

Report of the Board of Directors  
and the President to the General  
Shareholders' Meeting

**Year 2014**



# Banco Davivienda S.A.

Report of the Board of Directors and the President  
to the General Shareholders' Meeting  
Year 2014

Individual Financial Statements Year 2014  
Consolidated Financial Statements Year 2014

Projects for Homes and Other Buildings 2014





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Housing and Other  
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**COP 3.3 trillion**

First Place in Housing Loan  
Mortgage Loan Disbursements.

**COP 2.2 trillion**

Construction Loan Portfolio  
Balance.

**COP 1.3 trillion**

for the 100 Thousand Free  
Homes and VIPA programs.

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## LETTER FROM THE PRESIDENT

Dear Shareholders,

It is a pleasure for us to share the Bank's 2014 results with you.

### **Davivienda, a leader in the mortgage business**

In 2014, we have maintained our leadership in financing mortgage loans in Colombia by supporting the National Government's housing programs, such as the interest free benefit, the 100 Thousand Free Homes Program and the VIPA Program<sup>1</sup>.

In the cumulative results as at December, we ranked first place on the market in mortgage loan disbursements, with a value greater than COP 3.3 trillion and a share of 27.1%. Nearly 13 thousand Davivienda customers purchased their home in the LIH<sup>2</sup> range and benefited from the interest rate coverage granted by the Government.

We also generated excellent results in Construction Loans: as at December 2014 we had COP 2.2 trillion in portfolio balances, with a share of 24.4%. We also approved COP 566 billion for the 100 Thousand Free Homes program, with a share of 24% in the system, and COP 702 billion for the VIPA program, reaching a share of 29%.

This continues to make us an excellent option for Colombians to make their dream of home ownership come true.

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1. Priority interest housing for holders of savings accounts.  
2. Low-income housing.



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**We are assisting Colombian families in their asset growth and we support the construction sector.**

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## Davivienda confirms its commitment to the country's agriculture and infrastructure

In 2014, we confirmed our commitment to rural growth and to infrastructure development, in order to build a more modern, competitive country. We consolidated the partnership with agricultural entrepreneurs, disbursing COP 387 billion in agro-industrial loans and playing a significant role in the creation of infrastructure with disbursements amounting to COP 1.3 trillion for port, airport and civil works projects and mass transport systems.

### Birth of Davivienda Corredores

In 2014, we launched a project for the merger of our brokerage companies, Davivalores and Corredores Asociados, creating Davivienda Corredores, a company with 125 thousand customers and more than COP 10.9 trillion in managed assets.

Davivienda Corredores brings new lines of business and value offerings to our customers and enriches the organization's portfolio. Thanks to the human talent, in line with the values of Grupo Bolivar, we are counting on generating major synergy between the two companies, which will make for an easy transition.

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# COP 387 billion

in Agro-industrial Loans

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### Equity Banking, a new strategic division for Davivienda

In addition, a new strategic division was created. It is called Equity Banking and it contributes to the construction and maintenance of customers' equity through the products and services of the Bank subsidiaries: Fiduciaria Davivienda, Corredores Davivienda, Corredores Davivienda Panamá and Davivienda International, which has investment offerings in the securities market.

This new division will have more than COP 27.7 trillion in managed assets and more than 327 thousand customers. It will have different investment alternatives for the customers of the Bank and its subsidiaries, and it will provide us with the commercial tools to advise our customers in the construction and maintenance of their equity in accordance with their risk profile.

**Equity Banking**  
New division with more than COP 27.7 trillion in managed assets and 327 thousand customers.

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# Portfolio Growth of 16%

in International Operation.

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# COP 1.2 trillion

Ordinary Bond Issuance.

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### International Operation, growth in line with our expectations

In line with our expectations, our operations abroad have demonstrated optimal performance, with a sound, controlled portfolio quality at levels of 1.64% and a coverage of 161%. These positive results are reflected in portfolio growth of 18.1%. We achieved a sustained profit of USD 68 million, and even though regulation changes in the different countries did not allow for significant growth, the return on equity was 9.3%.

### Debt Issuance

We have remained in the spotlight as a major player in the Colombian private debt market, with two successful issuances in 2014. In May, we issued COP 600 billion in straight bonds, which had a demand 2.2 times the offered amount, and in October, we issued another COP 600 billion straight bonds, with a demand 1.8 times the offered amount.

As regards international debt issuances, we took a subordinated loan for USD 172.5 million with the IFC<sup>3</sup>, for a term of 9 years. Similarly, El Salvador's Banco Davivienda took a senior loan for USD 50 million for a term of 7 years.

The same bank also carried out two straight bond issuances on the local market for USD 73 million.



### DaviPlata: we have established ourselves as a financial inclusion Bank

As at December 2014, we had more than 2.2 million active DaviPlata customers and we had carried out over 50 million transactions, with the support of more than 6,300 banking correspondents in 932 municipalities of Colombia. In addition, we had more than 3,200 companies carrying out transactions through DaviPlata. We increased the level of monetary transactions by 20% and the traded amount by 36%.

<sup>3</sup>. International Finance Corporation, a World Bank agency.

Due to our experience, efficiency and participation on the market, we were awarded the "Victims' Tender" for the payment of subsidies, called for by the Unidad para la Atención y Reparación Integral a las Víctimas (Unit for Care and Integral Redress to Victims)<sup>4</sup>. This project will bring more than **1.2 million additional customers** and allow us to reach more than **1,100 municipalities** in 2015 through DaviPlata.

In 2014, DaviPlata received the Shared Value Award, awarded by Michael Poter during the first edition of this initiative from the Bogotá Chamber of Commerce. This program promotes the development of products and services aimed at solving social problems. DaviPlata was distinguished after evaluating the different initiatives that have had a positive impact on the organization's finances while at the same time demonstrating a social and economic benefit, as a model to improve the levels of financial inclusion in Colombia.



### Davivienda, Member of the Dow Jones Sustainability Index

In 2014, we were listed in the Dow Jones Sustainability Index (DJSI), which is the most important index in the measurement of companies' economic, social and environmental performance across the globe. The index, which was created in 1999, recognizes the companies with the highest sustainability standards. The measurement evaluates the sustainable management of more than 3 thousand companies from 59 economic sectors around the world. At present 958 companies are a part of the index, only 69 of which are banks.

Our listing was the result of our management in 2013, in the "Emerging Markets" category, in which 800 companies from 34 different industries participated, 86 of which were recognized for their good economic, environmental and social practices. Davivienda is the ninth company in Colombia to achieve this important goal and the second Colombian bank to be listed in the Index.

This achievement involves a high level of commitment to our stakeholders in order to ensure the continuity and permanent improvement of the programs and initiatives that have a positive impact. Being listed on the DJSI shows our interest in consolidating our sustainability strategy by outlining actions in the economic, social and

4. Entity assigned to the Administrative Department for Social Prosperity, which leads the Sector of Social Inclusion and Reconciliation.

environmental areas that benefit customers, employees, suppliers, shareholders, investors and the general community.

For Davivienda, being a part of this index is very important, because it is a reference for investors who include considerations of sustainability when it comes to making decisions regarding investments. Furthermore, it places us in an environment with other companies that measure and compare themselves on a constant basis in order to adopt the best sustainability practices.

As regards performance in the economic arena, the index highlights risk management, and the financial stability and soundness that characterize the Bank. Similarly, it recognizes the efforts made to implement an environmental policy to generate responsible business from the social and environmental standpoints. In the social domain, the DJSI highlights the Bank's efforts to promote financial inclusion and recognizes the positive impact generated by the social programs led by Davivienda.

### Environmental Sphere

In 2014, we worked on expanding the coverage of the Environmental and Social Risk Management System (SARAS), by including the environmental and social risk analyses in the financing processes of high-impact projects. We also measured the environmental footprint on the national level, in order to adopt strategies to become an increasingly efficient entity as regards the consumption of resources. In addition, we have developed lines of credit whose purpose is to finance projects relating to cleaner production, energy efficiency, renewable energies and sustainable infrastructure, that will prevent, manage and mitigate the environmental impacts generated by our customers.

## "Cultivarte"

Present in 19 municipalities in Colombia and one in Honduras.

### Social Sphere

In the social domain, we persisted in our efforts to generate development through financial inclusion and the implementation of programs to improve quality of life for the community.

In 2014, we continued working for the well-being of the community through "Cultivarte", by opening 11 new branches, thus expanding the network to 19 municipalities in Colombia, where approximately 19 thousand children and adolescents can enjoy a safe place and participate in different activities for the proper use of their leisure time.





At Davivienda, we have upheld our commitment to the continuity and permanent improvement of our initiatives to generate opportunities and well-being for our customers, employees, suppliers, shareholders, investors and the community, by working with dedication and conviction for everything that will be a part of a better future.

*www.misfinanzasencasa.com*  
 Our portal was visited by  
**1.5 million**  
 individuals in 2014.

### Financial Education

In 2014, we expanded the coverage of our financial education program Mis Finanzas en Casa (My Finances at Home), by carrying out a special launch in 11 cities in the country aimed at companies with which we have payroll loan agreements. During the year, 41,721 employees from these companies attended the conference. In addition, we designed a strategy to reach Foundations and NGOs, based on which 45 organizations supported by the Fundación Bolívar Davivienda and 5 thousand employees and/or beneficiaries thereof, received training in financial education, taught by volunteers from the companies of Grupo Bolívar.

Cultivate is a program that is implemented as part of a partnership with the mayor's offices in small municipalities where we operate, effectively contributing to the fulfillment of local development plans as regards management for the wellbeing of children and adolescents. Throughout 2014, the program carried out activities benefiting more than 26 thousand individuals, mainly children and adolescents; in addition, we opened the first branch abroad, in Tegucigalpa, Honduras.

In 2015, the program will continue expanding its coverage in Colombia and in the other countries where we operate, with a view to benefiting the stakeholders of all our subsidiaries abroad.

**"Mis Finanzas en Casa"**  
 Success Story in Latin America

Our portal *www.misfinanzasencasa.com* was visited by 1.5 million individuals in 2014. The first award ceremony of the contest "It's Better to Learn to Do Accounts Properly" was held in May to promote participation in the 11 virtual courses available on the portal. The winning family, living in Bucaramanga, was selected from among 7,500 Colombians who achieved the goal, from almost 3 thousand families. The award consisted of the delivery of COP 180 million to buy a home.

In September 2014, the 5th Latin American Congress of Financial Education was held in Asunción, Paraguay. It was organized by the Latin American Federation of Banks (FELABAN in its Spanish acronym), and Davivienda was invited to present "Mis Finanzas en Casa" as a success case in Latin America, and received a special recognition for its elements of thoroughness, impact and high quality standards.

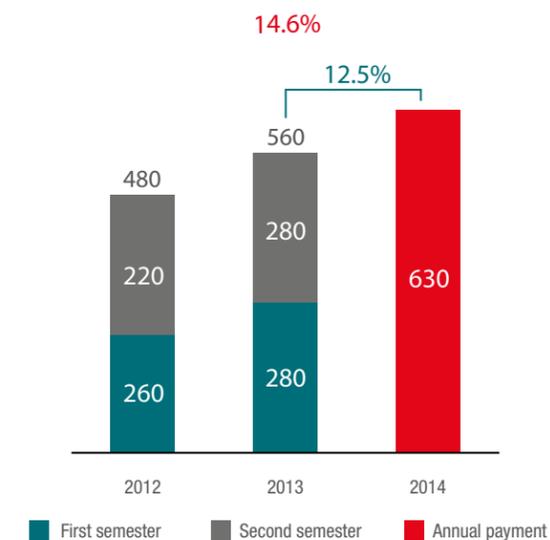
### Dividend Payment

The dividends corresponding to the profit of 2013 were paid in March 2014. The value paid per share was COP 630 for a total of COP 280 billion, equivalent to 38.4% of profit.

On behalf of the Bank's employees and partners, we would like to thank you for your confidence; it has enabled us to satisfy the financial needs of more than 7.3 million households and businesses in Colombia and Central America.

**Efraín E. Forero Fonseca**  
 President

Banco Davivienda / Dividends Payment



## BOARD OF DIRECTORS

### PRIMARY MEMBERS

Carlos Guillermo Arango Uribe  
Javier José Suárez Esparragoza  
Alvaro Peláez Arango<sup>5</sup>  
Gabriel Humberto Zárate Sánchez<sup>5</sup>  
Bernard Pasquier<sup>5</sup>

### ALTERNATE MEMBERS

Alvaro Carvajal Bonnet  
David Peña Rey  
Federico Salazar Mejía<sup>5</sup>  
Enrique Flórez Camacho  
Mark Alloway<sup>5</sup>

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5. Independent Member

# MAIN FIGURES

MAIN CONSOLIDATED FIGURES (Billions of COP)

Assets	
Banco Davivienda S.A.	54,633
Subsidiaries <sup>6</sup>	12,838
<b>Total</b>	<b>67,471</b>

Net Portfolio	
Banco Davivienda S.A.	39,224
Subsidiaries <sup>6</sup>	9,719
<b>Total</b>	<b>48,943</b>

Liabilities	
Banco Davivienda S.A.	47,694
Subsidiaries <sup>6</sup>	12,800
<b>Total</b>	<b>60,494</b>

Equity	
Banco Davivienda S.A.	6,938
Subsidiaries <sup>6</sup>	39
<b>Total</b>	<b>6,977</b>

Earnings	
Banco Davivienda S.A.	1,001
Subsidiaries <sup>6</sup>	59
<b>Total</b>	<b>1,060</b>

Clients	
Banco Davivienda S.A.	6,131,153
Subsidiaries <sup>7</sup>	1,122,048
<b>Total</b>	<b>7,253,201</b>

Offices	
Banco Davivienda S.A.	583
Subsidiaries <sup>7</sup>	155
<b>Total</b>	<b>738</b>

Municipalities	
Banco Davivienda S.A.	932
Subsidiaries <sup>7</sup>	49
<b>Total</b>	<b>981</b>

ATMs	
Banco Davivienda S.A.	1,654
Subsidiaries <sup>7</sup>	441
<b>Total</b>	<b>2,095</b>

Employees	
Banco Davivienda S.A.	11,783
Subsidiaries <sup>7</sup>	4,687
<b>Total</b>	<b>16,470</b>

Debit Cards	
Banco Davivienda S.A.	2,886,509
Subsidiaries <sup>7</sup>	492,018
<b>Total</b>	<b>3,378,527</b>

Credit Cards	
Banco Davivienda S.A.	1,523,221
Subsidiaries <sup>7</sup>	133,367
<b>Total</b>	<b>1,656,588</b>

### International Ratings

**BBB-** Standard & Poor's debt rating. Stable outlook (investment grade).  
**BBB-** Fitch Ratings debt rating. Positive outlook (investment grade).  
**Baa3** Moody's debt rating. Stable outlook (investment grade).

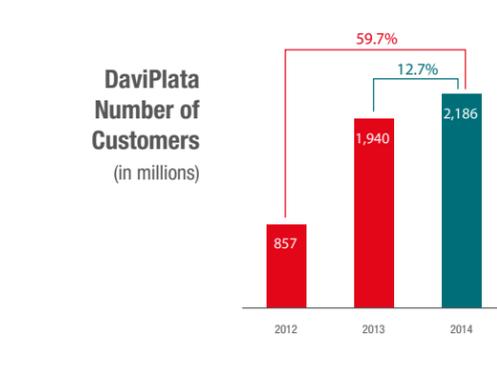
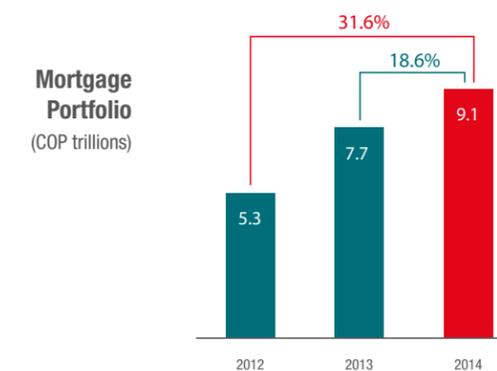
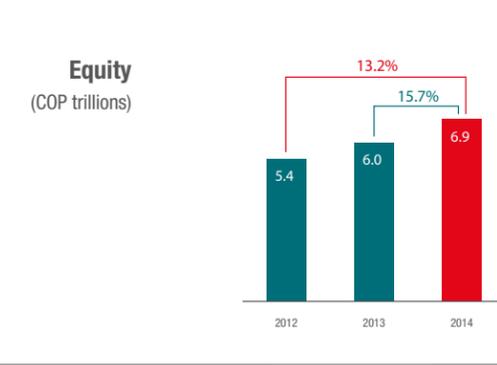
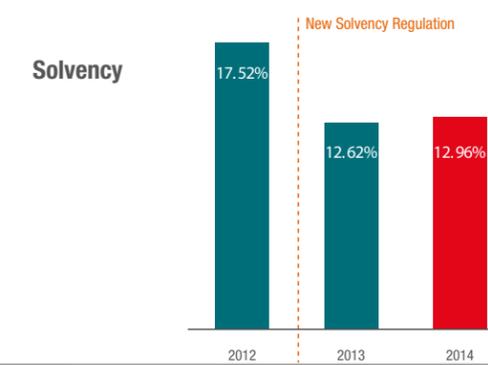
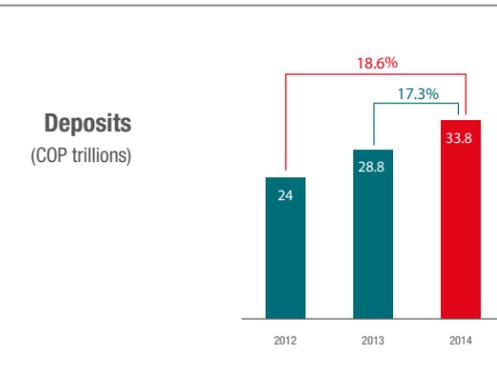
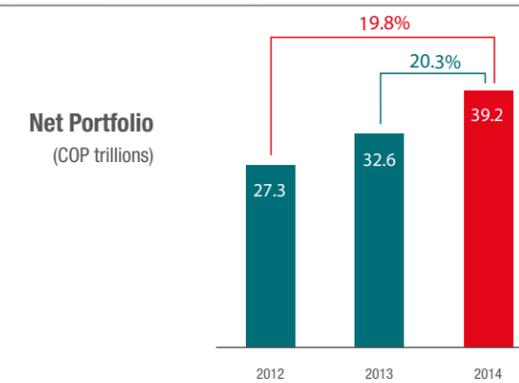
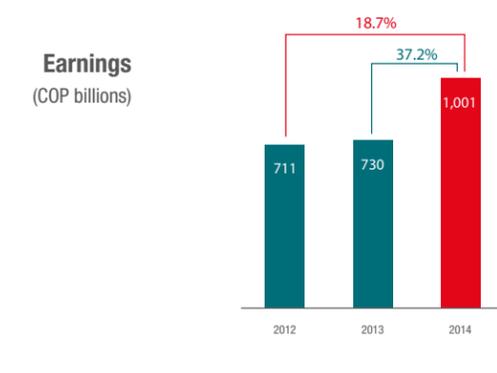
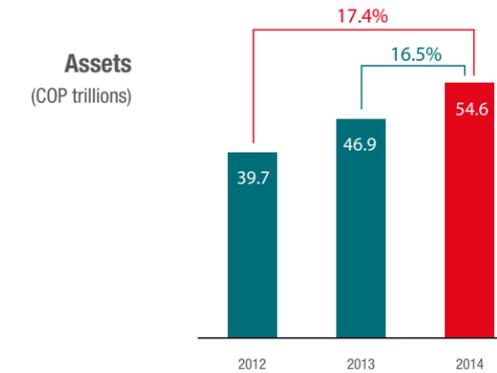
### Domestic Ratings

**AAA** BRC long-term debt rating.  
**AAA** Fitch Ratings long-term debt rating. Stable outlook.

6. Domestic, international and eliminations included in subsidiaries.

7. Domestic and international included in subsidiaries.

# MAIN INDIVIDUAL FIGURES





## COLOMBIAN MACROECONOMIC CONTEXT<sup>8</sup>

### Introduction

2014 was characterized by the upturn of economic activity in the United States, a modest and faltering growth in the European economy and the economic downturn in China. This picture was not favorable for the prices of *commodities* or the growth of the countries that produce them. In particular, the slowdown in Latin America was clearly visible.

In the case of oil, there was a very complex situation: during the first half of the year, the prices of the WTI<sup>9</sup> benchmark stood at over USD 100. However, concurrent with the announcements of the economic weakness in Europe and the strengthening of the dollar at the global level, the price of oil began a sharp decline, dropping from USD 105.37 at the end of June to USD 54.12 at the end of the year. The price of oil went back to levels observed only during the Lehman Brothers crisis in 2009. In Colombia, the situation with the oil prices was reflected immediately in the price of the dollar, which rose from COP 1,846 at the end of July to COP 2,392 on the last day of the year.

In the first 3 months of the year, the growth of the GDP rose 5%, which is a good figure in the Latin American context, and even in the world context. Economic growth occurred within the framework of significant levels of domestic demand growth, mainly public and private consumer demand. According to Davivienda's estimates, economic growth in Colombia was affected slightly by the drop in oil prices in the last quarter of the year; however, the effect is expected to be worse in 2015.

# MACROECONOMIC CONTEXT

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## USD 54.12

Oil Price at  
Close of Year.

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8. Document prepared by the Office of the Executive Director of Economic Studies with information available as at January 13, 2015.

9. WTI (West Texas Intermediate) type of light crude used as reference to estimate the Colombian oil price on international exchanges. One barrel equals 158.97 liters.

Another important event is related to the inflow of portfolio capitals into Colombia. As a result of the reweighting by investment bank J.P. Morgan on its global fixed income indices, the country received nearly USD 12,400 million in capital income mostly for the purchase of Treasury Securities. These inflows, which occurred mainly in the months of March, June and July, have been the highest registered in the country's history on this account.

## USD 12.4 billion Capital Earnings 2014.

### Gross Domestic Product

The information available on the growth of the Colombian economy from the National Administrative Department of Statistics (DANE in its Spanish acronym) indicates that the GDP grew 5.0% at a real annual rate between January and September 2014. The activity with the highest dynamism was construction, with a growth of 13.7%, followed by the social and communal services sector at 5.7%. Activity relating to financial and insurance establishments, real estate and company service activities stood at third place with an expansion of 5.5%. The sectors with the lowest performance were mining and industry.

Although the consolidated balance sheet for the first 3 quarters of 2014 showed growth within the Colombian economy at a higher rate compared to the same period for the previous year, the results corresponding to the second and third quarter displayed a moderation in growth. Thus, while the real GDP demonstrated a 5.7% annual variation in the third quarter of 2013, one year later, the increase was 4.2%.

An analysis of the components of the aggregated demand indicates that the domestic demand grew at a real annual rate of 7.8% for the period from January to September 2014. Although this variation was greater than the previous year, a breakdown of the information on the quarterly level shows that the quarterly variations moderated throughout the year.



**GDP Growth in Colombia**  
(variation % compared to same quarter of the previous year)

10. TES: Public Debt Securities issued by the National Government.

As part of the domestic demand, household consumption grew at a real annual rate of 5.1%, Government spending 6.7% and investments 11.7% during the first 9 months of 2014. A year earlier, the variations of the same components were 4.0%, 5.6% and 3.3% respectively. As regards households, the performance of the consumption of durable goods stood out.

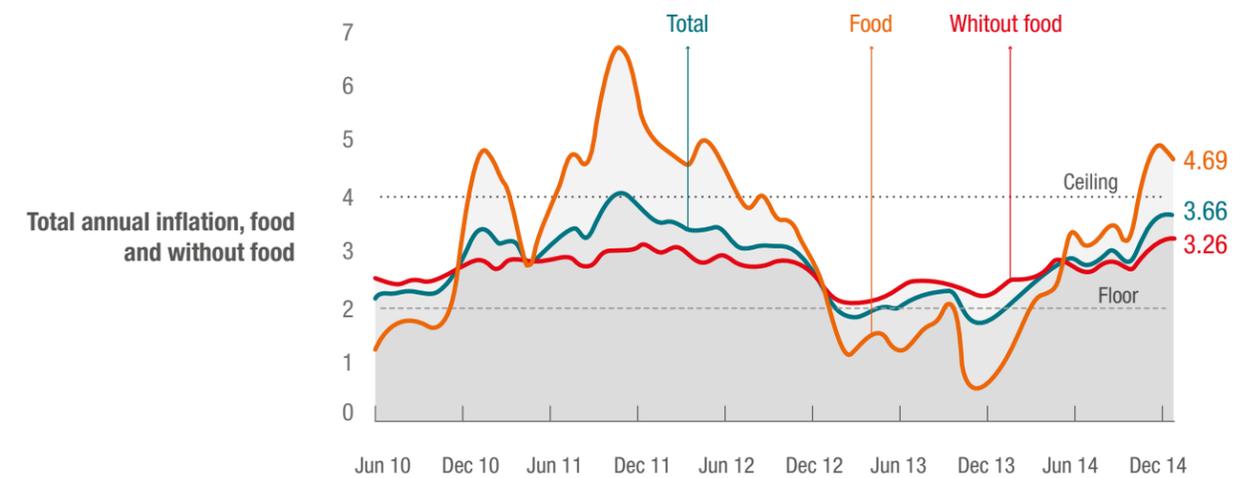
The performance of variables related directly to the external sector varied widely. Exports decreased at a real rate of 0.8%, while imports increased by 12.6%. It is important to point out the drop in exports registered in the second quarter of 2014, the highest in the last 14 years.

Estimates suggest that the most probable growth data for the Colombian economy in 2014 is a real 4.6%. If so, the GDP would be slightly below the rate of 2013 and above the country's historic rate.

## 3.66% Inflation in 2014

### Inflation

Inflation ended the year at 3.66% at the top of the Central Bank's target range. This result is mostly due to the acceleration observed in foods and regulated products, which reported recoveries after a year of very low prices in 2013. To a lesser extent, but on the same trend, the basic inflation indicators increased, which indicates that demand pressures also contributed to total inflation.



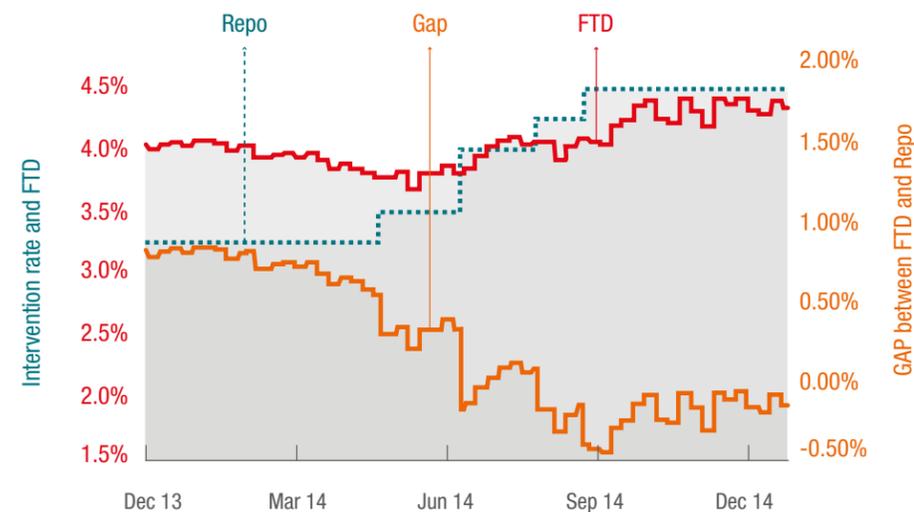
The most important factors explaining the performance of the consumer price index (CPI) were the cycle of food prices, transportation and energy prices, non-tradable goods and the depreciation of the exchange rate. In the case of food, the low prices of 2013 left a low basis of comparison, which was reverted in 2014 due to the cyclical behavior of this type of goods. As regards regulated prices, transport had adjustments in public service during the year (with a significant contribution from intermunicipal and air transportation) and energy prices responded to the increase due to the expectations of the "El Niño" phenomenon. As far as non-tradable goods, the entertainment group had strong increases, while the effect of depreciation was related to the sharp decline in oil prices at the end of the year.

With respect to the minimum wage, the Conciliations Commission did not reach an agreement on the increase for 2015, so the Government decreed that it would be 4.6%, or COP 644,350.

**4.34%**  
FTD as of December 31st.

**Monetary Policy and Interest Rates**

In 2014, the Central Bank began maintaining the monetary policy rate at 3.25%. As of April, it began to increase the rate by 25 basis points, given the positive conditions of the Colombian economy and expected inflation levels, which were within the target range. However, as of September, it did not increase the rate any further, and so it ended the year at 4.50%. The stability of the Central Bank's intervention rate in the last part of the year was driven by its concern in relation to the declining economies of neighboring countries and the drop in oil prices.



As a result of the Central Bank's increase in the intervention rates, the FTD<sup>11</sup> rate went from 3.69% in the first week of May 2014 to 4.34% by the end of the year. As of August, the FTD rate stood below the Central Bank's intervention rate.

The consumer credit placement rate, without credit cards, showed a slight downward trend, along with the rates on commercial loans.

**Fiscal Policy**

As regards taxes, an amount of COP 110.7 trillion was reported in tax collections in 2014, which represents a 98% compliance rate with the goal established in the Medium-term Fiscal Framework.

In turn, Colombian Congress passed the bill "Reforma Tributaria para la Paz, la Equidad y la Educación" (Tax Reform for Peace, Equity and Education), whose main points are:

- Creation of the "Tax on Wealth" for those who have a net worth greater than COP 1 billion, in effect for 4 years.
- Establishment of a surcharge on the fair tax (CREE in its Spanish acronym) for those with earnings in excess of COP 800 million.
- Postponement of the tax on financial transactions, at a rate of 4 x 1,000, until 2019.
- As of 2016, the percentage point on the CREE rate for education and early childhood care will be permanent.

**COP 110.7 trillion**  
Tax Collections in 2014.



11. FTD: rate for fixed term deposits. A type of interest calculated over the weekly weighted average by the amount of the average daily acquisition rates of deposit certificates at 90 days.



## Exchange Rate

The exchange rate in 2014 was marked by 3 main events: the expectations of the elimination of quantitative easing in the US, the changes in Colombia's share in the global sovereign debt indices and the drop in the prices of oil.

The year began with a rate of COP 1,926 per USD 1 and quickly, by the first week of February, rose to COP 2,049 as a result of the increased risk premium in Latin American countries due to the fear of the effects of the decrease in quantitative easing in the US. However, in the second half of March, investment bank J.P. Morgan increased Colombia's share from 3.24% to 8.05% in its emerging market sovereign debt index. This decision led to the inflow of an unprecedented amount of foreign investment aimed at the purchase of Treasury Securities. The portfolio investment amounted to nearly USD 12.4 million, with significant inflows in March, June and July. The exchange rate reached its lowest level on July 25 at COP 1,846 per US dollar.

**COP 2,392**  
Exchange rate as at  
December 31st.



Source: Colombian Financial Superintendence

Notwithstanding, in September, the valuation of the dollar at the global level, the setback in Europe's economic growth and China's poor performance were translated into a significant drop in commodity prices, particularly the price of oil. In addition, the latter was particularly affected by the increase in the offering of the US and Canada, and OPEC's decision not to change its levels of production. As a result, the exchange rate was significantly higher at the end of the year, closing at COP 2,392 per US dollar.

## Foreign Trade

Based on figures at the end of October, Colombian exports totaled USD 47 billion FOB, and showed an annual drop of 3.0%. This trend was primarily driven by the decrease in sales of fuels, products from the extractive and manufacturing industries, which reported declines of 2.6% and 6.5%, respectively. On the other hand, the export of agricultural products and food, particularly coffee, showed a positive trend that resulted in an annual growth of 11%.

Imports amounted to USD 53 billion CIF, also as at October, a 7.6% annual increase. Foreign purchases from the manufacturing sector reported a variation of 6.2%, which is the item that most contributed to the growth of imports.

As a result, the Colombian economy reported a trade deficit of USD 2.2 billion FOB between January and October 2014.

**USD 2.2 billion FOB**

Colombia's Trade Deficit Between  
January and October 2014.





## MACROECONOMIC CONTEXT IN CENTRAL AMERICA

### Gross Domestic Product

Up to the third quarter of 2014, economic activity in Costa Rica, El Salvador, Honduras and Panama grew 3.7%, 2.1%, 3.1% and 6.1% respectively, reporting an acceleration compared to the previous year in the first three countries, while Panama slowed down 1.7 percentage points.

The performance of the economy in the region was marked by the drop in the prices of their main export commodities, the lethargy of foreign direct investment (in Costa Rica, this had a strong influence on the closing of the Intel Corporation micro-processor plant), and the increase in employee remittances abroad as a result of the better employment dynamic in the US.

Annual GDP Growth (%)

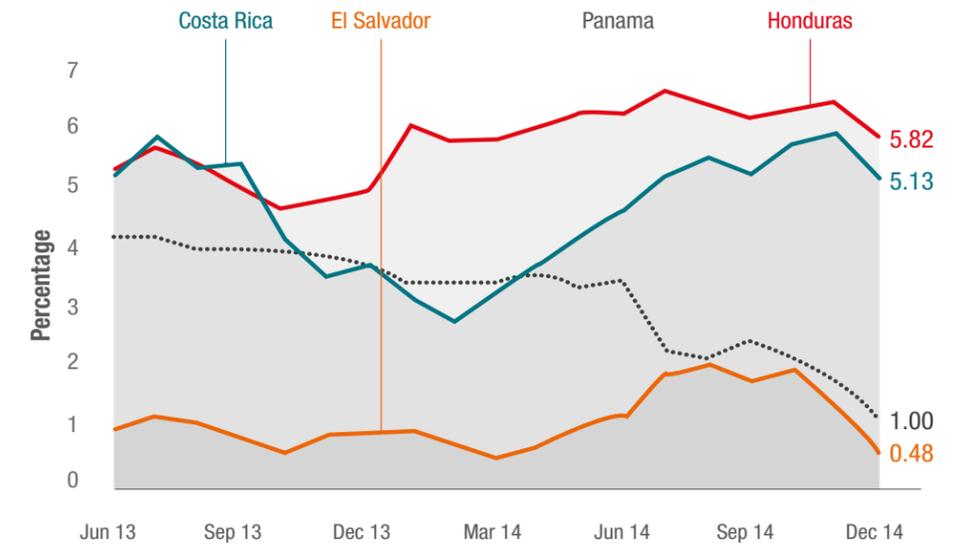
	2013		2014				
	Q1 to Q3	Year	Q1	Q2	Q3	Q1 to Q3	Year
<b>Panama</b>	7.8	8.4	5.8	6.3	6.2	6.1	6.6*
<b>Costa Rica</b>	3.0	3.5	3.7	3.6	3.6	3.7	3.6*
<b>El Salvador</b>	1.6	1.7	2.2	2.1	2.0	2.1	1.7*
<b>Honduras</b>	2.6	3.1	3.4	3.0	2.9	3.1	3.0*

\* World Economic Outlook, FMI

Source: Central banks of each country, National Institute of Statistics and Censuses (Panama).

12. In April 2014, Intel announced the closing of its production plant in Costa Rica and the layoff of 1,500 employees. At the same time, Bank of America, Yanber and Mabe, among other organizations, reduced or abandoned their operations in the country by moving to neighboring countries and terminating more than 2,500 contracts of employment.

Annual Inflation



Source: Central Banks and Statistics Institutes of each country.

### Inflation

In terms of inflation, there were 2 contrary effects in 2014: the increase in food prices in 4 countries during the first few months of the year as a result of the drought, and the decrease in the price of oil at the global level at the end of the year, which had a direct impact on the prices of transportation services.

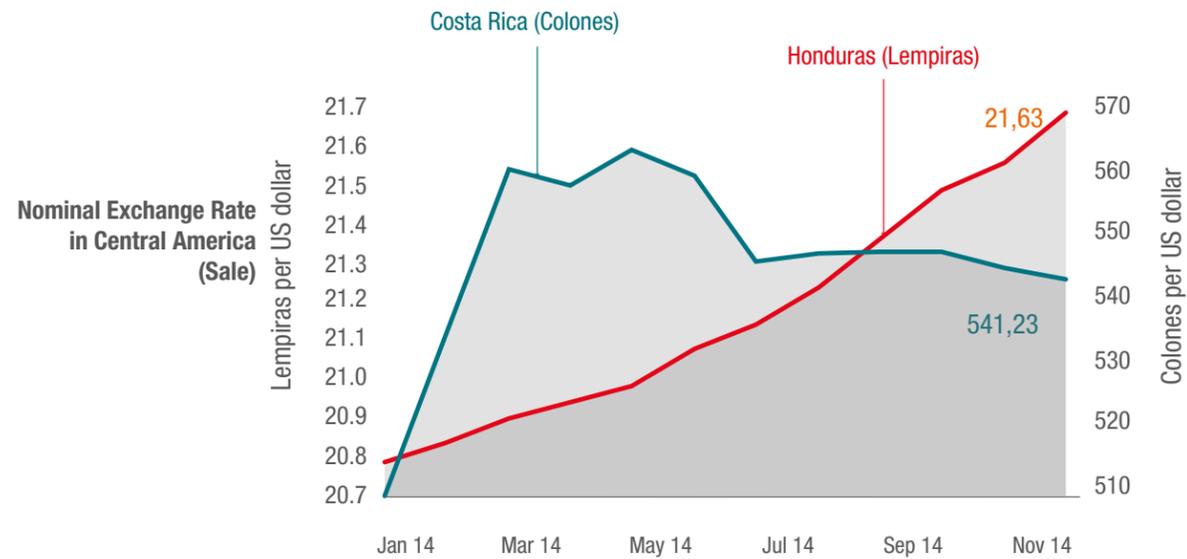
In the last quarter of 2014, inflation in Honduras remained within the target range (5.5% - 7.5%), ending the year with a variation of 5.8%. In Costa Rica, inflation during the same period exceeded the Central Bank's target range (3.0% - 5.0%, ending 2014 at 5.1%). In this country, annual price variations exceeded the ceiling of the target range during the last 6 months of the year.

In both Costa Rica and Honduras, the annual inflation of

December 2014 was greater than 2013. On the other hand, annual inflation in El Salvador and Panama was lower.

Inflation in Panama's economy decreased throughout the year and ended with a variation of 1%. Inflation in El Salvador reached a 0.48% increase in December.





## Monetary, Financial and Fiscal Policies

### Costa Rica

During the first half of 2014, the exchange rate demonstrated the highest depreciation since September 2009, when it reached values close to CRC 595 Colones per US dollar. The devaluation peaked in May 2014, reaching an average exchange rate of CRC 560 per US dollar.

This behavior was mainly due to the monetary contraction policy adopted by the US Federal Reserve and the reduction in the monetary policy rate by the Central Bank in 2013.

The Central Bank took several measures to counter the increase in the exchange rate, including:

- Currency sales during the first half of the year for a cumulative value of USD 708 million.
- Increases in the monetary policy interest rate from 3.75% to 4.75% on March 13 and to 5.25% on May 7.
- Placement of Eurobonds for USD 1 billion in April.



### Honduras

In 2014, the Lempira was devaluated by 4.1%, greater than the 2.98% reported in 2013.

The year 2014 was marked by financial pressures on state-owned companies, particularly the Honduras telephone company (Hondutel) and the electric company (Empresa Nacional de Energía Eléctrica (ENEE). To counter the financial gap of these companies, the Government authorized their restructuring by eliminating jobs and freezing wages, among other measures.

Finally, in December 2014, the Honduran Government signed an agreement with the International Monetary Fund to maintain macroeconomic stability by strengthening public finances and the position of the external sector. The basic aspects of the program include:

- Reduction of the expenditure and losses of the electricity sector.
- Improvement in tax management.
- Improvement of the monetary and exchange policy.
- Decrease in poverty and increase in growth.

As a result of several tax adjustments made by the Government, in October 2014, total tax revenue rose to an annual accumulated 15.42% (12 months) while the total expenditure increased to 7.4%. In addition, as proof of the effectiveness of the tax adjustments being made, there is a decrease in the EMBI value, going from an average of 581.15 in January to 444.7 in December.

### El Salvador

In July 2014, the General Shareholders Meeting adopted amendments to the Tax Code and income tax<sup>13</sup>, and in September, the tax on financial transactions was approved. In that same month, the Government of El Salvador and the Millennium Challenge Corporation (MCC) signed the second agreement for Millennium Funds, based on which the country will have USD 365 million for social and economic development.



13. The minimum payment of income tax was established as 1% on net assets.

## Ratings

### Costa Rica

On September 16, Moody's reduced its sovereign debt index from investment grade to speculative grade (from Baa3 to Ba1). This was a result of institutional weakness, expectations of a higher tax deficit and the absence of a tax reform. It is important to point out that Moody's was the only rating agency that maintained the country's investment grade.

### El Salvador

On December 22, Standard and Poor's reduced El Salvador's rating from BB- to B+ (highly speculative), as a result of:

- A polarized political environment that continues to weaken the atmosphere for making policies and limiting prospects for economic growth.
- Limited fiscal and monetary flexibility, which restricts the Government's capacity to absorb negative external impacts.

- Erosion of the Government's financial profile due to the combination of low economic growth (persistent) and high tax deficit.

### Honduras

In February 2014, Moody's lowered the rating on Honduras' bonds from B2 to B3 and changed the outlook to stable, based on a growing tax deficit that exceeded initial forecasts in 2013 and due to the high financial requirements of the Government. However, in August, Standard and Poor's confirmed Honduras' rating at B (highly speculative) with a stable outlook. According to the rating agency, the tax reforms made by the Government led to the expectation of a decrease in the deficit. In addition, the elected administration of President Juan Orlando Hernandez inspired confidence in the continuity of the economic policies and generated the expectation of higher economic growth. Finally, Standard and Poor's confirmed its stable outlook.

Quality	Moody's		S&P		Fitch	
Low investment grade	Baa1		BBB+		BBB+	
	Baa2	Panama (est)	BBB+	Panama (est)	BBB+	Panama (est)
	Baa3		BBB-		BBB-	
Non-investment grade	Ba1	Costa Rica (est)*	BB+		BB+	Costa Rica (est)
	Ba2		BB	Costa Rica (est)	BB	
	Ba3	El Salvador (est)	BB-		BB-	El Salvador (-)
Highly speculative	B1		B+	El Salvador (est)**	B+	
	B2		B	Honduras (est)	B	
	B3	Honduras (est)	B-		B-	



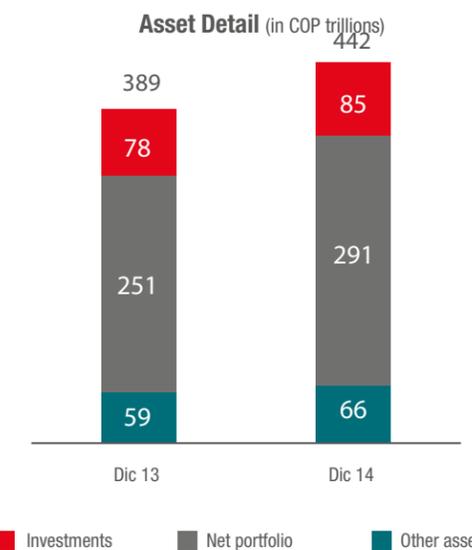


# COLOMBIAN BANKING SYSTEM

In 2014, the Colombian banking system showed favorable results in terms of strengthened capital, sustained portfolio growth and better coverage and quality indicators. The 125 bp increase in the Central Bank's rate in 2014 suggests higher intermediation margins and sustainable profitability indicators in the system. The challenge remains to improve the efficiency of the operation and increase solvency levels to prepare capital for the future requirements of Basel III.

## Assets

The 14% growth of assets during the year was driven by the increase in the net portfolio, which contributed 10.3% of that growth and increased the share to 65% of the banking sector's asset structure. This restructuring has enabled entities to decrease their exposure to the high volatility of treasury securities, whose share is nearly 50% of their total investment portfolio.



	Annual Variation		Share
	2013 - 2014	2013	2014
<b>Total Assets</b>	14%	100%	100%
<b>Investments</b>	8%	20%	19%
<b>Net Portfolio</b>	16%	65%	66%
<b>Other assets</b>	11%	15%	15%

Source: Colombian Financial Superintendence

### Loan Portfolio

The net portfolio of the banking system had an annual growth rate of 16%, which is 180 bp higher than the growth rate reported in the previous year. Despite the slowdown in the portfolio of the Colombian banking sector since 2012, growth is still higher than GDP growth, which confirms an improvement in the country's financial depth<sup>14</sup>, going from 37% in 2013 to 39% in 2014.

In 2014, the commercial portfolio was the one that contributed most to the annual growth of the total portfolio, because it had the highest participation. However, the fastest growing portfolio is still mortgage at a growth rate of 20.3% (without the securitized portfolio). This portfolio has been slowing down since the second half of the year due to the gradual reduction of the National Government's interest rate subsidy program.

The consumer portfolio reported an acceleration from 11.7% to 13.1% over the last year due to the strength acquired by payroll loans in the total consumer portfolio, which went from representing 35% of the total consumer portfolio in 2013 to 37% in the same period of 2014. Since these loans are deducted from payroll, they have low default indicators. On the other hand, the micro-loan portfolio reported the highest slowdown.

14. Financial depth is a measure of the share of the loan portfolio in economic activity, and it is measured as the ratio between gross portfolio and GDP.

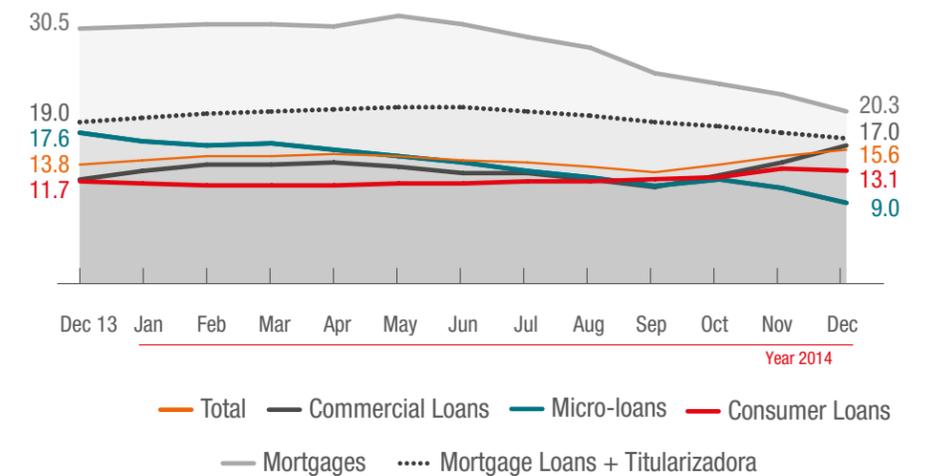
# 20.3%

Annual growth rate of the mortgage portfolio.

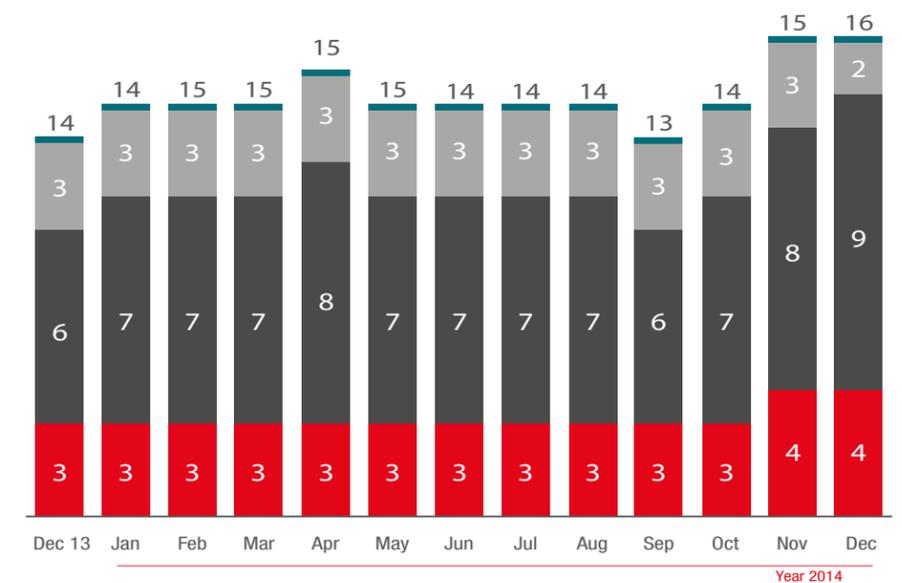
**14%**  
Asset growth of the Colombian banking system.

**16%**  
Growth rate of the banking system's annual portfolio.

Annual Growth of the Gross Loan Portfolio (Values in percentage)



Share by Segment to Annual Growth of the Gross Loan Portfolio (values in percentage)



Source: Colombian Financial Superintendence



### Portfolio Quality

Although the growth of this portfolio was maintained, the loan portfolio quality indicator improved, going from 3.8% in December 2013 to 3.7% in December 2014, mainly due to the 20 bp improvement in the consumer indicator and the 10 bp improvement in the commercial indicator. On the other hand, the mortgage portfolio stood stable at 1.9%.

The portfolio coverage increased from 118.1% in 2013 to 118.8% in 2014, mainly due to the increased coverage of the commercial portfolio, which has the highest representation in the total portfolio.

**Portfolio Quality by Rating**  
(Portfolios C, D and E / total portfolio)

	December 2013	December 2014
<b>Total Portfolio</b>	3.8%	3.7%
<b>Consumer Loans</b>	4.8%	4.6%
<b>Commercial Loans</b>	3.7%	3.6%
<b>Mortgage + Residential Leasing</b>	1.9%	1.9%

Colombian Financial Superintendence and Asobancaria. Calculation: Davivienda

**Coverage by Modality**  
(Provisions / gross loan portfolio)

	December 2013	December 2014
<b>Total Portfolio</b>	118.1%	118.8%
<b>Consumer Loans</b>	129.2%	129.8%
<b>Commercial Loans</b>	105.8%	106.8%
<b>Mortgage + Residential Leasing</b>	175.8%	173.2%

Colombian Financial Superintendence and Asobancaria. Calculation: Davivienda

The loan portfolio quality indicator improved, going from 3.8% in December 2013 to 3.7% in December 2014.

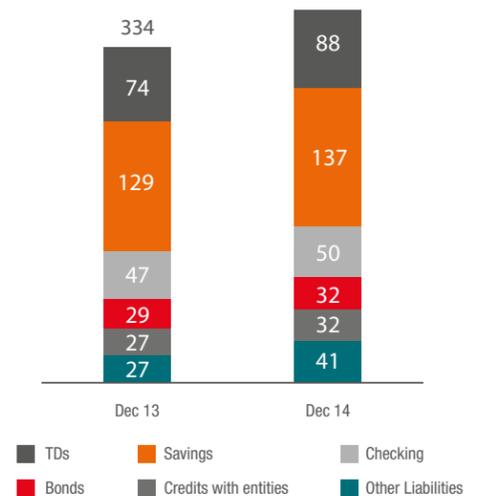
ities. Bonds represent 8.4% of the total liabilities and showed a growth over the last year (10.5%) which is lower than that of 2013 (10.9%). The moderation of bond issuance has been offset by capital contributions from banks through share issuances.

### Funding

TDs and Savings Accounts are the products that contributed most to the annual growth of liabilities at 13.7%. The high proportion of demand deposits is a factor that allowed banks in Colombia to maintain the low cost of the liabilities. However, the lower proportion of savings accounts in the total funding structure, dropping from 39% to 36% during the period under analysis, has been offset by an increase in TDs.

The capital market has become an important source to obtain funds for banks that enables them to achieve the right balance between the duration of assets and liabilities.

**Liability Structure** (in COP trillions)



	Annual Variation 2013-2014	Share	
		2013	2014
<b>TDs</b>	19%	22%	23%
<b>Savings</b>	6%	39%	36%
<b>Checking</b>	6%	14%	13%
<b>Bonds</b>	11%	9%	8%
<b>Credits with entities</b>	16%	8%	8%
<b>Other Liabilities</b>	50%*	8%	11%
<b>Total</b>	<b>14%</b>	<b>100%</b>	<b>100%</b>

\*Explained partly by the upturn of Repos and Interbank deposits, which grew 130.1%, representing 33.7% of the total Other Liabilities.

Source: Colombian Financial Superintendence. Calculation: Davivienda

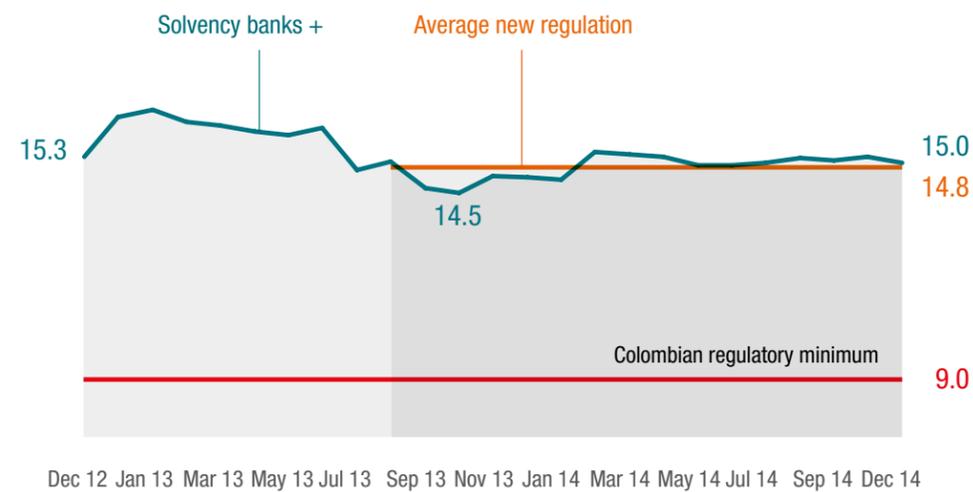
## Equity and Solvency

Thanks to banks' efforts to maintain comfortable levels of capital to cover liquidity needs, the individual solvency ratio remained well above the level required by regulations (9%) at an average indicator of 15% as at December 2014. Basic solvency, which is built with better quality capital, was established at 10.6%, thus exceeding the minimum levels of 4.5% defined by regulations. The sector's equity stood at COP 62.1 trillion, with an annual increase of 13.9% partly due to the capitalizations carried out by two of the main banks in the sector<sup>15</sup>.

Decree 1771, issued in 2012, took effect in August 2013, adopting measures to strengthen the capital of credit institutions. This regulation does not change

the minimum level of total solvency of 9%, introduced changes in the regulatory capital classification structure and a new indicator called the Basic Solvency Ratio, which can be no less than 4.5%.

**15%** Ratio of individual bank solvency in 2014.



Source: Colombian Financial Superintendence

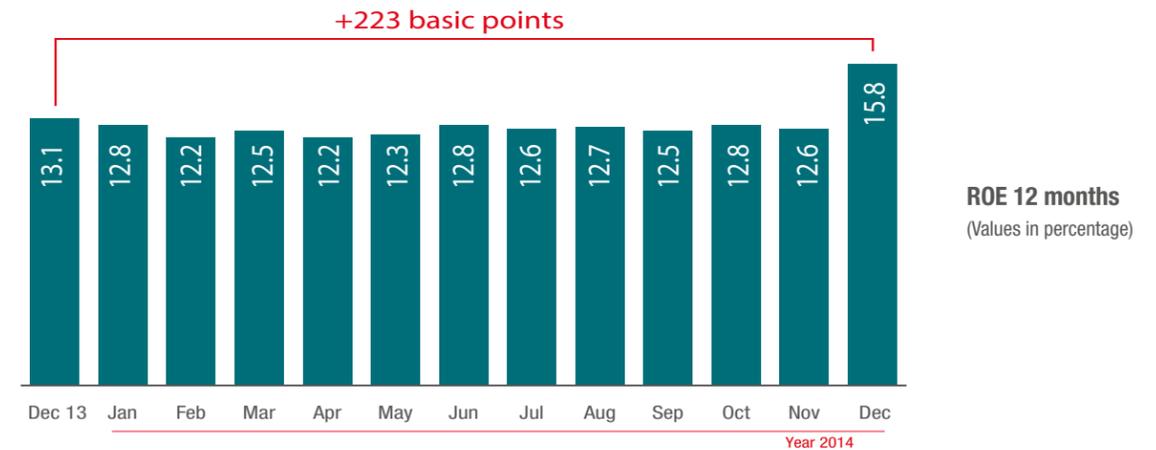
<sup>15</sup>. Issuance of ordinary shares in February 2014 for COP 2.6 trillion and Banco de Bogotá's issuance in November 2014 for COP 1.5 trillion.

## Profitability

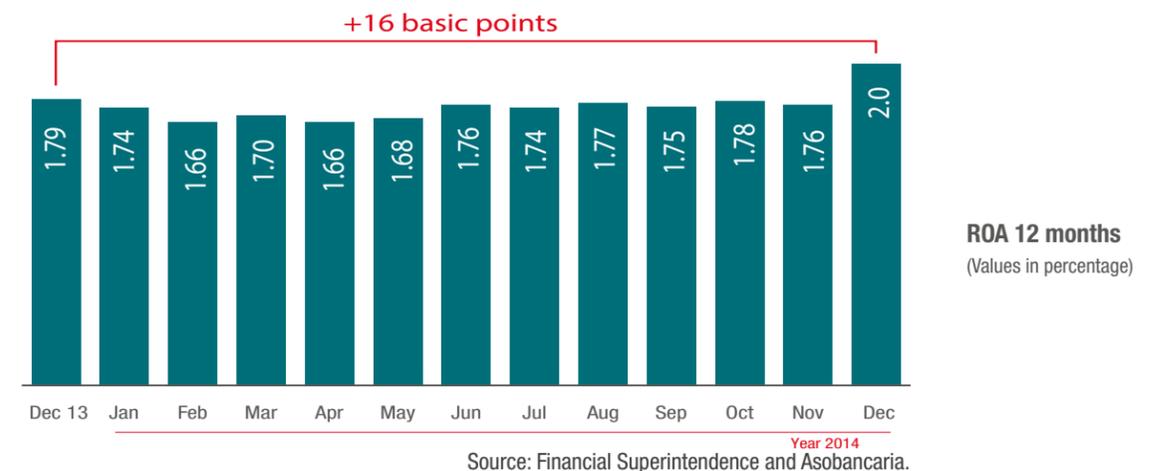
The profitability of the banking sector measured in terms relating to average assets and liabilities up to November 2014 decreased due to the financing margins and the higher levels of capital, whose growth is partly due to the shares issued by several banks to leverage growth and maintain the appropriate solvency levels.

However, due to the profit resulting from the sale of Equity Securities by one of the most important participants in the sector, profitability had a considerable increase in the last month of the year, placing ROE at 15.8% and ROA at 2.0% by the end of 2014.

**ROE (15.8%)**  
**ROA (2.0%)**  
Banking sector at the end of the year.



ROE 12 months (Values in percentage)



ROA 12 months (Values in percentage)

Source: Financial Superintendence and Asobancaria.



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## Individual Results

In 2014, we had excellent results, as our net portfolio grew more than 20%, we supported important sectors of the economy, such as the business, construction and housing sectors, and we positioned ourselves as a financial inclusion bank with DaviPlata as a major ally of the National Government.

It is important to point out the growth of the commercial portfolio, which ended the year at COP 20.3 trillion, 22% more than the previous year, mainly due to the corporate segment, representing 69% of the commercial portfolio, which grew 20.1%. In addition, we achieved a growth of 16% in the SME segment, which is higher than the growth of the system (8%) with annual disbursements for COP 3.6 trillion. Finally, in the construction sector, we closed at COP 2.2 trillion, which represents a growth of 30% compared to 2013. This result is the consequence of our participation in Government programs to encourage Colombian families to buy a home.

In relation to personal banking, we accelerated the growth dynamic of our consumer portfolio, going from an annual increase of 4.9% in 2013 to 17.9% by the end of 2014, mainly due to the growth strategy in payroll loans. Our mortgage portfolio grew 18.6% and we are still the first bank in loan disbursements with the interest rate benefit.

# DAVIVIENDA RESULTS

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**22%** Growth of the  
commercial loan portfolio in 2014

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**17.9%** Growth in the  
consumer loan portfolio.

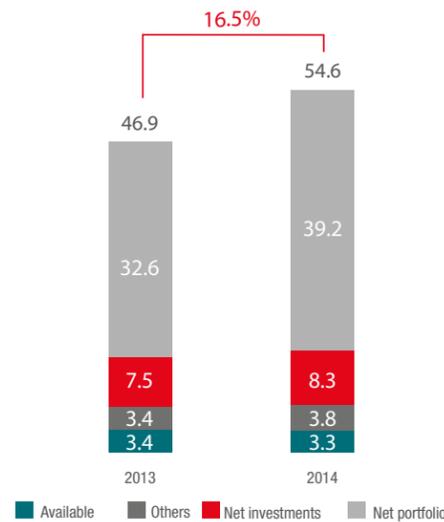
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We have continued to consolidate as a financial inclusion bank: in 2014, we had more than 50 million monetary transactions for COP 2.7 trillion through 6,300 DaviPlata points of service in more than 930 Colombian municipalities.

### Asset Structure and Analysis

At the end of 2014, we were still the third largest bank based on assets in Colombia at COP 54.6 trillion, and a growth of 16.5% over the last 12 months. This result is explained by the COP 6.6 trillion portfolio growth. Furthermore, investments, interbank deposits and cash increased 6.4% by more than COP 700 billion. The portfolio represents 71.8% of the total assets, while investments represent 15.1%.

**Davivienda / Asset Performance**  
(in trillions of COP)



### Loan Portfolio

In December 2014, there was a 20.3% increase in the loan portfolio mainly due to the growth of the consumer and commercial loan portfolios, which meant an increase of COP 3.7 trillion (22.0%) and COP 1.7 trillion (17.9%), respectively. This performance was driven mainly by the corporate segment (21.2%) and the payroll loan segment (33.6%).

The mortgage portfolio grew 18.6%; low-income housing (LIH) loans closed at COP 3.2 trillion with a growth of 20.7%, and residential leasing grew 13.1%, while the financing of mortgages for homes other than LIH demonstrated a slight decrease of 0.9%.

**COP 54.6 trillion**  
Assets  
**16.5%**  
growth in 2014.

**Banco Davivienda / Net Portfolio** (in COP trillions)

	2013		2014		Variation	
	Value	Share	Value	Share	Value	Percentage
<b>Mortgage Portfolio</b> (includes residential leasing)	7.7	23.6%	9.1	23.3%	1.4	18.6%
<b>Commercial Loan Portfolio</b> (includes micro-loans)	16.7	51.1%	20.3	51.9%	3.7	22.0%
<b>Consumer Loans</b>	9.7	29.8%	11.5	29.2%	1.7	17.9%
<b>Allowances</b>	-1.5	-4.6%	-1.7	-4.4%	-0.2	14.6%
<b>Net Portfolio</b>	<b>32.6</b>		<b>39.2</b>		<b>6.6</b>	<b>20.3%</b>

The portfolio quality indicators of delinquency<sup>16</sup> have been declining mainly due to the improvement in standards and adjustments to the policies for granting loans in the consumer segments since 2011, dropping from 3.10% in 2013 to 2.88% in 2014, which represents a decrease of 23 basis points.

The mortgage portfolio increased to 1.6% in December 2014, mainly due to portfolio securitization for COP 619 billion in 2014, while the commercial portfolio stood at 1.2%.

In relation to coverage and as part of our risk management efforts, we have maintained levels of coverage<sup>17</sup> for nonperforming loans above 240% over the last 3 years, ending 2014 at 245%; the decrease compared to the previous year is mainly due to the improvement in portfolio quality, mainly in the consumer portfolio, as well as the change in the provisions model for the vehicle and residential leasing segment.

**23 basic points**  
Decrease in the portfolio quality indicator for delinquency in 2014.

**245%** Level of nonperforming loan portfolio coverage.

16. Delinquent portfolio quality (Consumer loans > 60 days; Commercial, Leasing and Micro-loans > 90 days; Home loans > 120 days).

17. Coverage: Provisions / Nonperforming loan portfolio based on delinquency.

**Banco Davivienda / Nonperforming loans and coverage indicators (%)**

	2012	2013	2014
<b>Consumer Portfolio Quality</b>	3.85%	3.10%	2.88%
<b>Commercial Portfolio Quality</b>	0.91%	1.20%	1.19%
<b>Mortgage Portfolio Quality</b>	1.58%	1.22%	1.57%
<b>Total Quality</b>	1.93%	1.74%	1.70%
<b>Total Coverage</b>	<b>254.7</b>	<b>251.2</b>	<b>245.4</b>

The Commercial Loan Portfolio includes Micro-loans and Residential Leasing.

**Quality:** Non-performing loan portfolio quality based on delinquency (Consumer loans > 60 days; Commercial, Micro-loans, Residential Leasing > 90 days; Mortgage > 120 days) / Total.

**Coverage:** Provisions / Non-performing Loans x Delinquency

**Liability Structure and Analysis**

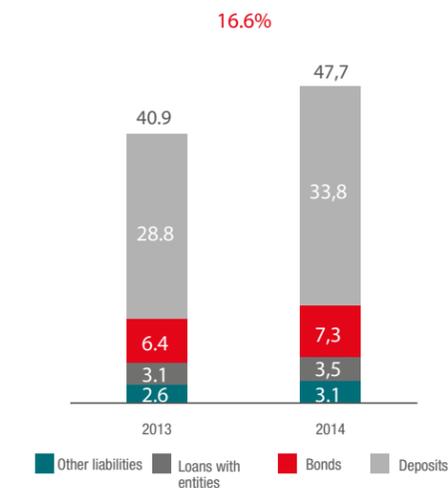
Deposits showed a growth of COP 5 trillion, which is 17.3% greater than those reported on the same date in 2013, equivalent to 70.8% of total liabilities, which grew 16.6%, reaching COP 47.7 trillion. This growth was driven primarily by the increase in demand deposits, which increased by COP 3 trillion, 15.5% more than in 2013, while term deposits increased by COP 1.9 trillion, ending the year at COP 11.1 trillion.

Savings deposits represented 38.4% of the deposits<sup>18</sup>, payables and bonds, while checking accounts represented 11.4%, TDs 24.9% and bonds represented 16.4%.

18. Funding sources: Deposits + bonds + institutional loans.

**47.7 trillion**  
Total Liability in 2014.  
Portfolio Growth of  
**16.6%.**

**Banco Davivienda - Performance of Liabilities<sup>19</sup>**  
(in trillions of COP)



**Banco Davivienda / Acquisitions Instruments (in COP trillions)**

	2013		2014		Variation	
	Value	Share	Value	Share	Value	Percentage
<b>Saving Accounts</b>	14.7	41.7%	17.1	41.7%	2.5	16.7%
<b>Checking Accounts</b>	4.6	13.0%	5.1	12.4%	0.5	11.6%
<b>TDs</b>	9.2	26.1%	11.1	27.0%	1.9	21.2%
<b>Bonds</b>	6.4	18.2%	7.3	17.8%	0.9	14.6%
<b>Others</b>	0.4	1.1%	0.4	1.1%	0.1	13.9%
<b>Public Acquisitions</b>	<b>35.2</b>		<b>41.1</b>			<b>16.8%</b>

The net portfolio to funding sources ratio increased to 87.9%<sup>20</sup>, compared to 85.1% in 2013.

19. Other Liabilities include Repos and Interbank Deposits.

20. Calculated as Net Loan Portfolio / (Deposits and payables + Bonds + Loans with other institutions)

## Equity Structure

As at December 2014, the Bank's equity closed at COP 6.9 trillion, 942 billion more than December 2013, mainly due to the profits generated.

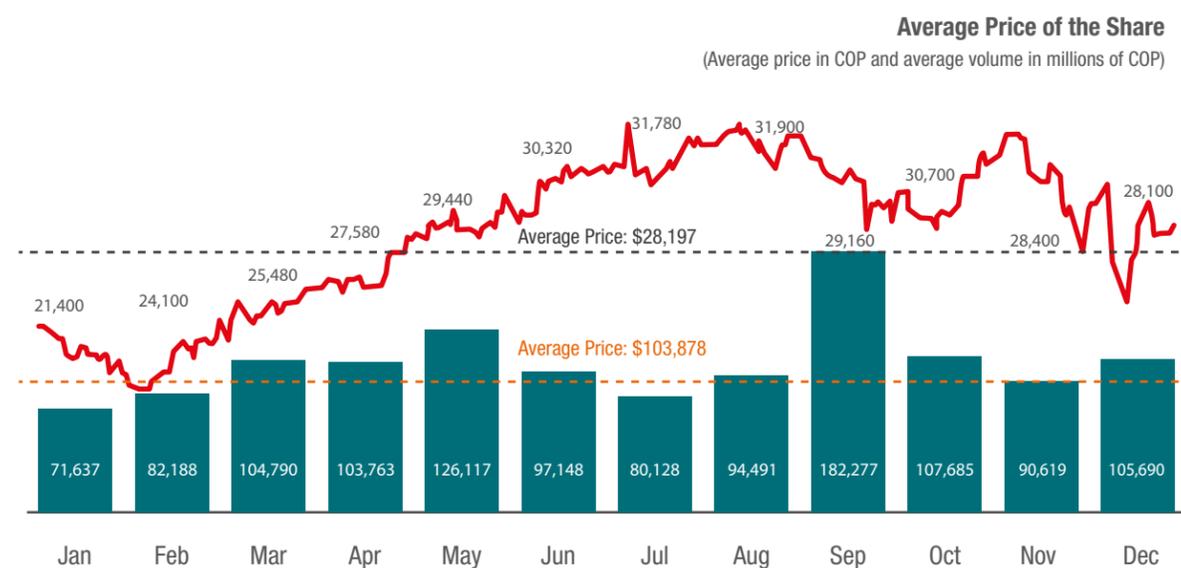
As at December of 2014, technical capital amounted to COP 6.3 trillion, while assets weighted by risk level totaled COP 46.1 trillion. Considering a market risk equal to COP 254 billion, these figures indicate a solvency ratio<sup>21</sup> for the Bank of 12.96% for the total indicator and 6.88% for core capital. This is compared to a regulatory 9% for the total indicator and a minimum level of core capital of 4.5%, according to the change in the measurement<sup>22</sup> that took effect in August 2013, approaching the requirements of international standard of Basel III.

## Performance of Shares

At the end of 2014, Davivienda had 444 outstanding shares<sup>23</sup>, 22.6% of which were preferred shares on the local securities market. 41.4% of these shares were in the hands of foreign investors, 29.2% belonged to local pension funds, 18.7% corresponded to companies from other sectors and the remaining 10.6% to individuals.

Five investment banks began equity coverage and one in fixed income coverage to end 2014, with a total of 11 investment banks covering Davivienda's preferred shares: 9 foreign and 2 domestic.

This year, the average monthly volume traded of the share was COP 103 billion, equivalent to an average 5 billion daily. We ended 2014 at a price of COP 28,100 and a valuation of 17.7% compared to the previous year.



Source: Colombian Securities Exchange and Deceval. Davivienda

21. Technical Capital / (Assets weighted by Risk Level + ((100/9)\*Value at Risk))

22. Decree 1771 / 2012 of the Colombian Financial Superintendence.

23. 444,214,234 shares.

## Statement of Income

Cumulative results as at December 2014 amounted to COP 1,001 billion, which represents a 37.2% increase compared to the cumulative results in December 2013, which reached COP 730 billion.

Banco Davivienda / Result as of December 2014 (In billions of pesos)

	December 2013	December 2014	Growth	
			Value	Percentage
<b>Portfolio Income</b>	3,576	4,094	517.6	14.5%
<b>Investment Income</b>	273	282	9.6	3.5%
<b>International &amp; Overnight Funds</b>	6	3	-2.8	-51.1%
<b>Financial Expenses</b>	-1,219	-1,381	162.3	13.3%
<b>Allowances</b>	-751	-723	-28.0	-3.7%
<b>Net Financial Margin</b>	<b>1,885</b>	<b>2,275</b>	<b>390.0</b>	<b>20.7%</b>
<b>Operating Income</b>	841	967	126.7	15.1%
<b>Operating Expenses</b>	-1,877	-2,036	158.1	8.4%
<b>Other Net Income and Expenses</b>	60	116	56.2	94.5%
<b>Operating Profit</b>	<b>908</b>	<b>1,322</b>	<b>414.8</b>	<b>45.7%</b>
<b>Other provisions</b>	-21	-13	-7.6	-36.8%
<b>Non-operating, net</b>	29	5	-23.7	-81.3%
<b>Income before taxes</b>	<b>916</b>	<b>1,315</b>	<b>398.7</b>	<b>43.5%</b>
<b>Taxes and others</b>	-186	-314	127.2	68.3%
<b>Net income</b>	<b>730</b>	<b>1,001</b>	<b>271.5</b>	<b>37.2%</b>

The net financial margin at the end of the 2014 had a growth of 20.7% compared to the aggregate of 2013, due to the good behavior of the portfolio whose income grew 14.5% while provisions decreased by 3.7%.

Portfolio income growth was due primarily to the increase in income from the commercial and mortgage portfolios, both in the LH and residential leasing segments, given the increase in the balances of these segments.

The income from the consumer loan portfolio grew 6% compared to 2013, mainly due to the 33.6% increase in the balance of the payroll loan portfolio compared to the previous year.

Income from investments increased by COP 9.6 billion compared to 2013, mainly due to the performance of the debt portfolio with a 4.2% increase in income.

Financial expenses grew as a result of the larger share of term products with comparatively higher rates within the funding sources such as TDs and the growth in the balance of savings accounts.

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## Investment earnings showed an increase of **COP 9.6 billion** compared to 2013.

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The operating margin grew 45.7% due to the 15.1% increase in operating income, and mainly due to the COP 62.4 billion growth in dividend income, COP 33.5 billion in income from services and COP 30.1 billion in income from fee and commission income.

COP 158 billion in operating expenses showed an 8.4% increase, mainly due to the 20.1% increase in investment spending and tax expenses and others, given the bank's growth. Accumulated net profits ended December 2014 at COP 1,001 billion, which represents a growth of 37.2%.





The following is a summary of the management of our subsidiaries abroad. At the end of 2013, we had 786 thousand customers outside Colombia, attended by 4,145 employees through a network of 149 branches and 441 ATMs in 51 different cities.

### Davivienda El Salvador

At the end of December 2014, Davivienda held 96.12% of Inversiones Financieras Davivienda in El Salvador. This holding company of the financial conglomerate in that country in turn held 98.24% of El Salvador's Banco Davivienda, 99.9% of the insurance companies and 99.9% of Davivienda Factoring. It also holds 99.9% of Almacenadora Davivienda and Valores Davivienda indirectly through Banco Salvador.

On the same date, El Salvador's **Banco Davivienda** ranked second place in the system in the country based on assets with a 14.7% share, holding the same place in 2013. The bank had assets for USD 2.1 billion and a portfolio of USD 1.5 billion comprised of commercial loans (46%), consumer loans (42%) and mortgage loans (12%). The fastest growing portfolio in the year was the consumer portfolio (37%), with close to USD 1730 million.

The profits of Inversiones Financieras Davivienda during the year were **USD 25 million**, showing a decrease of 7% compared to the preceding year, mainly due to the portfolio income generated by the Bank, which increased USD 19 million (18%) compared to 2013, the USD 6 million increase in the costs of financial obligations, the USD 2 million growth in portfolio provisions, the USD 2 million growth in attraction costs and the USD 8 million increase in operating expenses.

## PERFORMANCE OF SUBSIDIARIES ABROAD<sup>24</sup>

24. In accordance with the provisions of Decree 2784 / 2012, the Bank belongs to Group 1 of consolidators of financial information, as at February 28, 2013, Davivienda submitted to the Colombian Financial Superintendence the Plan for the Implementation of the International Financial Reporting Standards (IFRS).

According to the plan, as of 2014, the Bank started the transition period, and the issue of the first financial statements based on the International Financial Reporting Standards would be in 2015.

In compliance with the provisions of Circular Letter 112 / 2013, on January 30, 2014, Davivienda submitted to the Colombian Financial Superintendence a summary of the main preliminary policies provided for the preparation of the opening statement of financial position as at January 1, 2014, noting the exceptions and exemptions in the application to the technical regulatory framework and a preliminary calculation with the main qualitative and quantitative impacts that have been established.

The Circular stipulates that the opening statement of financial position was to be submitted to the Superintendence no later than June 30, 2014, taking into account that it will serve as a starting point for accounting according to international standards.

Assets showed a variation of USD 68 million, reflected mainly in the loan portfolio that increased USD 104 million, Cash, which increased by USD 97 million, and investments decreased by USD 141 million.

Equity decreased by USD 7 million mainly due to the annual profit of USD 25 million and the payment of USD 33 million in dividends.

El Salvador's Banco Davivienda ranked second place in the system in the country based on assets with a **14.7%** share.

**Main Figures Financial Investments Davivienda El Salvador** (In millions of dollars)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	2,058	2,126	67.6	3.3%
<b>Net Portfolio</b>	1,407	1,508	103.7	7.4%
<b>Liabilities</b>	1,772	1,846	74.7	4.2%
<b>Equity</b>	286	279	-7.1	-2.5%
<b>Profit</b>	27	25	-1.9	-7.1%

Note: Profit figures in local accounting.



## Davivienda Costa Rica

At the end of December 2014, Banco Davivienda held 99.96% of Corporación Davivienda through Grupo del Istmo holding. Said Corporation in turn held 100% of Davivienda Costa Rica, 100% of Puesto de Bolsa and 100% of the Insurance Agency.

On the same date, Banco Davivienda Costa Rica ranked fifth in the country's financial system with a share of USD 1,751 million in assets. The total portfolio balance was USD 1,090 million, out of which 57% was for commercial loans, 14% consumer loans and 29% was for mortgages. The fastest growing portfolio in 2014 was commercial, ending at USD 623 million, with a growth of 38%.

The Corporation's earnings in 2014 were USD 17 million with a growth of USD 3 million.



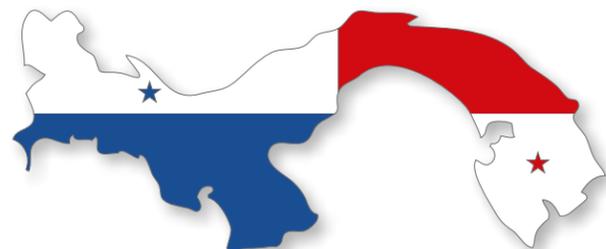
**USD 17 million**  
Corporación earnings in 2014, compared to 2013.

**Main Figures Corporación Davivienda Costa Rica** (in millions of USD)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	1,483	1,766	282.7	19.1%
<b>Net Portfolio</b>	864	1,073	209.5	24.2%
<b>Liabilities</b>	1,300	1,581	280.6	21.6%
<b>Equity</b>	183	185	2.1	1.1%
<b>Profit</b>	14	17	2.8	19.7%

Note: Profit figures in local accounting.

Exchange Rate as at December 2014: USD 1 / 533.31 Colones



**USD 1,277 million**

Total Assets Davivienda Panama.

### Davivienda Panama

At the end of December 2014, Banco Davivienda Panama reached **USD 1,277 million** in total assets, which represents a growth of USD 84 million and a 7% variation compared to the previous year. Equity was reported at USD 142 million, a 17% increase compared to the same period in 2013, and liabilities closed at USD 1,135 million, a 6% variation compared to December 2013. This allowed the Bank to generate a profit of USD 13 million.

On the same date, the Davivienda Panama portfolio was mainly commercial loans (around 95%) and closed at USD 884 million, which implies a 25% gain on the USD 707 million recorded at the end of 2013.

Equity increased by **USD 21 million**, USD 13 million was generated in profit, unrealized investment losses decreased by USD 3 million and profit retained for the full application of IFRS increased by USD 5 million. The latter is mainly represented by the recognition of a reasonable value of USD 3.2 million in Property, Plant and Equipment, an adjustment to Investments Provided as Collateral - Cerpanes for USD 0.8 million and the Repayment of Portfolio Provisions for the same amount.

**Main Figures Davivienda Panama**  
(in millions of USD)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	1,193	1,277	83.1	7.0%
<b>Net Portfolio</b>	707	883	176.3	25.0%
<b>Liabilities</b>	1,072	1,135	62.7	5.8%
<b>Equity</b>	121	142	20.4	17.3%
<b>Profit</b>	15	13	-1.8	-12.0%

Note: Profit figures in local accounting.

### Davivienda Honduras

At the end of December 2014, Davivienda held 94.22% of Davivienda Honduras and 88.64% of the Insurance Company.

The Bank's assets amounted to USD 971 million, and the portfolio reached USD 711 million. Of this portfolio, 48% was commercial, 23% was consumer and 28% was mortgage. The performance of the portfolio during the period was mainly due to the USD 25 million growth of the commercial portfolio, and USD 13 million growth in the mortgage portfolio, which represents a variation of 7%. The growth of the consumer loan portfolio was 13%. On the same date, Davivienda Honduras ranked sixth in the country with a 6.4% share.

Profit amounted to USD 8 million, which represents a growth of 54% compared to 2013, mainly due to the USD 3 million growth of the net financial margin.

The Insurance Company sold USD 32 million in premiums and had a profit of USD 4.3 million, which means a 15.2% increase compared to 2013.



**USD 8 million**

Bank Earnings in 2014

**USD 4.3 millions**

Insurance Company Earnings.

**Main Figures Corporación Davivienda Honduras**  
(in millions of USD)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	913	971	57.8	6.3%
<b>Net Portfolio</b>	645	697	51.5	8.0%
<b>Liabilities</b>	813	868	54.7	6.7%
<b>Equity</b>	101	104	3.1	3.1%
<b>Profit</b>	5	8	2.6	53.5%

Note: Profit figures in local accounting.

Exchange Rate as at December 2014: USD 1 / 21.51 Lempiras

Consolidated results of our subsidiaries abroad as at December 2014, reaching a return on equity of 8.8%:

**Subsidiaries Abroad / Main Figures**  
(in millions of USD)

	Share	Costa Rica	El Salvador	Honduras	Panama	Total
<b>Costa Rica - Grupo de Istmo</b>	100%	17,147				17,147
<b>El Salvador - Fin.Investments</b>	96%		25,260			25,260
<b>Honduras - Banking</b>	94%			7,557		7,557
<b>Honduras - Insurance</b>	89%			4,285		4,285
<b>Panama</b>	100.00%				13,107	13,107
<b>Total profit by country</b>		<b>17,147</b>	<b>25,260</b>	<b>11,842</b>	<b>13,107</b>	<b>67,356</b>
<b>Other unifications</b>		-8,204	0.013	1,743	-2,380	-8,827
<b>Total Unified Earnings</b>		<b>8.943</b>	<b>25,273</b>	<b>13,585</b>	<b>10,728</b>	<b>58,529</b>

Corresponds to the sum total of subsidiaries' earnings and of each of the companies which comprise them.  
Exchange Rate as at December 2014: USD 1 / 2,392.46 COP

## Performance of Subsidiaries in Colombia

**Subsidiaries in Colombia / Managed Assets**  
(in billions of COP)

	2013	2014	Variation	
			Value	Percentage
<b>Fiduciaria Davivienda</b>	15,710	16,791	1,081	6.9%
<b>Corredores Asociados</b>	8,280	9,776	1,496	18.1%
<b>Davivalores</b>	1,516	1,138	-378	-24.9%
<b>Total</b>	<b>25,506</b>	<b>27,705</b>	<b>2,199</b>	<b>8.6%</b>

### Fiduciaria Davivienda

Total managed assets had an annual increase of 6.9% for the year. These assets were distributed in the lines of business managed as follows:



(in billions of COP)

	2013	2014	Share	Variation	
				Value	Percentage
<b>Consortia</b>	7,006	5,989	35.7%	-1,017	-14.5%
<b>Management</b>	2,821	3,500	20.8%	680	24.1%
<b>Collective Investment Funds</b>	1,896	2,424	14.4%	528	27.9%
<b>Real Estate</b>	1,653	2,404	14.3%	750	45.4%
<b>Guaranty and Pensions</b>	1,471	1,612	9.6%	141	9.6%
<b>FVP Dafuturo</b>	863	862	5.1%	-2	-0.2%
<b>Total</b>	<b>15,710</b>	<b>16,791</b>	<b>100%</b>	<b>1,081</b>	<b>6.9%</b>

## COP 16.8 trillion

Total Administrative Assets.

The largest share was held by trusts managed as a consortium with 35.7% of the total, even though there was a decrease due to the withdrawal of Consorcio Fondo de Pensiones de Bogotá 2013 in August.

With regard to the collective investment funds, Fondo Superior amounted to COP 1.4 trillion, becoming the largest of the Trust with a share of 8.1% of the total assets and 56% of the resources in funds; it achieved a growth of 29.4% compared to the end of 2013. The funds allocated for the management of excess liquidity of Rentalíquida, Consolidar and Rentacafé, contributed 6% of the managed resources at the end of the year, compared to the 4.9% share of the previous year, due to the 30.4% increase in the balance.

These businesses generated revenues for COP 76.7 billion, a 5.5% increase compared to 2013. These revenues were broken down into the lines managed as follows:

(in millions of COP)

	2013	2014	Share	Variation	
				Value	Percentage
<b>Consortia</b>	3,376	4,258	5.6%	883	26.1%
<b>Management</b>	6,331	7,426	9.7%	1,096	17.3%
<b>Collective Inv. Funds</b>	29,872	34,303	44.7%	4,430	14.8%
<b>Real Estate</b>	4,285	4,853	6.3%	567	13.2%
<b>Guaranty and Pensions</b>	2,093	1,961	2.6%	-133	-6.3%
<b>FPV Dafuturo</b>	26,730	23,863	31.1%	-2,868	-10.7%
<b>Total</b>	<b>72,688</b>	<b>76,663</b>	<b>100%</b>	<b>3,975</b>	<b>5.5%</b>

The Dafuturo Voluntary Pension Fund contributed 31.1% of the total revenue, making it the most important individual business, although it had a 10.7% decrease in its commissions compared to the previous year, due to the lower average balance of resources managed during the year. The management trusts contributed 9.7% of the total with a growth of 17.3% compared to the previous year, thanks to the completion of 220 new business deals.

## COP 23.3 billion

Net earnings.

The income of the real estate trust increased by 13.2%, with a share of 6.3% of the total. The consortia with other trusts generated revenue corresponding to 5.6% of the total, that is, 26.1% more than the previous year, mainly due to the fixed income market situation, which affected the results for the period from April to September 2013.

In reference to collective investment funds, the Superior fund achieved revenues for COP 18.8 billion, with a share of 24.5% and a growth of 13.8%, explained by the increase in the amount observed in the trust asset section. The commissions from the Rentacafé, Rentalíquida, Consolidar, Daviplus, Acciones Colombia and Acciones Ecopetrol funds amounted to COP 15.5 billion, which is 16.1% higher than those generated in the previous period. Their share of the total was 20.2%.

In addition, in compliance with the agreements established in the partnership agreement, COP 21.8 billion were transferred to Banco Davivienda, which is equivalent to the amount paid in 2013.

The other operating income amounted to COP 9.9 billion, most notably the returns generated by its own portfolio for COP 7.9 billion. Non-operating income amounted to COP 3.9 billion from recoveries in consortia and the provision of reconciliation entries. The Company's total revenues amounted to COP 905 billion, which is 14.4% higher than the figure of the previous year.

(in billions of COP)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	138.6	146.9	8.3	6%
<b>Liabilities</b>	14.9	16.4	1.5	10%
<b>Equity</b>	123.7	130.5	6.7	5%
<b>Managed Assets</b>	15,710	16,791	1,081	7%
<b>Profit</b>	21.1	23.3	2.2	11%



The total expenses of the Trust increased by 15.6% during the year. This is mainly due to the increase in non-operating income, essentially the legal proceedings underway in Consorcio Fidufosyga and the operating risk provisions, ending at COP 54.7 billion.

After covering the tax burden of COP 12.4 billion, the period yielded a net income of COP 23.3 billion, which is 10.6% higher than that of the year 2013.

## Davivalores

At the end of 2014, the operating income of Davivalores had an increase of COP 1.6 billion, which is equivalent to 24%. COP 2.1 billion of this income was generated mainly by the implementation of the charge on the service of securities management and custody for all clients who have a portfolio managed by Davivalores, but have not carried out transactions over the last 6 months. The policy on this charge is published on the website and was widely disseminated during the first quarter of the year 2014.

The income from the management of Collective Investment Funds grew 77% and increased COP 180 million compared to the results of the previous year. This higher income helped offset the decreases reported by equity commissions for COP 570 million (-22%) and the fixed income commissions for COP 123 million (-13%).

Expenses decreased by COP 200 million (-3%), mainly due to the synergy between sales forces and the lower operating expenses due to the lower volume of equity and fixed income revenues.

(in millions of COP)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	18,727	19,299	572	3.1%
<b>Liabilities</b>	1,108	786	-322	-29.0%
<b>Equity</b>	17,619	18,513	894	5.1%
<b>Managed Assets</b>	1,515,884	1,137,970	-377,914	-24.9%
<b>Profit</b>	1,456	1,302	-154	-10.6%

Managed assets stood at COP 1.1 trillion, among which shares made up COP 1 trillion. The decrease compared to 2013 is explained by the valuation of the shares at market prices, mainly due to the 44% drop in the price of Ecopetrol shares, which made up 40% of the managed assets.

The COP 1.3 billion profit represents an 11% decrease compared to 2013, mainly due to the restructuring of the income. The consolidation of the Premium Banking strategy enabled our sales force to offer Davivienda products and those of its subsidiaries as a whole, thus achieving significant contributions in the collective portfolios of the Trust Company.

Thus, 2014 continued to be representative for the consolidation of the long-term Premium Banking strategy and in the specialized training of the Davivalores sales force.

## COP 57.8 billion

Net operating earnings for Corredores Asociados.



**CORREDORES ASOCIADOS**  
Comisionista de Bolsa

## Corredores Asociados

Corredores Asociados S.A. ended the year with a net operating income of COP 57.8 billion, of which it is important to mention:

- **Commission Contract:** The revenue on this account amounted to nearly COP 14.3 billion, corresponding to the commissions resulting from transactions, shares, fixed income and charges for securities management.
- **Management of Funds:** revenue from management fees amounted to more than COP 17.8 billion, while the total value of managed funds stood at over COP 2 trillion, including private capital funds. It is important to mention the outstanding performance of the Interest and Multi-scale Funds, with values that increased by 12% and 183% respectively compared to December 2013.
- **Income related to the management of own position:** The income from profits on the purchase and sale of investments, which for 2014 exceeded COP 11.1 billion, were mainly derived from income for transactions of fixed-income instruments that are carried out with the customers of the brokerage firm.
- **Income from consulting:** income originating from investment banking activity amounted to more than COP 500 million.

As regards the performance of the subsidiary of Corredores Asociados S.A. in Panama, there was a considerable increase in its profits, which went from USD 276 thousand in 2013 to USD 286 thousand in 2014, due to the effect of the business carried out by the correspondent EFG, which was incorporated in 2014.

In terms of results, the firm reported a net profit of COP 1,492 million, standing lower than expected levels as a result of the marked decrease in equity and fixed market activity in 2014.

Corredores Asociados ended the year with 293 employees and 27,841 active customers.

(in billions of COP)

	2013	2014	Variation	
			Value	Percentage
<b>Assets</b>	142	126	-16.2	-11.4%
<b>Liabilities</b>	97	79	-17.7	-18.3%
<b>Equity</b>	45	47	1.5	3.2%
<b>Managed Assets</b>	8,280	9,776	1,496	18.1%
<b>Profit</b>	2	1	-0.4	-21.2%

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# COP 1,492 million

Net earnings  
Corredores Asociados

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Risk administration and management at Davivienda follows the guidelines of Grupo Bolívar and is carried out based on a strategy of synergy between the companies, which optimizes technological and academic resources to develop tools to measure, analyze and control risks taken. Note 30 of the Financial Statements includes the detailed indicators for each of them.

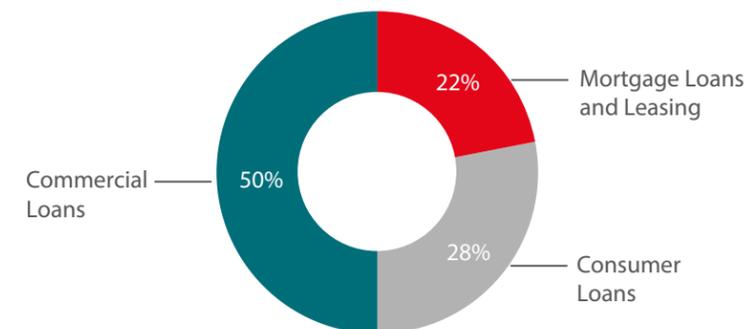
### Credit Risk Management System (SARC in Spanish)

The Bank has continued the process of strengthening the credit risk management model aimed at controlling and managing all the stages of the cycle: origination, monitoring, collection and administration of securities. At the end of December 2014, the Bank's loan portfolio was worth COP 40.9 trillion, a 20% variation compared to the end of the previous period.

In general, there was a favorable growth dynamic and portfolio quality in 2014 in the different portfolio, where the highest increase was that of the commercial portfolio, followed by the consumer portfolio.

On the product level, the highest variation in the consumer portfolio took place in the Payroll Loans (33.6%), in the commercial portfolio, the Construction Loans (27.5%) and in the mortgage portfolio, Residential Leasing (25%).

**Loan Portfolio Composition** (December 2014)



	Balance	Variation	C, D, E	Allowance	Coverage C, D, E
<b>Consumer Loans</b>					
Dec. 2013	9,722.6	4.9%	6.3%	696.7	113.7%
Dec. 2014	11,461.9	17.9%	5.4%	730.0	117.9%
<b>Mortgage Loans and Leasing</b>					
Dec. 2013	7,700.5	46.1%	1.2%	208.1	233.1%
Dec. 2014	9,132.5	18.6%	1.4%	254.5	205.9%
<b>Commercial Loans</b>					
Dec. 2013	16,676.1	17.5%	2.09%	588.4	168.6%
Dec. 2014	20,340.6	22.0%	2.13%	726.1	167.7%
<b>Total</b>					
Dec. 2013	34,099.2	18.7%	3.08%	1,493.2	142.1%
Dec. 2014	40,935.1	20.0%	2.87%	1,710.6	145.5%

**Loan Portfolio** (In COP millions)

This growth was driven by the competitive rates offered in the different portfolios and the application of new credit rules that led to the entry in new markets. It is important to mention that the presence of low-risk profiles had a large share in placement. In addition, portfolio quality is stable at the expected risk levels for these segments.

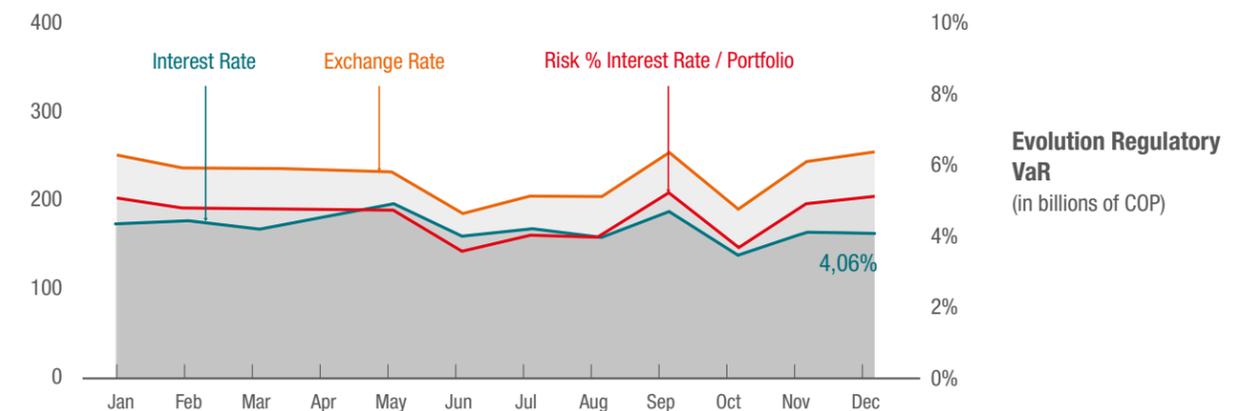
The provisions of Davivienda's loan portfolio amounted to COP 1.71 trillion at the end in December 2014, which represents a 14.6% increase with respect to the end of the previous year. The coverage of the nonperforming portfolio rated at C, D and E is 146%, and corresponds to 168% coverage in commercial banking and 133% coverage in retail banking (Consumer and Mortgage).

**Market Risk (SARM in Spanish)**

The Bank's Accounting Department carries out its duties in accordance with the definitions, guidelines and strategies established by the Board of Directors, the Asset and

Liability Management Committee, and the Financial Risk Committee. The control and monitoring of value creation of the various lines of business and/or portfolios is carried out by Grupo Bolivar's Investment Risk VP in coordination with the Bank's Financial Risk and Control VP, along with the identification, measurement, control and monitoring of market risk. On the last day of 2014, the regulatory value at risk (VaR), calculated according to the methodology of the Colombian Financial Superintendence, was COP 253.9 billion. The summary of the internal model used to calculate the value at risk is in Note 30 of the Financial Statements, along with the main results of the standard methodology.

The performance of the VaR in 2014 was as follows:



At the end of 2014, the regulatory value at risk aimed at capital consumption was equivalent to 4.06% of the investment portfolio exposed to the market price variation. The variations observed during the period were due to the directional positions taken by the trading portfolio based on short-term expectations.

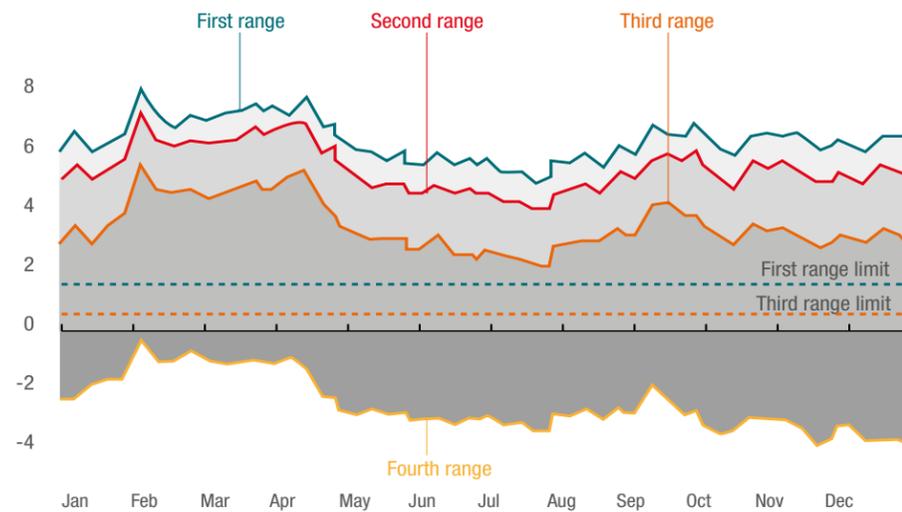
**Davivienda**  
has shown prudent management with its liquidity policies.

**Liquidity Risk (SARL in its Spanish acronym)**

The management of liquidity risk is carried out in accordance with the definitions, guidelines and strategies defined by the Board of Directors and the Asset and Liability Management Committee, and as per the guidelines provided by the Colombian Financial Superintendence, which establish the rules relating to the Liquidity Risk Management System and define the indicator thereof (LRI). As at December 31, 2013, it was positive at COP 6.43 trillion on the first range and COP 2.70 trillion on the third range, reflecting prudent management by the Bank with its liquidity policies. The guidelines of the Liquidity Risk Management System (SARL) are explained in Note 30 of the Financial Statements.

The behavior of the Liquidity Risk Indicator in 2014 was as followed (continued on page 66):

Behavior of the liquidity risk indicator (LRI) en 2014 (In COP millions)

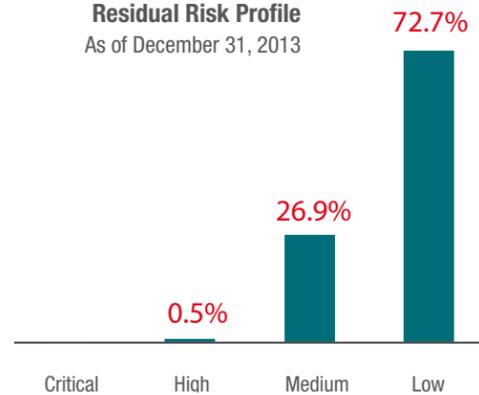


Stable behavior is observed in the indicator, nearing values of COP 6 trillion for the range from 1 to 7 days, and COP 3.5 trillion for the range from 1 to 30 days. This level of coverage confirms our responsibility and commitment to our liquidity policies.

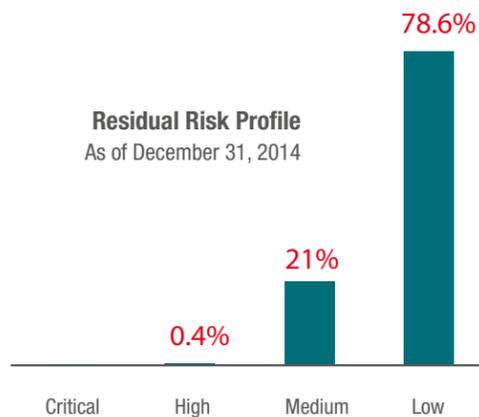
### Operating Risk Management System (SARO in Spanish)

We have conducted a detailed analysis of each of the processes implemented at the Bank to identify all the operational risks that can affect the normal, secure course of operations and we have taken the controls necessary for the proper and effective mitigation thereof. As regards the events that arise, we evaluate the causes thereof and carry out the action plans necessary to avoid any economic impact and legal or reputational effects that can affect the entity's good name.

Residual Risk Profile As of December 31, 2013



Residual Risk Profile As of December 31, 2014



Level	2013		2014	
	No. of Risks	Share	No. of Risks	Share
Critical	0	0.0%	0	0.0%
High	7	0.5%	7	0.4%
Medium	408	26.9%	331	21.0%
Low	1,104	72.7%	1,238	78.6%
<b>Total</b>	<b>1,519</b>	<b>100.0%</b>	<b>1,576</b>	<b>100.0%</b>

The Operating Risk Administration System integrated by the Bank in its processes helps keep risks under control as illustrated in the comparative risk profile of 2013 and 2014, complying with the level of tolerance established by the Board of Directors.

The risk profile shows that the Bank's levels of exposure are under control, where only 0.4% of the total risks are at a high level, and action plans are being developed for the respective mitigation thereof.

In addition, we comply with the legal requirements established by External Circular 041 / 2007 issued by the Colombian Financial Superintendence on the Operating Risk Administration System.

The Bank's levels of exposure are under control.

### Internal Control System (ICS)

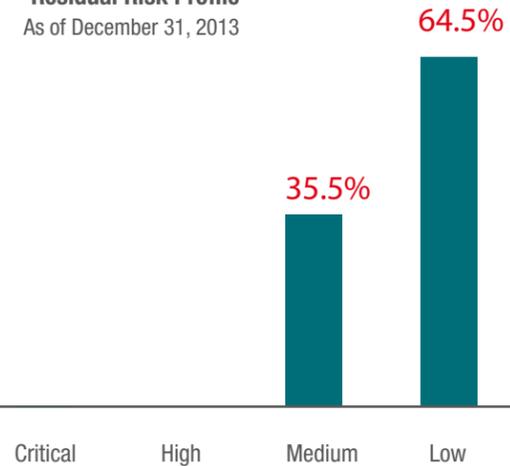
As part of our governance structure, year after year, the Bank has integrated new control mechanisms and strategies in accordance with the business dynamic, the evolution of processes and changes in the environment, in order to ensure the integrity, functionality and security of the operations and their sustainability over time.

The managers and other leaders of each process are responsible for continuously monitoring the correct, timely application of the controls assigned to them, by taking the corrective actions necessary to ensure the effectiveness thereof.

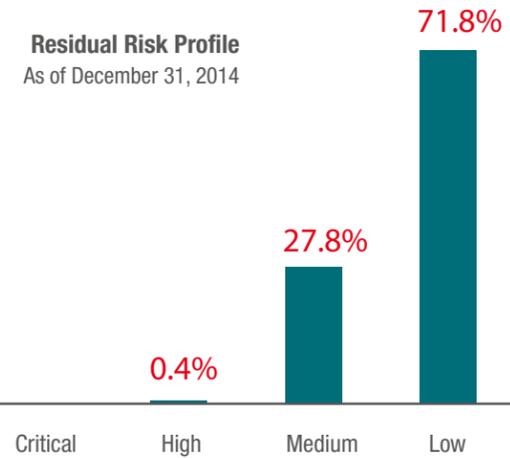
As part of a dynamic process, we analyze the structure of the Internal Control System on a permanent basis, making all the changes required in a timely manner to ensure the quality and effective performance of our operations.

In addition, we comply with the legal requirements established by External Circular 038 / 2009 issued by the Colombian Financial Superintendence.

**Residual Risk Profile**  
As of December 31, 2013



**Residual Risk Profile**  
As of December 31, 2014



### Financial Consumer Service System (SAC in Spanish)

In 2014, we met the needs of our clients and other financial consumers that required our services with more effectiveness by optimizing several procedures, and we have carried out with our commitment to continue developing mechanisms to strengthen the culture of attention, respect and service they require, as well as timeliness and effectiveness in addressing their complaints, requests and claims.

Our Risk Administration System enables us to take preventive actions to control the different risks that may arise and, if an event occurs, take immediate corrective actions.

In addition, the system provides us with permanent monitoring of the effectiveness of the controls and the entity's risk profile, thus achieving the appropriate composition in risk administration.

Furthermore, the system allows us to comply with the legal requirements on Financial Consumer Service established by Law 1328 / 2009 and External Circular 015 / 2010 of the Colombian Financial Superintendence.

Level	2013		2014	
	No. of Risks	Share	No. of Risks	Share
<b>Critical</b>	0	0.0%	0	0.0%
<b>High</b>	0	0.0%	3	0.4%
<b>Medium</b>	264	35.5%	187	27.8%
<b>Low</b>	479	64.5%	483	71.8%
<b>Total</b>	<b>743</b>	<b>100.0%</b>	<b>673</b>	<b>100.0%</b>

### Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Risk Management System

We have adopted and implemented a Compliance Program to prevent Money Laundering and the Financing of Terrorism (AML-CFT), based on the premise of risk management that includes knowledge of customers and their operations with the entity; the definition of market segments, clients, products, distribution channels and jurisdictions; monitoring of transactions and reporting of operations to the authorities to avoid being used to make assets derived from illegal activities and/or financing terrorist activities appear legal, in accordance with External Circular 026 / June 2008 of the Colombian Financial Superintendence and the subsequent updates thereof.

The AML-CFT Compliance Program is supported by the organizational culture and the policies, controls and procedures that are known and applied by all the employees of the Organization and include the entire Colombian regulatory framework, as well as recommendations and international best practices in this area, especially those of the Financial Action Task Force (FATF).

The procedures and rules of conduct on the application of all the control mechanisms and instruments are included in the Compliance Manual and the Code of Conduct and Ethics which are known and can be accessed by all our employees. We also periodically carry out training programs for our partners that seek to encourage their awareness and commitment.

At the same time, the AML-CFT Compliance Program has been included in the periodic assessment processes conducted by the External Auditor and the Internal Auditor.

In compliance with the regulations, the Davivienda Board of Directors appointed a Compliance Officer and the alternate thereof, who have been duly appointed before the Colombian Financial Superintendence.

### Information Security

In compliance with External Circular 052 / 2007, External Circular 022 / July 2010 and External Circular 042 / October 17, 2012 issued by the Colombian Financial Superintendence, the Bank includes these requirements in the development of each of the projects starting at the planning stage and verifies compliance with the regulatory requirements of this standard. This is done in order for the requirements to be taken into account in the processes of improvement and optimization, thus ensuring their permanence and sustainability over time.

The publication of External Circular 042 / October 2012 ratifies that we comply with the security requirements for the BancaMóvil service and with the requirements set forth with EMV<sup>25</sup>. Since the beginning of 2011 we have issued cards with a chip, and, as regards ATM services, we have carried out the update process that guarantees issuer level EMV functionality.

The Bank and its Subsidiaries will continue to research new trends, threats, tools and mechanisms of control to mitigate risks and keep them at acceptable levels for the business and for clients, by ensuring the delivery of products and services with high levels of quality and security.

<sup>25</sup>. EMV: Europe and MasterCard Visa, IC Card Interoperability Standard - Chip Cards



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## Legal Situation

The Bank currently has no proceedings against it that may pose a risk to its situation of solvency or stability. The most important proceedings are listed in Note 19 of the Financial Statements.

## Free circulation of invoices

The Bank certifies that it complies with the provisions established in Article 87 of Law 1676 / 2013, as Davivienda does not prevent the free circulation of invoices by retaining them or other similar actions.

## Administrative Situation

As at December 2014, the Bank had 11,032 permanent employees, 333 fixed-term employees and 461 apprentices for a total of 11,826.

## Intellectual Property

Davivienda complies with the regulations and standards in effect on industrial property and copyright.

## Operations with Partners and Managers

The transactions performed by Davivienda with its partners and managers are in line with the entity's general policies. These transactions are listed in Note 29 of the Financial Statements.

Loans and deposits with related parties (shareholders, members of the Board of Directors, legal representatives and others) amount to COP 51 billion and COP 314 billion, respectively.

**ADMINISTRATIVE  
ASPECTS, RETAIL  
BANKING**

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**11,826**

Partners in Colombia as of  
December 2014.

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A total of COP 425 million have been paid for attending Board of Directors meetings as member and consultant fees.

### Relationship Strength within the Business Group

Traditionally, we have maintained business relationships with companies from the same group, seeking greater joint efficiency based on the expertise of each company in the tasks in which it has competitive advantages.

All transactions are carried out at market prices; attraction rates were between 0.00% and 4.97% and placement rates from 0.01% to 28.63%, including mortgage loans to managers with rates at UVR (Real Value Unit) and UVR + 2% and corporate cards with purchases payable in 1 month with no interest.

At the end of December 2014, there were no loans with interest rates, terms, securities or conditions other than those agreed with third parties for the loans granted to subsidiaries, subordinates and other companies that make up the Bank's related parties.

As at December 31, 2014, there were no portfolio transactions with shareholders with shares of less than 10% of the Bank's capital stock, representing more than 5% of the technical capital.

We present a summary of the major transactions with related parties as at December 31, 2014, the details of which are listed in Note 29 of the Financial Statements:

(in millions of COP)

<b>Assets</b>	256,245
<b>Liabilities</b>	348,612
<b>Income</b>	347,305
<b>Expenses</b>	137,703

There were no significant transactions completed during the year ended on December 31, 2014, between Davivienda and other entities, by influence or in the interests of Sociudades Bolivar S.A., or Sociudades Bolivar S.A. and other entities in the interest of Davivienda.

There were no important decisions made by or overlooked by the Bank due to influence or in the interest of Sociudades Bolivar S.A., or decisions made or overlooked by Sociudades Bolivar S.A. in the interest of the Bank.

### Expenditures to Company Executives

In 2014, outlays to executives amounted to COP 12.5 million.

### Expenditures of advisors or related managers

Board of Directors' Fees to the consultants: COP 148 million.

### Donations

In 2014, we made donations for COP 11.5 billion (COP 969 million against the Reserve and COP 10.5 billion against expenditure).

### Advertising and Public Relations Expenses

Advertising expenses amounted to COP 97.2 billion, and public relations expenses reached COP 2.2 billion.

### Assets Abroad

As at December 31, 2014, assets abroad amounted to COP 6.5 trillion, among which there were investments for COP 1.43 trillion and cash in banks and other financial entities for COP 648.1 billion; in addition, obligations in foreign currencies amounted to COP 5.9 trillion, of which deposits and payables amounted to COP 1.2 trillion.

### Domestic and/or Foreign Investments

The details of investments in equity securities are set out in Note 5.9 of the Financial Statements. In 2014, these amounted to COP 1.58 trillion, as follows:

(in millions of COP)

<b>International Investments</b>	COP 1,286,387
<b>Domestic Investments</b>	COP 296,479
<b>Subsidiaries</b>	COP 152,223
<b>Other</b>	COP 144,256

**\$11.5 billion**  
in donations 2014.

### Implementation of International Standards

In 2014, we carried out the process for the transition to International Financial Reporting Standards (IFRS) in compliance with the regulatory technical standard established in Decree 2784 / 2012, that is, the Spanish version of the IFRS in effect on January 1, 2012.

At the end of the months of July and August 2014, we submitted the Individual and Consolidated opening balance sheets respectively to the Colombian Financial Superintendence, including the disclosure notes defined in External Circular 014 / 2014, as well as the Special Audit Report to the OSFP (Opening Statement of Financial Position) prepared by the Statutory Auditor.

The Colombian Financial Superintendence includes an exception to the full application of the IFRS, in accordance with Decree 1851 / 2013, in relation to the processing of the loan portfolio and the impairment thereof, and the Consolidated statement was submitted with the full application of the IFRS.

The Superintendence issued regulations at the end of 2014 including an additional exception for individual Financial Statements relating to the classification and valuation of investments, in which it added Chapter I-1 to the Basic Accounting Circular with an effect on the valuation of investments available for sale, allowing the application of the Total Equity Method.

The issue of the first financial statements based on the international financial reporting standards are maintained for the year 2015, comparative with the end of 2014, and includes the effects of the opening balance sheets.

## Significant Developments Following the End of the Accounting Period

On December 23, 2014, Financing Law 1739 was issued, which amends the Tax Code. The Tax on Wealth was created, with rates of 1.15%, 1.0% and 0.4% applicable to the Bank for the years 2015, 2016 and 2017, respectively. Surcharge on the Fair Tax (CREE) was also established, with rates of 5%, 6%, 8% and 9% during the years 2015 through 2018. The rate of the Fair Tax - CREE has stood at 9% since 2014. The 4 x 1000 tax on financial transactions will be reduced as of 2019 to 3 x 1000, 2020 to 2 x 1000 and 2021 to 1 x 1000, and it will be eliminated as of the year 2022. Similarly, the gradual limitation on the deduction of payments made in cash will begin in 2019.

## Forecast Development of Davivienda

In 2015, we expect to preserve our good results with a sustained portfolio growth in accordance with the growth of the country's economy. We will continue to align the strategy of our subsidiaries abroad in order to add value to our clients. We hope to consolidate our strategy on the securities market with the birth of Equity Banking. And we will remain committed to the incorporation of a larger number of Colombians in the banking system in the country through our DaviPlata platform.



## Certification and Reliability of Financial Information

### We certify to shareholders that:

The individual financial statements and other relevant reports, for the period from January 1 to December 31, 2014, do not contain errors, inaccuracies or flaws that would prevent them from knowing the true financial situation or the operations of the Bank.

The Bank has appropriate systems for the disclosure and control of financial information, with procedures to ensure that it is presented in an appropriate manner.

Furthermore, we inform shareholders that there are no significant deficiencies in the design and operation of the internal controls that would have prevented the Bank from recording, processing, summarizing or adequately presenting its financial information as stated in the report of the Internal Control System.

We appreciate the commitment of all employees and the support of our shareholders, with whom we have achieved the results disclosed.

**Carlos Arango Uribe**  
Chairman Board of Directors

**Efraín E. Forero Fonseca**  
President