Banco Davivienda S.A.

Separate financial statements at December 31, 2017 with corresponding figures at December 31, 2016

Content

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

To the Shareholders
Banco Davivienda S.A..:

Report on the separate financial statements

I have audited the separate financial statements of Banco Davivienda S.A, which comprise the separate statement of financial position at December 31, 2017 and the separate 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 separate financial statements

Management is responsible for the fair preparation and presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement in the separate financial statements. In making this risk assessment, the statutory auditor considers internal control relevant to the preparation and presentation of the separate 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 separate financial statements.

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

Opinion

In my opinion, the above mentioned separate financial statements, taken accurately from books and attached to this report, present fairly, in all material respects, the separate financial position of Banco Davivienda S.A. at December 31, 2017, the separate results of its operations, and its separate 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 separate financial statements at and for the year ending December 31, 2016 are submitted only for comparison purposes, were audited by me and in my report, dated February 17, 2017, I expressed an unqualified opinion thereon.

Report about other legal and regulatory requirements

1. Based on the results of my tests, I believe during 2017:

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 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 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 whether the Bank'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, preservation and custody of the Bank's assets or third parties assets in its possession, I issued a separate report dated February 8, 2018.

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.

Rafael Rodríguez Martín
Statutory Auditor of Banco Davivienda S.A.
Registration 214605 - T
Member of KPMG S.A.S.

February 8, 2018

CERTIFICATION OF SEPARATE FINANCIAL STATEMENTS

RESPONSIBILITY FOR FINANCIAL INFORMATION

We, the undersigned Legal Representative and 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, 2017, do not contain any defects, inaccuracies or errors that prevent the Company from knowing the true financial situation 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 standard mentioned.

Banco Davivienda 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 affect the quality of financial information or changes in its evaluation methodology.

The Financial Statements record all the assets and liabilities existing at the closing date, and they represent probable future rights and obligations, respectively. All 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, taking into account the aspects referred to in the 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 05, 2018

Banco Davivienda S.A.
Separate Statements of Financial Position
As of December 31, 2017 with corresponding figures at December 31, 2016
(Millions of Colombian pesos - (COP))

	Note	December 31,2017	December 31,2016
ASSETS			
Cash	12.1	4,081,986	4,933,356
Interbank and overnight funds	12.2	1,337,235	152,866
Investments in financial instruments, net	12.3	6,175,692	4,743,671
Derivatives	12.4	335,412	238,506
Loans and financial leasing operations, net	12.5	58,380,096	54,292,599
Accounts receivable, net	12.6	1,455,007	1,711,033
Assets held for sale, net	12.7	86,324	72,804
Investments measured at amortized cost, net	12.3	1,392,427	1,369,644
Investments in subsidiaries and associates	12.3.7	3,404,886	3,216,541
Property and equipment, net	12.8	450,783	538,408
Investment property, net	12.9	33,865	45,885
Goodwill	12.11	1,080,775	1,080,775
Intangibles	12.12	105,250	77,357
Other non-financial assets, net	12.13	172,143	233,520
Total assets		**78,491,881**	**72,706,965**
LIABILITIES			
Deposits and demand accounts	12.14	48,638,542	45,600,939
Savings accounts		20,186,530	21,990,834
Checking accounts		5,699,239	4,680,765
Time deposits		21,893,816	18,210,104
Other demand accounts		858,957	719,236
Interbank and overnight funds	12.15	1,036,602	1,785,322
Derivatives	12.4	354,549	246,170
Credits from banks and other obligations	12.16	5,663,504	5,292,891
Debt isntruments issued	12.17	11,179,368	9,063,260
Accounts payable	12.18	1,181,227	989,103
Deferred tax, net	13.7	497,087	613,603
Other non-financial liabilities and accruals	12.19	396,286	256,205
Total liabilities		**68,947,165**	**63,847,493**
EQUITY			
Capital and reserves (1)	12.20	7,709,912	6,385,568
Unrealized profit and loss (OCI)		202,418	174,713
First-time adoption of IFRS		435,116	507,026
Accumulated gains from previous exercises		88,803	253,479
Net income		1,108,467	1,538,686
Total equity		**9,544,716**	**8,859,472**
TOTAL LIABILITIES AND EQUITY		**78,491,881**	**72,706,965**

(1) Includes share premium

See the notes accompanying the Separate Financial Statements.

Banco Davivienda S.A.
Separate Statements of Income
For the year ended in December 31, 2017 with figures corresponding to the year ended on December 31, 2016
(Millions of Colombian pesos - (COP))

	Note	2017	2016
Interest income		7,561,906	7,070,485
Loans portfolio		7,076,025	6,460,356
Investments and valuation, net	13.1	424,469	565,640
Interbank and overnight funds		61,412	44,489
Interest expense		3,225,126	3,147,079
Deposits and demand accounts		2,202,114	2,120,091
Checking accounts		29,290	41,276
Savings deposits		747,277	818,506
Time deposits		1,425,547	1,260,309
Credits from banks and other obligations		218,111	202,018
Debt instruments issued		687,538	723,611
Other interest		117,363	101,359
Gross financial margin		**4,336,780**	**3,923,406**
Provisions for financial instruments, net		1,777,147	1,471,189
Provisons for financial assets		3,015,470	2,600,995
Recoveries of financial assets		1,238,323	1,129,806
Net financial margin		**2,559,633**	**2,452,217**
Income from commissions and services, net	13.2	779,737	742,013
Result of equities	13.3	262,305	325,245
Dividends		22,188	25,524
Operational expenditures		2,377,047	2,117,462
Staff expenditures	13.4	988,021	924,906
Operative	13.5	1,330,258	1,141,258
Amortizations and depreciation	13.5	58,768	51,298
Exchange difference, net		67,451	(73,479)
Derivatives, net		385	206,061
Other income and other expenses, net	13.6	65,640	274,095
Operating margin		**1,380,292**	**1,834,214**
Current income tax and supplementary	13.7	307,463	420,788
Deferred income tax and supplementary	13.7	(35,638)	(125,260)
Net income		**1,108,467**	**1,538,686**
Profit per share for the period (pesos)(1)		2,454	3,407

(1) Calculated as Profit for the period / Weighted number of shares outstanding

See the notes accompanying the Separate Financial Statements.

Banco Davivienda S.A.

Separate Statements of Other Comprehensive Income

For the year ended in December 31, 2017 with figures corresponding to the year ended on December 31, 2016

(Millions of Colombian pesos - (COP))

	2017	2016
Profit for the period	1,108,467	1,538,686
Components of OCI that will not be reclassified to Result for the period, net of tax		
Long-term employee benefits	27,163	(31,078)
Total OCI that willnot be reclassified to Results for the period, net of tax	**27,163**	**(31,078)**
Components of OCI that will be reclassified to Results for the Period, net of tax		
Unrealized profit on fixed-yield securities	16,012	4,567
Investments in Subsidiaries and other non-controlling investments	14,644	25,431
Exchange difference on conversion of subsidiaries outside Colombia	(39,540)	(162,035)
Hedge of a net investment in foreign operations	9,426	68,948
Total OCI to be reclassified to Results for the period, net of tax	**542**	**(63,089)**
Total Other Comprehensive Income, net of tax	27,705	(94,167)
Total Comprehensive Income	**1,136,172**	**1,444,519**

See the notes accompanying the Separate Financial Statements.

Banco Davivienda S.A.

Separate Statements of Changes in Equity

For the year ended in December 31, 2017 with figures corresponding to the year ended on December 31, 2016

(Millions of Colombian pesos - (COP))

	CAPITAL AND RESERVES					ACUMULATIVE RESULTS			
	Capital	Share premium	Mandatory reserve	Voluntary reserves	First time adoption of IFRS	Unrealized gain (OCI)	Profits previous years	Profit for the period	Total equity
Balance at December 31, 2015	71,074	4,133,667	652,469	563,883	734,409	268,880	79,871	1,214,263	7,718,516
Wealth tax (1)				(54,704)					(54,704)
Dividend distribution									-
Cash dividends declared at $864 per share on 451.670.413 paid share. Mar.29 and Sep.21, 2016.								(390,243)	(390,243)
Dividends paid in shares at $940 pesos per share. April 20, 2016 (2)	4,517	420,053		(424,570)					-
Movement of reserves									-
Mandatory reserve			324,020					(324,020)	-
Voluntary reserve for future capitalization or to increase mandatory reserve				475,000				(475,000)	-
Voluntary reserve to increase mandatory reserve				25,000				(25,000)	-
Release of voluntary reserve for valuation of investment at market prices - Decree 2336/95, to increase mandatory reserve			4,476	(4,476)					-
Dispose of previous years (2015) profits to increase mandatory reserve			70,215				(70,215)		-
Merger of equity of Leasing Bolivar	1,193	123,084		667	14,100		974		140,018
Other comprehensive Income, net of income tax									
First time application of IFRS					(241,483)		242,849		1,366
Investments in Subsidiaries and other non-controlling investments						25,431			25,431
Exchange difference on controlled investments and hedge of a net investment in foreign operations, net of deferred tax						(93,087)			(93,087)
Unrealized profit on fixed-yield securities						4,567			4,567
Long term employee benefits						(31,078)			(31,078)
Results for the period								1,538,686	1,538,686
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)
Dividend distribution									-
Cash dividends declared at $950 per share on 451.670.413 paid shares. Apr.5 and Sep.21, 2017								(429,087)	(429,087)
Movement of reserves:									-
Mandatory reserves			645,948					(645,948)	-
Voluntary reserve for future capitalization or to increase mandatory reserve				192,896				(192,896)	-
Voluntary reserve				270,755				(270,755)	-
Capitalization of reserve with commitment of 2015 profits			475,000	(475,000)					-
Release of reserve for valuation of investments at market prices - Decree 2336/95, to increase mandatory reserve			10,802	(10,802)					-
Disponse of previous years (2016) profits to increase mandatory reserve			236,586				(236,586)		-
Other comperehensive Income, net of income tax									
First time application of IFRS (*)					(71,910)		71,910		-
Investments in subsidiaries and other non-controlling investments						14,644			14,644
Exchange difference on controlled investments and hedge of a net investment in foreign operations, net of deferred tax						(30,114)			(30,114)
Unrealized gain on fixed-yield securities						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

(1) An Extraordinary General Meeting of January 30, 2015 authorized the wealth tax to be charged to equity reserves, as permitted by Law 1739 /2014, for 2015, 2016 and 2017.

(2) Par value is increased by $10 leaving $170 per share, and the difference of $930 represents the share premium.

(*) Correspondes to dividends received on previous profits before the first-time introduction of IFRS for $15.291 and the proceeds of mobilization of assets for $56.619.

See the notes accompanying the Separate Financial Statements.

Banco Davivienda S.A.
Separate Statements of Cash Flow
For the year ended in December 31, 2017 with figures corresponding to the year ended on December 31, 2016
(Millions of Colombian pesos - (COP))

	Note	December 31,2017	December 31,2016
Cash flows from operating activities			
Profit for the period		1,108,467	1,538,686
Conciliation of profit for the period and net cash used in operating activities			
Recovery of investments in financial instruments, net	12.3.6	(839)	(203)
Provision for loans and financial leasing operations	12.5.15	1,857,650	1,548,308
Provision for accounts receivable, net	12.6	80,354	84,685
Provision for assets held for sale, net	12.7.4	27,787	21,959
Provision (recovery) for property and equipment and investment property, net	12.8.3/12.9.2	293	(884)
Provision for other assets, net	12.13	25,679	(2,306)
Provision for severance		45,508	3,931
Provision for accruals, net	12.19	71,019	8,680
Depreciation	13.5	45,304	39,223
Amortizations	13.5	13,464	12,075
Exchange difference		(67,451)	(393,952)
Profit on sale of loans, net	12.5.11	(14,411)	-
Profit from the equity method, net	13.3	(258,162)	(270,755)
Valuation of investments, net		(424,946)	(543,244)
Profit (Loss) on trading investments, net		483	(23,204)
Profit on investments available for sale, net		(6)	(53,684)
Profit on sale of investments held to maturity, net		(4,143)	-
Valuation of derivatives and spot operations, net		(385)	(206,061)
Loss (Profit) on sale of asset held for sale, net	12.7.3	1,379	(225)
Profit on sale of Property and Equipment and investment properties, net	12.8.1	(31,364)	(147,105)
Profit on sale of investment properties	12.9.3	(5,040)	(2,508)
(Profit) loss on sale of other assets		(190)	370
Otrther recoveries on accruals		-	(5,047)
Severance paid		(43,236)	(4,145)
Income tax	13.7	271,825	295,528
Changes in operating assets and liabilities			
Decrease (Increase)in interbank and overnight funds		84,990	(24,504)
Decrease (Increase) in trading investments		56,634	(1,385,898)
Increase in loans and financial leasing operations		(13,792,661)	(15,028,504)
Proceeds of sale of loans	12.5.11/12.5.12	724,121	434,293
Decrease (Increase) in accounts receivable		318,181	(405,997)
Additions to assets held for sale	12.7.2	(90,856)	(78,411)
Proceeds of sale de assets held for sale	12.7	24,598	19,071
Increasein other assets		(30,190)	(181,348)
Proceeds of sale of other assets		12,001	7,467
Increase in deposits and demand accounts		5,474,829	9,000,747
(Decrease) Increase ordinary interbank funds purchased		(172,112)	17,069
Increase (Decrease) in liability derivatives		108,379	(118,280)
Increase in acounts payable		203,538	96,083
(Decrease) Increase in employment obligations		(34,029)	86,426
Increase in accruals and provisions		93,741	107,363
Wealth tax		(21,841)	(54,704)
Income tax paid		(353,526)	(433,627)
Interest paid		(2,909,989)	(1,856,780)
Interest received		7,103,273	6,267,043
Net cash used in operating activities		**(501,878)**	**(1,632,369)**
Cash flows in invedstment activities :			
Cash from merger of Leasing Bolivar		-	62,817
Dividends received		102,408	25,524
(Increase) Decrease in investments available for sale		(1,141,817)	1,769,559
Decrease (Increase) in investments held to maturity		77,168	(62,534)
Increase in equity investments		(48,063)	(41,586)
Decrease in trust rights		-	3,771
(Increase) Decrease in acceptances, spot operations and derivatives		(93,224)	402,505
Decrease in property and equipment		2,033	44
Additions to proeptry and equipment and investment properties	12.8/12.9	(65,109)	(67,301)
Proceeds of sale of protperty and equipment	12.8.1	30,286	117,806
Proceeds of sale of investment properties	12.9.3	6,425	19,784
Decrease in intangible assets		41,007	40,704
Net cash provided (used) in investment activities		**(1,088,884)**	**2,271,094**

Banco Davivienda S.A.
Separate Statements of Cash Flows (continued)
for the year ended on December 31, 2017 with figures corresponding to the year ended on December 31, 2016
(Millions of Colombian pesos - (COP))

Cash flows from financing activities			
Issues of debt instruments	12.17	2,999,843	958,589
Redemptions of debt instruments	12.17	(857,889)	(505,744)
Decrease in debt instruments		(1,065)	-
New loans (financial debt)	12.16	4,166,552	4,104,316
Repayments of borrowings in the period	12.16	(3,873,632)	(3,821,010)
Decrease in financial debt		(10,157)	-
Cash dividends paid		(429,087)	(390,243)
Net cash provided by financing activities		**1,994,564**	**345,908**
Net increase in cah and cash equivalents		403,802	984,633
Effect of the variation in exchange difference on cash		14,187	(146,452)
Cash and cash equivalents at the beginning of the year		5,001,232	4,163,051
Cash and cash equivalents at the end of the year (*)		**5,419,221**	**5,001,232**

(*) Includes cash equivalents at under 90 days in interbank and overnight operations for $1.337.235 at December 31, 2017 and $67.876 at December 31, 2016.

See the notes accompanying the Separate Financial Statements.

1. Reporting Entity

Banco Davivienda S.A. ("the Bank"), is a private entity which has its main domicile in the city of Bogotá D.C. at Avenida El Dorado 68 C-61 and was constituted by notarized deed number 3892 on the 16th of October of 1972, in the Fourteenth Notary Public Office of Bogotá; it has its main domicile in the city of Bogotá D.C. under Resolution 562 of June 10, 1997 which authorizes its operation. The established duration under notarized deed 5145 of October 2003 is valid until October 17, 2053, but can be ended or extended before this term, if any of the grounds set forth in Article 114 of the Organic Statute of the Financial System, as amended by Article 32 of Law 795 of 2003, is filed. Banco Davivienda S.A. form part of Bolivar Group and has as corporate purpose to sign or carry out all the transactions and contracts legally permitted to banking establishments of a commercial character, subject to the requirements and limitations of Colombian law. At December 31, 2017, 6,696,967customers located in Colombia and the Miami International Branch.

As of December 31, 2017, the Bank operated with 12,630 staff through 21 branches and agencies in Colombia and one branch in Miami, U.S.A.; 584 offices in Colombia and one in Miami; and at December 31, 2016 operated 12,629 staff through; 21 branches and agencies in Colombia and one branch abroad, in Miami U.S.A. with 592 offices in Colombia and one in Miami.

2. Significant Facts

At December 31, 2017 the following significant events were recorded in the Bank's operations affecting the Separate Financial Statements.

Bond issues

Three local bond issues were, made, for a total of $1,532,013. In March 29, 2017 there was a subordinated issue for $399,013; on April 25 an ordinary issue solely for sustainable projects for $433,000; and on June 7, an ordinary issue for $700,000.

On October 24, 2017 senior global bonds were placed on the market for US$$500 million ($1,467,830) at 5 years and 7.5% effective. Demand exceeded $3.3 billion.

See Note 12.17 for details of each issue.

Dividends declared

On March 22, 2017 the Annual General Meeting approved payment of a dividend of $950 per share for a total of $429,087, or 27.9% of individual profits: 50% was paid on April 5 and the balance on September 21, 2017.The decisions of the Meeting on distribution of profits are complemented in Note 12.20.

Capitalization of the Bank in Panamá

On July 28, Banco Davivienda S.A., provided US$21 million at Banco Davivienda Internacional (Panamá) S.A., for 21,000 shares at US$1,000 each. On July 31, a further contribution of UD$21 million was made, for future capitalization of the Istmo Group, and this sum was converted to capital on August 23.

Merger Deceval-Bolsa de Valores de Colombia

On December 14, the merger of Deceval and Bolsa de Valores de Colombia (BVC) was completed leaving the Bank with an interest of 6.78% in BVC, equivalent to 1,912,850,000 shares at $25.12 each. The operation represented income of $43,118 net of tax in Profit and Loss, of which $4,142 were reclassified from OCI.

(Millions of Colombian Pesos (COP))

Mobilization of Assets

During December 2017, the Bank sold 74 properties represented in 184 property deeds. The Bank entered into an operating lease agreement in order to improve working capital and to continue operating its offices in the same buildings. The mobilization amounted up to $ 146,095 with net income of $36,516, of which $ 35,736 was profit on the sale and $ 780 for taxes. The transaction represented a release of opening IFRS statement of financial position (ESFA) to retained earnings of $. 55,639 for the realization of valuations: Other Comprehensive Income $ 72,241 and Deferred Tax $(16,602).

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 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 as of December 31, 2015 except for IFRS 15 - Revenues from Contracts with Customers, to come into effect on January 1, 2018. The following items are excepted from NCIF, as provided for in Title 4, Special Regimes- of Chapter 1 of Decree 2420/2015.

Item	Regulation	Exception
Classification and valuation of investment portfolio	Decree 2267 of November 11, 2014 SFC Circular 034/ 2014	Exempts the application of IAS 39 and IFRS 9, in relation to the classification and valuation of investments, defining the application to the terms of 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) 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 r parent company are recognized by the equity method in the separate financial statements.
Treatment of the loan portfolio and its impairment	Decree 1851/ 2013	Excempts the application of IAS 39 and IFRS 9, only in respect of the treatment of the loan portfolio in all its aspects and provisions, it maintains application of Chapter II of the SFC Basic Accounting and Financial Circular of in the individual or separate financial statements
Provision for foreclosed assets	SFC Circular 036/2014	It maintains the provisions of foreclosed or restored assets independently of their accounting classification, in conform with the instructions established in Chapter III of the Basic Accounting and Financial Circular
Wealth Tax	Law 1739 of December, 2014	It allows an annual accrual n of wealth tax and option to recognize it under equity reserves.

Colombian law requires the Bank to prepare consolidated and separate financial statements, which are presented by the Board of Directors to the Annual General Meeting to approve or reject them. The separate financial statements are those that record the investments of the Bank as Parent. The consolidated financial statements are those that present 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.

Law 1819/2016 states that as of 2017, assets, liabilities, equity, revenues, costs and expenses must be recognized and measured in accordance with the technical accounting frameworks in force in Colombia, with some exceptions. Until 2016, tax filings were prepared and presented based on the current tax rules with reference to accounting principles accepted in Colombia until 2014, in accordance with Article 165 of Law 1607/ 2012.

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
Corredores Davivienda S.A.	Colombia
Fiduciaria Davivienda S.A.	Colombia
Cobranzas Sigma S.A.S.	Colombia
Grupo del Istmo Costa Rica S.A.	Costa Rica
Inversiones Financieras Davivienda S.A.	Salvador
Banco Davivienda Panamá S.A.	Panamá
Banco Davivienda Panamá Internacional S.A.	Panamá
Seguros Bolívar Honduras S.A.	Honduras
Banco Davivienda Honduras S.A.	Honduras

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 Income of the Company and its subordinates. Consequently, the separate financial statements should be read jointly with the consolidated financial statements of Banco Davivienda S.A. and its subordinates. For legal effects in Colombia the main financial statements are the separate financial statements.

b. Going concern

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

c. Accrual accounting

The Bank uses accrual accounting to prepare its financial statements, except for cash flow information. It therefore 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.

d. Materiality

The Bank´s management determined the relative importance of the figures to present in consolidated financial statements according to their function or nature. In other words, if a specific item lacks relative importance, it is grouped with other items, since 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 consolidated financial statements from one period to another, unless a review of activities of significant importance to the presentation of the consolidated financial statements is presented or when it becomes clear that another presentation or other classification would be more appropriate, taking into account the criteria in o 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 following changes made as of January 1, 2017: (a) Application of the equity method in Associates following the applicable regulatory framework appearing in Decree 2496/2015 and (b) the presentation net of deferred tax in the Statement of Financial Position, presented independently as asset and liability up to December 2016.

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. Statements of Results 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. Cash flow statements

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. Main accounting policies

4.1. Basis of measurement

The separate financial statements were prepared on the basis of historical costs except in reference to the following financial instruments which are measured at their fair values at the close of each period, as is explained in the accounting policies included below:

Rubric	Measurement Base
Derivatives	Fair value
Financial instruments at fair value through Results and Other Comprehensive Income	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 with the functional currency of the Bank and comply with the instructions in SFC 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 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, 2017 and 2016 are $2,984.00 and $ 3,000.71 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 interests are recorded in Results.

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 Results.

4.6.1. Financial assets

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

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

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

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:

Trading investments

Securities acquired for subsequent sale or repurchase in the short term are held for trading. The Bank administers these investments and takes decisions to buy or sell based on their fair values in accordance with risk management practice 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.

Investments to be held until maturity

These are financial instruments acquired to collect contractual cash flows and the Bank has the capacity of holding them until maturity.

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.

Investments available for sale

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 Results.

- 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.

(Millions of Colombian Pesos (COP))

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	Maximum value	Short term rating	Maximum value
BB+, BB, BB-	90	3	90
B+, B, B-	70	4	50
CCC	50	5 and 6	0
DD, EE	0		

- For bonds or 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	Uncollectible 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 and 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 cause what applies to that number of months. The operation is “current” up to the.

Consumer

Consumer loans are, 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 a 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 his/her use and enjoyment, in exchange for the payment of a periodic fee 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 borrow 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 of 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 is not considered 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 microcredit 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 the latest classification recorded for the loan(s) 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.

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

For loans that do not require ma 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, and 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 the a result of restructuring agreements or any other form of agreement, 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 lease-payments 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, lease-payments and other items of income are suspended, a provision should be made for all these items accrued and pending collection.

(Millions of Colombian Pesos (COP))

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 length of time:

Portfolio	Product	Days in arrears
Commercial	Vehicles Other Loans over $ 500 M	Over 360 days Over 570 days According to evaluation
Home Mortgage	Housing	Over 900 days
Consumption	Vehicles Other Private brand credit cards Restructured	Over 540 days Over 180 days Over 120 days Over 140 days
Microcredit	Microcredit	Over 180 days

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

Leasing operations not subject to writing off because the assets are owned by the Bank.

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 made monthly, for which it 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.

(Millions of Colombian Pesos (COP))

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 height (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
Unredeemed	D	D	150- 569
Irrecoverable	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 card 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.

(Millions of Colombian Pesos (COP))

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 mortgages	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 provisions for loan portfolio

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

4.6.1.5.5.1. General provision

The Bank registers 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 Consumer 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.

Accumulative 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, 2017 and 2016, the Bank applied the accumulative 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 ".

(Millions of Colombian Pesos (COP))

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 Businesses		Medium Business		Small Business		Individuals	
	Matrix A	Matrix B	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%

The 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%	1080	100%
Admissible financial collateral - SBLC	0%	-	0	-	0
Admissible financial collateral – Guarantees fund	12%	-	12%	-	12%
Property leasing assets	35%	540	70%	1080	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.

(Millions of Colombian Pesos (COP))

- 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)

  This 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 Others		Credit cards	
	Matrix A	Matrix B	Matrix A	Matrix B	Matrix A	Matrix B
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%

The loss given default (LGD)

This is defined as the economic deterioration that would happen 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:

Type of guarantee	L.G.D.	Days after default	New L.D.G.	Days after default	New L.D.G.
Property (commercial, residential)	40%	360	70%	720	100%
Property leasing assets	35%	360	70%	720	100%
Non-property leasing assets	45%	270	70%	540	100%
Other suitable guarantees	50%	270	70%	540	100%
Unsuitable guarantees	60%	210	70%	420	100%
No warranty	75%	30	85%	90	100%

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

(Millions of Colombian Pesos (COP))

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

Term Adjustment (AP)

Where, $\text{Term Adjustment (AP)} = \frac{\text{Remaining Term}}{72}$

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 one 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 (α > 0). A is the 6-month rolling average of the six-monthly real annual rate of growth in past-due consumer loan accounts.

-Exposed asset value

In the MRCO, the exposure value of the asset is the current balance of principal, interest, interest receivables 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, 2017 and 2016.

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%.

(Millions of Colombian Pesos (COP))

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, 2017 and 2016.

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. Guarantees

Collateral is an instrument by which the expected loss (EL) is reduced when there is an event of default. The collateral represents a right acquired by the Bank when the debtor ceases payment for breach of its obligations.

Credit approvals in the Bank must include the collateral with which the transaction is authorized. Perfecting it will be prior to disbursement.

The analysis of the collateral should include the following characteristics: Admissibility: As defined in Colombian law. Legality: A formalized document offering legal support to facilitate management of the collection of the debt.

Value: Established based on technical and objective criteria.

Possibility of realization: reasonable possibility to implement the guarantees.

For commercial and consumer loans, after applying the collateral valuation process, the Bank maintains a policy to apply the LGD as if it were "unsecured" except for payroll instalment loans and vehicle loans.

An open first mortgage on the property financed is required for all home mortgage operations. The mortgage is a public (notarial) document and the charge is registered in the Public Records Office.

The realizable value of the mortgage collateral is updated annually by applying the values of the annual adjustment of Rural and Urban Real Estate Appraisal Indexes (IVIUR) and the Property Rating Index (IVP), as appropriate.

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.

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

Derivatives held for 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

The derivatives that are held for the purpose of managing risks correspond to derivatives which the Bank takes up in order to hedge market risks, interest rate or foreign currency 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. The information on netting at December 31, 2017 and 2016, appears in Note 11.

(Millions of Colombian Pesos (COP))

4.7. Hedge accounting

The Bank designates certain instruments as hedging instruments. They include derivatives and non-derivatives with respect to foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investment in an operation outside Colombia. Foreign currency risk cover of a firm commitment is accounted for as cash flow hedge.

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.

- 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.

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 made where there is a change of use of Property and Equipment without losing control of the asset.

(Millions of Colombian Pesos (COP))

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 measured reliably.

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 the equity method is used to produce increases or decreases in these amounts for recognition as profit or loss and in changes in equity and any reduction to reflect impairment provisions against the investment. Changes in the investment are recognized in the Income Statement and in equity in OCI, and an evaluation is subsequently made as to whether there are indications of impairment, applying IAS 36. Dividends from associates are recognized in the Income Statement for the period in which the right to receive them is acquired.as profit or

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: RedebanS.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 goodwill. 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 circums0tances that existed at the date of acquisition.

<u>Combinations subject to common control</u>

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 will to record 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, and whenever there is an indication that the asset may be impaired.

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.

Later, 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 art and culture, prepaid expenses, foreclosed assets with restrictions on sale, receivables other than loans and financial leasing operations. 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.

- <u>The Bank as Lessor</u>

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.

- <u>The Bank as lessee</u>

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 Results for the period, except for those items recognized in the equity section or 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 taxable temporary differences

Deferred tax liabilities arising from taxable temporary differences are recognized in all cases provided that they correspond to differences associated with investments in subsidiaries, associates and joint ventures on which we have the capacity to control the moment of their reversal and it is not probable that their reversion will occur in the foreseeable future.

Recognition of allowable temporary 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 settle liabilities.

The Bank reviews the book values of deferred taxes at the closing date, and a reduction is made the extent that it is no longer likely that sufficient taxable income will 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 in terms of tax regulations and the assets and liabilities refer to the same taxing authority and the same taxpayer.

Wealth tax

Article 1 of Law 1739 of December 23. 2014 creates a special Wealth Tax, to come into force from January 1, 2015. The tax will be temporary, applying only to 2015, 2016 and 2017. Payment is due on January 1 of each year.

The Bank recorded the Wealth Tax as charged to equity reserves, without affecting annual profits, as permitted by Article 10 of Law 1739 of 2014.

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 value represents the present value of those cash flows.

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

Litigation

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 12.19.

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, 2017 the reserve stood at $2,419,516 million, the required level being $38,392 million.

ii) Statutory and voluntary reserves – It includes the following reservations 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. Income and expense recognition

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

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

Interest income, interest expenses and similar items

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

Commissions from banking services are recognized when earned.

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

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

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

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

Income received on the sale of goods is recognized when: a) the significant risks and benefits of ownership of the goods are transferred to the buyer, b) it is probable that associated economic benefits are received with the transaction, c) costs incurred and potential returns of goods can be measured reliably.

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 judgments

In the preparation of these separate financial statements, the Bank's management provided criteria, judgments and estimates, according to the understanding and applicability of the regulatory and technical framework for the preparation of financial information, and the instructions issued by the SFC. 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 judgments in applying accounting policies

Critical judgments are presented below, apart from those involving estimates, made by the administration during the process of implementation of the Bank's accounting policies, which have a significant effect on the 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. During the periods presented, there were no changes of these estimates.

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, 2017, and December 31, 2016 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 requires to be classified in conformity to a reliable estimate according to the probability of occurrence of a fact or an event. Unless the possibility of any disbursement of funds is remote, the Bank needs to disclose, for each class of contingent liabilities, at the end of the reporting period, a brief description of the nature of the contingent liability. When there is a probability of an inflow of economic benefits, the Bank shall disclose a brief description of the nature of the contingent assets at the end of the reporting period and, where feasible, an estimate of their financial effect. Estimates regarding contingencies are based on the criteria adopted under NCIF, as follows:

The 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 Area for each event, fact or legal process.

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

Impairment of 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.

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 and then are recognized as income when the points are redeemed by the customer. Points are canceled according to maturity, except in the foreign subsidiaries loyalty programs where the points do not expire.

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 shall be 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 housing credit.

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

- Post-employment benefits

These 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.

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, 2017.

7. New standards and interpretations issued but not yet effective

In the context of Decrees 2496 of December 2015, 2131 of December 2016 and 2170 of December 2017, the standards issued and applicable as of 2018 are explained below. The impact of these standards is still under evaluation by the Bank´s management.

Standards applicable as of January 1, 2018

IFRS 9 - Financial Instruments (revised version, 2014)

The replacement Standard refers to 3 phases:

Phase 1: Classification and measurement of financial assets and liabilities
Phase 2: Methodology of impairment
Phase 3: Hedge accounting

In July 2014 IASB completed its changes to the accounting of financial instruments and issued IFRS 9 – Account of Financial Instruments (revised version 2014) – to replace IAS 39 – Financial instruments, Recognition and Measurement – upon expiry of the previous version.

For the Separate Financial Statements, it is estimated that the effect of implementation of IFRS 9 on January 1, 2018 will not have any material impact, because the exception to the Standard contained in Decrees 1851/2013 and 2267/2014 and regulated by SFC Circular 034

IFRS 15 - Revenues from Contracts with Customers

In July 2014, IASB issued IFRS 15 "Revenues from Contacts with Customers ", which replaces a number of previous standards in particular IAS 11-Construction Contracts - and IAS 18-Revenues from Ordinary Activities-. This new standard requires that revenues from ordinary activities of customers other than those originating in financial instruments and leasing contracts, should be recognized with specific rules for recording under IFRS 15, it is established that revenues will be recognized in such a way as to reflect the transfer of control of goods and services committed to customers in exchange for an amount that expresses the consideration to which the Bank expects to be entitled. Under this new premise, the Bank recognizes revenues from ordinary activities other than financial items such as banking service commission and the sale of goods and services for different purposes through the application of the following stages:

1. Identification of the contract;
2. Identification of performance obligations under the contract
3. Determination of the price of the transaction
4. Allocation of the price of the transaction between performance obligations
5. Recognition of revenues to the extent that the Bank satisfies its customers in each performance obligation.

The Bank intends to adopt the standard using the retroactive method, for its cumulative effect, which means that the cumulative impact of adoption will be recognized in retained profits as of January 1, 2018, and that comparative figures will not be re-expressed.

The preliminary high-level evaluation made by the Bank indicates that the implementation of IFRS 15 will not have a material impact on the timing or amount of recognition of the Bank´s other income.

Other standards applicable as of January 1, 2018

IAS 7- Statement of Cash Flows

Disclosure Initiative

Requires entities to provide information in disclosure to allow users of the financial statements to evaluate changes in liabilities arising from financing activities.

IAS 12 – Income Tax

Recognition of Deferred Tax Assets in Unrealized Losses

Clarifies requirements for the recognition of deferred tax assets for unrealized losses in debt instruments measured at fair value.

IFRS 15 – Revenues from Contracts with Customers

Clarifications.

These changes are intended to clarify IASB´s intentions in the requirements of IFRS 15, without changing its underlying principles.

Standards applicable as of January 1, 2019

IFRS 16 - Leases

This standard establishes requirements for recognition, measurement, presentation and information for disclosure on leases.

It will replace the following standards and interpretations as of its effective date:

- IAS 17- Leases
- IFRIC 4 - Determination as to whether an agreement contains a lease
- IAS 15- Operating leases, incentives
- IAS 27- Evaluation of the essence of transactions adopting the legal form of a lease

The Bank is currently making a diagnosis, and implementing the new standard.

IAS 40 - Investment property

Transfer of investment property

There are changes in paragraphs referring to transfers to or from Investment Property, when and only when there is a change in the use of an asset.
IFRS 12- Information to be disclosed on interests in other entities

The changes clarify the scope of this standard with regard to subsidiaries, joint ventures or an associates that classify as non-current assets held for sale, or in a group for disposal.

IAS 28 - Investments in Associates and Joint Ventures

An option has been introduced for an entity to measure an investment in an associate or joint venture at fair value, through profit or loss.

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.

<u>Measurements of fair value on a recurring basis</u>

Recurring measurements are those required or permitted by IFRS in the Statement of Financial Position at the end of each perio0d reported. If required circumstantially, measurements are classified as “non-recurring.”

Below are the assets and liabilities measured on a recurring basis at fair value by type of instrument, indicating the corresponding hierarchy for December 31, 2017 and 2016.

(Millions of Colombian Pesos (COP))

	Fair value	Level		
	December 31, 2017	1	2	3
Assets				
Investments in debt securities 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	30,586	-	30,586	-
Other	264,430	94,077	-	170,353
Foreign currency	199,869	199,869	-	-
Colombian government	58,085	58,085	-	-
Financial institutions	98,027	98,027	-	-
Real sector	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	-

(Millions of Colombian Pesos (COP))

	Fair value	Level		
	December 31, 2016	1	2	3
Assets				
Investments in debt securities issued and guaranteed	4,490,970	4,084,726	222,803	183,440
In pesos	4,341,355	3,935,111	222,803	183,440
Colombian government	2,097,587	2,084,850	12,736	-
Financial institutions	1,942,887	1,745,665	194,206	3,016
Real sector	19,514	3,653	15,861	-
Other	281,367	100,943	-	180,424
Foreign currency	149,615	149,615	-	-
Colombian government	40,692	40,692	-	-
Foreign Governments	16,691	16,691	-	-
Financial institutions	61,538	61,538	-	-
Real sector	16,207	16,207	-	-
Other	14,487	14,487	-	-
Equity investments	260,682	143,052	-	117,630
Through profit or loss	23,911	23,911	-	-
through OCI	236,771	119,141	-	117,630
Trading derivatives	238,447	-	238,447	-
Currency forwards	92,521	-	92,521	-
Securities forwards	636	-	636	-
Interest rate swaps	121,352	-	121,352	-
Currency swaps	1,377	-	1,377	-
Other	22,561	-	22,561	-
Total assets	4,990,099	4,227,778	461,250	301,070
Liabilities				
Trading derivatives	246,106	-	246,106	-
Currency forwards	97,509	-	97,509	-
Securities forwards	1,003	-	1,003	-
Interest rate swaps	122,707	-	122,707	-
Currency swaps	2,492	-	2,492	-
Other	22,395	-	22,395	-
Total liabilities	246,106	-	246,106	-

To determine the levels of fair value hierarchy an assessment 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 3.47% 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 derivative financial instruments:

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

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

For the period from December 31, 2017 to December 31, 2016, there were no transfers between fair value levels.

The following is the movement of recurrently-measured financial instruments at fair value at Level 3:

(Millions of Colombian Pesos (COP))

	Opening balance December 31, 2016	Total profits (losses) In profit or loss	Total profits (losses) In OCI	Settlements	Closing balance December 31, 2017
Assets					
Investments is debt securities 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

	Opening balance December 31, 2015	Total profits (losses) In profit or loss	Total profits (losses) In OCI	Reclassifications	Purchases	Settlements	Closing balance December 31, 2016
Assets							
Investments is debt securities issued and guaranteed	199,773	(695)	-	2,998	-	(18,636)	183,440
In pesos	199,773	(695)	-	2,998	-	(18,636)	183,440
Financial institutions	-	18	-	2,998	-	-	3,016
Other	199,773	(713)	-	-	-	(18,636)	180,424
Equity investments	114,160	-	3,321	-	699	(550)	117,630
Through OCI	114,160	-	3,321	-	699	(550)	117,630
Total assets	313,933	(695)	3,321	2,998	699	(19,186)	301,070

Measurement at fair value of instruments measured at amortized cost

The following are the Bank´s assets and liabilities at fair value and their carrying value at December 31, 2017 and 2016.

	December 31, 2017				
	Fair value	Level 1	Level 2	Level 3	Book value
Assets					
Gross loans	58,406,641	-	-	58,406,641	61,346,709
Investments at amortized cost	1,393,465	906	836,394	556,165	1,392,427
Total financial assets	59,800,106	906	836,394	58,962,806	62,739,136
Liabilities					
Term deposits	21,769,588	-	21,769,588	-	21,893,816
Debt instruments issued	11,506,357	11,506,357	-	-	11,179,368
Bank borrowings and other financial debt	5,649,974	-	-	5,649,974	5,663,504
Total liabilities	38,925,919	11,506,357	21,769,588	5,649,974	38,736,688

(Millions of Colombian Pesos (COP))

	Fair value	December 31, 2016 Level 1	2	3	Book value
Assets					
Gross loans	53,283,882	-	-	53,283,882	56,650,646
Investments at amortized cost	1,371,522	2,334	836,622	532,566	1,369,644
Total financial assets	54,655,404	2,334	836,622	53,816,448	58,020,290
Liabilities					
Term deposits	18,075,977	-	18,075,977	-	18,210,104
Debt instruments issued	9,297,062	9,297,062	-	-	9,063,260
Bank borrowings and other financial debt	5,296,238	-	-	5,296,238	5,292,891
Total liabilities	32,669,277	9,297,062	18,075,977	5,296,238	32,566,255

9. Operating segments

The Bank determines the presentation of business operating segments based on the way the information is organized and received. The segments are components of the Bank engaged in banking and financing activities that generate income and incur expenses; the segmentation ensures that an effective rendering of accounts is produced for an optimum measurement of results, assets and liabilities which are regularly evaluated and verified by the Strategic Committee headed by the Bank´s CEO (MITDO) as the senior operational decision-maker con the appropriate allocation of resources and related evaluation of performance. With this form of organization the Bank´s operating segments are defined 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.

As a result of these considerations, the Bank has defined three segments as a function of its principal business lines:

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.

(Millions of Colombian Pesos (COP))

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:

December 31, 2017

Income Statement	Personal	Business	Differentiated financial information - ALM (1)	Total Bank
Interest income	4,283,583	2,748,179	530,144	7,561,906
Interest expense	(328,938)	(1,857,475)	(1,038,713)	(3,225,126)
Net FTP (*)	(1,083,913)	555,465	528,448	-
Provisions against loans and accounts receivable	(1,311,065)	(464,990)	(1,092)	(1,777,147)
Net financial margin	1,559,667	981,179	18,787	2,559,633
Income from commissions and services, net	533,521	219,115	27,101	779,737
Result of equities	-	-	262,305	262,305
Dividends	-	-	22,188	22,188
Operating expenses	(1,496,782)	(682,719)	(197,546)	(2,377,047)
Exchange and derivatives, net	-	-	67,836	67,836
Other income and expenses, net	(41,156)	18,423	88,373	65,640
Operating margin	555,250	535,998	289,044	1,380,292
Income tax	(62,913)	(199,645)	(9,267)	(271,825)
Net profit	492,337	336,353	279,777	1,108,467
Assets	31,276,464	28,985,965	18,229,452	78,491,881
Liabilities	13,010,859	33,491,128	22,445,178	68,947,165

(1) Assets and liabilities management

***FTP Net** refers to the costs of resources transfer between segments, which are assigned in a systematic and coherent and is managed within the entity.

(Millions of Colombian Pesos (COP))

December 31, 2016

Income Statement	Personal	Business	Differentiated financial information - ALM (1)	Total Bank
Interest income	3,680,693	2,732,299	657,493	7,070,485
Interest expense	(329,481)	(1,778,247)	(1,039,351)	(3,147,079)
Net FTP (*)	(798,760)	544,704	254,056	-
Provisions against loans and accounts receivable	(976,706)	(496,294)	1,811	(1,471,189)
Net financial margin	1,575,746	1,002,462	(125,991)	2,452,217
Income from commissions and services, net	518,138	202,776	21,099	742,013
Result of equities	-	-	325,245	325,245
Dividends	-	-	25,524	25,524
Operating expenses	(1,344,247)	(615,390)	(157,825)	(2,117,462)
Exchange and derivatives, net	-	-	132,582	132,582
Other income and expenses, net	(38,090)	22,321	289,864	274,095
Operating margin	711,547	612,169	510,498	1,834,214
Income tax	(135,424)	(231,762)	71,658	(295,528)
Net profit	576,123	380,407	582,156	1,538,686
Assets	27,906,494	27,736,814	17,063,657	72,706,965
Liabilities	12,639,678	31,027,832	20,179,983	63,847,493

(1) Asset and liability management

***FTP Net** refers to the costs of resources transfer between segments, which are assigned in a systematic and coherent and is managed within the entity.

During 2017 the method of calculation of FTP was changed to incorporate best practices. In order to produce comparative Income, 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 2017 in the personal banking segment totaled $ 492.337 million, down 14.5% from the accumulated results at December 2016, increasing its share of the Bank's total profit from 37.4% to 44.4% in the same periods, mainly due to the increase in ALM participation in the Bank's total results.

The net financial margin of the personal banking segment in December 2017 was 1% lower than in 2016, totaling $ 1,559,667 million due to the increase in portfolio provisions and accounts receivable of 34.2%, and net financial costs by 35.7%; however, financial income increased 16.4%, explained by the good performance of the housing and ordinary loans, which showed a growth in annual revenues of 10.9% and 31,4% respectively.

In addition, there was outstanding growth of 9.9% in income from payroll instalment loans, fixed consumer credit, up 31.3% an increase of $190,455 million between the two products, in comparison to the previous year.

The financial expenses of the segment fell 0.2% as a result of a slight increase in deposits balances, mainly because current and savings accounts carries more weight than term deposits in the balance sheet.

Net provisioning expense in the personal banking segment increased by $ 334,359 million, closing at $1,311,065 million, mainly explained by the increase in provisions for ordinary loans, payroll instalment loans and fixed consumer credit, by 39.5%, 32.5% and 58.2% respectively.

Income from net commissions and services increased by 3.0% to $ 533,521 million, as liners for ordinary loans rose 12.4% and home mortgage loans 7.9% But there was a decrease of 6.4% in areas related to deposit-taking, which represents 43.9% of the funding in this segment, due to the slight growth of account balances.

Finally. Operating expenses increased 11.3% in 2017, due mainly to an increase of 13.2% in deposit-taking related areas, 9.1% in ordinary lending lines and 9.8% in home mortgages.

Business

The profit for 2017 was $336,353 million, or 30.3% of total profit. This was 11.6% down on 2016, mainly due to an increase of 4.5% in financial expense and 10.9% in operating expenses.

The net financial margin for this segment to December 2017 was 2.1% down on the total for 2016, as a result of growth of 0.6% in financial income and a reduction of 6.3% on provisions against loans and accounts receivable. This was matched by greater growth in financial costs (up 4.5%) mainly due to higher costs in corporate banking, up 3.3%.

Portfolio revenues in the Business Banking segment totaled $ 2,748,179 million, 0.6% up on 2016, mainly due to the increase in revenues from the SME portfolio, of $786,114 million with an increase of13.8% and Construction sector loans, up 8.7%. in Corporate Banking, closing at $1,453,689.

Net provisioning expense fell by $ 31,304 million when closing at $ 464,990 million, mainly explained by the reduction of $ 171,023 million in provisioning expenses of the corporate portfolio, which has a 49,9% share in banking provisions, This reduction was countered by an increase of 106,087 million in SME banking, which represents 37.7% of total provisions.

Fee and commission income amounted to $ 219,115 million, 8.1% higher than 2016, mainly explained by the increase in the expenses of corporate banking, of 7.2% and SME banking of 8.8%. However, net fee and commission income from construction and Business Banking was up 33% and corporate banking up 3.3%.

Finally, operating expenses in the corporate segment increased 10.9% at the close of December 2017, mainly explained by increased expenses in Corporate (up 9%) and SME (up 13.6%).

Differentiated Financial Information ALM

This segment closed with a profit of $279,777 million during the year, since for December 2017 there was a reduction of 19.4% in investments in associates and a reduction of 19.4% in financial income, resulting in a fall of 51.9% compared to 2016, which represents 25.2” of the Bank´s profits.

The net financial margin for this segment in December 2016 increased by $ 144,778 million compared to December 2016. This is due to the fact that the transfer costs grew 108%, closing $528,448 million, since the FTP income of the unit increased 3.4% due to the performance of loans and interest rates, a reduction of 4.9% in FTP expenses of the unit given the low growth of savings and checking account deposits

The financial expense of the Bank´s financial debt fell 0.1%, $638 million less than 2016.

Income from commissions and services in the ALM sector totaled $27,101 million, up $6,000 million or 28.4% more than accumulated income for 2016.

10. Risk management

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

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

- 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.

- The fulfillment of growth objectives must not lead Grupo Bolivar to overexposures that generate present and future losses outside of the risk levels of the organization.

- 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 Group has sector/regional specialties in its business. Any investment in new sectors or regions must be approved by the Board of the Holding Company and/or subsidiaries, and particular characteristics will be analyzed.

- 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.

- 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.

- Risk management, regulatory compliance and internal policies are the responsibility of the company's three lines of defense, in its order: business, commercial and operational areas, in the second instance, risk areas and, lastly, internal audit.

- Human resources policies must include career plans to include technical and specialized knowledge fit for each position, key positions must be identified and efforts made to train up successors in each position with the competences and experience that will made rotation and replacement in key positions a process that will not increase risks. These policies must be taken into account in selection policies.

- Remuneration systems must be aligned to strategic objectives of the companies and their appetites for risk.

- The structure of the companies must recognize key areas that will have special supervision.

- Companies must have a robust system of processes to support the range of business needs and solid base of management of the risks special to Grupo Bolivar. Changes to processes must not increase risks exposure and the sustainability of the process must be guaranteed.

- The culture of risk and compliance must be strengthened in the Bank and in each Subsidiary.

Affiliates in accordance with the rules of corporate governance, should adopt policies, standards and procedures and internal control structures to secure the integrity and efficiency of management processes. In addition they have manuals that set out the way in which their process of integral management of the risks and of the strategy is governed.

General Framework

The process of the Bank's comprehensive risk management is aligned to comprehensive risk management of Grupo Bolivar. The Bank's risk management involves the analysis of current and planned positions as well as defining limits for them. 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 using a "top-down" vision in order to ensure its integrity, its consistency and interrelationship of the various risks. It should also be conducted "bottom-up," through the development of management and control schemes of each and every one in order to ensure their effectiveness and depth as well as where it clearly defines the governance model of each risk, the relevance and strength of each definition of limits for these positions, and procedures to follow in the event of breaches.

The application of the risk management model is implemented within a clear framework of segregation of functions in order to achieve a timely identification of risks, defining three lines of defense that involve all areas of the organization; The first line of defense is composed of Business Lines, Operations and Commercial; The second line by Risk Areas and the third by 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 runs through the Vice President of Risk and Financial Control and the Risk Investment Vice President who reports to the Corporate Risk Committee of the Bank it being a committee of the Board with two active members.

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 to 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 risk management mechanisms of the entity will provide an appreciation of most of the risks related 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.
- Evaluation of methods used to implement the Bank´s risk management model.
- Follow-up of recommendations arising from the evaluation process, and instructions of the Audit committee and the Board.

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 of Banco Davivienda Colombia is approached from the business done in Personal, Business and Treasury Banking units, managing its risks within a clear segregation framework of duties that allow independence in the analysis and control of the associated risks. The vice president in charge of each business unit is responsible for the risks generated by decisions taken within the approved framework by the authorized bodies such as committees, business boards and Board of Directors.

In addition, specialized risk areas are responsible for promoting the appropriate control scheme for each of the risks. Thus, the Executive Vice-Presidency for Risk manages the issue of policies, makes the risk assessment of the portfolios in SME, mass lending, business and corporate banking, and maintains a risk-return balance, The Vice-esidency of Company Investment Risk assesses the financial risks to which the Bank is exposed..

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. For these credit products, it works on a points system, 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 Corporate Credit Vice-Presidency manages credit risk in the SME and Corporate segment,, and is responsible for analyzing credit applications, tracking current obligations, assigning risk categories and arranging for recoveries where needed.

The Corporate Credit Vice-Presidency is also responsible for granting credit facilities to Colombian and foreign companies whose economic activity is framed within the norms and conditions established by both the Superintendent of Corporations and the Bank; the intention is to achieve this objective through a thorough analysis of the creditworthiness of companies, the macroeconomic and microeconomic conditions in which it operates; the culture, strategy, policies, procedures and the various quantitative and qualitative risks and the size and importance of the economic sector in which it operates, are all examined.

Finally, the Risk Investment Vice President manages market and liquidity risk, and Treasury risk He has designed and implemented a robust structure of exposure limits to the various risks to control the portfolios and the activities undertaken to carry out their management thereof.

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 sub-processes for the successful implementation of the general process of credit risk management:

- *Monitoring and Management of the Credit Portfolio:* 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.

- *Credit Risk Methodologies and Models:* 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.

- *Credit Risk Monitoring and Control:* 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. Credit risk for personal banking, SMEs business and corporate banking to promote and protect a suitable scheme of control for each 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.

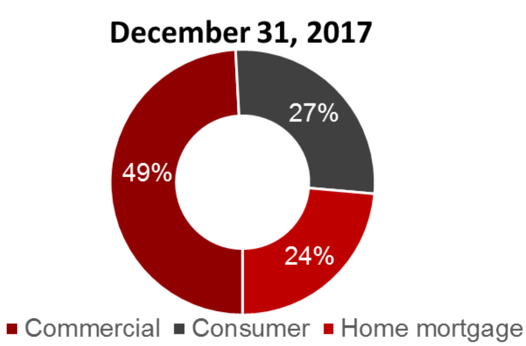
The Board defines and establishes the structure of the four Credit Risk Committees for personal Banking, SME and corporate Banking the Credit Risk for loan classification as specialized bodies and coordinators in credit risk management and the only collegiate bodies with attribution to recommend policies 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.

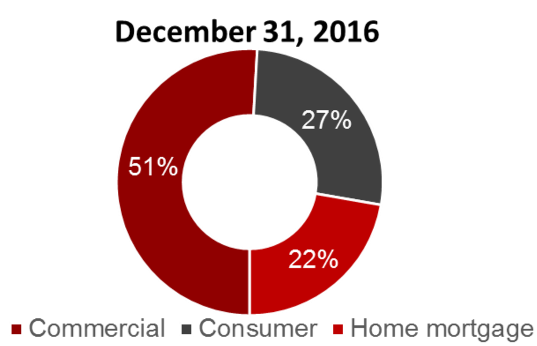
Credit Risk Management Procedure Manual (MARC) represents the navigation chart for the Credit Risk Management System, describing our culture, policies, methods, rules and general procedures. It is the instrument, for the recording, and orderly and systematic transmission of information to the organization 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, 2017, the portfolio has a value of $61,347million; of which Personal banking accounted for 51% and business banking 49%, showing that personal banking had gained share since the close of 2016:





* The commercial portfolio includes a microcredit portfolio

At the end of 2017, the portfolio of Banco Davivienda grew 8.29% over the previous year, representing a slowdown in growth in 2017, general to all portfolios in the context of the current state of the economy. Home mortgage reported the highest variation (14.8%). Residential Leasing grew the fastest (18.5%) followed by Social Housing – VIS - which grew 11.5%, driven by Government interest subsidies designed to promote new builds and purchases by the public. Housing above VIS levels grew 10.7 % compared to 2016.

Consumer credit grew 9.97% over December 2016, the largest variations being in unsecured free personal loans, up 19.2% second to collateralized loans, up 26.4%.

(Millions of Colombian Pesos (COP))

Commercial loans grew 4.55% on 2016, the emphasis being on the Corporate segment. The dynamics of growth in lending were strongest in sectors related to construction, services and energy, which increased their share from 34.5% to 37.8% compared to the previous close.

SME has grown more slowly than in 2016, 1ar 14.6%, leveraged mainly by small businesses (sales under $5,000 million) and the slowdown in this Portfolio is in line with the dynamics of the sector as a whole.

Business line	Balance	Loans CDE	Provision	Cover	∆ Balance	∆ Provision
Commercial (1)						
December 31, 2016	28,836,387	3.24%	960,078	102.90%	15.83%	3.50%
December 31, 2017	30,148,459	7.77%	1,309,004	55.89%	4.55%	36.34%
Consumer						
December 31, 2016	15,198,270	6.19%	1,078,813	114.69%	18.94%	26.62%
December 31, 2017	16,713,093	6.88%	1,292,869	112.51%	9.97%	19.84%
Home mortgage (2)						
December 31, 2016	12,615,989	1.60%	319,156	158.03%	16.65%	23.48%
December 31, 2017	14,485,157	2.62%	364,740	95.95%	14.82%	14.28%
Total						
December 31, 2016	**56,650,646**	**3.66%**	**2,358,048**	**113.61%**	**16.83%**	**15.70%**
December 31, 2017	**61,346,709**	**6.31%**	**2,966,613**	**76.63%**	**8.29%**	**25.81%**

(1)Includes microcredit portfolio

(2)Includes staff loans – staff benefits deducted

The variation from December 2016 is calculated as Dec 2015 to Dec 2016. The variation for Dec 2017 is Dec 16 – Dec 2017

The commercial portfolio was affected in its risk levels as a result of the economic slowdown, the slow start to 4G infrastructure projects and the impact of a tax reform on some sectors of the economy. The indicator for non-performing loans increased 453bp on 2016, corporate banking being the worst affected arising from exposure to customers with complex financial situations in energy and mass transport. Cover fell 47 percentage points, basically due to new Category C customers with a level of provisions matching the ageing of their arrears.

At the close of 2017 SME loans increase 170bp in the CDE indicator, from 6.3% in December 2016 to 8.0% in 2017. This was mainly due to the increase in Small Business (sales under $5,000 million) customer impairments and sectors such as contractors, transport, health and commerce, in line with the general economic slowdown. At December 2017 SME risk cover was 81%, 120bp less than December 2016.

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, In general, performance in this portfolio was affected because debtors had a lower capacity to pay as a result of the tax reform, and the overall state of the economy.

As a consequence of these factors. Together with high portfolio balances, the consumer credit provisions increased $208,000 million. The joint dynamics of the loan indicators and provisions meant that cover fell from 114.7% in 2016 to 112.5% in 2017.

(Millions of Colombian Pesos (COP))

The non-performing loan indicator in Home Mortgage portfolios increased 102bp compared to 2016, partly as a result of by the growth of the portfolio and rollovers in the portfolios of Residential Leasing and Greater-than-VIS lending. Policy adjustments are being implemented in order to ensure that portfolio growth stays healthy.

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 2017, 49% of investments were in Colombian public debt, 40% were private debt, and 11% 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, 2017		December 31, 2016	
	Collateralized	No collateral	Collateralized	No collateral
Debt instruments at fair value	13,381	6,167,107	10,057	4,743,330
Colombian government	-	3,519,998	-	2,138,278
Foreign governments	-	-	-	16,691
Financial institutions	-	1,986,306	-	2,004,425
Real sector	-	59,888	-	59,633
Other	-	278,884	-	295,854
Derivatives	13,381	322,031	(*) 10,057	228,449
Debt securities at amortized cost	-	1,395,386	-	1,371,040
Investments in debt securities	-	1,395,386	-	1,371,040
Loans	32,703,816	28,642,893	27,774,990	28,875,656
Commercial	16,287,872	13,860,588	13,320,956	15,515,431
Consumer	1,930,787	14,782,305	1,838,045	13,360,225
Home mortgage	14,485,157	-	12,615,989	-
Total financial assets with credit risk	32,717,197	36,205,386	27,785,047	34,990,026
Off-balance sheet credit risk	13,251,331	6,967,521	10,350,303	7,052,738
Credit limits	13,251,331	6,967,521	10,350,303	7,052,738
Total maximum credit risk	45,968,528	43,172,907	38,135,350	42,042,764

(*) Presentation updated to December 2016 separating out collateralized derivatives

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 2017, el 53% of the portfolio exposure is backed by a guarantee: 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 54% of the exposure.

Consumer loans are mostly unsecured, except for vehicle loan pledges, free-use personal loans with mortgage guarantees (12% of consumer exposure). In particular, unsecured consumer include payroll installment loans with guaranteed collection. The balance of payroll installment loans represents about 37% 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.

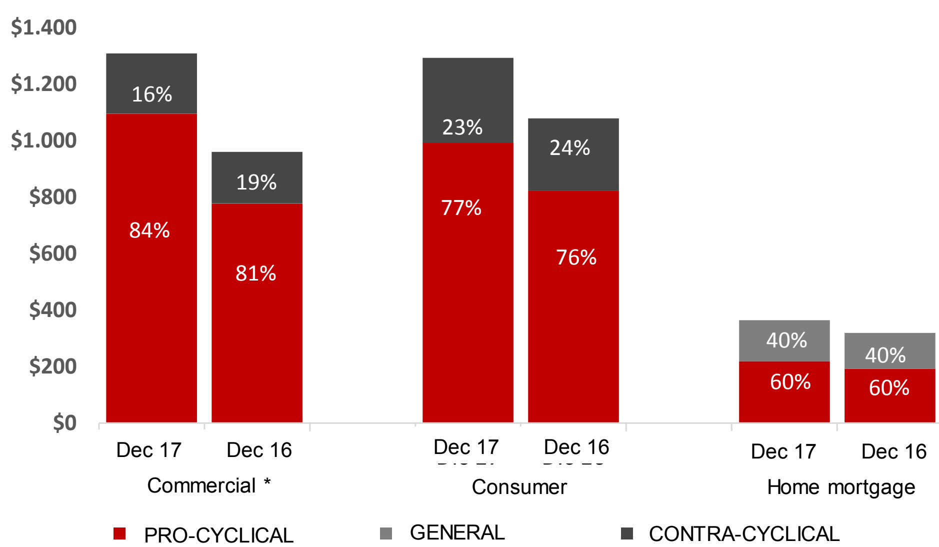
Provisions estimated for credit risk

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 portfolio

As of December 31, 2017, the total provision of the Bank's portfolio was $ 2,966,613 million, equivalent to 4.8% of the total portfolio, which implies a 25.8% increase over the provision at December 2016. This increase is explained among other factors by the regulatory changes in SFC Circular 026/2017, the growth in loans 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 20.6% to 26.8% 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 applicable to consumer lending was conditioned on the indicator measuring he acceleration of the annual variation of nonperforming loans. For the Bank, this indicator remained positive throughout the year, and therefore the additional provision remains constant during this period (corresponding to 0.5% of the principal balance of each loan multiplied by the corresponding Loss Given Default (LGD)). By December 2017 this provision is of $56,550 million pesos.

Further, in order to recognize additional cover offered by mortgage collateral on secured personal loans, the LGD parameter was adjusted in that portfolio, the change released $11,284 million.

There was also recognition of cover provided by pledges on vehicle purchase loans, in which the LGD parameters were adjusted where applicable, releasing $33,005 million.

Finally, provision parameters in the home mortgage segment were adjusted, releasing additional provisions with the recognition of mortgage collateral for $31,500 million. A further $20,761 million was released from commercial loans as a result of recognition of related collateral.

As a result of SFC Circular 026/2017, setting conditions for the restructuring or modification of loans to debtors with potential or actual impairment of their capacity to pay, and instructions for classification of those loans, there is an increase in Personal Banking loan provisions due to the new definition of default against restructured loans, for $42,392 million. The impact on the Commercial loans portfolio was $6,071 million.

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 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.

(Millions of Colombian Pesos (COP))

Further, the Financial Risk Management Manual for Grupo 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 investment management: associated with financial intermediation, market risk management of the balance sheet and the need for support in the form of liquid assets in the financial intermediation process; and ii) trading investment management: , designed 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 2017 was at $7,576,657 million, according to the business models mentioned:

			Variation	
Business model	December 31, 2017	December 31, 2016	$	%
Trading	1,221,757	638,036	583,721	91.49
Structural	6,354,900	5,484,656	870,244	15.87
Liquidity reserve	5,194,468	4,407,715	786,753	17.85
Balance sheet management	1,160,432	1,076,941	83,491	7.75
Total	7,576,657	6,122,692	1,453,965	23.75

(Millions of Colombian Pesos (COP))

The most significant amount of the investments corresponds to the reserve to meet liquidity demands; in the second instance, investments for the purpose of risk management on the balance sheet and finally, the trading portfolio.

The accounting classification rules for investments are associated with the business models with which the portfolios are managed. As of December 2017, gross portfolios were classified as follows:

			Variation	
Accounting classification	December 31, 2017	December 31, 2016	$	%
Trading	4,386,980	4,139,033	247,947	5.99
Available for sale	1,794,291	612,619	1,181,672	192.89
Held to maturity	1,395,386	1,371,040	24,346	1.78
	7,576,657	6,122,692	1,453,965	23.75

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. As of December 2017, there is a large variation in the investments classified as available for sale and as a consequence of the change in the composition of the liquidity reserve, where business was reduced and public debt securities increased

Compared to December 2016, there was an increase in the investment portfolio of 23.75%, explained by the increase in the trading portfolio, In particular, most of the liquidity reserve significant restructuring of the liquidity reserve portfolio. In particular, it is important to mention that the liquidity reserve, which is the greater part of investment portfolio, is in line with the growth structure of the liabilities so as to preserve the risk profile tolerated by the Bank.

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 the Financial Superintendence of Colombia (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 rate risk

Davivienda uses the SFC standard measurement model, control and management of market risk, focusing on Consumer 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.

(Millions of Colombian Pesos (COP))

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, 2017 and December 31, 2016 was as follows:

Maximum, minimum and average values of the Value at Risk

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

	December 31, 2016			
	Minimum	Average	Maximum	Latest
Interest rate	92,160	149,912	201,119	92,160
Exchange rate	50,315	59,050	71,729	52,353
Shares	-	624	3,515	3,515
Unit funds	-	75	276	276
VaR	148,304	209,609	266,743	148,304

In addition to management under normal conditions, Davivienda makes scenario stress 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.

(Millions of Colombian Pesos (COP))

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 like 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, 2017		December 31, 2016	
	Foreign Balance	Pesos Balance	Foreign Balance	Pesos Balance
American Dollar	(118)	(353,261))	(252)	(156,439)
Lempira	3,327	420,850	3,025	386,458
Colons	94,017	495,163	46,247	249,524
Other*	(9)	(27,100)	(4)	(12,821
Total		535,652		(133,627)

* Amounts 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, 2017, would be +/- 5,627.

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, 2017, an increase or decrease of 50 basic points in interest rates could have caused a decrease or increase, respectively, of $35,848 in the Bank's margin throughout the year. For 2016 this sensitivity would have been 20,433.

(Millions of Colombian Pesos (COP))

	December 31, 2017				
	Monthly average	Income /expense	Average rate	Impact Δ50 bp Increase	Decrease
Interest-earning financial assets					
Interbank and overnight funds	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)
Trading and available for sale investments in debt securities	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 instruments 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 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)
Total 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%	-	-
Interbank and overnight funds	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)
Bank 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)
Foreign currency liabilities	56,503,293	2,960,631	5.2%	209,383	(209,383)
Local currency liabilities	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 with 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)

(Millions of Colombian Pesos (COP))

	December 31, 2016				
	Monthly average	Income /expense	Average rate	Impact Δ50 bp Increase	Impact Δ50 bp Decrease
Interest-earning financial assets					
Interbank and overnight funds	579,984	44,489	7.7%	2,900	(2,900)
Local currency	501,206	35,184	7.0%	2,506	(2,506)
Foreign currency	78,778	9,305	11.8%	394	(394)
Trading and available for sale investments in debt securities	4,552,232	410,885	9.0%	(905)	905
Local currency	4,409,213	405,763	9.2%	(404)	404
Foreign currency	143,019	5,122	3.6%	(501)	501
Investments in debt instruments held to maturity	1,259,158	84,901	6.7%	6,296	(6,296)
Local currency	1,259,158	84,901	6.7%	6,296	(6,296)
Loans	53,682,355	6,463,400	12.0%	174,376	(174,376)
Local currency	48,731,663	6,245,833	12.8%	149,867	(149,867)
Foreign currency	4,950,692	217,567	4.4%	24,509	(24,509)
Total Assets in local currency	54,901,240	6,771,681	12.3%	158,265	(158,265)
Total Assets in foreign currency	5,172,489	231,994	4.5%	24,402	(24,402)
Total interest-earning assets	60,073,729	7,003,675	11.7%	182,667	(182,667)
Interest-bearing liabilities					
Public deposits	42,829,784	2,120,091	5.0%	145,329	(145,329)
Local currency	41,721,760	2,109,665	5.1%	141,840	(141,840)
Foreign currency	1,108,024	10,426	0.9%	3,489	(3,489)
Bonds	8,750,333	723,611	8.3%	25,026	(25,026)
Local currency	5,716,113	584,484	10.2%	25,026	(25,026)
Foreign currency	3,034,220	139,127	4.6%	-	-
Interbank and overnight funds	1,456,363	100,119	6.9%	7,281	(7,281)
Local currency	1,426,676	100,101	7.0%	7,133	(7,133)
Foreign currency	29,687	18	0.1%	148	(148)
Bank borrowings	5,092,665	202,018	4.0%	25,463	(25,463)
Local currency	1,608,449	122,680	7.6%	8,042	(8,042)
Foreign currency	3,484,216	79,338	2.3%	17,421	(17,421)
Foreign currency liabilities	50,472,998	2,916,930	5.8%	182,041	(182,041)
Local currency liabilities	7,656,147	228,909	3.0%	21,058	(21,058)
Total interest-bearing liabilities	58,129,145	3,145,839	5.4%	203,099	(203,099)
Total net financial assets with interest rate risk	1,944,584	3,857,835		(20,433)	20,433
Local currency	4,428,241	3,854,750		(23,777)	23,777
Foreign currency	(2,483,657)	3,085		3,344	(3,344)

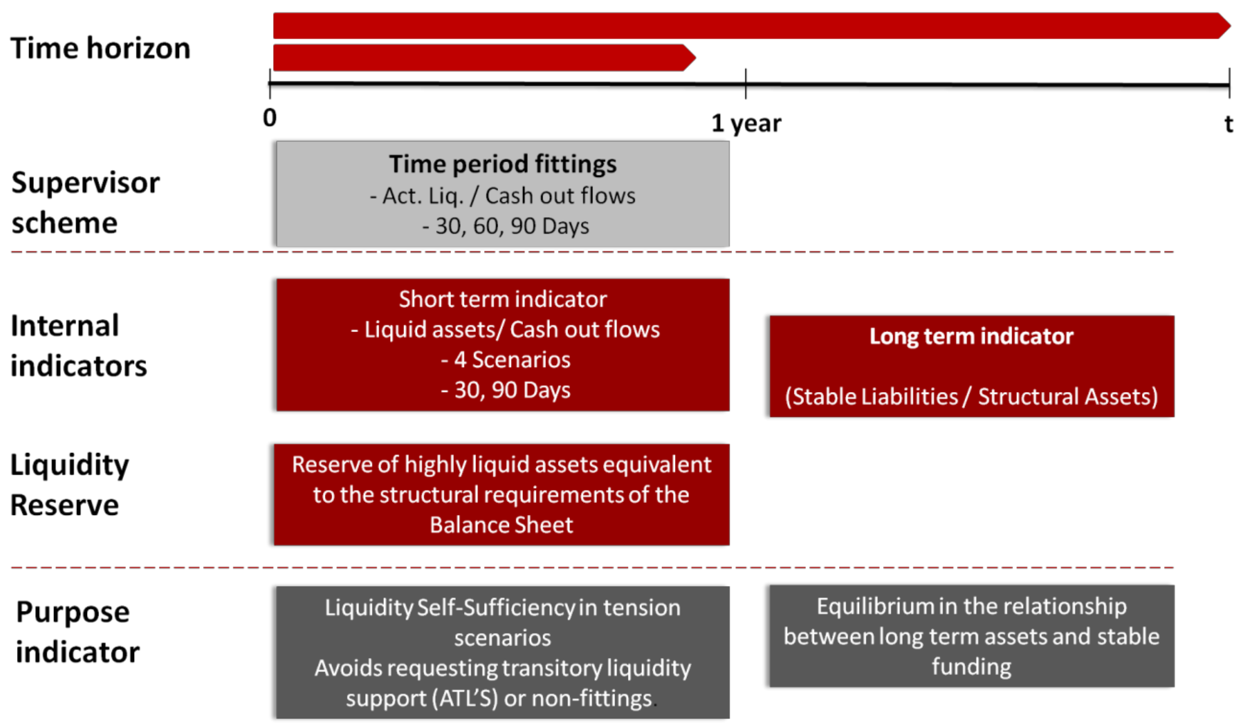
10.2.2.2. Liquidity risk

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 unanticipated stressful 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 Supervisors´ 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 methodologies 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 definitely of a permanent nature.

(Millions of Colombian Pesos (COP))

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 in 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 and December 31, 2016.

	December 31, 2017			
Bands	Minimum	Average	Maximum	Latest
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

	December 31, 2016			
Bands	Minimum	Average	Maximum	Latest
7 days	5,651,266	6,487,812	7,892,271	6,064,716
15 days	3,901,413	5,055,902	6,757,674	4,365,903
30 days	1,883,429	2,937,136	4,464,959	2,005,226

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 2.9 billion pesos on average for 2017. 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 Bank of the Republic 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, 2017 and December 31, 2016.

December 31, 2017

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Term deposits	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
Bank 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

(Millions of Colombian Pesos (COP))

December 31, 2016

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Term deposits	2,350,083	4,254,650	7,196,645	6,106,195	67,073	19,974,646
Savings and checking accounts (*)	26,671,599	-	-	-	-	26,671,599
Bonds	104,363	237,888	1,171,570	5,458,603	5,756,707	12,729,131
Bank borrowings	58,057	309,305	2,198,372	1,441,662	2,641,084	6,648,480
	29,184,102	4,801,843	10,566,587	13,006,460	8,464,864	66,023,856

(*) 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

The Bank permanently review 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, contribute to achievement of the Bank´s.

During 2017, the Organizational Culture, which is part of the Control Environment, continued to be strengthened; awareness-raising and virtual training strategies were developed for the Code of Ethics, Corporate Governance Code, Disciplinary Code and the importance that these guidelines are a part of the philosophy of life of all officials, in addition it reinforces the relevance of the principle of self-control as a basis for conducting the monitoring of processes.

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

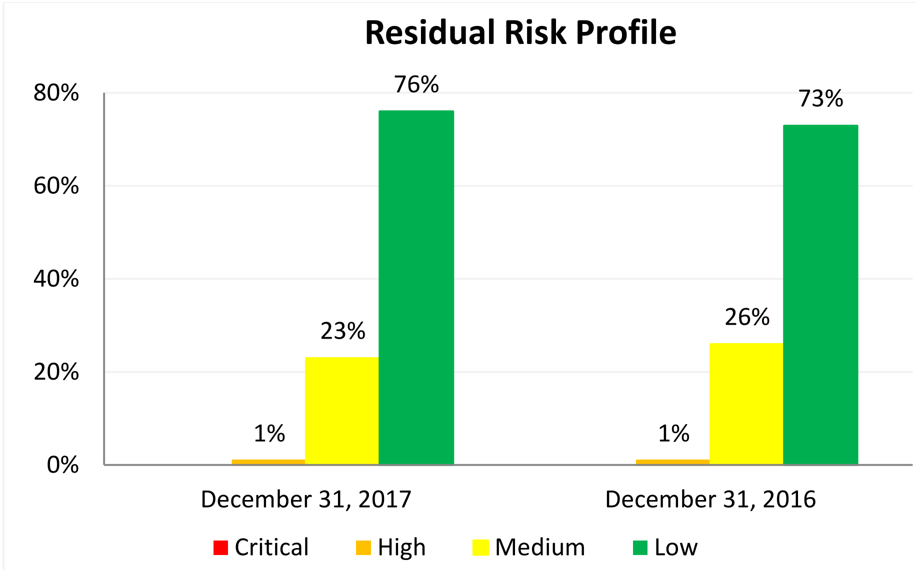
In 2017, the Bank developed its customer service model ensuring that interaction with the customer is predominantly a friendly, reliable and simple one, strengthening the following basic elements:

- Culture of attention, service and respect.
- 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.

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 comparative chart as of December 31, 2017 and December 31, 2016:

(Millions of Colombian Pesos (COP))



December 31,2017					December 31,2016				
Risks				Controls	Risks				Controls
Low	Medium	High	Critical		Low	Medium	High	Critical	
471	139	6	-	1.660	456	163	6	-	1.592

10.2.5. Operating Risk Management System - SARO

In 2017 the Bank continued to develop action plans to strengthen the foundations of new strategies to secure key controls relevant to sensitive processes that could potentially affect the Bank.

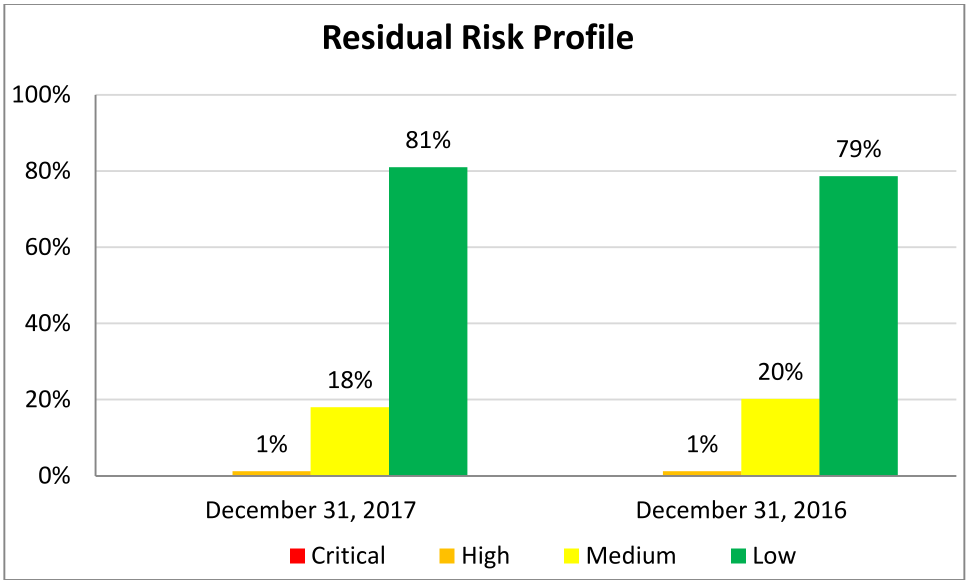
The key operating risk controls require permanent monitoring for compliance: results to be applied to the mitigation of risk, ensuring that the most important processes are properly protected.

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 avoid a repetition.

Operating Risk management follows Board-approved policies and is adequately executed as seen in the comparative charts at December 31, 2017 and December 31, 2016:

(Millions of Colombian Pesos (COP))



December 31,2017						December 31,2016					
Processes	Risks				Controls	Processes	Risks				Controls
	Low	Medium	High	Critical			Low	Medium	High	Critical	
133	1,274	277	13	-	3,686	131	1,197	307	18	-	3.,05

10.2.6. System of Risk Management of Money Laundering and Financing of Terrorism (SARLAFT)

The Bank and its Subsidiaries have 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; with the purpose of avoiding 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, the AML-FT compliance program is periodically evaluated by control bodies such as Internal Audit and Statutory Audit.

The application of the compliance program in 2017 made it possible to determine that the evolution of consolidated risk of risk factors has remained stable during the year and within exposure thresholds categorized as low.

The AML-FT Compliance Program is supported by a culture and organizational structure, policies, controls and procedures that are known and applied by the entire organization and which include the entire Colombian regulatory framework, as well as international recommendations and best practices in this matter, especially those of the Financial Action Task Force "FATF".

The procedures and rules of conduct regarding the application of all control mechanisms and instruments are brought together in the Compliance Manual and the Code of Conduct which is known and accessible to all staff of the Grupo Bolivar companies. The Bank conducts regular training programs aimed at its officials, third parties, allies, suppliers, among others, seeking to create awareness and commitment in each of them in the mitigation of money laundering offenses and / or financing of terrorism through the entities of the group.

In compliance with the established norms, the Board of Directors appointed a Compliance Officer and his deputy, who are properly named before the Financial Superintendence of Colombia.

The Bank and its Subsidiaries have adopted an organizational culture, policies, controls and procedures to comply with the guidelines established by the Foreign Accounts Tax Compliance Act (FATCA), for which purpose our companies are registered with the IRS and have obtained the respective Global Intermediary Identification Number (GIIN), with which they certify their adhesion to FATCA.

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 with the projects and activities financed.

The SARAS methodology takes into account the local environmental and 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, SARAS is applied when granting credit to customers in the Corporate, Construction and Business segments. The SARAS has formed part of the structure and approval of loans for the 4-G highway infrastructure projects; and is applied to the evaluation of the Bank´s strategic suppliers local

Commercial, operating and risks staff involved in the SARAS process are provided with sensitization and training in relation to the policies of the system, to ensure that it is implemented as intended

Davivienda continues to participate in the Green Protocol Committee during 2017, and was its Chair in 2017 The Green Protocol initiative of the Colombian financial sector, the bankers´ association Asobancaria and the Government and is a means of promotion of the sustainable development of natural resources through the implementation of strategies and tools of common benefit and the socialization of good practices for and institutionalization of the management of environmental and social risks within the financial entities involved

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 will be working on the leveraging of the digital strategies of the Bank and Subsidiaries at home and abroad through a solution that facilitates interaction between Bank channels and authentication factors, in order to enhance customer transaction security

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

(Millions of Colombian Pesos (COP))

10.2.9. Information Security – Cybersecurity

During 2017, the Bank, through the Department of Information Security Management, focused on new strategies and developed a series of projects designed to mitigate information security and cybersecurity risks with the maturing of processes and the implementation of new tools to increase the capacity to detect, respond to and promptly contain ; possible attacks on computer systems and through the internet. Among the most important of these initiatives there was the implementation of anti-malware tools, tools and a process of correlation and security monitoring, control tools to protect against customer malware, special tests for intruders to evaluate the security position and response to possible attacks, the initiation of an optimization plan for the process of identity management and access to applications, amongst other thing.

In terms of processes and regulation. Policies, Rules and procedures have been updated to meet business needs as a function of the need to have adequate controls for the mitigation of threats and risks associated with information assets. Also, a training and sensitization plan was implemented regularly, addressed to all staff and third parties, to generate awareness and commitment on the protection of information and the mitigation of risks.

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, 2017 and December 31, 2016 and the impact of Master Netting Agreements and the remittance of collateral.

December 31, 2017

	Gross financial assets recognized	Net amount of financial assets appearing in the Statement of Financial Position	Amounted not netted in the Statement of Financial Position: Impact of Master Netting Agreements	Cash collateral	Collateral in debt securities	Net amount
Assets						
Interbank and overnight funds	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						
Interbank and overnight funds	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

(Millions of Colombian Pesos (COP))

December 31, 2016

	Gross financial assets recognized	Net amount of financial assets appearing in the Statement of Financial Position	Amounted not netted in the Statement of Financial Position			Net amount
			Impact of Master Netting Agreements	Cash collateral	Collateral in debt securities	
Assets						
Interbank and overnight funds	67,876	67,876	-	-	44,670	23,206
Derivatives	238,447	238,447	175,718	10,572	-	52,157
	306,323	306,323	175,718	10,572	44,670	75,363
Liabilities						
Interbank and overnight funds	1,608,208	1,608,208	-	-	1,675,706	(67,498)
Derivatives	246,106	246,106	175,718	3,931	-	66,457
	1,854,314	1,854,314	175,718	3,931	1,675,706	(1,041)

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 the Available

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

	December 31,2017	December 31,2016
Local currency		
Cash and bank balances	2,763,111	3,739,520
Clearing and remittances in transit	29,850	38,951
	2,792,961	3,778,471
Foreign Currency		
Cash and bank balances	1,280,183	1,151,515
Clearing and remittances in transit	8,842	3,370
	1,289,025	1,154,885
	4,081,986	4,933,356

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 31,2017	December 31,2016
Average of required reserve	3,389,598	3,283,231
Average of available reserve	4,196,469	3,324,556

Additionally, according to present regulations, the Miami Branch must maintain a cash reserve with the Federal Reserve Bank. The average amount was approximately US$107 and US$102 at December 31, 2017 and December 31, 2016, 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 31,2017	December 31,2016
Sovereign/Central Bank guarantee	1,202,228	2,406,159
Investment grade	2,879,758	2,527,197
	4,081,986	4,933,356

12.2. Interbank and overnight funds

December 31,2017

	Amount in Million Dollars	Rate	Date Initial	Date 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					
Securities Brokers		4,75% - 5,75%	07/12/2017	30/01/2018	60,258
Others		4,25% - 4,80%	05/12/2017	17/01/2018	1,043,494
Trust Companies		4,75% - 4,80%	26/12/2017	04/01/2018	66,732
Interbank funds					
Banks/Financial Institutions		4,52% - 4,55%	26/12/2017	02/01/2018	89,047
					1,337,235

December 31,2016

	Amount in Million Dollars	Rate	Date Initial	Date Final	Amount in Col$
Foreign Currency					
Interbank funds	USD 25	0,76% - 0,84%	14/08/2014	13/03/2017	75,981
Local currency					
Simultaneous operations					
Others		6,00% - 7,55%	20/12/2016	06/01/2017	67,876
Interbank funds					
Banks/Financial Institutions		7,35%	26/12/2016	02/01/2017	9,009
					152,866

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

	December 31,2017	December 31,2016
Investment grade	1,337,235	152,866
	1,337,235	152,866

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 31,2017 Cost	Provision	Net	December 31,2016 Cost	Provision	Net
Negotiable Instruments						
Equity Instruments	17,621	-	17,621	23,911	-	23,911
Private Debt Bonds	205,182	-	205,182	121,964	-	121,964
Public Debt issues except TES	78,462	-	78,462	53,428	-	53,428
CDT	195,722	-	195,722	199,056	-	199,056
Other nations Sovereign debt	-	-	-	16,691	-	16,691
Collective Investment, Pension and Trust Funds	1,644,466	-	1,644,466	1,725,439	-	1,725,439
Mandatory Investments	-	-	-	5,166	-	5,166
Credit Security	-	-	-	1,362	-	1,362
Mortgage Securities and Real Property titles	93,882	1,065	92,817	107,246	3,299	103,947
TES Securities	2,151,645	-	2,151,645	1,884,770	-	1,884,770
	4,386,980	1,065	4,385,915	4,139,033	3,299	4,135,734
Available for sale						
Debt Securities						
Private Debt Bonds	15,279	-	15,279	1,646	-	1,646
Mortgage securities and TIPS	170,548	139	170,409	174,122	307	173,815
TES securities	1,289,890	-	1,289,890	200,080	-	200,080
Equity Instruments	318,574	4,375	314,199	236,771	4,375	232,396
	1,794,291	4,514	1,789,777	612,619	4,682	607,937
To be maintained until expiry						
Mandatory Investments	838,323	-	838,323	836,148	-	836,148
Mortgage Securities and Real Property titles	557,063	2,959	554,104	534,892	1,396	533,496
	1,395,386	2,959	1,392,427	1,371,040	1,396	1,369,644
	7,576,657	8,538	7,568,119	6,122,692	9,377	6,113,315

The following is the detail of provisions:

	December 31,2017	December 31,2016
By Issuer		
Corporate	4,375	4,375
Securitizations	4,163	5,002
	8,538	9,377

(Millions of Colombian Pesos (COP))

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

Detailed below is the investments in financial instruments rating according to the risk rating agent and Provision:

	December 31,2017			December 31,2016		
	Cost	% share	Provision	Cost	% share	Provision
Long-term rating						
AAA	1,305,658	17.2%	-	1,267,275	20.7%	-
AA+	92,907	1.2%	-	74,403	1.2%	-
AA	36,749	0.5%	-	31,403	0.5%	-
AA-	80,129	1.1%	-	43,614	0.7%	-
A+	38,412	0.5%	-	36,498	0.6%	-
A	21,219	0.3%	-	54,902	0.9%	-
A-	48,613	0.6%	-	42,373	0.7%	-
BBB+	210,261	2.8%	-	154,680	2.5%	-
BBB	98,091	1.3%	-	67,925	1.1%	-
BBB-	35,331	0.5%	-	23,120	0.4%	-
BB+	13,783	0.2%	1,502	5,527	0.1%	576
BB	2,749	0.0%	287	24,103	0.4%	3,059
BB-	-	0.0%	-	1,334	0.0%	139
B+	7,954	0.1%	2,374	883	0.0%	317
B	-	0.0%	-	3,036	0.0%	911
Equity Instruments	336,195	4.4%	4,375	260,682	4.3%	4,375
Sovereign (*)	3,519,998	46.5%	-	2,154,969	35.2%	-
No rating	1,644,466	21.7%	-	1,725,439	28.2%	-
Short-term rating						
1	65,065	0.9%	-	131,330	2.1%	-
2	19,077	0.3%	-	19,196	0.3%	-
	7,576,657	100.0%	8,538	6,122,692	100.0%	9,377

(*) 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 31,2017		December 31,2016	
	Cost	Provision	Cost	Provision
Foreign Currency				
Foreign Banks	72,867	-	55,927	-
Corporate	46,923	-	40,119	-
Foreign governments	-	-	16,691	-
Colombian government	58,085	-	40,692	-
Financial Institutions	26,147	-	6,248	-
Multilateral Credit organizations	14,455	-	14,487	-
	218,477	-	174,164	-
Local currency				
Corporate	86,647	4,375	26,224	4,375
Colombian government	3,461,914	-	2,097,587	-
Financial Institutions	2,988,127	-	3,008,458	-
Securitizations	821,492	4,163	816,259	5,002
	7,358,180	8,538	5,948,528	9,377
	7,576,657	8,538	6,122,692	9,377

12.3.4. Classification by currency

The following are investment financial instruments by currency:

	December 31,2017	December 31,2016
Pesos	5,905,954	5,637,694
UVR (*)	1,452,226	310,834
US Dollars	200,856	150,253
Canadian Dollars	17,621	23,911
	7,576,657	6,122,692

(*) Real Value Unit

(Millions of Colombian Pesos (COP))

12.3.5. Classification by investment maturities (does not include shares)

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

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

December 31,2016

	0-1 year	1-5 years	5-10 years	Over 10 years	Total
Negotiable Instruments	2,723,315	1,094,368	150,130	147,309	4,115,122
Available for sale	146,708	18,789	126,588	83,763	375,848
To be maintained until expiry	836,148	9,383	346,285	179,224	1,371,040
	3,706,171	1,122,540	623,003	410,296	5,862,010

The following is the credit quality of investments:

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

December 31,2016

	Fair Value		
Credit Quality	Debt	Equity Instruments	Amortized cost
Investment grade	586,724	-	1,359,995
Issued and guaranteed by the Nation and/or the Central Bank	2,154,969	-	-
Speculative	23,838	-	11,045
No rating or no rating available	1,725,439	260,682	-
	4,490,970	260,682	1,371,040

12.3.6. Provision (Impairment) of investments

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

	December 31,2017	December 31,2016
Opening balance	9,377	9,580
Plus:		
Provision	1,891	585
Less:		
Recoveries	(2,730)	(788)
Closing balance	8,538	9,377

(Millions of Colombian Pesos (COP))

12.3.7. Investment in Subsidiaries and associates

The following is the investment detail in Subsidiaries and Associates:

December 31,2017

Name	Country	% share	Acquisition cost	MPP (*)	Adjusted cost	Dividends
International Subsidiaries						
Banco Davivienda Panamá S.A.	Panamá	100.0%	218,290	234,537	463,978	-
Banco Internacional Davivienda 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
Sigma	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 Share Method

As of January 1, 2017 and in compliance with Decree 2496 of December 23, 2015, the equity share method in Separate Financial Statements for investments in Associates is implemented, as permitted by NIC 27 amendment, having an effect in book Value of investments in Associates, a Value lesser tan $189 Million Pesos.

December 31,2016

Name	Country	% share	Acquisition cost	MPP (*)	Adjusted cost	Dividends
International Subsidiaries						
Banco Davivienda Panamá S.A.	Panamá	100.0%	218,290	194,606	424,047	-
Banco Internacional Davivienda S.A.	Panamá	100.0%	77,507	20,847	100,781	-
Grupo del Istmo Costa Rica S.A.	Costa Rica	97.3%	553,872	218,330	829,930	-
Inversiones Financieras Davivienda S.A.	El Salvador	96.1%	746,487	260,867	1,042,202	14,509
Banco Davivienda Honduras S.A.	Honduras	94.2%	229,889	99,114	361,976	-
Seguros Bolívar Honduras S.A.	Honduras	88.6%	68,895	14,832	80,444	6,544
			1,894,940	808,596	2,839,380	21,053
Colombian Subsidiaries						
Corredores Davivienda S.A.	Colombia	91.6%	123,269	8,271	133,565	6,675
Fiduciaria Davivienda S.A.	Colombia	94.7%	150,320	46,859	182,974	14,205
Sigma	Colombia	100.0%	475	688	1,163	-
			274,064	55,818	317,702	20,880
Associates						
Redeban Multicolor S.A.	Colombia	26.0%	18,816	-	18,816	-
Titularizadora Colombiana S.A.	Colombia	26.9%	28,741	-	40,643	3,854
			47,557	-	59,459	3,854
			2,216,561	864,414	3,216,541	45,787

(*) Equity Method

The following is the Value of the homogenized asset, liability and equity, as the basis to calculate the equity method:

(Millions of Colombian Pesos (COP))

December 31,2017

	Share	Total Assets	Total Liabilities	Total Equity	P&L
Subsidiaries					
FiduDavivienda 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
Sigma	100.0%	1,519	575	944	658
Banco Davivienda Panamá Lic General	100.0%	3,859,746	3,399,541	460,205	38,200
Banco Davivienda Panamá Lic Internacional	100.0%	468,334	300,460	167,873	11,371
Grupo del Istmo 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 Honduras Davivienda S.A.	94.2%	3,054,648	2,697,643	357,006	24,081
Seguros 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

December 31,2016

	Share	Total Assets	Total Liabilities	Total Equity	P&L
Subsidiaries					
FiduDavivienda S.A.	94.7%	209,414	16,203	193,211	35,007
Corredores Davivienda S.A.	91.6%	219,294	153,571	65,723	7,115
Sigma	100.0%	1,714	551	1,163	667
Banco Davivienda Panamá Lic General	100.0%	3,816,913	3,392,538	424,375	22,932
Banco Davivienda Panamá Lic Internacional	100.0%	466,694	370,014	96,680	9,041
Grupo del Istmo S.A.	97.3%	8,004,089	7,284,415	719,674	54,834
Inversiones Financieras Davivienda S.A.	96.1%	6,909,906	6,050,781	859,125	77,302
Banco Honduras Davivienda S.A.	94.2%	3,053,395	2,719,550	333,845	44,024
Seguros Honduras S.A.	88.6%	237,932	156,794	81,137	19,832
		22,919,351	20,144,417	2,774,933	270,754

The following is the investment detail in Associates:

	December 31, 2017 (*)	December 31, 2016 (**)
Opening balance	59,459	63,779
Derecognition (Multiactivos S.A. liquidation)	-	(4,320)
Implementation Associates method	(416)	-
Closing balance	59,043	59,459

* All dividends were received in cash.
** Dividends received at December 31, 2016 are $3,854 cash and $1,477 shares

12.3.8. Joint Operations

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

	December 31,2017			December 31,2016		
	Assets	Liabilities	% Share	Assets	Liabilities	% Share
Loan Portfolio	71,890	-		48,043	-	
Interest	1,426	-	50%	923	-	50%
Other collections	532	-		366	-	
	73,848	-		49,332	-	

Shares in Joint operations in assets include:

	December 31,2017	December 31,2016
In Colombian Pesos		
Loan Portfolio	71,890	48,043
Interest	1,426	923
Other collections	532	366
	73,848	49,332

Joint operations shares do not include balances in liabilities.

(Millions of Colombian Pesos (COP))

The following is the movement of Joint operations:

	December 31,2017	December 31,2016
Opening balance	49,332	25,186
Growth of loan portfolio, interest and other collections	24,516	24,146
Closing balance	73,848	49,332

12.4. Derivatives

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

December 31,2017

Product	Assets		Liabilities		Total
	Notional Amount	Fair Value	Notional Amount	Fair Value	
Cash transactions	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)

December 31,2016

Product	Assets		Liabilities		Total
	Notional Amount	Fair Value	Notional Amount	Fair Value	
Cash transactions	-	59	-	64	(5)
Options Contracts	1,028,733	22,561	977,428	22,395	166
Futures Contracts	2,107,664	-	2,107,664	-	-
Swaps Contracts	14,940,972	122,729	16,815,093	125,199	(2,470)
Forwards Contracts	5,132,418	93,157	6,033,350	98,512	(5,355)
	23,209,787	238,506	25,933,535	246,170	(7,664)

The result of speculative derivatives is the following:

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)

(Millions of Colombian Pesos (COP))

December 31,2016

		Forward	Futures	Swaps	Options	Total
Currency purchases	Right	5,247,922	1,126,154	104,717	-	6,478,793
	Obligation	5,310,369	1,126,154	105,269	-	6,541,792
Currency sales	Right	5,735,773	931,422	89,821	-	6,757,016
	Obligation	5,678,315	931,422	90,384	-	6,700,121
Securities purchases	Right	26,311	116,884	-	-	143,195
	Obligation	25,675	116,884	-	-	142,559
Securities sales	Right	201,169	328,754	-	-	529,923
	Obligation	202,171	328,754	-	-	530,925
Interest rate	Right	-	-	3,028,581	-	3,028,581
	Obligation	-	-	3,029,936	-	3,029,936
Call options	Purchase	-	-	-	1,418	1,418
	Sell	-	-	-	(20,208)	(20,208)
Put options	Purchase	-	-	-	21,143	21,143
	Sell	-	-	-	(2,187)	(2,187)
Total rights		11,211,175	2,503,214	3,223,119	-	16,937,508
Total obligations		11,216,530	2,503,214	3,225,589	-	16,945,333
Total Net		(5,355)	-	(2,470)	166	(7,659)

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

December 31,2017

	Less than 1 year	1-5 years	5-10 years	Over 10 years	Total
Cash transactions	(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)

December 31,2016

	Less than 1 year	1-5 years	5-10 years	Over 10 years	Total
Cash transactions	(5)	-	-	-	(5)
Options Contracts	166	-	-	-	166
Swaps Contracts	5,427	(3,512)	(4,381)	(4)	(2,470)
Forwards Contracts	(11,285)	5,930	-	-	(5,355)
	(5,697)	2,418	(4,381)	(4)	(7,664)

Credit Quality of derivatives

The following is the credit quality of derivatives portfolio, according to the rating by independent risk rating agents to the counterparties with which we have derivate contracts:

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

December 31,2016

Credit Quality	Options Contracts	Futures Contracts	Swaps Contracts	Forwards Contracts
Investment grade	22,241	-	122,052	54,471
No rating or no rating available	320	-	677	38,686
	22,561	-	122,729	93,157

(Millions of Colombian Pesos (COP))

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 31,2017	December 31,2016
Commercial Loans		
Corporate and construction	18,877,093	18,934,248
Other commercial lines	7,505,709	6,726,280
Financial Leasing	2,317,622	1,838,313
Credit Card	425,324	372,107
Vehicles	753,500	717,023
Overdraft	168,993	130,594
	30,048,241	28,718,565
Home Mortgage (1)		
Home Mortgage	7,081,219	6,365,128
Residential Leasing	7,403,938	6,250,861
	14,485,157	12,615,989
Consumer Loans		
Credit Card	3,871,617	3,592,248
Other consumer lines	10,698,282	9,614,870
Vehicles	2,092,198	1,935,951
Overdraft	31,427	34,355
Financial Leasing	19,569	20,846
	16,713,093	15,198,270
Microcredit Loans		
Financial Leasing	545	867
Microcredit	99,673	116,955
	100,218	117,822
Gross Loans	61,346,709	56,650,646
Less individual Provision	(2,820,331)	(2,230,345)
Less general Provision	(146,282)	(127,702)
Total loans, net	58,380,096	54,292,599

(1) Includes employee loans of $196.039 at December 31, 2017 and $ 194.212 at December 31, 2016.

12.5.2. Social Housing (VIS)

The Bank placed funds for $2,192,420 corresponding to individual loans for $1,355,549 and construction loans for $836,871 at December 31, 2017, and $2,046,485 corresponding to individual loans for $1,085,311 and construction loans for $961,175 at December 31, 2016.

The following is the balance and amount of portfolio loans for VIS:

	December 31,2017		December 31,2016	
	# of Obligations	Value	# of Obligations	Value
Individual loans	157,146	4,810,774	148,041	4,308,724
Construction loans	162	648,414	197	667,669
Leasing	278	5,246	323	6,274
	157,586	5,464,434	148,561	4,982,667

(Millions of Colombian Pesos (COP))

12.5.3. Subsidized Loans

The following are the subsidized loan balances:

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 >235 MMW up to 335 MMW	2.5%	7,449	693,380	431,534
2480/2014 161/2014	0 MMW up to 70 MMW	5.0%	18,659	431,524	426,207
428/2015 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 >235 MMW up to 335 MMW	2.5%	10,289	1,163,624	1,015,571
			135,552	6,173,135	4,846,804

December 31,2016

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%	26,763	765,641	548,804
	>135 up to 235	4.0%	4,013	246,288	157,725
	>235 up to 335	3.0%	2,730	239,312	145,391
			33,506	1,251,241	851,920
1190/2012	VIS up to 70	5.0%	13,624	307,877	289,394
	>70 up to 135	4.0%	40,446	1,726,329	1,608,557
			54,070	2,034,206	1,897,951
0701/2013	>135 MMW up to 235 MMW >235 MMW up to 335 MMLV	2.5%	8,164	759,580	636,103
2480/2014 161/2014	0 MMW up to 70 MMW	5.0%	12,838	296,105	295,399
428/2015	>70 MMW up to 135 MMW	4.0%	2,300	114,178	112,719
2500/2015	>135 MMW up to 235 MMW >235 MMW up to 335 MMW	2.5%	4,438	466,718	456,188
			115,316	4,922,028	4,250,280

(Millions of Colombian Pesos (COP))

12.5.4. Loan and Financial Leasing Portfolio by risk level

The following are portfolio loans by risk rating:

December 31,2017

						Provisions		
Rating	Capital	Interest	Others	Total	Permissible Collateral	Capital	Interest	Others
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	-	-	-	-	-	(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

(Millions of Colombian Pesos (COP))

December 31,2016

Rating	Capital	Interest	Others	Total	Permissible Collateral	Provisions Capital	Provisions Interest	Provisions Others
Commercial								
A - Normal	24,937,442	277,301	8,777	25,223,520	20,837,776	(388,529)	(4,935)	(418)
B - Acceptable	1,118,374	23,669	792	1,142,835	900,276	(105,554)	(2,428)	(197)
C - Appreciable	321,986	6,571	551	329,108	374,428	(53,053)	(5,131)	(498)
D - Significant	399,449	14,686	2,094	416,229	472,378	(228,134)	(14,686)	(2,094)
E - Uncollectible	103,001	1,900	412	105,313	173,545	(89,344)	(1,900)	(412)
	26,880,252	324,127	12,626	27,217,005	22,758,403	(864,614)	(29,080)	(3,619)
Consumer								
A - Normal	13,773,622	129,239	36,300	13,939,161	3,551,388	(414,382)	(4,934)	(1,450)
B - Acceptable	464,896	10,170	1,920	476,986	103,591	(58,338)	(2,182)	(560)
C - Appreciable	345,066	6,364	1,281	352,711	104,560	(66,839)	(5,908)	(1,201)
D - Significant	365,675	9,308	1,929	376,912	76,458	(318,361)	(9,308)	(1,929)
E - Uncollectible	228,165	4,383	2,148	234,696	111,309	(218,986)	(4,383)	(2,148)
	15,177,424	159,464	43,578	15,380,466	3,947,306	(1,076,906)	(26,715)	(7,288)
Home Mortgage								
A - Normal	6,064,056	28,188	8,332	6,100,576	14,310,282	(60,184)	(1,863)	(1,282)
B - Acceptable	175,829	589	1,129	177,547	458,654	(7,099)	(589)	(1,129)
C - Appreciable	86,013	330	1,073	87,416	222,544	(8,651)	(330)	(1,073)
D - Significant	21,438	79	490	22,007	57,281	(6,438)	(79)	(490)
E - Uncollectible	17,792	103	742	18,637	48,443	(17,792)	(103)	(742)
	6,365,128	29,289	11,766	6,406,183	15,097,204	(100,164)	(2,964)	(4,716)
General Provision (impairment Home)	-	-	-	-	-	(63,850)	-	-
	6,365,128	29,289	11,766	6,406,183	15,097,204	(164,014)	(2,964)	(4,716)
Microcredit								
A - Normal	105,740	1,093	405	107,238	154,993	(4,335)	(99)	(59)
B - Acceptable	3,184	20	29	3,233	4,587	(689)	(20)	(29)
C - Appreciable	2,102	15	26	2,143	2,685	(915)	(15)	(26)
D - Significant	1,447	10	20	1,477	1,796	(1,447)	(10)	(20)
E - Uncollectible	4,482	51	124	4,657	5,854	(4,482)	(51)	(124)
	116,955	1,189	604	118,748	169,915	(11,868)	(195)	(258)
General Provision (impairment Microcredit)	-	-	-	-	-	(1,170)	-	-
	116,955	1,189	604	118,748	169,915	(13,038)	(195)	(258)
Loans (*)	48,539,759	514,069	68,574	49,122,402	41,972,828	(2,118,572)	(58,954)	(15,881)

* Does no include Leasing Loans

(Millions of Colombian Pesos (COP))

The following is the Financial Leasing by risk rating:

December 31,2017

Rating	Capital	Interest	Others	Total	Permissible	Provisions Capital	Provisions Interest	Provisions Others
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)

(Millions of Colombian Pesos (COP))

December 31,2016

Rating	Capital	Interest	Others	Total	Permissible	Provisions Capital	Provisions Interest	Provisions Others
Commercial								
A - Normal	1,674,422	13,181	2,417	1,690,020	2,852,295	(36,116)	(634)	(274)
B - Acceptable	63,377	1,040	330	64,747	107,247	(2,614)	(95)	(89)
C - Appreciable	33,281	597	230	34,108	47,009	(5,388)	(495)	(198)
D - Significant	43,750	1,798	1,031	46,579	92,145	(20,159)	(1,798)	(1,031)
E - Uncollectible	23,483	955	3,619	28,057	76,287	(18,088)	(955)	(3,619)
	1,838,313	17,571	7,627	1,863,511	3,174,983	(82,365)	(3,977)	(5,211)
Consumer								
A - Normal	18,765	186	48	18,999	11,583	(545)	(7)	(3)
B - Acceptable	355	7	9	371	364	(43)	(1)	(6)
C - Appreciable	466	4	8	478	254	(133)	(3)	(8)
D - Significant	469	15	9	493	213	(397)	(15)	(9)
E - Uncollectible	791	18	278	1,087	1,093	(788)	(18)	(278)
	20,846	230	352	21,428	13,507	(1,906)	(44)	(304)
Home mortgage								
A - Normal	6,047,812	27,312	7,137	6,082,261	13,777,702	(61,779)	(1,415)	(796)
B - Acceptable	126,334	609	578	127,521	253,760	(5,063)	(609)	(578)
C - Appreciable	45,076	266	483	45,825	89,130	(4,635)	(266)	(483)
D - Significant	15,213	91	320	15,624	29,588	(4,564)	(91)	(320)
E - Uncollectible	16,426	202	1,239	17,867	34,982	(16,426)	(202)	(1,239)
	6,250,861	28,480	9,757	6,289,098	14,185,162	(92,467)	(2,583)	(3,416)
General Provision (impairment Home	-	-	-	-	-	(62,674)	-	-
	6,250,861	28,480	9,757	6,289,098	14,185,162	(155,141)	(2,583)	(3,416)
Microcredit								
A - Normal	849	7	3	859	-	(35)	(2)	(2)
E - Uncollectible	18	-	1	19	-	(18)	-	(1)
	867	7	4	878	-	(53)	(2)	(3)
General Provision (impairment Microcredit)	-	-	-	-	-	(9)	-	-
	867	7	4	878	-	(62)	(2)	(3)
Financial Leasing	8,110,887	46,288	17,740	8,174,915	17,373,652	(239,474)	(6,606)	(8,934)

(Millions of Colombian Pesos (COP))

12.5.5. Loan and Financial Leasing Portfolio by economic sector

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

December 31,2017

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%

December 31,2016

Sector	Commercial	Consumer	Home	Financial Leasing	Microcredit	Total	% Share
Farming, livestock, forestry and fishing	1,579,490	-	-	85,052	1,945	1,666,487	2.94%
Mining and quarries	442,632	-	-	17,309	-	459,941	0.81%
Manufacturing industry	4,171,857	-	-	312,159	2,406	4,486,422	7.92%
Electricity, Gas, Steam & Air conditioning supply	2,379,391	-	-	3,585	39	2,383,015	4.21%
Water supply, removal of wastewater, waste and decontamination management	63,331	-	-	9,188	163	72,682	0.13%
Construction	5,372,994	-	-	113,897	552	5,487,443	9.69%
Wholesale and retail; Vehicles and motorcycles	4,017,174	-	-	331,938	6,275	4,355,387	7.69%
Transport and storage	2,627,275	-	-	328,967	86,173	3,042,415	5.37%
Accommodation and catering services	161,137	-	-	40,746	405	202,288	0.36%
Information and communication	971,575	-	-	29,034	237	1,000,846	1.77%
Finance and Insurance	1,508,702	-	-	11,236	117	1,520,055	2.68%
Real Property	933,154	-	-	139,143	85	1,072,382	1.89%
Professional, scientific and technical	540,220	-	-	100,971	4,183	645,374	1.14%
Administrative and support services	338,404	-	-	79,466	1,034	418,904	0.74%
Public administration and defense; mandatory social security schemes.	482,374	-	-	643	22	483,039	0.85%
Education	192,491	-	-	36,626	184	229,301	0.40%
Health care and social assistance	447,842	-	-	57,252	141	505,235	0.89%
Artistic, entertainment and recreational activities	150,196	-	-	3,260	-	153,456	0.27%
Other service activities	75,330	-	-	7,446	87	82,863	0.15%
Household activities as employers; undifferentiated activities of household as goods and services producers for own use.	7,717	-	-	2,517	-	10,234	0.02%
Salaried workers	239,191	15,177,424	6,365,128	6,371,426	11,843	28,165,012	49.72%
Rentiers (Individuals)	177,775	-	-	29,026	1,064	207,865	0.37%
	26,880,252	15,177,424	6,365,128	8,110,887	116,955	56,650,646	100.00%

(Millions of Colombian Pesos (COP))

12.5.6. Loan and Financial Leasing Portfolio by geographical zone

The following is Loan Portfolio by geographical zone:

	December 31,2017	December 31,2016
Commercial Loans		
Bogotá	12,735,576	12,609,916
Antioquia	6,031,786	5,733,200
Northeast	4,743,412	4,447,289
Southwest	3,283,025	3,186,861
Total Colombia	26,793,799	25,977,266
Miami Branch	936,820	902,986
	27,730,619	26,880,252
Consumer Loans		
Bogotá	7,827,589	7,072,124
Antioquia	3,106,760	2,757,468
Northeast	3,473,564	3,263,352
Southwest	2,283,746	2,082,820
Total Colombia	16,691,659	15,175,764
Miami Branch	1,865	1,660
	16,693,524	15,177,424
Microcredit		
Bogotá	77,414	92,814
Antioquia	9,316	11,348
Northeast	12,073	12,793
Southwest	870	-
Total Colombia	99,673	116,955
	99,673	116,955
Home Mortgage		
Bogotá	4,418,317	4,170,269
Antioquia	800,192	688,941
Northeast	1,171,577	913,533
Southwest	691,133	592,385
Total Colombia	7,081,219	6,365,128
	7,081,219	6,365,128
	51,605,035	48,539,759

(Millions of Colombian Pesos (COP))

The following is the Financial Leasing Portfolio by geographical zone:

	December 31,2017	December 31,2016
Commercial		
Bogotá	1,545,739	1,228,173
Antioquia	287,656	289,743
Northeast	206,959	191,370
Southwest	131,673	129,027
Total Colombia	2,172,027	1,838,313
Miami Branch	145,595	-
	2,317,622	1,838,313
Consumer		
Bogotá	16,377	17,663
Antioquia	1,779	1,784
Northeast	905	758
Southwest	508	641
Total Colombia	19,569	20,846
	19,569	20,846
Microcredit		
Bogotá	501	765
Antioquia	44	102
Total Colombia	545	867
	545	867
Home		
Bogotá	3,456,680	2,949,683
Antioquia	1,610,753	1,377,559
Northeast	1,463,184	1,200,764
Southwest	873,321	722,855
Total Colombia	7,403,938	6,250,861
	7,403,938	6,250,861
	9,741,674	8,110,887

12.5.7. Loan and Financial Leasing Portfolio by monetary unit

The following is the Loan and Financial Leasing Portfolio by monetary unit:

December 31,2017

Item	Local currency	Foreign Currency	UVR	Total
Commercial	20,126,307	4,661,229	2,943,083	27,730,619
Microcredit	99,673	-	-	99,673
Consumer	16,610,281	83,243	-	16,693,524
Home Mortgage (1)	5,310,281	-	1,770,938	7,081,219
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

December 31,2016

Item	Local currency	Foreign Currency	UVR	Total
Commercial	19,450,999	4,929,538	2,499,715	26,880,252
Microcredit	116,955	-	-	116,955
Consumer	15,088,069	89,355	-	15,177,424
Home Mortgage (1)	4,634,679	-	1,730,449	6,365,128
Financial Leasing (1)	7,608,327	-	502,560	8,110,887
	46,899,029	5,018,893	4,732,724	56,650,646

(1) Includes employees loans

(Millions of Colombian Pesos (COP))

12.5.8. Loan and Financial Leasing Portfolio by maturities

The following is the Loan Portfolio by maturity:

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
Microcredit	6,414	88,931	4,328	-	99,673
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
	9,042,751	23,215,574	12,074,955	7,271,755	51,605,035

December 31,2016

Item	0-1 year	1-5 years	5-10 years	Over 10 years	Total
Commercial	8,288,019	10,867,219	6,262,648	1,462,366	26,880,252
Microcredit	4,650	106,158	6,147	-	116,955
Consumer	1,217,663	10,597,197	3,143,647	218,917	15,177,424
Home Mortgage	7,151	166,527	1,129,478	5,061,972	6,365,128
	9,517,483	21,737,101	10,541,920	6,743,255	48,539,759

The following is the Financial Leasing Portfolio by maturity:

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
Microcredit	68	477	-	-	545
Consumer	1,149	18,080	340	-	19,569
Home Mortgage	3,650	142,144	1,093,163	6,164,981	7,403,938
	192,078	1,041,479	2,228,691	6,279,426	9,741,674

December 31,2016

Item	0-1 year	1-5 years	5-10 years	Over 10 years	Total
Commercial	46,393	738,485	946,119	107,316	1,838,313
Microcredit	33	783	51	-	867
Consumer	1,116	19,247	483	-	20,846
Home Mortgage	2,738	111,382	835,651	5,301,090	6,250,861
	50,280	869,897	1,782,304	5,408,406	8,110,887

12.5.9. Restructured loans

The following is the detail of the restructured loans:

December 31,2017

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

December 31,2016

Item	# of Obligations	Ordinary Restructured	Provision	Collateral
Commercial	2,516	571,930	194,823	704,493
Microcredit	69	1,821	1,426	2,401
Consumer	49,990	1,102,078	285,052	75,208
Home Mortgage	5,687	155,376	14,384	455,069
	58,262	1,831,205	495,685	1,237,171

(Millions of Colombian Pesos (COP))

The following is the detail of restructured Financial Leasing:

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

December 31,2016

Item	# of Obligations	Ordinary Restructured	Provision	Collateral
Commercial	271	44,227	8,169	93,894
Consumer	4	99	57	176
Home Mortgage	575	67,328	4,755	154,660
	850	111,654	12,981	248,730

12.5.9.1. Restructured loans by rating

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

December 31,2017

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

December 31,2016

Item	Commercial		Consumer		Microcredit		Home	
	No. Loans	Value	No. Loans	Value	No. Loans	Value	No. Loans	Value
A - Normal	422	96,569	28,482	612,968	10	253	2,688	65,840
B - Acceptable	773	164,087	4,662	111,970	9	133	1,124	32,083
C - Deficient	346	48,338	6,435	149,998	5	102	1,371	42,171
D - Doubtful	856	212,292	6,176	132,167	9	241	355	10,177
E - Unrecoverable	119	50,644	4,235	94,975	36	1,092	149	5,105
	2,516	571,930	49,990	1,102,078	69	1,821	5,687	155,376

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

December 31,2017

Item	Commercial		Consumer		Microcredit		Home	
	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

December 31,2016

Item	Commercial		Consumer		Microcredit		Home	
	No. Loans	Value	No. Loans	Value	No. Loans	Value	No. Loans	Value
A - Normal	59	8,454	-	-	-	-	325	28,979
B - Acceptable	71	17,947	-	-	-	-	141	23,298
C - Deficient	23	3,197	2	52	-	-	67	10,403
D - Doubtful	50	9,276	-	-	-	-	23	3,258
E - Unrecoverable	68	5,353	2	47	-	-	19	1,390
	271	44,227	4	99	-	-	575	67,328

(Millions of Colombian Pesos (COP))

12.5.9.2. Restructured loans by geographical zone

The following is the restructured loan portfolio by geographical zone:

December 31,2017

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

December 31,2016

Item	Commercial	Consumer	Microcredit	Home	Total
Bogotá	178,690	545,425	1,158	115,310	840,583
Antioquia	82,920	171,279	183	7,788	262,170
Northeast	271,057	252,106	480	20,327	543,970
Southwest	39,263	133,268	-	11,951	184,482
	571,930	1,102,078	1,821	155,376	1,831,205

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

December 31,2017

Item	Commercial	Consumer	Microcredit	Home	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

December 31,2016

Item	Commercial	Consumer	Microcredit	Home	Total
Bogotá	39,426	99	-	39,243	78,768
Antioquia	3,352	-	-	11,691	15,043
Northeast	469	-	-	9,835	10,304
Southwest	980	-	-	6,559	7,539
	44,227	99	-	67,328	111,654

12.5.10. Shareholders and employee loans

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

Item	December 31,2017	December 31,2016
Shareholders*	97	205
Employees Home Mortgage	105,075	105,579
Employees Residential Leasing	90,965	88,633
	196,137	194,417

* 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 $ 9,668 at December 2017 and $9,698 for the same period of 2016.

12.5.11. Loan portfolio sales

The following is the detail of portfolio sales:

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

(Millions of Colombian Pesos (COP))

December 31,2016

Titularizadora Colombiana S.A.

Issue	Date	Number	Rate	Capital	Interest	Others	Total	Profit	Proceeds of sale	Provisions recovery
TIPS Pesos N-12	Sep-08-2016	2,471	8.40%	220,023	1,045	276	221,344	-	221,783	4,491
TIPS Pesos N-13	Nov-10-2016	2,344	8.37%	168,830	852	170	169,852	-	170,869	4,560
		4,815		388,853	1,897	446	391,196	-	392,652	9,051

12.5.12. Sale of loans written-off

The following is the detail of written-off loans.

December 31,2017

1. On February 14, 2017 an auction sale of written-off loans was made for a total of $ $2,373 amounting to $282 and awarded to two offerors with a term less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
44	1,087	15	1,271	2,373	282

2. On April 25, 2017, an auction sale of written-off loans was made for a total of $ $185,146 amounting to $4,332 and awarded for a total value of $73,594; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
9,740	61,017	2,204	10,371	73,594	4,332

3. On July 25, 2017, an auction sale of written-off loans was made for a total of $ $308,804 amounting to $13,876 and awarded to two offerors; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
40,135	274,541	9,725	24,538	308,804	13,876

4. On November 9, 2017, an auction sale of written-off loans was made for a total of $ $7.091 amounting to $234 and awarded to 1 offeror; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
2,666	5,847	688	556	7,091	234

5. On November 24, 2017, an auction sale of written-off loans was made for a total of $ $259,089 amounting to $13,578 awarded to 2 offerors; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
31,870	235,684	7,445	15,963	259,089	13,578

December 31,2016

1. On April 20, 2016, an auction sale of written-off loans was made for a total of $ $310,656 amounting to $18,510 awarded to 2 offerors; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
50,869	260,722	10,322	39,612	310,656	18,510

2. On July 25, 2016, an auction sale of written-off loans was made for a total of $ $83,494 amounting to $5,181; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
14,028	72,493	2,311	8,693	83,494	5,181

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3. On November 24, 2016, an auction sale of written-off loans was made for a total of $ $179,504 amounting to $9,236 and awarded to 2 offerors; payment was received in less than 1 month.

On November 30, 2016, a direct auction sale of written-off loans was made on portfolio loans 3, 4 and 6, for a total of $ $180,425 amounting to $8,066; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
46,232	269,000	65,355	25,575	359,929	17,302

4. On November 30, 2016, a direct auction sale of written-off loans was made on portfolio loan 8, Consumer vehicle, for a total of $ 1,411 amounting to $118; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
25	635	10	766	1,411	118

5. On December 6, 2016, an auction sale of written-off loan son Retail was made, for a total of $ 3,436 amounting to $178; payment was received in less than 1 month.

Number of	Capital	Interest	Other items	Total	Proceeds of sale
1,204	2,973	303	161	3,436	178

6. On December 29, 2016, a direct auction sale of written-off loans was made on Consumer vehicle, for a total of $ 4,466 amounting to $352; payment was received in less than 1 month.

Number of Loans	Capital	Interest	Other items	Total	Proceeds of sale
74	1,915	35	2,516	4,466	352

12.5.13. Loans written-off

The following is the detail of written-off loans:

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

December 31,2016

Item	Capital	Interest	Other items	Total
Commercial	516,962	17,413	2,790	537,165
Consumer	765,773	25,401	6,059	797,233
Home	5,638	38	356	6,032
Microcredit	1,930	21	90	2,041
Other accounts receivable	-	-	227	227
	1,290,303	42,873	9,522	1,342,698

12.5.14. Purchases and interests in Loan portfolios

At December 31, 2017 and 2016, A December 31, 2017 y 2016 there were no loan purchases

The following is the detail of interests in Loan Portfolio:

At December 31, 2017 and 2016, the balance of the loan portfolio interest with Miami was $ 251,632 and $ 288,186 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 31,2017

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

At December 31, 2017, the balances of the portfolio loans sold to the Panama subsidiary by the Miami Branch were USD $ 69 million, equivalent to COP $ 205,198

(Millions of Colombian Pesos (COP))

December 31,2016

Number of Loans	Capital	Interest	Others	Total	Premium	Purchase profit
10	288,186	2,352	-	290,538	-	-

At December 31, 2016, there was no shared loan portfolio with the Panama Subsidiary.

12.5.15. Provision for Loan and Financial Leasing Portfolio

December 31,2017

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

December 31,2016

	Commercial	Consumer	Microcredit	Home Mortgage	Total
Opening balance	918,164	852,016	9,415	258,470	2,038,065
Plus:					
Merger of Leasing Bolívar	57,320	727	-	-	58,047
Provision charged to operating expenses	1,024,720	1,337,360	8,936	103,374	2,474,390
Others	196	-	-	-	196
Less:					
Loans written-off	(516,962)	(765,773)	(1,930)	(5,638)	(1,290,303)
Written-off loans deferred	329	3,265	-	139	3,733
Recoveries	(536,788)	(348,783)	(3,321)	(37,190)	(926,082)
	946,979	1,078,812	13,100	319,155	2,358,046

During 2017 the recognition of suitable guarantees for the calculation of the LGD in personal loans was included in order to reflect a better estimate of the Provisions with the recognition of guarantees, from a LGD of 75% to 35% and 45% according to the type of guarantee. The impact was recognized in the results at the end of March 2017, generating a Recoveries de Provisions for $ 11,284.

In addition, during 2017 the provision percentages defined in Chapter II of the Basic Accounting Circular - Annex I for the Home Mortgage and Microcredit portfolio were applied, maintaining the levels set for the protection of loans classified in all risk categories according to current regulations; therefore, the Provision percentages higher than the norm applied in the previous periods are eliminated. This update generated Recoveries of Provisions for $ 26,607 and 9,694 for the Home Mortgage and Microcredit loan portfolio respectively.

12.5.16. Maturity of financial leasing

The following is the maturity of financial leasing (unaudited):

December 31,2017

	0-1 years	1-5 years	Over 5 years	Total
Gross investment in financial leases	1,686,865	5,814,122	9,646,021	17,147,008
Financial income not accrued by financial leasing interest	(1,078,450)	(3,521,765)	(4,999,641)	(9,599,856)
Total minimum payments of financial leases receivable, at present value	608,415	2,292,357	4,646,380	7,547,152

December 31,2016

	0-1 years	1-5 years	Over 5 years	Total
Gross investment in financial leases	1,453,845	5,007,721	8,013,700	14,475,266
Financial income not accrued by financial leasing interest	(918,562)	(3,006,019)	(4,193,688)	(8,118,269)
Total minimum payments of financial leases receivable, at present value	535,283	2,001,702	3,820,012	6,356,997

(Millions of Colombian Pesos (COP))

12.6. Accounts Receivable, Net

The following is the detail of Accounts Receivable, net:

	December 31,2017	December 31,2016
Interest	481,188	518,688
Financing, Financial Leasing operations	56,293	46,174
Commissions	1,700	1,492
Funds transferred to Icetex - abandoned accounts(*)	163,436	130,858
Head office, Subsidiaries, related parties and Associates	7,675	4,921
Deposits	23,473	13,107
Tax Advance	122,504	16,132
Advances to contractors and suppliers	353,706	321,803
Employees	1,704	2,714
Payments on customers account	11,768	6,822
Payments on customers account - loans	103,502	86,316
Settlement of forwards	282	654
Overhead leasing loans	29,022	27,022
Interest payable - TIPS	15,201	10,834
Colombian Treasury	19,797	18,417
Banco de la República - Rate cover	12,018	11,755
Sale of Real Property	60,039	511,216
Others	119,256	86,687
Accounts receivable	1,582,564	1,815,612
impairment (Provision)	(127,557)	(104,579)
Accounts receivable, net	1,455,007	1,711,033

(*) As of August 1, 2016 and in compliance with Law 1777 of 2016, the Bank transferred savings accounts and checking accounts with 3 or more years of inactivity and balances of more than 322 UVR to ICETEX for the creation and administration of a fund to promote higher education. . These funds will be delivered to depositors as requested, and the Bank will process the corresponding Recoveries before the Fund manager.

The following is accounts receivable ageing:

December 31,2017

	Up to 1 year	1-5 years	Over 5 years	Total
Interest	474,358	6,816	14	481,188
Finance, Financial Leasing operations	54,291	1,861	141	56,293
Commissions	1,700	-	-	1,700
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
Employees	1,362	342	-	1,704
Payments on customers account	11,768	-	-	11,768
Payments on customers account - loans	91,101	10,988	1,413	103,502
Settlement of forwards	282	-	-	282
Leasing assets	29,022	-	-	29,022
Interest receivable - TIPS	15,201	-	-	15,201
Colombian Treasury	19,797	-	-	19,797
Banco de la República - Rate cover	12,018	-	-	12,018
Sale of Real Property	60,039	-	-	60,039
Others	104,202	14,881	173	119,256
Accounts receivable	1,516,559	64,264	1,741	1,582,564
impairment (Provision)	(106,844)	(19,175)	(1,538)	(127,557)
Accounts receivable, Net	1,409,715	45,089	203	1,455,007

(Millions of Colombian Pesos (COP))

December 31,2016

	Up to 1 year	1-5 years	Plus de 5 years	Total
Interest	515,601	3,085	2	518,688
Finance, Financial Leasing operations	44,718	1,336	120	46,174
Commissions	1,492	-	-	1,492
Funds transferred to Icetex - abandoned accounts	130,858	-	-	130,858
Head office, Subsidiaries, related and Associates	4,921	-	-	4,921
Deposits	13,107	-	-	13,107
Tax Advance	16,132	-	-	16,132
Advances to contractors and suppliers	307,130	14,673	-	321,803
Employees	2,178	536	-	2,714
Payments on customers account	6,822	-	-	6,822
Payments on customers account - loans	78,233	1,620	6,463	86,316
Settlement of forwards	654	-	-	654
Leasing assets	27,022	-	-	27,022
Interest receivable - TIPS	10,834	-	-	10,834
Colombian Treasury	18,417	-	-	18,417
Banco de la República - Rate cover	11,755	-	-	11,755
Sale of Real Property	511,216	-	-	511,216
Others	79,631	7,050	6	86,687
Accounts receivable	1,780,721	28,300	6,591	1,815,612
impairment (Provision)	(91,955)	(10,882)	(1,742)	(104,579)
Accounts receivable, Net	1,688,766	17,418	4,849	1,711,033

In order to minimize credit risk posed by Other Accounts Receivable, the Bank evaluates their performance in each report period and applies an estimated provision based on ageing, as protection from the exposure risk.

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

	December 31,2017	December 31,2016
Opening balance	104,579	63,517
Merger of Leasing Bolívar	-	9,422
Plus:		
Provision charged to expenses	130,437	129,246
Other	-	22
Less:		
Impairment recovery	(50,083)	(44,561)
Write-offs	(57,318)	(52,393)
Other	-	(674)
Reclassifications	(58)	-
Closing balance	127,557	104,579

(Millions of Colombian Pesos (COP))

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 31,2017	December 31,2016
Intended for housing		
Voluntary release	6,999	7,200
Award	934	447
	7,933	7,647
Other than housing		
Voluntary release	29,888	7,316
Award	-	831
	29,888	8,147
Movable property		
Vehicles	741	484
Rights	37,616	39,229
Others	-	404
	38,357	40,117
Recovered property from Leasing contracts		
Machinery and Equipment	174	61
Vehicle	1,908	14,324
Real Property	19,243	12,186
Real Property - Residential Leasing	21,764	10,689
	43,089	37,260
Subtotal	119,267	93,171
Provision (impairment)	(32,943)	(20,367)
Total	86,324	72,804

12.7.2. Movement of assets held for sale:

The following is the movement of assets held for sale:

December 31,2017

	Intended for housing	Other than housing	Recovered property from Residential Leasing contracts	Real Property	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)

(Millions of Colombian Pesos (COP))

December 31,2016

	Intended for housing	Other than housing	Recovered property from Residential Leasing contracts	Real Property	Total
Cost					
Opening balance	8,600	16,130	11,015	47,578	83,323
Merger of Leasing Bolívar	-	2,995	14,145	-	17,140
Additions (received)	2,472	42,638	33,301	-	78,411
Withdrawals (sales)	(3,076)	(7,685)	(8,085)	(47,578)	(66,424)
Transfers	(349)	(5,814)	(13,116)	-	(19,279)
Closing balance	7,647	48,264	37,260	-	93,171
impairment					
Opening balance	(471)	(1,501)	(2,171)	-	(4,143)
Merger of Leasing Bolívar	-	(936)	(3,131)	-	(4,067)
Additions (received)	(2,210)	(10,684)	(12,298)	-	(25,192)
Transfers	180	2,776	6,845	-	9,801
Recoveries	247	384	2,603	-	3,234
Provision (impairment)	(2,254)	(9,961)	(8,152)	-	(20,367)

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 31,2017	December 31,2016
Up to 1 year	74,270	89,519
Between 1 and 3 years	44,997	3,652
	119,267	93,171

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

Item	43,100 Quantity	43,100 Value	42,735 Quantity	42,735 Value
Foreclosed assets	167	25,977	244	18,846
Total sales	167	25,977	244	18,846
Profit on sale		618		2,356
Amortization of deferred profit		1,702		968
sales profit in previous years (Residential Leasing)		441		185
Total profit on sale		2,761		3,509
Loss on sale on foreclosed assets		1,997		2,131
Sales loss in previous periods (Residential Leasing)		1,020		509
Loss on sale		3,017		2,640
Net effect in Results		(256)		869

12.7.4. Movement of the provision

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

	December 31,2017	December 31,2016
Opening balance	20,367	4,143
Plus:		
Merger of Leasing Bolívar	-	4,067
Provision	33,251	25,193
Reclassification	(15,211)	(9,802)
Less:		
Recoveries	(5,464)	(3,234)
Closing balance	32,943	20,367

(Millions of Colombian Pesos (COP))

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, 2015	285,962	567,139	77,019	265,630	10,760	1,206,510
Additions	2,141	12,100	34,851	23,608	4,115	76,815
Purchases	325	4,138	34,048	23,573	4,115	66,199
Merger of Leasing Bolívar	1,816	7,962	803	35	-	10,616
Withdrawals	(128,141)	(358,158)	(8,373)	(1,245)	(3,472)	(499,389)
Sales	(128,141)	(358,158)	(8,370)	(1,204)	(3,472)	(499,345)
Derecognition of assets designated at cost	-	-	(3)	(41)	-	(44)
Reexpression of foreign currency	-	-	(96)	(99)	-	(195)
Transfers	(7,603)	(8,853)	(726)	(3,837)	-	(21,019)
Provision	-	(312)	-	-	-	(312)
Balance at December 31, 2016	152,359	211,916	102,675	284,057	11,403	762,410
Accumulated depreciation						
Balance at December 31, 2015	-	(13,521)	(66,653)	(125,323)	(4,482)	(209,979)
Additions	-	(189)	(218)	-	-	(407)
Merger of Leasing Bolívar	-	(189)	(218)	-	-	(407)
Withdrawals	-	13,104	2,393	874	2,518	18,889
Sales	-	13,104	2,390	833	2,518	18,845
Baja de Assets designates al Cost	-	-	3	41	-	44
Accumulated movement of depreciation	-	(7,045)	(4,790)	(24,196)	(2,268)	(38,299)
Re-expression of foreign currency	-	-	85	66	-	151
Transfers	-	542	(1,469)	6,570	-	5,643
Balance at December 31, 2016	-	(7,109)	(70,652)	(142,009)	(4,232)	(224,002)

	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
Baja de Assets designates al Cost	-	-	-	1,672	-	1,672
Accumulated movement 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, 2015	285,962	553,618	10,366	140,307	6,278	996,531
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

(Millions of Colombian Pesos (COP))

12.8.1. Proceeds of sale

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

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	643	647	7	(3)
	4,814	102,488	133,852	38,247	(6,883)

December 31,2016

	Quantity	Book Value	Proceeds of sale	Profit	Loss
Real property (*)	690	473,195	620,834	152,887	(5,248)
Computer equipment	4,469	5,980	5,533	223	(670)
Furniture and fittings	268	370	287	12	(96)
Vehicles	35	954	951	71	(74)
	5,462	480,499	627,605	153,193	(6,088)

(*) For sales of property and equipment there are receivables of $103,566 and $509,799 at December 31, 2017 and 2016, respectively, corresponding to the

At December 31, 2017 the Bank acquired contractual commitments to acquire 8 properties for $24,541

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

12.8.2. Transfers

	December 31,2017			December 31,2016		
	Cost	Depreciation	Total	Cost	Depreciation	Total
Increase from transfer between Property and Equipment	3,390	(3,390)	-	-	-	-
Decrease from transfer to Investment Property	(1,809)	62	(1,747)	(16,456)	1,079	(15,377)
Decrease from transfer between Property and Equipment	-	-	-	(4,563)	4,563	-
	1,581	(3,328)	(1,747)	(21,019)	5,642	(15,377)

12.8.3. Movement of the provision

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

December 31,2017

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

December 31,2016

	Land	Buildings and improvements	Computer equipment	Furniture and fittings	Vehicles	Total
Opening balance	-	-	-	-	-	-
Plus:						
Provision	-	312	-	-	-	312
Closing balance	-	312	-	-	-	312

(Millions of Colombian Pesos (COP))

12.9. Investment Properties, net

The following is the movement of investment properties

	December 31,2017	December 31,2016
Cost		
Opening balance	52,164	61,890
Additions		
Purchases	621	-
Merger of Leasing	-	9,710
Withdrawals		
Sales	(15,280)	(17,605)
Transfers	(2,487)	(1,831)
Closing balance	35,018	52,164
Accumulated depreciation		
Opening balance	(1,223)	(698)
Withdrawals		
Sales	585	329
Accumulated movement of depreciation	(370)	(925)
Transfers	(56)	71
Closing balance	(1,064)	(1,223)
Provision	(89)	(5,056)
Book Value	33,865	45,885

12.9.1. Effect on the Income Statement

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

	December 31,2017	December 31,2016
Lease income	1,526	1,488
Direct operating expenses from investment properties that generate income	(236)	(548)
Direct operating expenses from investment properties NOT generating lease income	(955)	(1,197)
Net	2,717	3,233

12.9.2. Movement of the provision

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

	December 31,2017	December 31,2016
Opening balance	5,056	24,087
Plus:		
Provision	49	1,452
Reclassification	(4,345)	(17,835)
Less:		
Recoveries	(671)	(2,648)
Closing balance	89	5,056

The fair Value of investment properties at December 31, 2017 and 2016 was $55.863 and $74.961 respectively.

(Millions of Colombian Pesos (COP))

12.9.3. Proceeds of sale

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

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)

December 31,2016

	Quantity	Book Value	Proceeds of sale	Profit	Loss
Investment properties (*)	25	14,292	16,861	4,647	(2,077)
Foreclosed assets	9	2,984	2,923	9	(71)
	34	17,276	19,784	4,656	(2,148)

(*) There are receivables against investment properties sold for $13,310 corresponding to the mobilization of investment properties

12.9.4. Transfers

The following were transfers of investment properties

December 31,2017

	Cost	Depreciation	Total
Increase, transfers from Property and Equipment	1,804	(56)	1,748
Decrease from transfers to Other Assets	(4,291)	-	(4,291)
	(2,487)	(56)	(2,543)

December 31,2016

	Cost	Depreciation	Total
Increase due to transfers from Property and	16,456	23	16,479
Decrease from transfers to Other Assets	(18,287)	48	(18,239)
	(1,831)	71	(1,760)

There are no restrictions on income from investment properties, and no contractual obligations for purchase, construction or development in the periods reported.

12.10. Operating leases

Operating leases are related to leases on land and buildings for terms of 5-60 years containing clauses for market rent reviews every 5 years. The Bank has no option to purchase these properties upon expiry of the leases.

	December 31,2017	December 31,2016
Up to 1 year	142,813	59,407
1-5 years	467,334	237,630
over 5 years	421,451	401,110
	1,031,598	698,147

The operating lease expense is as follows:

	December 31,2017	December 31,2016
Operating lease expense	141,548	698,147
	141,548	698,147

(Millions of Colombian Pesos (COP))

12.11. Goodwill

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

Acquiree	Granbanco
Date acquired	February 2007
% participation	99%

	December 31,2017	December 31,2016
Cost		
Goodwill Granbanco	1,080,775	1,080,775
	1,080,775	1,080,775

For the purposes of impairment testing, goodwill was assigned to the following cash generating units

Business line	Participation	Goodwill recorded	Accumulated amortization COLGAAP	Balance NCIF
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
Affiliates	0.6%	8,743	5,608	3,135
	100.0%	1,372,458	291,683	1,080,775

External consultants Deloitte Asesores y Consultores Ltda conducted an impairment test at December 31, 2017 and concluded that the business lines had no suffered any impairment loss.

The Bank identified these CGU fully when initially recording goodwill acquired. The following 6 CGUs were assigned: consumer, commercial SME, credits cards, home mortgage and affiliates(Panamá and Fiduciaria Davivienda).

The criteria used to determine amount for each CGU were the placement rate, average balances per customer, customer profile, growth of loans and allocation of expenses.

The following is the amount of Goodwill recoverable from the CGUs:

Business line	December 31,2017	December 31,2016
Consumer	2,073	2,094
Commercial	5,576	5,631
SME	892	901
Credit card	843	852
Home mortgage	2,978	3,008
Affiliates	619	1,101
	12,981	13,587

The recoverable amount is based on the Value in use of each CGU.

The valuation process has been described as a systematic analysis of factors that affect the Value of each business line and generally the consideration of three widely-accepted and commonly aplied approaches to the concept of Value: the focus on income, the focus on the market or comparison of sales and the approach of cost or assets. In each category there are a variety of methodologies to assist in establishing Value.

Goven the nature of each of the entities to be Valued, two different methodologies were applied to make fair Value estimates. for Banco Davivienda and Banco Davivienda (Panamá) the metholody used was the Dividend Discount Model (DDM), and for FiduDavivienda, the methodology of free cash flow for the firm was used.

The following were the principal assumptions for projections used for impairment tests, reflecting the Bank´s past experience:

	2017	2018	2019	2020	2021	2022
Placement rates (%)	11.4%	11.0%	11.1%	11.1%	11.3%	13.5%
Deposit rates (%)	3.5%	2.9%	3.2%	3.2%	3.4%	3.5%
Growth in operating income	8.5%	5.0%	6.4%	6.0%	5.9%	6.0%
Growth in operating expenses (CPI)	5.0%	3.2%	3.9%	3.7%	3.5%	4.0%
Inflation	3.8%	3.1%	3.1%	3.1%	3.1%	3.1%
Annual GDP growth	2.5%	3.4%	3.4%	3.4%	3.4%	3.4%

(Millions of Colombian Pesos (COP))

The discount rate to determine the cost of income-generating capital is determined by the weighted average cost of capital at the market Value of the cost of all sources of financing in the capital structure of the Bank - estimated as 15% - when making a sensitivity analysis of Value in use and an impairment test on each of the CGUs identified for goodwill vs. the discount rate. it was found that a greater allocation of risk in the discount rate does not generate impairment in most of the CGUs.

12.12. Intangibles

The following is the movement of intangibles:

Item	Licenses	Computer programs and applications	Customer-related Intangibles	Total
Balance at December 31, 2016	54,754	22,603	-	77,357
Acquisitions	40,139	1,994	-	42,133
Accumulated 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

Item	Licenses	Computer programs and applications	Customer-related Intangibles	Total
Balance at December 31, 2015	15,488	57,031	-	72,519
Merger Leasing Bolivar	868	-	-	868
Acquisitions	11,172	5,529	-	16,701
Accumulated amortizations	(8,134)	(3,941)	-	(12,075)
Reclassifications	35,363	(35,994)	-	(631)
Re-expression	(3)	(22)	-	(25)
Balance at December 31, 2016	54,754	22,603	-	77,357

There are no commitments to purchase or restrictions of ownership or pledges in guarantee of performance of obligations for the periods reported.

12.13. Other non-financial assets, net

The following is the detail of other assets:

	December 31,2017	December 31,2016
Foreclosed assets	149,546	74,219
Prepaid expenses	82,404	74,012
Deferred tax asset (*)	-	106,027
Deferred payment letter of credit	17,756	10,537
Trust rights	56	956
Works of art	2,544	2,381
Assets pending activation	8,209	8,526
Impairment	(88,372)	(43,138)
	172,143	233,520

(*) As of January 2017, the deferred tax asset was reclassified and is presented net, as required by IAS 12.74.

The movement of the provision for other assets is as follows

	December 31,2017	December 31,2016
Opening balance	43,138	16,832
Plus:		
Merger of Leasing	-	1,019
Provision	29,339	2,571
Reclassification	19,555	-
Less:		
Derecognized	-	27,593
Recoveries	(3,660)	(4,877)
Closing balance	88,372	43,138

(Millions of Colombian Pesos (COP))

12.14. Deposits and demand accounts

Deposits and demand accounts are as follows:

	December 31,2017		December 31,2016	
	Balance	Interest paid	Balance	Interest paid
Interest-bearing liabilities				
Checking accounts	1,669,792	29,290	962,404	41,276
Savings accounts	20,071,135	746,365	21,985,199	812,745
Term deposits	21,893,816	935,451	18,210,104	1,163,444
	43,634,743	1,711,106	41,157,707	2,017,465
Non-interest-bearing liabilities				
Checking accounts	4,029,447	-	3,718,361	-
Savings accounts	115,395	-	5,635	-
Demand accounts for services	527,344	-	477,373	-
Electronic deposits	86,330	-	60,866	-
Other *	245,283	-	180,997	-
	5,003,799	-	4,443,232	-
	48,638,542	1,711,106	45,600,939	2,017,465

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

Deposits by currency and rate are as follows:

	December 31,2017		December 31,2016	
	Balance	% implied rate	Balance	% implied rate
Local currency				
Deposits and demand accounts				
Checking accounts	5,043,348	1.75%	4,227,773	3.35%
Savings accounts	20,118,870	3.61%	21,895,158	3.34%
Term deposits	21,253,313	6.68%	17,483,713	6.69%
Demand accounts for services	439,411		430,911	
Electronic deposits	86,330		60,866	
Other *	216,840		176,991	
	47,158,112		44,275,412	
Foreign currency				
Deposits and demand accounts				
Checking accounts	655,891		452,992	
Savings accounts	67,660	2.86%	95,676	2.13%
Term deposits	640,503	2.03%	726,391	1.21%
Demand accounts for services	87,933		46,462	
Other *	28,443		4,006	
	1,480,430		1,325,527	

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

The maturities of financial liabilities are as follows:

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

December 31,2016

	Under 1 year	1-5 years	5-10 years	Total
Checking accounts	4,680,765	-	-	4,680,765
Savings accounts	21,988,813	2,021	-	21,990,834
Term deposits	12,081,428	6,077,136	51,540	18,210,104
Demand accounts for services	477,373	-	-	477,373
Electronic deposits	60,866	-	-	60,866
Other (*)	180,997	-	-	180,997
	39,470,242	6,079,157	51,540	45,600,939

* Other: Banks and correspondents - Special deposits - Collection services - Card-affiliate establishments - Canceled accounts

(Millions of Colombian Pesos (COP))

12.15. Money-market and related liability operations

The following are the money-market and related operations

December 31,2017

	Rate	Date Initial	Date Final	Amount
Local currency				
Interbank liabilities				
Banks	4,54%	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

December 31,2016

	Rate	Date Initial	Date Final	Amount
Local currency				
Interbank liabilities				
Banks	7,14% - 7,33%	16/12/2016	06/01/2017	177,115
Simultaneous operations				
Other	7,50%	29/12/2016	02/01/2017	834,631
Liability repos	7,50%	29/12/2016	02/01/2017	750,297
Commitments arising from short positions	7,00% - 7,50%	20/12/2016	06/01/2017	23,279
				1,785,322

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, 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
Balance at January 1, 2016				4,999,696
New loans				
	COP	1.72% - 12.64%	2016 - 2032	675,830
	USD	0.86% - 4.83%	2016 - 2034	3,428,486
Payments in the period				
	COP	DTF+1.5% - DTF+2.8%	2016	(123,524)
	COP	1.72% - 12.64%	2016 - 2032	(589,507)
	USD	0.450% - 4.582%	2016 - 2024	(3,107,979)
Other movements				
Merger of Leasing Bolivar				272,677
Interest payable				138,079
Re-expression				(400,875)
Other				8
Balance at December 31, 2016				5,292,891

At December 31, 2017 the Bank was in compliance with covenants made on acquiring long-term debt

(Millions of Colombian Pesos (COP))

The following is the detail of the Bank´s borrowings:

	December 31,2017	December 31,2016
Institutions in Colombia		
Local currency		
Borrowings	1,991,274	1,729,828
Other	-	8
Other financial debt	360,283	532,680
Institutions outside Colombia		
Borrowings	2,876,283	2,592,271
Designated hedging instruments	435,664	438,104
	5,663,504	5,292,891

In October 2017 Davivienda renewed borrowings designated as hedging instruments if its books, composed of 4 loans for USD146.000.000 to hedge the net investment in affiliates outside Colombia in order to eliminate the accounting asymmetry between results and equity arising from the reexpression of currency amounts between loans and equity .

The following are the maturities of borrowings:

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
Institutions 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

December 31,2016

	Under 1 year	1-5 years	5-10 years	Over 10 years	Total
Other institutions in Colombia					
Local currency					
Bancoldex	22,547	160,458	88,062	-	271,067
Finagro	8,981	80,418	72,491	9,577	171,467
Findeter	7,689	202,467	666,385	410,754	1,287,295
Oher banks and financial entities in Colombia	8	-	-	-	8
Foreign currency					
Bancoldex	3,502	59,364	124,160	124,857	311,883
Findeter	815	-	100,123	119,858	220,796
Entities outside Colombia	1,744,904	759,747	525,724	-	3,030,375
	1,788,446	1,262,454	1,576,945	665,046	5,292,891

(Millions of Colombian Pesos (COP))

12.17. Debt instruments issued

The following is the movement of bonds:

	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
TF	29/03/2017	198,947	84	TF 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
TF	07/06/2017	357,334	36	TF 6.48%	07/06/2020	357,334
TF	24/10/2017	1,467,830	60	TF 7.5 -Efe	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

* At December 31, 2017 the Bank had no covenants to disclose on its issues.

	Date	Issue amount	Term (months)	Yield	Maturity	Balance
Balance at December 31, 2015						8,727,347
New issues (*)						
CPI	27/07/2016	131,864	84	CPI + 3.67	27/07/2023	131,864
CPI	27/07/2016	245,751	144	CPI+4.00	27/07/2028	245,751
CPI	28/09/2016	358,589	120	CPI + 4.16	28/09/2026	358,589
Fixed rate	27/07/2016	222,385	36	TF 8.64	27/07/2019	222,385
						958,589
Redemptions						(505,744)
Variation TRM						(147,996)
Variation UVR						8,467
Interest						6,846
Cost pending amortization						15,751
Balance at December 31, 2016						9,063,260

The following is the detail of debt instruments issued:

Issue type	Date	Issue amount	Term (months)	Yield	Maturity	December 31,2017 Book Value	December 31,2016 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	1,297,086
Fixed rate	29-Mar-2017	198,947	84	TF 7.40%	29-Mar-2024	198,947	-
UVR	24-Feb-2010	111,503	120	UVR+5.50	24-Feb-2020	150,669	144,743
Interest						11,624	16,715
In dollars							
International bonds*	09-Jul-2012	895,125	120	TF 5.875%	09-Jul-2022	1,492,000	1,500,355
Interest						41,684	42,849
					Total subordinated bonds	3,253,579	3,001,748
Unsecured ordinary bonds							
CPI	10-Mar-11 - 07-Jun-17	3,521,953	60-180	CPI+2.84 - CPI+4.50	10-Mar-18 - 27-Jul-28	3,521,953	3,375,337
Fixed rate	12-Feb-15 - 24-Oct-17	2,426,305	36 - 60	TF 5.94% - TF 8.64%	12-Feb-18 - 24-Oct-22	2,426,305	601,141
IBR	25-Apr-2017	433,000	120	IBR + 2.13	25-Apr-2027	433,000	523,342
Interest						61,993	55,652
In dollars							
International bonds	29-Jan-2013	889,920	60	TF 2.95%	29-Jan-2018	1,492,000	1,500,355
Interest						18,539	19,057
					Total Ordinary Bonds	7,953,790	6,074,884
					Cost to be amortized	(28,001)	(13,372)
					Total Bonds	11,179,368	9,063,260

* Debt issues designated as hedging

(Millions of Colombian Pesos (COP))

Liabilities designated as hedging

For accounting purposes, the Bank elected to designate the liability for USD500 million as a hedging instrument for the net investment outside Colombia for the Subsidiaries in Central America (item hedged) as of January 1, 2015, considering management´s intention to cover the exchange risk associated with that investment . At December 31, 2017 hedging was effective in terms of the tests conducted by management.

The bonds by monetary unit were as follows:

	December 31,2017	December 31,2016
Local currency	7,993,580	5,868,959
Foreign currency	3,035,388	3,048,671
UVR	150,400	145,630
	11,179,368	9,063,260

The maturities of the bonds are as follows:

	December 31,2017	December 31,2016
Under 1 year	2,128,189	866,944
1-5 years	5,170,394	3,584,669
5-10 years	3,447,057	3,717,486
Over 10 years	433,728	894,161
	11,179,368	9,063,260

The following redemptions have been made:

December 31,2017

Date	Issue type	Term	Rate	Maturity	Amount
24/02/2010	COB51CB00247	84	CPI+5.25	24/02/2017	138,497
15/05/2014	COB51CB00494	36	IBR+1.29	15/05/2017	255,686
07/10/2010	COB51CB00262	36	CPI+3.63	07/10/2017	196,050
09/10/2014	COB51CB00528	36	IBR+1.25	09/10/2017	90,235
10/11/2015	COB51CB00601	36	IBR + 2.05	10/11/2017	177,421
					857,889

December 31,2016

Date	Issue type	Term	Rate	Maturity	Amount
05/02/2009	Tranche 1 - Series G	84	CPI + 5.50	05/02/2016	126,886
13/02/2013	Issue 4 Ordinary Fixed rate - Tranche 1, Series F	36	TF 5.14%	13/02/2016	102,249
09/10/2014	Ordinary - Fixed rate	24	TF 5.89%	09/10/2016	276,609
					505,744

Evaluation of hedging of net investment abroad

The Bank has a hedging instrument for its net investments outside Colombia in several different currencies (Lempira, Colon and USD), for which it uses only the US dollar, due mainly to the economic relationship between the performance of the emerging economies´ currencies in the same region , which tend to move in parallel to the US dollar in the medium and long term. This effect arises because the economies of Central America and Colombia share the following characteristics, amongst others:

- Democratic political and institutional schemes
- Dependence on the generation of raw materials (commodities)
- Important participation of remittances on local economies
- Similar levels of GDP per capita and economic development

Further, exchange policies prevailing in the Costa Rican and Honduran economies are based on an exchange regime that limits fluctuations in the Value of currencies against the dollar.

Based on the historical performance of these currencies´ exchange rates in relation to the Colombian peso , there is an evident correlation between the three currencies and this confirms the high level of cover provided by the dollar for items denominated in colones and lempiras , where correlations arise (Correlations of daily returns for a sample of three years) higher than 70%, as can be seen below:.

Correlations

	USD	HNL	CRC
USD	100%	100%	97%
HNL	100%	100%	96%
CRC	97%	96%	100%

(Millions of Colombian Pesos (COP))

There is also evidence that the correlations continue over time.

The amounts of items hedged denominated in Costa Rican colones., Honduran lempiras and US dollars are as follows:

Investments in subsidiaries	Investment, currency of origin	Portion hedged in currency of origin	Investment USD	Portion hedged USD	Portion not hedged USD
Colones	89,837	75,457	159	149	10
Lempiras	2,625	2,204	111	111	1
US dollars	241	241	241	241	0
Total			**511**	**500**	**11**

Effectiveness of hedging

Hedged items are denominated in colones, lempiras and US dollars and the hedging instrument is denominated in dollars. A retrospective evaluation of the effectiveness of the hedge , relating the effect of changes in each currency to the Colombian peso for the items hedged, with the effect of the changes in the hedging instrument, provides the following result:

	Hedging efficiency ratio 2017 and 2016
Total	100%

The efficiency ratio reflects perfect coverage for the COP/USD risk factor , since the asset and the liability are exposed to the same factor.

12.18. Accounts payable

The following is the detail of accounts payable

	December 31,2017	December 31,2016
Commissions and fees	7,485	8,760
Taxes	42,666	58,792
Dividends and other capital surpluses	3,532	3,558
Bank transaction tax	20,618	21,549
Purchase commitments	9,116	4,294
Suppliers and services payable	508,113	373,345
Payroll withholdings and contributions	100,291	82,057
Payable to Parent - Subsidiaries	17,502	16,905
Balance available VISA Prepayments	5,409	9,667
Colombian Treasury Law 546	12,111	11,522
Deposit insurance	62,369	59,580
Creditors for pending disbursements	27,006	17,498
Corredores Asociados Creditor	25,915	25,935
Security bonds creditor	19,562	19,622
Checks pending presentation	19,030	12,699
Settlement of third party forwards	7,086	5,088
Insurance	22,896	11,682
Payables FNG and FNA	2,855	10,081
Franchises	25,032	15,558
Cards	13,820	13,112
Sundry	99,301	46,531
Payroll payables (1)	129,512	161,268
	1,181,227	989,103

(1) The detail of payroll payables is the following:

	December 31,2017	December 31,2016
Payroll	-	30
Severance accrual	23,798	21,526
Interest on severance accrual	2,826	2,544
Holidays	39,610	38,009
Other employee benefits (*)	63,278	99,159
	129,512	161,268

(*) Corresponds mainly to long-service bonus $35.930, other benefits $14.603, pensioners health policy $12.744

(Millions of Colombian Pesos (COP))

Employee benefits

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, 2017, the liability recognized for this was $35.930.

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 31,2017	December 31,2016
Present Value of liabilities	12,744	46,385
Total employee benefits	12,744	46,385
Deficit in the plan	12,744	46,385
Total liability to employees	12,744	46,385

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 31,2017	December 31,2016
Defined benefit obligations at the start of the period	46,385	-
Current service costs	3,976	-
Interest cost	3,181	-
Re-measurement		
Experience-related adjustment	(30,525)	-
Actuarial profit (loss) due to changes in demographic assumptions	(7,124)	-
Actuarial profit (loss) due to changes in financial assumptions (OCI)	(2,892)	-
Benefits paid under the Plan	(257)	-
Defined benefit obligations at the end of the period	12,744	46,385

Principal actuarial assumption

The following are the principal actuarial assumptions at the closing date (weighted average)

	December 31,2017	December 31,2016
Discount rate at December 31	7.25%	CPI+4,56%
Future salary increases	3.50%	7,57%
Inflation rate	3.50%	5.57%

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 .

(Millions of Colombian Pesos (COP))

Sensitivity analysis

Defined-benefit obligations and the cost of current services were calculated using the projected credit unit method. The following is a sensitive 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	13,964	17.51	88,062
Discount rate +50bp	11,761	16.83	72,491

Medical trend

	Medical services rate	Assumptions
Medical service rate -50bp	11,721	3.00%
Medical service rate +50bp	14,003	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
2018	397
2019	318
2020	347
2021	390
2022	427
2023 - 2027	3,039

12.19. Other non-financial liabilities and accruals

The following is the detail of other non-financial liabilities and accruals

	December 31,2017	December 31,2016
Interest in cases	90,634	39,050
Other provisions (*)	66,470	29,625
Litigation	23,674	25,790
Part payments pending application	85,256	64,354
Income received in advance	63,573	41,903
Deferred-payment letters of credit	17,757	10,538
Deferred credits	4,198	7,800
Sundry	44,724	37,145
	396,286	256,205

(*)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 $46,575.

(1)The following is the movement of the provision:

	December 31,2017	December 31,2016
Opening balance	29,625	26,277
Plus:		
Provision	455,655	533,408
Less:		
Derecognitions	(36,290)	(114)
Recoveries	(382,520)	(529,946)
Closing balance	66,470	29,625

(2) Litigation, indemnities and fines

The following is the movement:

	December 31,2017	December 31,2016
Opening balance	25,790	25,339
Plus:		
Provision	10,259	8,785
Less:		
Recoveries	(12,375)	(8,334)
Closing balance	23,674	25,790

(Millions of Colombian Pesos (COP))

The following is a summary of cases

	December 31,2017			December 31,2016		
	Quantity	Provision	Amount	Quantity	Provision	Amount
Cases covered by the Fogafin guarantee agreement	37	10,905	10,832	52	16,042	12,262
Tax cases	1	200	200	1	752	752
Labor cases	26	5,684	5,684	18	3,177	3,178
Civil cases	158	6,885	6,885	146	5,819	5,819
	222	23,674	23,601	217	25,790	22,011

The cash outflows are as follows:

Other provisions

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

December 31,2016

	1 year	1-3 years	3-5 years	5-10 years	over 10 years	Total
FRECH Premium provision	3,445	9,718	13,159	-	-	26,322
UGPP provision	-	3,269	-	-	-	3,269
Government relief	34	-	-	-	-	34
	3,479	12,987	13,159	-	-	29,625

Litigation, penalties and fines:

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

December 31,2016

	1 year	1-3 years	3-5 years	5-10 years	over 10 years	Total
Litigation covered by the Fogafin guarantee contract	-	16,042	-	-	-	16,042
Tax cases	752	-	-	-	-	752
Labor cases	210	2,967	-	-	-	3,177
Civil cases	1,830	3,109	880	-	-	5,819
	2,792	22,118	880	-	-	25,790

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.

(Millions of Colombian Pesos (COP))

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.

Cases related to other Bank activities.

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 “possible”.

12.20. 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.

12.20.1. Capital

At December 31, 2017 and 2016 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 other data of equity at each annual close:

	December 31,2017	December 31,2016
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	9,544,716	8,859,472
Intrinsic Value (pesos)	21,132.03	19,614.91

The following is the movement of outstanding shares

	December 31,2017	December 31,2016
Shares at the beginning of the period	451,670,413	444,214,234
Shares Merger of Leasing Bolivar	-	7,456,179
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 minimum preferential dividends will be made as and when the General Meeting decides, in Colombian Pesos, To date Davivienda´s accounting period is annual..

If distributable earnings are sufficient to pay both ordinary and preferential shareholders a dividend equal to or higher then the minimum preferential dividend, earnings shall be distributed, in proportion, between ordinary and preferential shareholders in accordance with decisions of the General Meeting.

(Millions of Colombian Pesos (COP))

12.20.2. 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 31,2017	December 31,2016
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

12.20.3. Reserves

Decisions of the Annual General Meeting have made appropriations of annual profits.

The figures forequity reserves are the following:

	December 31,2017	December 31,2016
Mandatory reserve		
by appropriation of profits	2,419,516	1,051,180
Statutory and voluntary reserves		
At the disposal of the General Meeting, commitments	536,808	569,997
Requirements of tax law	-	10,803
	536,808	580,800

The Annual General Meeting of March 22, 2017 approved the following decisions:

Distribution of profits

The General Meeting approved distribution at the close of 2016 totaling $1,538,686, as follows:

a) Increase to the Mandatory Reserve of $645,948 of taxed and untaxed profits for the period;
b) Declaration of cash dividends of $429,087, a t $950 (pesos) per share payable 50% ($ 475 per share) on April 5 and 50% ($ 475 per share) on September 21, 2017;
c) Increase to voluntary reserves at the disposal of the Meeting for future capitalization of the increase the mandatory reserve by $192,896.

d) Increase of $270,755 to voluntary reserves.

Other decisions
a) To release $10,802 from voluntary reserves due to valuation of investments at market prices - Decree 2336/95, to increase the mandatory reserve.
b) To increase the mandatory reserve by $236,586 of profits from previous years (2016)
c) To release $475,000 from voluntary reserves to commit 2015 to an increase in the mandatory reserve.

12.20.4 Actions on first-time adoption of IFRS

The following is the detail of the movement arising from actions in the first-time adoption of IFRS

	December 31,2017	December 31,2016
Opening balance	507,026	734,409
Merger of Leasing Bolivar	-	14,100
Dividends of Subsidiaries	(15,291)	(3,323)
Increased valuations to use of fixed assets	(56,619)	(238,741)
Adjustment from realization of deferred tax	-	581
Closing balance	435,116	507,026

(Millions of Colombian Pesos (COP))

12.20.5. 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 mfor calculation andd 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 opf 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 636 bp During 2017 . The following is the capital ratio of the Bank at December 31, 2017 and 2016:

	December 31,2017	December 31,2016	Variation dic17 - dic16	%
Computable capital	10,901,331	9,086,341	1,814,990	19.97%
Ordinary (Tier 1) capital	6,315,968	5,016,550	1,299,418	25.90%
Deductions from basic capital	(857,137)	(788,217)	(68,920)	8.74%
Additional capital (Tier 2)	4,585,363	4,069,791	515,572	12.67%
Bonds and subordinated debt	3,694,004	3,363,926	330,078	9.81%
Market VaR	272,748	148,304	124,444	83.91%
Risk-weighted assets	66,851,186	63,735,871	3,115,315	4.89%
Total solvency ≥ 9%	15.60%	13.90%	1.70%	12.25%
Basic solvency ≥ 4.5%	9.04%	7.67%	1.37%	17.80%

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.

13. Specific items in the Income Statement

13.1. Investments and valuation, net

The following is the detail of interest income

	December 31,2017	December 31,2016
Debt instruments		
Profit	360,109	711,359
Loss	(132,491)	(300,474)
Valuations of investments at fair value, net	227,618	410,885
Profit	97,938	97,565
Loss	(567)	(12,664)
Valuation of investments at amortized cost, net	97,371	84,901
Equities		
Profit on valuation of equity investments at fair value	138,774	50,838
Loss on valuation of equity investments at fair value	(38,817)	(3,380)
Net valuation of equity investments	99,957	47,458
Profit	14,693	46,304
Loss	(15,170)	(23,908)
Sale of investments, net	(477)	22,396
	424,469	565,640

1 Chapter XXVIII of the SFC Basic Accounting and Financial Circularde published in December 2015

(Millions of Colombian Pesos (COP))

13.2. Income from commissions and services, net

The following is the detail of income from commissions and services:

	December 31,2017	December 31,2016
Income from commissions and	1,003,846	945,787
Expenses in commissions and	224,109	203,774
Total	779,737	742,013

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 31,2017	December 31,2016
Equity method	258,162	270,755
Profit on sale of equities, net	4,143	54,490
	262,305	325,245

13.4. Payroll

The following is the detail of the payroll expense

	December 31,2017	December 31,2016
Salaries and benefits	688,524	630,736
Incentives	143,477	124,638
Staff benefits	156,020	169,532
	988,021	924,906

13.5. Operating expenses

The following is the detail of operating expenses:

	December 31,2017	December 31,2016
Maintenance and remodeling	136,334	116,189
Cleaning and security services	88,883	91,020
Advertising and public relations	81,754	71,794
Insurance	59,917	60,635
Contributions and other	104,469	93,683
Leases	150,118	80,944
Data processing	53,527	44,507
Fees	196,445	169,422
Transport	90,607	83,624
Tax	159,786	153,711
Deposit insurance	121,819	110,298
Operating risk	20,593	-
Other	66,006	65,431
Overhead and operating expenses	1,330,258	1,141,258
Depreciation	45,304	39,223
Amortizations	13,464	12,075
Total operating expenses	2,377,047	2,117,462

(Millions of Colombian Pesos (COP))

13.6. Other income and expenses, net

The following is the detail of other income and expenses

	December 31,2017	December 31,2016
Other operating income		
Recoveries of insurance - operating risk	10,982	6,415
Recoveries from the courts and other	10,289	5,509
Sale of assets held for sale	46,579	161,349
Reversions of impairment losses	15,411	25,263
Other income	81,131	177,270
	164,392	375,806
Other operating expenses		
Operating risk losses	-	27,055
Court cases and other losses	10,533	8,686
Sale of assets held for sale	10,600	11,950
Reversions of impairment losses	77,619	54,020
	98,752	101,711
Total other income and expenses, net	65,640	274,095

13.7. Income tax

Components of the income tax expense

The income tax expense for the periods ended at December 31, 2017 and 2016 is as follows:

	December 31,2017	December 31,2016
Income tax	282,710	252,443
Surcharge on income tax	52,291	-
Income tax - CREE	-	102,091
Surcharge on CREE	-	68,060
Discount	(27,942)	(6,234)
Recovery from previous periods	404	4,428
Total current tax	307,463	420,788
Deferred taxes	(35,638)	(125,260)
Total income tax	271,825	295,528

Filings for 2017 and 2016 recognized adjustments to the provision for income tax, CREE and the surcharge for 2017 and 2016 as part of the income e tax expense.

Law 1819/2016 states that as of 2017, income, costs and expenses are for tax purposes there income, costs and expenses recorded in the books during the year - or accounting period - determined in the framework of Colombian technical regulations.

Law 1819 also sets income tax at 34% for 2017 and 33% for 2018 onwards; There is a surcharge of 6% in 2017 and 4% in 2018. CREE and its surcharge are eliminated.

(Millions of Colombian Pesos (COP))

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 31,2017	Effective Rate	December 31,2016	Effective Rate
Profit before tax	1,380,292		1,834,214	
Income tax	469,299	34%	458,553	25%
Surcharge	82,818	6%	-	0%
CREE	-	0%	165,080	9%
Surcharge	-	0%	110,053	6%
Tax at flat rate 2017 (40%) - 2016 (40%)	552,117	40%	733,686	40%
Discount	(27,942)		(6,234)	
Non-allowable expenses, taxable income	206,292		71,667	
Allowable deductions and untaxed income	(217,057)		(144,714)	
Exempted income	(223,396)		(169,989)	
Rate adjustment for timing differences	(31,041)		(20,340)	
Special income, gross	6,968		-	
Capital gains tax	5,480		-	
Expense (Recovery) from previous periods	404		4,428	
Subtotal income tax expense	271,825	20%	468,504	26%
Other (1)	-	0%	(172,975)	-9%
	271,825		295,529	

(1) "Other" comprises (for 2016): i) Recognition of deferred tax receivable on the balance of the General Provision on loans , for $42,142; ii) Recovery of deferred tax payable on the sale of fixed assets, for r $95,512 and iii)Recognition of deferred tax on the difference between the ordinary rate and capital gains on the acquisition of equities for $35,321.

As required, the Bank recognizes the amount of other national and local taxes and payroll taxes, as follows:

	December 31,2017	December 31,2016
Wealth tax	21,841	54,705
Sales tax	125,445	89,420
Payroll taxes	126,774	113,020
Turnover tax	71,133	67,914
Bank transaction tax	74,080	74,431
Other (surcharges, property tax, vehicle tax, stamp t	14,572	11,365
Total other taxes	433,845	410,855

The Wealth Tax was created by Law 1739 / 2014 and the base for calculation is net assets at January 1, 2015, 2016 and 2017. The rate applicable to the Bank is 1% for 2016 and 0.4% for 2017. The law permits the tax to be charged to equity reserves .

Itemized deferred taxes

The differences between asset and liability bases for IFRS purposes and the bases used for Colombian tax purposes produce timing differences that generate deferred taxes calculated and recorded at December 31 2017 and 2016 , taking account of the different tax rates in the years in which those differences will revert.

	December 31,2016	Effect on P&L	Effect on OCI	December 31,2017
Deferred tax assets				
General provision on loans	42,142	(6,590)	-	35,552
Additional provision on loans	-	36,695	-	36,695
Turnover tax	10,309	(10,309)	-	-
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 liability				
Variable-yield investments	23,370	(5,332)	1,985	20,023
Fixed-yield investments	1,127	(5,870)	6,298	1,555
Exchange difference no realized and	-	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	613,603	(2,221)	11,770	623,152
Deferred tax net	(507,576)	35,638	(25,148)	(497,086)

(Millions of Colombian Pesos (COP))

	December 31,2015	Effect on P&L	Effect a OCI	December 31,2016
Deferred tax assets				
Fixed-yield investments	26,627	(24,936)	(1,691)	-
General provision on loans	-	42,142	-	42,142
Turnover tax	7,690	2,619	-	10,309
Provisions	12,234	15,223	15,307	42,764
Other	2,980	4,766	-	7,746
Derivatives	-	3,066	-	3,066
Total Assets	49,531	42,880	13,616	106,027
Deferred tax liability				
Variable-yield investments	5,083	18,271	16	23,370
Fixed-yield investments	-	1,127	-	1,127
Derivatives	29,028	(29,028)	-	-
Property, equipment and investment	163,322	(94,260)	4,764	73,826
Goodwill	428,085	20,907	-	448,992
Residual rights	57,068	(1,211)	-	55,857
Other	8,618	1,813	-	10,431
Total liabilities	691,204	(82,381)	4,780	613,603
Deferred tax - net	(641,673)	125,261	8,836	(507,576)

Effect of current and deferred tax on components of OCI in the equity section

	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	440,524	(36,052)	-	-	-	404,472
Exchange difference on net hedging of	(191,205)	9,425	-	(3,487)	-	(185,267)
Financial instruments measured by	19,441	33,785	-	(1,985)	-	51,241
Equity method surplus	(62,745)	(17,157)	-	-	-	(79,902)
Adjustments for first.-time application of	507,027	(71,911)	-	-	-	435,116
Employee benefits	(31,078)	40,541	-	(13,378)	-	(3,915)
	681,741	(19,059)	-	(25,148)	-	637,534

	December 31,2015	Movement in OCI component	Current tax	Deferred tax	Reclassifications	December 31,2016
Financial instruments at fair value	(4,790)	7,625	-	(1,691)	(1,367)	(223)
Exchange difference for investments in	574,980	(134,456)	-	-	-	440,524
Exchange difference on net hedging of	(232,574)	68,948	(27,579)	-	-	(191,205)
Financial instruments measured by	16,136	3,321	-	(16)	-	19,441
Equity method surplus	(84,870)	22,125	-	-	-	(62,745)
Adjustments for first.-time application of	734,409	(312,812)	-	(4,764)	90,194	507,027
Employee benefits	-	(46,385)	-	15,307	-	(31,078)
	1,003,291	(391,634)	(27,579)	8,836	88,827	681,741

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, 2017 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, Associate and Joint Ventures

In application of Para 39 of IAS 12, the Bank recognizes deferred taxes from investments in Associates in accumulated distributable profits as having been taxed. For this purpose. for the years 2017 and 2016 there is no recognition of the deferred tax amount of the timing difference between the book value of the investment and equivalent fiscal cost of $1,022,058 and $ 1,477,822 respectively, to the extent that the Bank can control the timing of the reversion of these differences and does not expect that this will take place in the foreseeable future.

(Millions of Colombian Pesos (COP))

Transfer prices

In the context of Law 788/2002 and Law 863/2003 the Bank prepared a study of transfer prices on operations with related parties outside Colombia during 2016. 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 2017 is still in the process of preparation, no significant change is expected in relation to 2016.

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, 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 Salvador,Factoraje Davivienda El Salvador, Seguros Comerciales Bolívar El Salvador, Seguros Bolívar Seguros de Personas 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, 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, Grupo Empresarial 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 Strategy Committee (CEO and Executive Vice-Presidents)
4. Others:	Shareholder holding 5-10%: Inversiones Cusezar and Inversiones Meggido; ACH, Finagro y Credibanco, companies in which the Bank holds more than 10%.

(Millions of Colombian Pesos (COP))

The Bank has office network agreements with Fiduciaria Davivienda and Corredores Davivienda, business collaboration agreement is 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 9.0%, placement rates are between 0.01% and 31.07% including home mortgage loans for key management personnel at between UVR and UVR+2%; agreed as employee benefits.
At the close of 2017 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 close of 2017 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 $851,274; in Class A at 2.06% nominal quarterly in arrears and in Class Bat 4.02% nominal quarterly in arrears. These are not market rates.

The Bank also engaged in rediscount operations with Finagro, as follows:

	December 31,2017	December 31,2016
Small guarantees rediscount	153,585	150,811
Rediscount interest payable	1,690	2,301
Rediscount interest expense	9,629	8,680

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 31,2017

	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 for employee benefits detailed below.

(2) Assets: the most significant operations with related parties in assets include home mortgage loans with employment benefit, placed at UVR or UVR+2% approved by the Board at 15 years with admissible collateral and consumer loans at market rates up to 31.07%.
Working capital loans, construction loans, corporate loans, Group Company credit cards at rates of 0.01% - 31.06%.

(Millions of Colombian Pesos (COP))

(3) Liabilities: the most important liability operations are: Group companies: Checking accounts at 0% - 4.5%, Savings accounts at interest 0.0% - 4.6% and TDs at interest of 0.1% and 7.3%. With other shareholders, savings accounts at interest 6.0% for shareholders holding less than 10% and 5% or more of the Bank´s capital and Checking accounts at interest 0% and savings at interest of 4.3% and shareholders holding 10% or more of the Bank´s capital.

December 31,2016

	Group Companies						
	Controlling	Subsidiaries	Other	Associates	Key personnel (1)	Other	Total
Assets (2)	5	271,097	125,520	2,281	4,452	17,935	421,290
Cash	-	267,971	-	-	-	-	267,971
Loans and financial leasing	5	30	112,359	114	4,366	-	116,874
Accounts receivable	-	3,096	2,173	1,970	86	17,836	25,161
Other assets	-	-	10,988	197	-	99	11,284
Liabilities (3)	31,719	148,419	135,578	41,798	4,903	130,918	493,335
Financial liabilities	31,719	142,677	118,950	11,589	4,408	107,989	417,332
Derivatives	-	5,393	-	-	-	-	5,393
Accounts payable	-	180	16,554	30,209	42	18,877	65,862
Other	-	169	74	-	453	4,052	4,748
Income	10	49,672	139,361	116,344	427	232,749	538,563
Commissions	2	30	123,327	108,401	7	72,085	303,852
Interest	1	-	11,145	12	413	-	11,571
Dividends	-	-	-	5,332	-	11,817	17,149
Other	7	49,642	4,889	2,599	7	148,847	205,991
Expenses	4,726	14,994	56,700	75,616	1,202	80,354	233,592
Commissions	-	1,285	-	62,422	-	70,850	134,557
Other	4,726	13,709	56,700	13,194	1,202	9,504	99,035

(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 significant operations with related parties in assets include home mortgage loans with employment benefit, placed at UVR or UVR+2% approved by the Board at 15 years with admissible collateral and consumer loans at market rates up to 32.92%.
Working capital loans., construction loans, corporate loans ands Group Company credit cards at rates of 0.01% and 32.92%.

(3) Liabilities: the most important liability operations are: Group companies: Checking accounts at 0% - 4.5%, Savings accounts at interest 0.0% - 8.5% and TDs at interest of 0.5% and 7.3%. With other shareholders, savings accounts at interest 6.0% for shareholders holding less than 10% and 5% or more of the Bank´s capital and Checking accounts at interest 0% and savings at interest of 7.5% and shareholders holding 10% or more of the Bank´s capital.

Transactions with key management personnel are as follows:

	December 31,2017		December 31,2016	
	Max. Balance	Closing balance	Max. Balance	Closing balance
Home mortgage loans and other	744	3,040	797	3,373
Credit cards	60	248	29	198
Other loans	240	688	362	795
	1,044	3,976	1,188	4,366

The detail of payments to key management personnel is as follows

	December 31,2017	December 31,2016
Short-term benefits		
Salary	5,118	4,304
Other short term benefits	1,579	1,176
	6,697	5,480

No decisions of importance were taken, or were not taken, due to the influence or interests of Grupo Bolívar S.A., and no decision were taken or not taken by Grupo Bolívar S.A. in the interests of Davivienda.

(Millions of Colombian Pesos (COP))

15. Contingent accounts

The following is the detail of debtor and creditor contingent accounts:

	December 31,2017	December 31,2016
Creditor		
Loans approved and not disbursed	8,534,615	8,930,698
Credit cards	12,136,746	10,859,370
Sundry	5,675,303	4,819,820
	26,346,664	24,609,888
Debtor		
Loan interest	264,657	113,378
Financial leasing interest	34,477	28,116
Monetary correction on loans	8,423	8,868
Monetary correction on financial leasing operations	2,538	1,768
Leasepayments receivable	3,253,345	2,643,342
Purchase operations receivable	1,488,421	1,136,036
Sundry	20,515	33,816
	5,072,376	3,965,324

16. Subsequent 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 as recorded in Minute No. 956 of January 30, 2018 , to be presented to the Annual General Meeting for approval; the Meeting may approve or reject them.