in Note # 32 of the Financial Statements. Davivienda's credit portfolio provisions increased to COP 1.23 trillion at the end of June 2012; this represents a 35% increase with respect to the provisions at the end 2011. The coverage of the unproductive portfolio graded as C, D and E is 131%.

### Market Risk (Sarm, for their first letters in Spanish)

The Bank's Treasury Department carries out its functions in agreement with the definitions, guidelines and strategies given by the Board of Directors, the Liabilities and Asset Management Committee and the Committee for Investment and Financial Risks. The control and monitoring of value creation in the different lines of the business and / or portfolios is an exercise carried out by the Vice-presidency of Investment Risks, as well as the function of identifying, measuring, controlling and monitoring the market risks. On June 30<sup>th</sup> 2012, the value of regulatory risk (VeR), calculated by applying the Colombian Financial Superintendence methodology was COP 175 billion. The summary of the internal model used to calculate the value at risk is found in Note # 32 of the Financial Statements, as well as the main results of the standard methodology.



## **Liquidity Risk** (Sarl, for their first letters in Spanish)

The liquidity risk management is carried out in agreement with the definitions, guidelines and strategies given by the Board of Directors, the Liabilities and Asset Management Committee and the guidelines established by the Colombian Financial Superintendence that establishes the rules pertaining the Administration System for Liquidity Risks, and which defines the Liquidity Risk Indicator (IRL). On June 30th 2012, this IRL was positive in COP 4.72 trillion in the first band, and in COP 3.83 trillion in the third band; this reflects the prudent management of the Bank. The guidelines for the Administration System for Liquidity Risks (Sarl) are explained in Note # 32 of the Financial Statements.

## **Operational Risk Administration System**

(Saro, for their first letters in Spanish)

The Operational Risk administration system used by the Bank and by its subsidiaries continues in an optimization process, especially through the monitoring system of the following elements that support the mitigation of risks:

- ▶ **Follow-up to control effectiveness:** Make sure that the Bank has the necessary controls, and that these are appropriate for an effective mitigation of risks, and if necessary, develop action plans that allow it to react to changes in the environment.
- ▶ **Generate indicators:** The Bank has defined and established indicators that allow it to follow-up the tendencies and behavior in the materialization of risks and in the causes that originate them, so that effective actions to mitigate them can be taken.
- ▶ **Follow-up of the Operational Risk Profile:** Following the policies established by the Bank's Board of Directors, the operational risks are controlled, so that they are within the tolerance levels that have been fixed.

**Davivienda has been known for its prudent management of the administration and risk management, which has contributed to its strength and sustained growth.**

**The head officers or leaders of each process of the Bank's subsidiaries carry out the continuous supervision of the risk and controls under their charge.**

The management of operational risk has been consolidated as part of the organizational culture, and it has become a tool that enables the owners of the processes to administer adequately the system and to improve the efficiency of the areas in order to achieve the corporate objectives, following the dispositions included in the External Circular Letter 041 of 2007 issued by the Colombian Financial Superintendence.

### **Internal Control System**

(SCI, for their first letters in Spanish)

As part of process to verify the quality of the performance of internal controls, the bosses or leaders of each process of the Bank or of its subsidiaries develop a continuous supervision of the risks and controls for which they are responsible. This makes possible the identification of weaknesses in the early stages, so that the people in charge can establish the necessary improvement actions according to the environment, a situation that evidences the strengthening of the internal control system.

In this way, the control culture becomes stronger, due to the continuous development of action plans that guarantee an adequate and effective environment of control, risk management, communication channels, monitoring systems, and accounting and technological management support through the self-control, self-regulatory and self-management principles. The above, in agreement with what has been established in the External Circular Letter 038 of 2009 issued by the Colombian Financial Superintendence.

### **Attention System for the Financial Consumer**

(SAC, for their first letters in Spanish)

As part of their principles, The Bank and its subsidiaries have been developing different strategies that have allowed them to consolidate an Attention System for the Financial Consumer, and at the same time, comply with what is established in the Law 1328 of 2009 and in the External Circular Letter 015 of 2010 issued by the Colombian Financial Superintendence, especially in the following aspects:

- **Due diligence.** Fulfillment of high standards of attention with quality, well-timed and amiability.



- **Financial education.** Development of different educational elements, and trade union integration through the Banking Association that would allow the financial consumer to acquire the skills in order to achieve an adequate management of the financial products and services.
- **Disclosure of information.** The Bank has developed and implemented a web page where it has integrated all the information pertaining to each one of its products and services, so that the financial consumer has access to all the necessary elements required to make decisions.
- **Handling complaints.** The mechanisms to handle the complaints presented by the financial consumers are becoming stronger. These mechanisms are aimed at ensuring the quality and the well-timed answer of the complaints. Likewise, they also develop action plans so that such complaints are not repeated.



### **Administration System for the Asset Laundry and the Financing of Terrorism Risk** (Sarlaft, for their first letters in Spanish)

The Bank has adopted and implemented an Administration System for the Asset Laundry and the Financing of Terrorism Risk Sarlaft based on the premise of risk administration which includes knowledge of the client and of his operations in the entity, the definition of market segments, of clients, of products, of distribution channels and jurisdictions, monitoring of transactions and reports of the operations to the authorities in charge to avoid being used in order to give a semblance of legality to assets originated in illicit activities and / or to finance terrorist activities, in accordance to what has been stated in the External Circular Letter 026 of June 2008 issued by the Colombian Financial Superintendence.

The Sarlafat is supported in an organizational culture, policies, controls and procedures that are known and apply to all the organization; they compile a great part of the Colombian regulatory framework, as well as the recommendations and best international practices that pertain to this subject, and specially those recommended by the International Financial Action Group "Gafi."

The procedures and conduct rules regarding the implementation of all control mechanisms and instruments are integrated in the Sarlafat Manual and in the Conduct Code; they are known by all the employees of the entity and they all have access to them.

The Bank periodically carries out training programs for its employees aimed at creating awareness and commitment in each one of them.

Likewise, the Bank has included the revision of control mechanisms designed and implemented in the Unit of Fulfillment and in all areas of the entity within the processes of Tax Auditing and Internal Auditing.

In order to comply with the norms established, the Board of Directors appointed a Fulfillment Officer and his/her substitute who are duly installed before the Colombian Financial Superintendence.

### **Social and Environmental Risk Administration System** (Saras, for their first letters in Spanish)

During this year's first semester, there have been significant improvements in the implementation of the Social and Environmental Risk Administration System Saras aimed at evaluating the impacts on natural resources, human rights, conservation of biodiversity and climatic change among other aspects that contribute to the sustainable development.

The results obtained in this process allow the Bank to identify social and environmental risks and track the development of mitigation and compensation measures by customers; these results contribute to reducing the impacts on society and on the environment.

Between January and June 2012, the implementation of Saras was extended to clients who benefitted from constructing credits and EMS Bancoldex because during 2011, this implementation had been extended only to customers with corporate credits.





## Administrative matters

### Legal situation

Currently, the Bank doesn't have claims against it that could affect its solvency or stability. The most important claims are in relation to Note # 19 of the Financial Statements.

### Administrative situation

In June 2012, the Bank had 10,383 permanent positions, 449 fixed term contracts, 64 in training and 151 in temporal positions for a total of 11,047 staff members.

### Intellectual property and copyright

Davivienda has established internal awareness programs for its staff, so that through self-regulation, the norms which apply to intellectual property and copyright are enforced. Additionally, these programs are reinforced by regular visits from auditors to the different areas of the Bank with the purpose of evaluating this aspect among others.

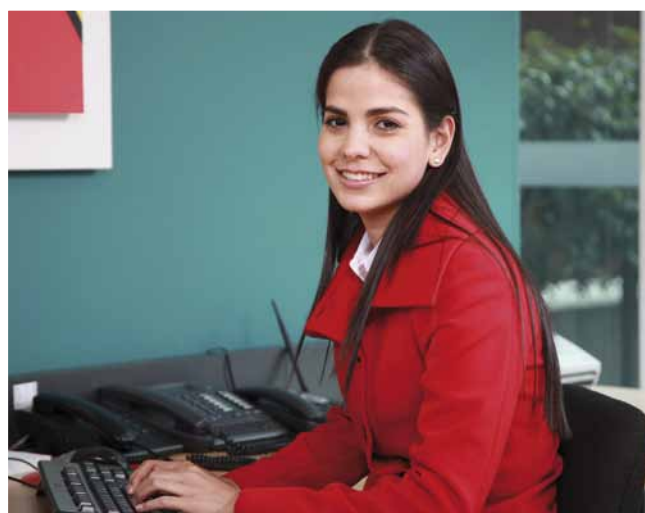
### Transactions with partners and administrative staff

The transactions carried out by Davivienda with its partners and administrative staff members follow the Bank's general policies. These transactions are detailed in Note # 31 of the Financial Statements.

The credits and deposits with parties connected to the Bank (stockholders, members of the board, legal representatives and others) amount to COP 258,278 million and COP 216,066 million, respectively. For attending the meetings of the Board of Directors, COP 239 million were paid in fees and commissions to members and advisors.

### Extent of relationships within the corporate group

Traditionally, Davivienda Bank has maintained business relations with companies from the same group with the purpose of achieving



**By June 2012,  
Davivienda had 11  
thousand associates.**

more joint efficiency through the specialization of each company in those tasks in which they represent competitive advantages.

Following, there is a summary of the principal transactions with parties connected to the Bank up to June 30<sup>th</sup> 2012. Details are found in Note # 31 of the Financial Statements.

(Figures are given in million pesos)

Assets	632,413
Liability	537,177
Revenues	159,914
Expenditure	60,192

There were no important transactions completed during the exercise that ended on December 31<sup>st</sup> 2011 between the Bank and other entities due to influence or interest from the Sociedades Bolívar S.A, nor from Sociedades Bolívar S.A. and other entities which would benefit Davivienda.

### **Payments to directors of the Society**

Expenditure to directors amounts	COP 4,312 million
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### **Payments to advisors or to related business representatives**

The expenditure to advisors or to business representatives connected to the Bank is as follows:

Board of Director's fees	COP 130 million
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### **Donations**

During the first semester 2012, the Bank donated	COP 4,429 million
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### **Expenditure on advertising and on public relations**

Advertising expenditure amounts	COP 29.9 billion
Public relations	COP 407 million



## Goods abroad

Money and other goods the society has abroad amount	COP 635 billion
Public relations	COP 2.2 trillion

## National and / or international investment

The detailed information of the investments and equity securities are found in Note 5.9 of the Financial Statements. They amount to COP 309.7 billion, as follows:

National investment	COP 257.4 billion
Investment abroad	COP 52.3 billion

## Important developments after the completion of the exercise

- Last June 9<sup>th</sup>, the bank successfully debuted in the international market with its first issuing of subordinate bonds for US\$500 million. They were placed exclusively abroad with the cooperation of JP Morgan and Credit Suisse.

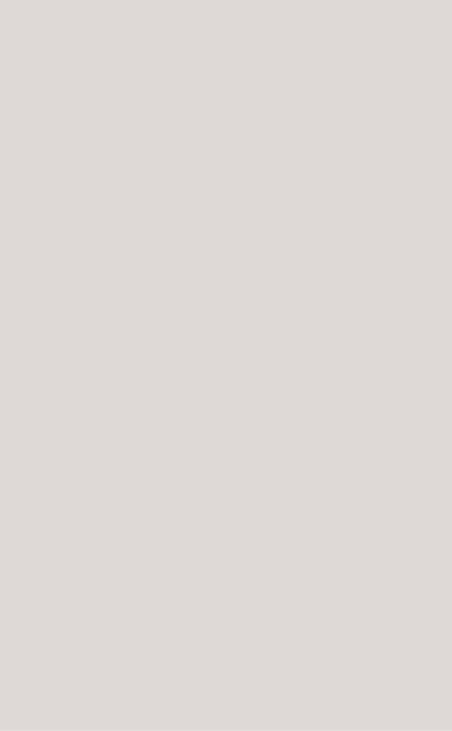
The offer has a 10 year maturity, a fixed rate of 5.95% and a coupon of 5 7/8. Demand reached US\$3 billion from a total of 192 institutional, local and international investors. The resources are destined to consolidate the Banks' growth and strengthen its capital.

This successful placing was achieved after an intense Road Show in which the Bank was supported by JP Morgan and Credit Suisse in the cities of London, Boston, New York, Santiago de Chile, Lima, Los Angeles, Bogotá and Medellín.

- On July 31<sup>st</sup> 2012 the fusion by absorption of Confinanciera by Davivienda was formalized.

**Davivienda debuted in the international market issuing US\$500 million in subordinated bonds.**





## Foreseeable evolution of Banco Davivienda

During the second semester 2012, Davivienda's Bank expects to receive the authorizations from the different regulatory entities from each one of the countries in order to conclude the acquisition process of HSBC in Central America in El Salvador, Honduras and Costa Rica.

Locally, the Bank will continue to focus in strengthening its economic strategies, especially in corporate banking with great infrastructure projects, agricultural banking, international trade and EMS where the Bank expects to continue growing with the same dynamism of prior years. At the same time, it will continue boosting the equity construction of Colombian people by financing social interest housing programs (VIS, houses for the poor) and residential leasing.

Finally, during next semester, another issuing of bonds is expected to take place locally within the approved debt program for COP 3 trillion; of these COP 3 trillion, COP 2 trillion have already been issued with an unprecedented success as demand has averaged 2.4 the value offered.

## Certification and responsibility of the financial information

We certify that the Financial Statements for the period between January 1<sup>st</sup> and June 30<sup>th</sup> 2012 do not contain any vices, inaccuracies or errors that prevent knowing the true financial condition or operations of the Bank, according to the provisions of article 46 of Law 964 of 2005.

In accordance with the provisions of article 67, Decree 2649 of 1993, the information and statements incorporated in the Financial Statements have been duly verified and have been obtained from the accounting registers of the company, and they were processed according to the accounting norms and principles established in Colombia.

Davivienda has proper systems for disclosing and controlling financial information. Procedures have been established to assure that the financial information is presented in the right form, and that its effectiveness is verified by the General Auditor and by the Financial Director.

In addition, we inform that there are no relevant deficiencies in the design and operation of the internal controls that would prevent the Bank from properly registering, processing, summarizing



or presenting its financial information. These controls also avoid fraud that would affect the quality of the financial information or changes in its evaluation methods.

In the Financial Statements, all assets and liabilities have been registered at the cut date, and they represent probable future rights and obligations respectively. Also, all the transactions of the period have been registered, and all the economic facts have been recognized and correctly classified, described and revealed. All the elements have been recognized at the proper value in accordance with article 57 Decree 2649 of 1993.

The statements contained in the financial information have been previously verified in accordance to the regulations, and they have been faithfully taken from the books in accordance with the provisions of article 37, Law 222 of 1995. They follow the proper procedures for controlling and disclosing financial information, and their effectiveness verified in accordance with the provisions of article 46 Law 964 of 2005.

We thank the commitment of all our staff and the support of our shareholders without which these results would not have been possible.

**Carlos Arango Uribe**  
PRESIDENT BOARD OF DIRECTORS

**Efraín E. Forero Fonseca**  
PRESIDENT



This current report was made available to the share holders  
in the Secretary General of Davivienda's Bank,  
within the terms set by the law.

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Bogota, September 2012

[www.davivienda.com](http://www.davivienda.com)



## Erratum

On pages 15 and 25, the expression:

"**Quality** of unproductive portfolio by height of arrears (Housing > 60 days)"

Must say:

"**Quality** of unproductive portfolio by height of arrears (Housing > 120 days)"

On page 28, the chart corresponding to

### DAVIVIENDA - JUNE 2012 RESULTS

Must say:

### DAVIVIENDA - JUNE 2012 RESULTS

(Figures are given in million pesos)

	Jun 2011	Jun 2012	Growth	
			Value	Variation
Income from loans and investments	1,417,202	1,804,691	387,489	27.3%
Financial expenses	377,653	581,793	204,140	54.1%
<b>Financial margin</b>	<b>1,039,549</b>	<b>1,222,898</b>	<b>183,349</b>	<b>17.6%</b>
Provisions	292,657	372,414	79,757	27.3%
<b>Net financial margin</b>	<b>746,892</b>	<b>850,484</b>	<b>103,592</b>	<b>13.9%</b>
Operational incomes	388,998	415,394	26,396	6.8%
Operational expenditure	806,134	820,497	14,363	1.8%
Other income and expenses, net	28,790	66,777	37,987	131.9%
<b>Operational Profit</b>	<b>358,546</b>	<b>512,158</b>	<b>153,612</b>	<b>42.8%</b>
Net non operational	2,504	-40,566	-43,070	-1,720.0%
<b>Profit before taxes</b>	<b>361,050</b>	<b>471,592</b>	<b>110,542</b>	<b>30.6%</b>
Taxes and other	60,900	103,475	42,575	69.9%
<b>Profit</b>	<b>300,150</b>	<b>368,117</b>	<b>67,967</b>	<b>22.6%</b>

On page 41, the expression:

"Public relations COP 2.2 trillion"

Must say:

"Obligations on foreign currency COP 2.2 trillion"