



# Report

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

Semester July / December 2012



**DAVIVIENDA**

Banco Davivienda S.A.

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

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## REPORT FROM THE PRESIDENT



Dear Shareholders:

It is our pleasure to share with you our report regarding activities and results corresponding to the second semester of 2012.

This has been a special period for Davivienda: we celebrated our 40<sup>th</sup> anniversary, changed our brand in Panama and integrated the operations acquired from HSBC in Central America (Honduras, El Salvador and Costa Rica), which allows us to move forward in our consolidation as a multi-Latin organization with presence in several Latin American countries, and over 15 thousand<sup>1</sup> employees and 5.5 million clients<sup>2</sup>.

The Colombian economic environment was marked by an economic deceleration due in part to a global slowdown a decline in production in sectors, such as mining and construction, which had previously experienced dynamic results.

Despite this volatile environment, on July 9 the bank made a successful debut in the international markets with a debt issuance of US\$ 500 million in subordinated bonds, achieving a good rate and obtaining demand of US\$ 3 billion. This result reflects the investor confidence in Colombia.

Personal banking generated strong results, accompanied by good quality indicators. The housing portfolio grew 26.5%, financing 18 thousand Colombian families

**We moved forward  
in our consolidation as a  
multi-Latin organization with  
over 15 thousand employees  
and 5.5 million clients.**

.....  
<sup>1</sup> 15,290 officials, consolidated figure

<sup>2</sup> A consolidated figure, including DaviPlata clients

during this period. The consumer portfolio, which showed a deceleration in 2011, concluded 2012 with nearly 8% growth; the issuance portfolio grew 15.8% placing the bank in third place in terms of market share. In addition, we remain the market leader in portfolio of credit cards per balance, growing 22.4% in 2012.

Commercial banking performed well in the SME (small and medium-sized companies) segment, growing 33% and mainly supported by the agricultural sector that recorded a 19.1% increase. The total commercial portfolio grew 9.1% and we expect higher dynamism for 2013, as the large infrastructure projects in the country commence.

During 2012, we continued our inclusion efforts through DaviPlata. In the second semester we were awarded one of the three groups that were auctioned by the Colombian government for the payment of the “More Families in Action” program. Beginning in February 2013, there will be 1.6 million DaviPlata users and we expect to double our coverage, passing from 187 municipalities to more than 380, which will transform us into a leader in financial inclusion in the Latin American region as well as occupying a third place globally in managing money through cellular telephones.

**Our responsibility goes far beyond the generation of wealth, we seek to be recognized as a sustainable organization increasingly higher standards, basing our strategy on knowledge.**

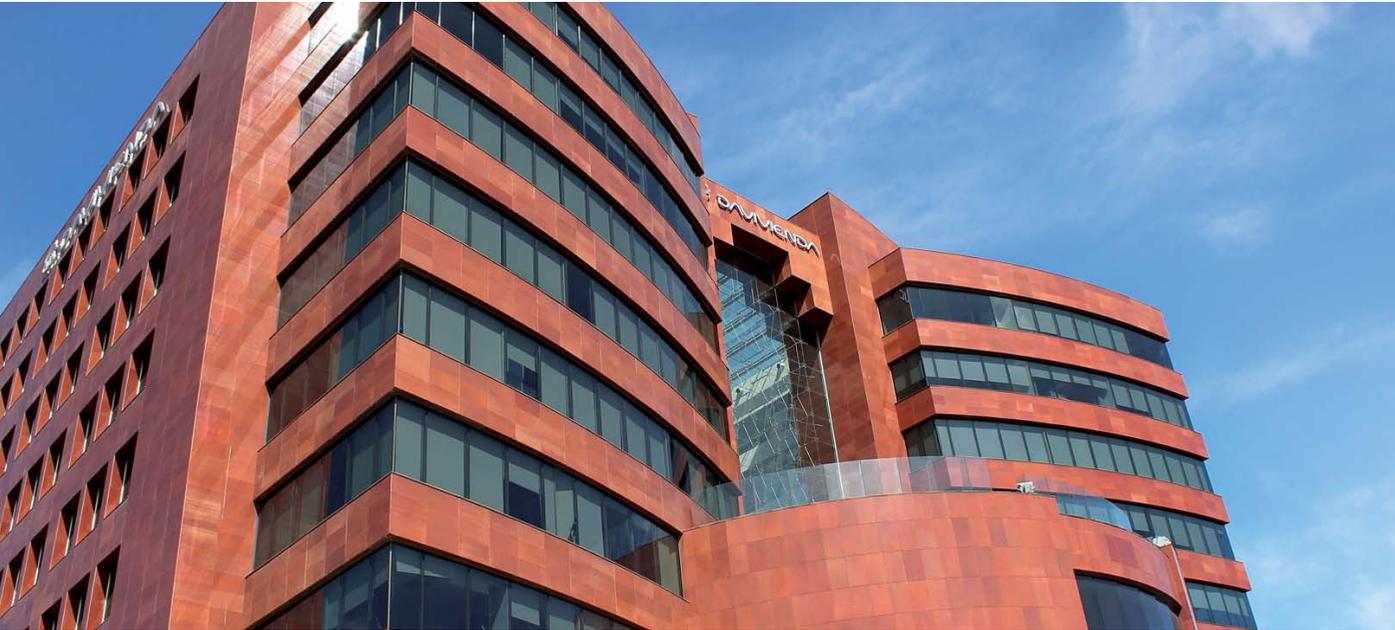
An organization of this dimension and multi-Latin market presence, in addition to excellent financial performance, should also be focused on sustainability, being socially and environmentally responsible in the long term. Our vision is integrating this concept into all our business lines and segments, as well as sharing and applying good practices to all of the bank’s affiliates, considering the expectations of our stakeholders in each of the countries in which we are present.

During the second semester 2012, we completed an internal sustainability assessment according to international standards, which encompassed all of the activities and processes of the bank in Colombia. The results of this assessment allowed us to determine the best way of generating value through the activities of all our companies and how to enrich the lives of our employees, our clients and the communities we touch.

We are clear about the fact that our responsibility goes far beyond the generation of wealth; we seek to be recognized as a sustainable organization increasingly higher standards, basing our strategy on knowledge. In order to achieve this goal, we aim to understand the needs of our clients, driving the banking system, promoting financial education, making a good use of resources, financing projects responsibly, contributing to the growth of our employees and to the development of community empowering initiatives.

**Efraín E. Forero Fonseca**  
President

## MAIN ACHIEVEMENTS, SECOND SEMESTER 2012



### Integration with Central America

At the end of the year we completed the purchase of and started managing the operations acquired from HSBC in Honduras, El Salvador and Costa Rica that will allow us to bring our brand and consolidate as a Multi-Latin entity, also with a presence in Panama and Miami. The final price of this operation was US\$ 829.7 million, equivalent to COP 1.5 billion, generating goodwill of COP 534 billion.

### Bond issuance program

Davivienda is an important protagonist in the private debt market in Colombia. In August 2012, we issued COP 500 billion in ordinary bonds, completing COP 2.5 billion of the COP 3 billion amount approved in 2010. This issuance was oversubscribed by 2.7 times the offered value.

Internationally, during the semester, we completed the first issuance of subordinated bonds: we debuted in the international markets with an issuance of US\$ 500 million, which received demands for US\$ 3,000 million. This placement was possible through the support of the Credit Suisse and JP Morgan, and included the participation of 192 institutional investors. Recently, in January 2013, we made a second international ordinary bond issuance for US\$ 500 million, with demand that exceeded US\$ 5 billion. During this issuance we obtained the lowest rate in history for a Colombian financial issuer.

## DaviPlata



DaviPlata continues successfully contributing to financial inclusion: at the close of 2012, it had 857 thousand clients<sup>3</sup>, 71.2% more than in the previous year, and 1,006 paying or receiving companies. On October 24, the Bank was awarded the administration of subsidy payments to one million families in the “*More Families in Action*” program from the Presidential Office Department for Social Prosperity, which delivers financial support to the neediest families in Colombia. In this way we will be present in more than 380 municipalities, 191 of which the Bank had no offices and 119 municipalities of which there was no financial institution present; Davivienda being the first.

.....  
<sup>3</sup> Not including the new clients in the “*More Families in Action*” Program

This program positions DaviPlata as the third most important smart card in the world, in terms of the number of its clients, after M-Pesa (Kenia) and Wizzit Bank (South Africa). DaviPlata is an innovating model that allows clients a different type of access to the finance system. In fact, it had become into the new transactional medium in Colombia, and the first mass electronic funds platform in Latin America.

“*Al Gratin*”, the DaviPlata national wires campaign showed a positive dynamics. We highlight the behavior of teller deposits during the second semester in 2012, when approximately 112 thousand deposits were made.

### Confianciera Merger



On July 31, Confianciera and Davivienda merged. This merger allows us to offer its credit strategies and products related to productive and private vehicles to the whole country, as well as to become the second financial entity of private vehicles in Colombia. At the close of 2012 closing, the assets resulting from this merger assets reached a total of COP 516 billion, liabilities were COP 431 billion and accumulated net income was COP 13 billion.

### Merger of trust companies

On December 13, we completed the merger between the Bank's two trust companies: Fiduciaria Davivienda and Fiduciaria Cafetera. The new entity will keep the name Fiduciaria Davivienda, which now becomes the sixth-largest trust in the nation in terms of third party assets under management, around COP 12.4 billion, and equity of COP 101 billion, of which the Bank controls 94.7%. This merger will allow us to continue our expansion in the trust sector, expanding our service offering.



### Dividends payment

On September 27, the dividends corresponding to the first semester of 2012 were distributed. The amount approved was COP 115 billion (COP 260 per share), which was equivalent to 31.4% of profits and represented a growth of 18.2% compared to the COP 220 per share distributed in the previous semester.

### Cultivarte, a well-being space

“*Cultivarte*”, a well-being program was initiated by the Bank. The goal of the Bank is to bring this program to the municipalities in which we are present. Cultivarte is a space designed to offer the inhabitants of a municipality an alternative for using their free time, making entertainment, culture and education the foundation of this program. Here, communities will be able to enjoy a movie theater, a virtual class room and an exposition area.

### Financial education

In 2012, we created “*My Home Finances*”, an education portal for Colombian to learn simple and friendly ways of managing their money and reach their personal goals. Through this portal we expect to reach all our clients. In addition, we continue with the Sena Program, and we are moving forward on training the employees of companies that have a payments agreements with the Bank, through a workshop called “*My Personal and Family Finance*”.



## BOARD OF DIRECTORS

### Directors

**Carlos Guillermo Arango Uribe**

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**Javier Suárez Esparragoza**

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**Alvaro Peláez Arango\***

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**Gabriel Humberto Zárate Sánchez**

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**Bernard Pasquier\***

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### Alternate Directors

**Alvaro Carvajal Bonnet**

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**David Peña Rey**

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**Federico Salazar Mejía\***

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**Enrique Flórez Camacho**

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**Mark Alloway\***

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\*Independent Member

## MAIN FIGURES

(Davivienda excluding subsidiaries)

**4.7** million clients

COP **\$39.7** trillion assets

**572** offices in **186** municipalities

**1,529** ATM's

**11,563** employees

**1.8** million credit cards (in units)

**3** million debit cards (in units)

## INTERNATIONAL RATINGS

**BBB-** Debt rating by Standard & Poors (investment grade)

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

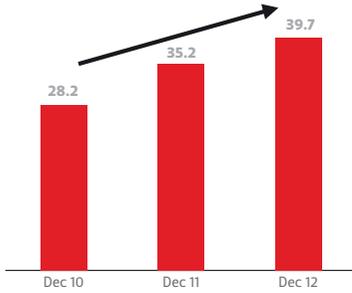
**Baa3** Debt rating by Moody's (investment grade)

## NATIONAL RATINGS

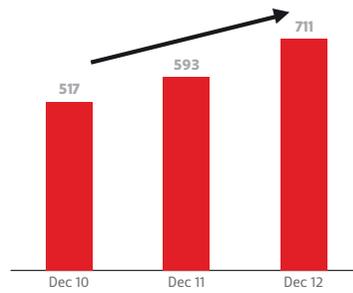
**AAA** Debt rating by BRC

**AAA** Debt rating by Value & Risk

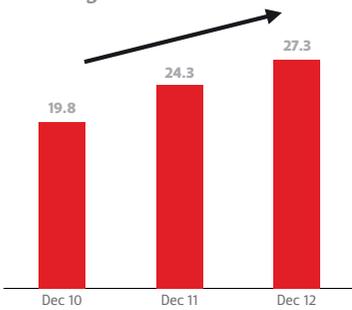
**Assets (\$ trillion)**  
Annual growth: 18.5%



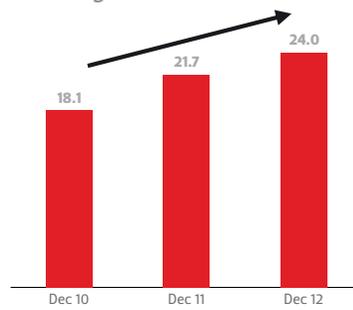
**Net income (\$ billions)**  
Annual growth: 17.3%



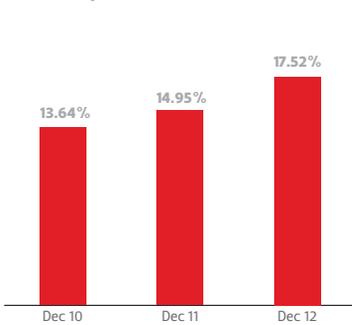
**Loans (\$ trillions)**  
Annual growth: 17.4%



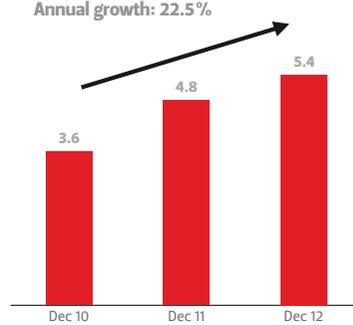
**Deposits (\$ trillions)**  
Annual growth: 15.3%



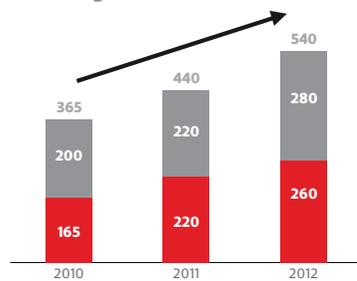
**Solvency**



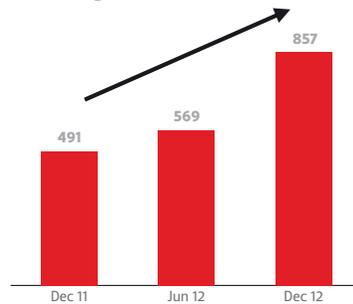
**Stockholder's equity (\$ trillions)**  
Annual growth: 22.5%



**Dividends per share (\$ Pesos)**  
Annual growth: 21.6%



**DaviPlata Clients (thousands)**  
Annual growth: 74.6%



■ I Semester results    ■ II Semester results

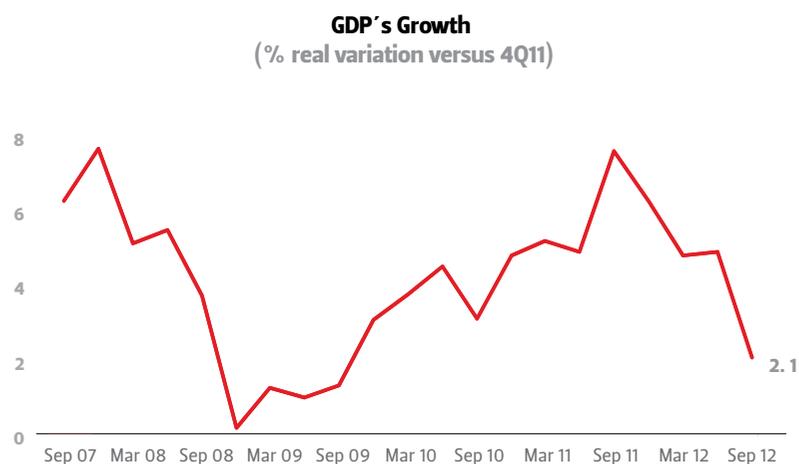
## Macroeconomic environment

During the year 2012 the Colombian economy evidenced an important deceleration process due to external internal factors. Among the top reasons were the slower global economic growth, resulting from the moderation of growth in China and a recession in Europe. Secondly, moderation in consumption levels, especially of durable assets, and indebtedness in homes following a period of significant growth during 2011 and in previous years.

As for inflation, 2012 finalized with the lowest inflation rate in the last three (3) years, a result of the normalization of rain patterns, which propitiated sound agricultural supplies, and a drop in commodity prices in the international markets. Added to the above was lower domestic demand pressure and a revaluation of the exchange rates.

The international environment was marked by the financial crisis in Spain that obligated the European economic authorities to take important measures, such as the launch of a new sovereign bond purchasing program, and the proposal for a unified banking supervision entity. In Spain, the general IVA rate rose from 18% to 21% and several important cost cuts were announced. The aversion to international risk significantly decreased during the second part of the year.

## Gross domestic product



Source: Dane.



The Colombian Gross Domestic Product increased 2.1% in real annual terms during the third quarter in 2012, below the estimates made by analysts, the Central Bank and the government. The contraction of the construction sector reached 12.3% and the slowdown of the mining sector, which leads the national economy, were the main reasons for the lower increase. With regards to demand, the pressure on gross capital formation caused the decline of 1.6% in real terms, annually.

During the first three (3) quarters in 2012, the Colombian economy grew 3.9%, while during the same period of 2011 it grew 5.8%. The highest growth activities in this period were mines and quarries (7.2%), financial entities (5.5%), and transportation (4.3%), while the construction and manufacturing industry showed the lowest growths, of 0.6% and -0.02%, respectively.

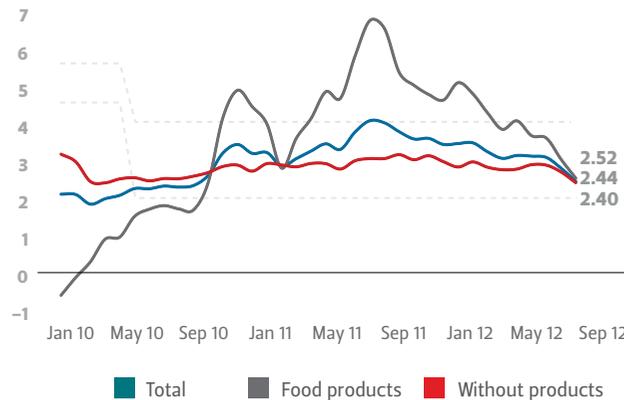
When examining the components of aggregate demand, we can conclude that the deceleration in consumption in homes: in the consolidated figure for the January - September 2012 period, this increase was 4.5%, while for the same period of 2011 the variation had been 6.6%. The gross capital formation also showed a significant deceleration: although its growth was 6.4% in the first three (3) quarters in 2012, it

previously experienced an increase of 17.9% (January - September 2011). On the other hand, government consumption accelerated, passing from 2.5% growth in the first nine (9) months in 2011, to 4.2% during the same period of 2012. Imports grew an actual 10.1%, while exports grew 4.3%.

The Colombian economy is expected to have grown almost by 4.0% in 2012. This could occur to the extent that the economy continues slowing down its dynamics compared to the previous year.

## Inflation

**Total Annual Inflation without Food Products (%)**



The inflation rate for 2012 closed at 2.44%, within a range established as a goal by the Central Bank. This figure shows a sharp decline compared to an inflation of 3.73% observed in 2011. Annual inflation for food products reached 2.52% and without food products it was 2.40%. The food products group recorded an important deceleration during most part of the year, as a result of the normalization of the rain patterns.

Prices in the non-food sector showed a slight trend downward, mainly as a result of the reduction in international crude oil international prices, the re-valuation of exchange rate and weakness in the domestic demand.

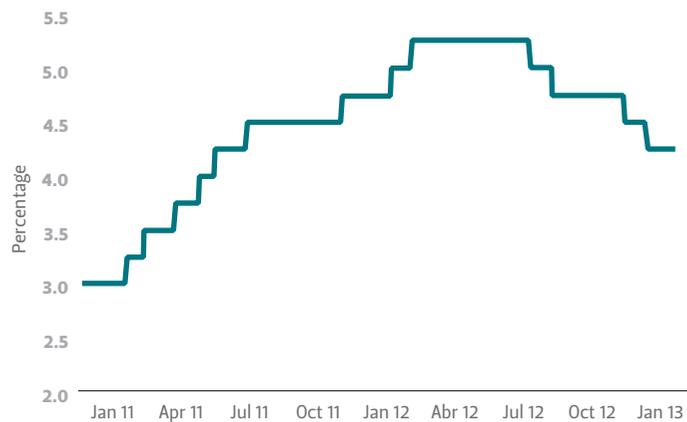
As for the legal minimum monthly wage, the Department of Labor was not able to reach an agreement regarding its increase. As a result, the government raised the minimum wage by 4.02% for 2013.

**The inflation rate for 2012 closed at 2.44%, the lowest rate registered in the last 3 years.**



## Monetary Policy

**Intervention Rate – Central Bank**



The Colombian monetary policy had to react in two opposite directions during the year: between January and February, the interest rate fixed by the Central Bank increased from 4.75% to 5.25%, and remained constant until the end of the month of July. This increase was marked by the solid GDP figures during the second half of 2011. However, and as a result of the economic deceleration, the monetary authority began a new series of decreases at the end of July. As a result, the interest rate reached 4.25% in December.

The recent reduction of these rates was reflected on the drop of the active and passive rates in the system. The DTF (90 days) dropped from 5.5% during the last week of July to 5.22% in the last week of December 2012; likewise, the consumer credit rate went from 19.3% in the last week of July to 18.3% in the last week of the year.

## Fiscal Policy

On fiscal matter, 2012 concluded with positive results for the country: the preliminary figures indicate compliance with the set goals, and it is estimated that the Central National Government (CNG) recorded a 2.4% GDP deficit. Throughout the year, the taxes collected reached COP 99 trillion, exceeding the estimated goal of nearly COP 5 billion. In addition, the government carried out an advanced debt payment, which contributes to the improvement of public finances.

On the other hand, the Congress approved a tax reform submitted by the current administration. Its main aspects are the following:

- a. The creation of an “Alternative Minimum Tax” (IMAN, for its abbreviation in Spanish) to individuals, seeking to improve the progressiveness of the income tax.
- b. A reduction of the tax rate to corporations, which went from 33% to 25%.
- c. The introduction of an “Equality Tax” (CREE) which has a 9% rate for the first 3 years and 8% from then on. The funds collected specifically destined towards financing the social security system, the Colombian Institute of Family Well-Being, the Sena, and in a transitory manner, for public education.
- d. The elimination of a similar parafiscal contributions paid by employers for employees with salaries that are lower than 10 minimal monthly wages in effect.
- e. An amendment of the VAT: reducing the number of rates (0%, 5% and 16%), and creating a consumer tax on luxury goods.

## Foreign trade

Despite the strong deceleration of the foreign trade activities during the year 2012, its results continued being positive. The figures at the close of October indicated that Colombian exports reached US\$ 49.7 billion FOB and an annual growth of 7.4%. The exports continue being driven by sales of crude oil and derivatives. In turn, imports reached US \$49 billion CIF, or an annual growth of 8.6%.

In May 2012, a The Free Trade Agreement (FTA) with the United States of America, Colombia’s main business partner, started its effect. During the first six (6) months since this agreement became effective, exports of candy and caramels, polymer sheets, and leather bags benefited, as did imports of medicine and vehicles with cylinders higher than 3,000 cm<sup>3</sup>.

During the year, significant progress was made for the approval of a FTA with the European Union. The currently pending legislative procedures are expected to speed up so that this agreement can go into effect during the first half of 2013.

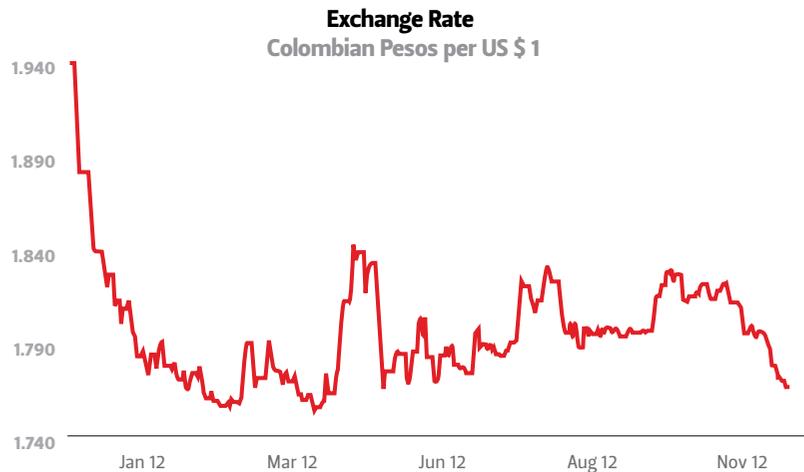
**In 2012, a the Free Trade Agreement (FTA) with the United States of America, Colombia’s main business partner, started its effect and a significant progress was made for the approval of a FTA with the European Union.**

## Exchange rate

The average exchange rate in 2012 was COP 1,797 per dollar.

During 2012, the rate of exchange versus the dollar had a re-reevaluating trend: while the average rate in 2011 was COP 1,846 per dollar, in 2012 it was COP 1.797 per dollar. Most of peso appreciation occurred during the first part of the year; the exchange rate passed from COP 1,943 on the January 1, to COP 1.754 at the beginning of the month of May. At that point, the exchange rate trended upwards until the beginning of November. During the two last months of the year, the peso appreciated, passing from COP 1,831 at the beginning of November to COP 1,768 in the last day of December.

This evolution of the exchange rate obeyed specific factors in the Colombian environment, as well as to the dollar movements around the world. Specifically, 2012 began with very high levels of dollar quotes as a result of the purchase of foreign currency for asset acquisitions by Colombian companies in other countries outside of Colombia. In May, and as a consequence of the financial crisis in Spain, the exchange rate rose together with the U.S. dollar on a global level. Finally, the appreciation of the peso during the last part of the year was a consequence of the dollar devaluation resulting from the incapacity of the U.S. Congress to reach a definitive agreement for solving the financial cliff issue.



It is important to highlight that during the year 2012, Colombia received foreign investment of US\$ 16.7 billion. This figure favorably compares to the U.S. \$15 billion received in 2011, and it represents the highest amount of foreign investment received in the country, historically.

## BANKING SYSTEM

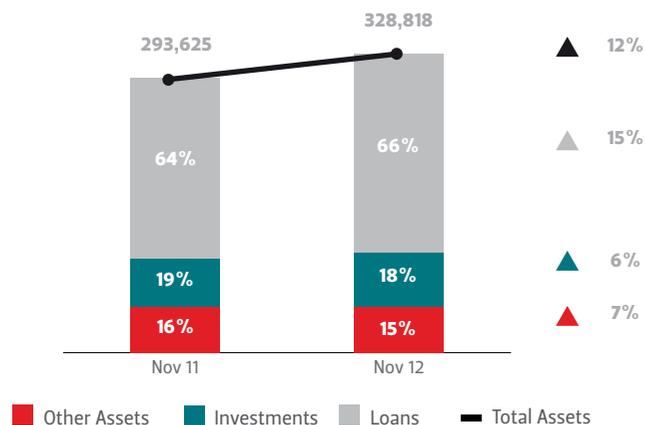


### Assets

In November 2012, the dynamics of credit activity in Colombia decelerated compared to the previous year, when the portfolio reached an annual growth of 26%, higher than 15% recorded at the close of November 2012. However, this growth continues being higher than the average during the last decade and to the GDP growth, which is consistent with the financial deepening<sup>4</sup> in the country.

While the assets in the banking sector grew 15%, net investments grew 6%. The portfolio continued gaining share within the total assets.

**Assets Detail (in thousands of Colombian Pesos)**  
Annual growth 22.5%

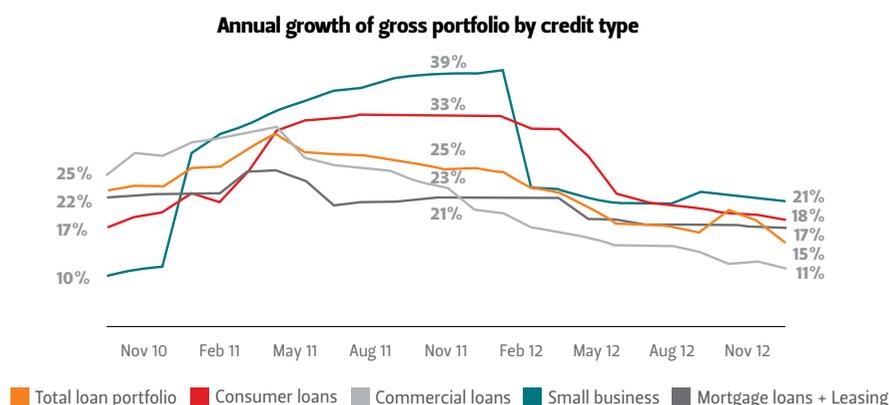


Source: Financial Superintendence of Colombia

<sup>4</sup> Financial deepening is the measure of the credit portfolio share in the economic activity, and it is measured as a ratio between gross portfolio and the GDP.

## Credit portfolio

As of November 2012, and in accordance with what was recorded during the year, the rhythm of growth of the portfolio in this sector continued at a slower pace. Specifically, the consumer and commercial segments experienced a higher deceleration, while the housing sector experienced a higher dynamism. Therefore, this portfolio was driven by the lower interest rates at long-term, low inflation and the interest rate relief programs promoted by the government since the year 2009, and which since 2012 have been focused on financing the acquisition of low-income urban housing.



Source: Financial Superintendence of Colombia  
Housing includes securitized and leasing

## Portfolio quality

The quality of the consumer portfolio remained level compared to November 2011, although this last date portfolio, together with the microcredit portfolio, are the ones that experienced a higher deterioration. As a result, this is why it is necessary to continue monitoring the balance between portfolio dynamism and risk exposure in the sector. The commercial portfolio - the one that weighs the most within the total portfolio - maintains controlled non-performing loans balances. In turn, the housing portfolio shows the best quality, a fact that was a result of an important increase in its gross balance.

**Quality of the portfolio per rating  
(Non performing portfolio per rating / Total loan portfolio)**

	Nov. 11	Nov. 12
Total loan portfolio	3.8	<b>3.6</b>
Consumer	4.9	<b>5.0</b>
Commercial	3.4	<b>3.1</b>
Microcredit	5.4	<b>5.4</b>
Housing + Housing Leasing	2.8	<b>2.2</b>

Source: Financial Superintendence of Colombia

The coverage continues showing a growing trend for all segments; the higher levels occur in consumer and commercial loans, with coverages of 126.6% and 117.1%, respectively. As a result of the growth seen in the the non performing loan portfolio during the year, the balance of provisions - associated to the total loan portfolio - has recorded important increases. The balance in provisions closed November 2012 at COP 10.2 trillion (16% annual growth), where consumption portfolio had the most representative performance given the portfolio growth per balances.

**Coverage per modality  
(Provisions / Unproductive portfolio)**

	Nov. 11	Nov. 12
Total portfolio	117.6	<b>123.2</b>
Consumption	123.0	<b>126.6</b>
Commercial	111.3	<b>117.1</b>
Housing + Housing Leasing	101.5	<b>105.7</b>

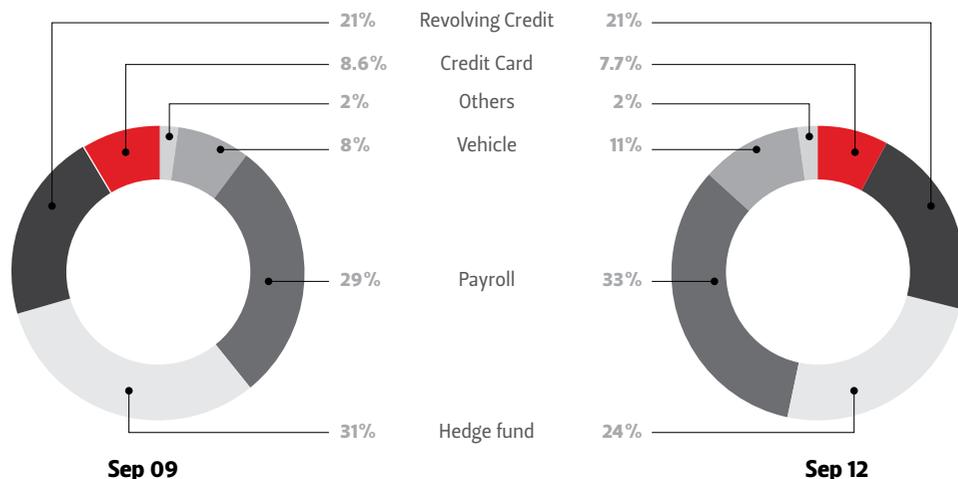
Source: Financial Superintendence of Colombia

## Consumer loan portfolio

The strategy of the banks is focused on offering payment credits, which is attractive due to the low delinquency levels and the lower costs associated to its collection, since the loan payments are discounted directly from payroll. During the last three years, the manner of payment has become increasingly important within the total portfolio, while the free investment credit reduced its share.

**The strategy of the banks is focused on offering payment credits, which is attractive due to the low delinquency levels and the lower costs associated to its collection.**

**Composition of the consumer portfolio**



Source: Financial Superintendence of Colombia



## Liabilities

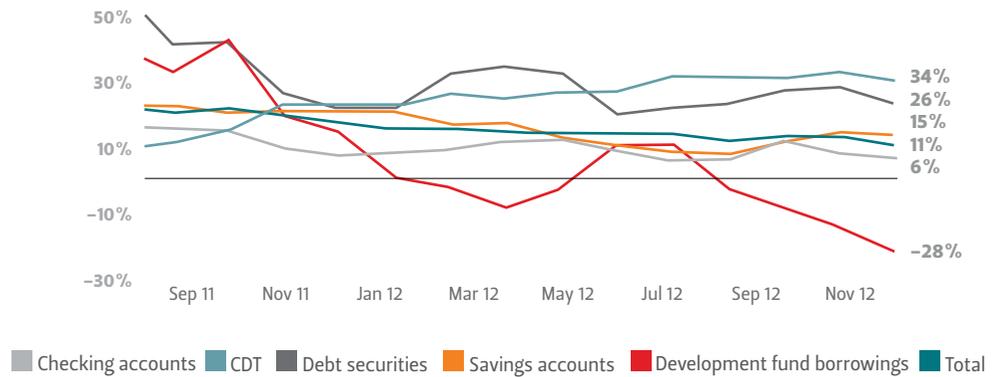
**In 2012 CDTs  
represented 25%  
of liabilities.**

The high representativeness of the deposits visible is a factor that has allowed the banks to maintain low liability costs. As of November 2012, the share of CDTs and bonuses increased, favoring liquidity management.

Between November 2011 and 2012, bank liabilities grew 10.8%, represented in 77% by deposits. At the close of 2012, the annual growth of savings accounts was 14.6%, which represented 38% of total liabilities, and continued being the main liability product.

In addition, an important annual increase of 34.10% was observed in the balance of the Fixed Rate Deposit Certificates (CDTs), reaching 25% liabilities. This is partly explained by a higher risk aversion to by investors, who see the CDTs as a safe haven in front of the volatility and the losses observed in other instruments such as foreign currency and local shares.

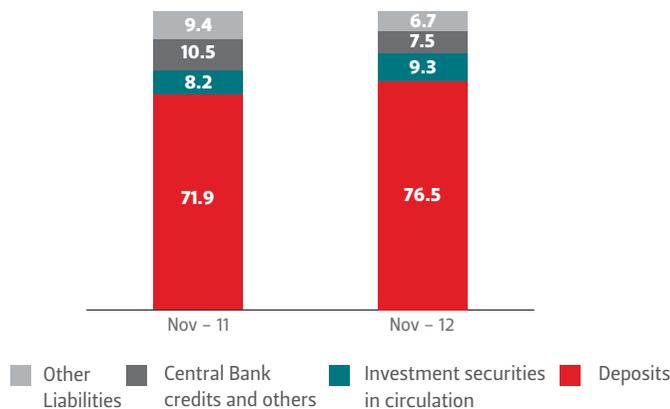
**Annual growth of liabilities**



Source: Financial Superintendence of Colombia

Bonds represented 9.3% of total liabilities and experienced an important dynamism during the previous year (+26% as of November 2012). This trend was observed since 2007, and it suggests that the capital markets have become a source of important fund rising for banks.

**Liability Composition**  
(Figures expressed in percentages)

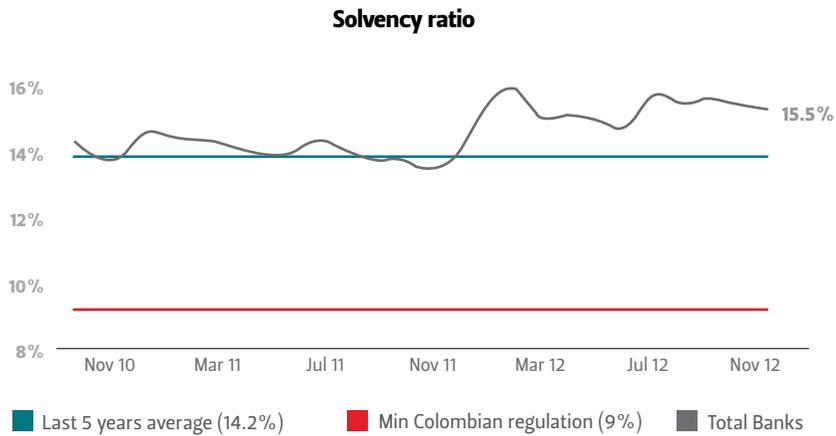




## Equity and Solvency

As of November 2012, equity reached COP 45.7 trillion, with an annual increase of 19.8%. Thanks to the capitalization efforts by the banks, begun in 2009 and extended during the following three (3) years, the individual solvency ratio remained at 15.5% as of November 2012, very much above the 9% minimum regulation requirement.

**In November 2012,  
equity reached  
COP 45.7 trillion.**



Source: Financial Superintendence of Colombia

As per Decree 1771, that took place on August 23m 2012, changes to the calculation of the minimal solvency ratio took place in order to place local regulation closer to international standards established by Basel III. The solvency regulatory change would not represent a significant increase in the current capital at most banks, due to their equity strength.

# DAVIVIENDA RESULTS

## Individual Bank Results

During the second semester of 2012, Davivienda obtained important results, both locally and regionally. We are increasingly gaining strength as one of the premier players Colombian financial sector, maintaining our leadership in various products for Colombian and with the continued support of the main sectors in the country's economy.

During this period of time we helped more than 18 thousand Colombian families acquire their own homes with financing options, particularly VIS (Social Interest Housing) sector, where we disbursed COP 2.2 trillion. The company's housing portfolio increased by 26.5% while the accumulated disbursements for the year increased by 9.5%, a figure that is evidence of the Bank's commitment to promoting the construction of wealth for Colombian homes.

As for consumer credit, it is important to highlight the important growth of our payrolls where the balance grew by 15.8% and reached COP 2.6 trillion, an increase in disbursements of COP 2.2 trillion. This result was due to the new agreements entered - the first signed with the Military Forces, which allows us to offer financial wellbeing to over 150 thousand of the country's heroes; the second, was the promotion of new products; such is the "Crédito Universitario Llibranza" (College Tuition Loans), which enables employee families easier access to education financing for their children as well as facilitated the purchase of a vehicle without a down payment.

In addition, we consolidated our Vehicle Unit, an outcome of the merger between Confinanciera and Davivienda, which is dedicated to the creation and management of a strategy focused on attending the needs of purchasing productive vehicles, such as passenger and cargo taxis, As well as a private use vehicle. This unit aims to increase its market share, as well as the grow the portfolio of balances and disbursements that support the management of this product on a national level, supported by strategic goals allowing improvement of products, processes and services that we offer our clients.

In credit cards, we maintain our leadership position, despite increased competition with the entrance into the market of *retailer* companies. The Bank's strategy and experience has permitted us to reach a balance as of December 2012 of COP 2.85 trillion, 22.4% higher than the one in previous year. Additionally, we activated more than 200 thousand credit cards during the semester and invoices reached COP 6.2 trillion for 2012, an increase of 8.9%.

The PYME Sector continues to be one of the principal motors of our business, reaching COP 3.1 trillion in December 2012, which represents a growth of 33% compared to the previous year. This was partly due to a higher dynamism of some sectors in the commercial portfolio, such as transportation and businesses, which grew 40.2% and 63.9%, respectively. In addition, the PYME Sector's disbursements reached COP 2.6 trillion, for the year 2012, and mainly driven by the business disbursements of COP 637 billion.

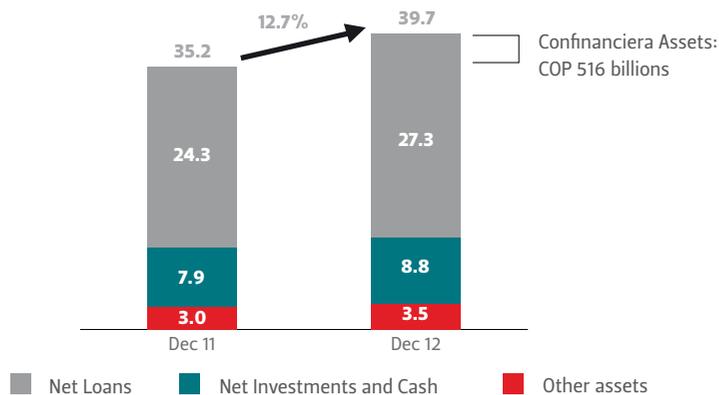


The agricultural sector, included in the PYME Sector, has historically been one of the most important ones in Colombia’s development, and it is currently facing fundamental challenges as a driver of employment creation and growth in the rural sector. Both, public policies from the government as well as private sector initiatives acknowledge the imperative need of establishing mechanisms to allow more dynamic credit and banking services for this sector. We have recognized this situation and have opted to play a fundamental role in the financing of this sector. In recent years, we have implemented products and services that allow us to attend the short and long-term needs of our agricultural producers, achieving an advantageous position compared other competitors in the financial sector. In this manner, the agricultural portfolio balance reached COP 1.1 trillion as of December 2012, 19.1% above the figure for the previous year, while the accumulated disbursements in 2012 reached COP 235 billion.

### Asset analysis and structure

As of December 2012, Davivienda continued being the third bank in Colombia in terms assets, with assets of COP 39.7 trillion and 12.7% growth during the year. This result was explained by portfolio and investment increases of COP 1.4 trillion as a result of the Central American acquisition, and an increase in our liquidity position. Assets rose by COP 4.5 trillion, of which COP 516 billion correspond to the Confinanciera assets, which represent 11.5% of this growth.

**Davivienda / Asset Behavior**  
(Figures in trillions of Colombian Pesos)



## Credit portfolio

As of December 2012, the credit portfolio experienced a 12.3% increase as a result of the merger between Confinanciera and the Bank. This represented an increase of COP 422 billion, or 14.1% of the portfolio growth and the growth in the commercial portfolio, which raised COP 1.7 trillion. At the same time, the consumer portfolio also grew, reflected in a 22.4% increase in credit cards and a 13.3% increase in car loans, equivalent to COP 0.7 trillion increase during 2012.

**Confinanciera represented an increase of COP 422 billion of the credit portfolio.**

With respect of the Mortgage portfolio, it also contributed to the total portfolio increase, growing 26.5%, mainly driven by the VIS segment. During the year, the securitized portfolio reached a balance of COP 14.1 trillion, mainly due to a 43.6% increase of the construction portfolio, equivalent to COP 323 billion and the SME segment, which reached COP 3.1 trillion, COP 771 billion more than in the year 2011. As a result, the year concluded with a total growth of 33%.

<b>Davivienda / Net portfolio</b>					
<b>(In billions of Colombian pesos)</b>					
	<b>Dec. 11</b>	<b>Part.</b>	<b>Dec. 12</b>	<b>Part.</b>	<b>Growth</b>
Mortgages (including housing leasing)	<b>4.17</b>	17.1%	<b>5.27</b>	19.3%	<b>26.5%</b>
Commercial loans (including micro credits)	<b>12.93</b>	53.1%	<b>14.10</b>	51.6%	<b>9.1%</b>
Consumer loans	<b>8.50</b>	34.9%	<b>9.27</b>	33.9%	<b>9.1%</b>
Credit Card	<b>2.33</b>	9.6%	<b>2.85</b>	10.4%	<b>22.4%</b>
Vehicle	<b>0.97</b>	4.0%	<b>1.10</b>	4.0%	<b>13.3%</b>
Others	<b>5.19</b>	21.3%	<b>5.31</b>	19.4%	<b>2.4%</b>
Credit loans allowances and financial Leasing	<b>-1.25</b>	5.1%	<b>-1.41</b>	5.2%	<b>12.9%</b>
<b>Total</b>	<b>24.34</b>		<b>27.32</b>		<b>12.3%</b>

The portfolio quality indicators have been rising due to a deterioration by some consumer products. For this reason, the Bank adjusted its loan policies since mid-2011. The commercial loan portfolio increased slightly, reaching 0.91% at December 2012, while mortgage portfolio rose 26 basis points, and closed the year at 1.58%.

Regarding coverages and as per our risk management policy, we have maintained our levels of non-performing loan coverage above 250% during the last two (2) years.

<sup>1</sup> **Commercial portfolio:** includes micro and housing leasing.

**Quality:** Quality of unproductive portfolio by days of arrear  
(consumer >60 days, commercial, micro credit, leasing >90 days, housing >120 days) / Total.

**Coverage:** Provisions / Unproductive x Height of Arrears.

**Davivienda / Non performing loan portfolio and coverage indicators**

	December 2011		December 2012	
	Davivienda	System	Davivienda	Sistema
Consumer quality	3.79%	3.65%	3.85%	3.10%
Commercial quality <sup>1</sup>	0.71%	1.19%	0.91%	1.36%
Mortgage quality	1.84%	2.43%	1.58%	2.20%
Total quality	1.84%	1.97%	1.93%	1.93%
Total coverage	273%	234%	264%	242%

**Analysis and Liability Structure**

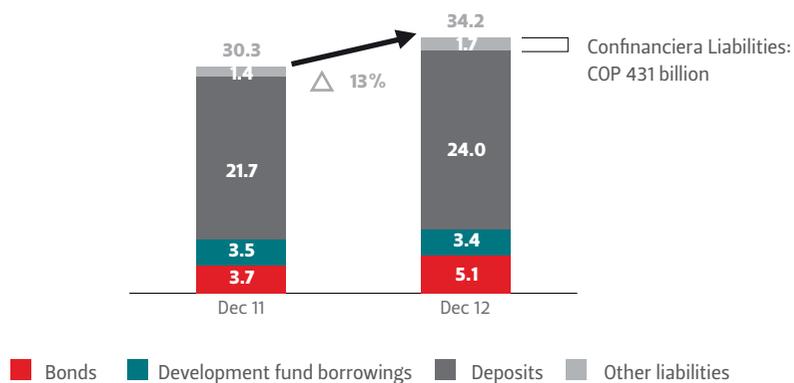
In December 2012, liabilities grew COP 3.9 trillion with respect to the figures for 2011. Confinanciera represented COP 431 billion of this figure, equivalent to 11.1% growth, which shows a total liability increase of 13% liability and reached a total of COP 34.2 trillion.

The traditional capital raising instruments with the highest growth during the last twelve (12) months were represented by the Fixed-Rate Deposit Certificates (CDTs), with an increase of COP 1 trillion and by savings deposits which grew by COP 1.1 trillion. Additionally, bonds, via the financial capital markets also increased by 38%, through the placement of COP 500 billion throughout the year and at the local level, and US\$ 500 million in subordinate bonds in the international markets.

**In December 2012, liabilities grew COP 3, 9 trillion with respect to figures for 2011.**

Savings deposits continued representing 41.4% of total deposits and receivables, while financing activities, as well as bonds represented 15.7%.

**Davivienda / Liability Performance**  
(In trillions of Colombian Pesos)





### Davivienda / Capital Rising Instruments

(In billions of Colombian Pesos)

	Dec. 11	Part.	Dec. 12	Part.	Growth
Savings deposits	<b>12,324</b>	48.5%	<b>13,468</b>	46.2%	<b>9.3%</b>
Checking accounts	<b>3,448</b>	13.6%	<b>3,545</b>	12.2%	<b>2.8%</b>
CDT	<b>5,696</b>	22.4%	<b>6,698</b>	23.0%	<b>17.6%</b>
Bonds	<b>3,701</b>	14.6%	<b>5,123</b>	17.6%	<b>38.4%</b>
Others	<b>239</b>	0.9%	<b>300</b>	1.0%	<b>25.6%</b>
<b>Total capital rising</b>	<b>25.408</b>		<b>29.134</b>		<b>14,7%</b>

The ratio of net portfolio over capital raising decreased to 83.9%, compared to 84.2% during the second semester of 2011.

### Equity structure

The Bank's equity closed at COP 5.4 trillion at December 2012, COP 0.6 trillion higher than in December of 2011. This was explained by the internal generation of results that reached COP 711 billion accumulated for the 2012 period.

At December 2012, the Bank's technical equity reached COP 6.4 trillion, while weighted assets, according to risk level, were COP 34.5 trillion. Considering the market risk equal to COP 194 billion, these figures indicate a solvency ratio<sup>5</sup> for the Bank of 17.5% compared to the regulatory 9%.

Davivienda has 444 million of outstanding shares<sup>6</sup>, 22.6% are preferential shares, which are placed in the local securities market. Of these, 33.3% are held by local

**At December 2012,  
Bank's technical equity:  
COP 6.4 trillion. Weighted assets  
according to risk level:  
COP 34.5 trillion.**

5 Technical equity on assets weighted according to risk level, plus 100/9 for the value in risk.

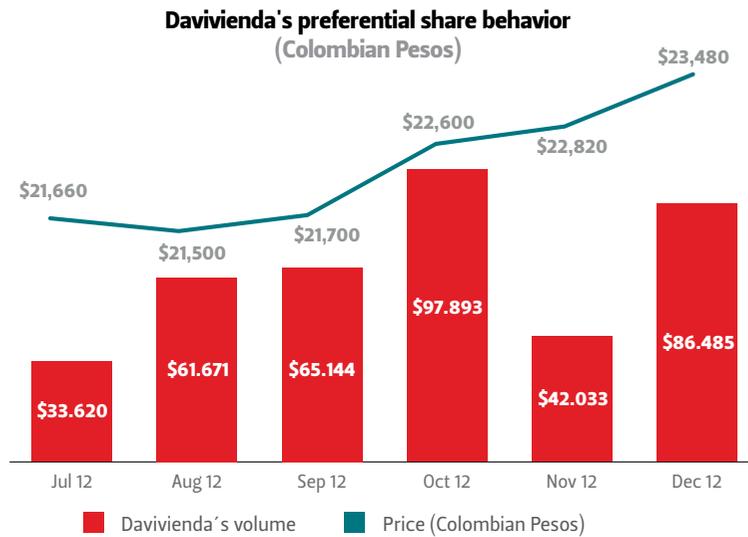
6 444,214,234 shares



pension funds, 23.4% by foreign investors, 27.4% by institutions and 15.9% by individuals.

**The monthly average traded volume of stock was COP 64 billion.**

The monthly average volume during the semester was COP 64 billion, concluding the year at COP 23,480 per share.



During 2012, the Bank conducted 198 meetings with investors and analysts, in addition to 2 conference calls, in both Spanish and English, held to present second and third quarters 2012 results<sup>7</sup>.

**Accumulated results as of December 2012: COP 711 billion.**

### Financial results

Results for the accumulated period ended December 2012, amounted to COP 711 billion, a 19.9% increase compared to COP 593 billion reported at December 2011.

.....  
7 On August 18 and November 9, respectively.

**Davivienda / December 2012 results**  
(In millions of Colombian Pesos)

	Dec. 2011	Dec. 2012	Growth	
			Value	Percentage
Interest income	3,062,881	3,814,464	751,583	24.5%
Investments	232,646	372,092	139,446	59.9%
Loans	2,830,235	3,442,372	612,137	21.6%
Interest expenses	864,168	1,230,685	366,517	42.4%
<b>Gross financial margin</b>	<b>2,198,713</b>	<b>2,583,779</b>	<b>385,066</b>	<b>17.5%</b>
Allowances	617,818	775,479	157,661	25.5%
<b>Net interest margin</b>	<b>1,580,895</b>	<b>1,808,300</b>	<b>227,405</b>	<b>14.4%</b>
Commissions and fees income	760,174	796,314	36,141	4.8%
Labour expenses	556,184	648,906	92,723	16.7%
Administrative and Operating expenses	1,107,894	1,128,110	20,217	1.8%
Changes and net spin-off	66,247	99,379	33,131	50.0%
<b>Operational income</b>	<b>743,239</b>	<b>926,977</b>	<b>183,738</b>	<b>24.7%</b>
Allowances other assets	11,478	2,264	(9,214)	-80.3%
Non-operating income and expenses	14,801	(16,113)	(30,914)	-208.9%
<b>Income before income taxes</b>	<b>746,562</b>	<b>908,600</b>	<b>162,038</b>	<b>21.7%</b>
Income tax expenses	(153,749)	(197,656)	(43,907)	28.6%
<b>Net income</b>	<b>592,813</b>	<b>710,944</b>	<b>118,131</b>	<b>19.9%</b>

The net financial margin at the end of the second semester in 2012 rose 14.4% compared to the second semester of 2011, due to the positive behavior of the financial revenues, which grew 21.6% in terms of the portfolio, and 59.9% in investments. This result was mainly the result of an increase in revenue from the commercial portfolio and micro credits as well as from the credit card segment of the consumer portfolio; which represented increases of 40.2% and 32.7%, respectively. The increases were the result higher balances in the commercial portfolio and an increase in the market rates, in which the interest rate increased 220 basis points, passing from 29.1% in December 2011 to 31.3% in December 2012. The Central Bank intervention rate closed the year at 4.5%.

**Financial revenues grew 21.6% in terms of the portfolio and 59.9% in investments.**

Financial expenditures were reflected in the increase in market rates, as well as the growth of instruments with higher rates, such as the bonds and CDTs, compared to the growth in accounts. Provisions grew 25%, reflecting the efforts made at the beginning of the year to cover deterioration in the portfolio compared to the previous year. Finally, the financial margin grew 14%.



Operating margin rose 24.7%, despite increases in operating income of 4.8%. Operating expenses increased by 6.8%. Finally, accumulated net income reached COP 711 billion at the conclusion of December 2012.

## Performance of foreign subsidiaries

Below is a summary of the performance of our foreign subsidiaries during the second semester of 2012. It is important to highlight that the Miami Office is no longer a subsidiary, because beginning in 2011 it became a branch of the Bank, and therefore its results included in Davivienda's results.

### Davivienda Panamá

At the closing of December 2012, Davivienda Panamá reached US\$ 907 million in total assets, which represented a growth of US\$ 250.7 million, equivalent to 38.2% compared to the previous year. Equity reached US\$ 113 million, with an increase of 22.9% with respect to the same period in previous year. Liabilities closed at US\$ 794 million, with a variation of 41% compared to December 2011. As a result of the aforementioned, net income for the second semester of 2012 reached US\$ 17 million.

The portfolio of Davivienda Panamá, which is mainly a commercial portfolio (of approximately 97%) closed the year at US\$ 648 million, generating a growth of 55% compared to the US\$ 418 million recorded at the end of the 2011 period.

This excellent performance was due to the Bank's commercial strategy, which mainly focused on attending the credit demand of the corporate and commercial segments in the Colon Free Zone and to companies in Panamá and Colombia, in addition to the opening of new offices during the second semester of 2012.

Finally, in December, we launched the Davivienda brand, changing the name from Bancafe Panamá to Davivienda Panamá.

**In December we  
launched the brand  
Davivienda Panamá.**

(Figures in millions of U.S. Dollars)

(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	656.8	<b>907.4</b>	250.7	<b>38.2%</b>
Loans	421.5	<b>653.7</b>	232.2	<b>55.1%</b>
Liability	564.9	<b>794.5</b>	229.6	<b>40.6%</b>
Deposits	537.6	<b>712.6</b>	174.9	<b>32.5%</b>
Equity	91.9	<b>112.9</b>	21.0	<b>22.9%</b>
Net income	11.6	<b>17.0</b>	5.4	<b>46.6%</b>

## Davivienda Costa Rica

On November 23, 2012 we acquired 100% of Grupo del Istmo (Costa Rica) S.A., the holding company in that country. Its subsidiaries are Corporación Davivienda (Costa Rica) S.A., Banco Davivienda (Costa Rica) S.A., Davivienda Puesto de Bolsa (Costa Rica) S.A., Davivienda Sociedad Agencia de Seguros (Costa Rica) S.A. This group of companies is dedicated to commercial and consumer banking, insurance business and commission brokerage. As of December 2012, Davivienda Costa Rica had 193,769 active clients, attended by a network of 28 offices and 116 automatic tellers (ATM)s, as well as a team of 798 employees.

**Davivienda Costa Rica:**  
**798 employees,**  
**194 thousand clients.**

The Bank is the sixth-largest bank in Costa Rica, with a market share of 5.7% and assets of US\$ 1,307 million. The total balance of its portfolio as of December 2012 was US\$ 838 million, of which 52% corresponded to commercial portfolio, 14% to the consumer portfolio, and 34% to the mortgage portfolio. Net income for the 2012 period was US\$ 14 million.

At the closing of 2012, the holding company's assets decreased by US\$ 113 million, reflecting lower available funds with financial entities abroad for US\$ 52 and intangible assets for US\$ 50.

Accumulated profit decreased US\$ 44 million, mainly as a result of the amortization of goodwill for US\$ 38 million and the generation of additional profits for US\$ 6 million.

(Figures in millions of U.S. Dollars)

(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	1,426.8	<b>1,313.5</b>	-113.3	<b>-7.9%</b>
Liability	1,186.3	<b>1,115.0</b>	-71.2	<b>-6.0%</b>
Equity	240.5	<b>198.4</b>	-42.1	<b>-17.5%</b>
Net income	5.1	<b>-38.8</b>	-44.0	<b>NA</b>

## Davivienda Honduras

During the last month of December, Davivienda acquired the operation in Honduras, comprised of two entities: Banco Davivienda Honduras S.A. and Seguros Bolivar Honduras S.A.

**Davivienda Honduras:**  
1,200 employees,  
267 thousand clients.

Banco Davivienda Honduras, of which the Bank holds 94.12% is the sixth-largest bank in the country in terms of assets, with a market share of 7.4% and assets of US\$ 826 million, as well as a portfolio balance of US\$ 559 million. 45% corresponds to the commercial portfolio, 31% to the mortgage portfolio, and 23% to the consumer portfolio. Net income at December 2012 reached US\$ 7 million.

Seguros Bolivar Honduras, where we hold a 88.6% stake, is the fifth-largest insurance company in the country, with premiums of US\$ 31 million and net income of US\$ 4 million.

As of December 2012, Davivienda Honduras had 267,172 active clients, attended by a network of 50 offices, 8 service windows, 75 automatic tellers (ATM)'s and a team of 1,200 employees.

Assets declined by US\$ 26 million, mainly due to the transactions in Banco Honduras with maturity investments that decreased by US\$ 77 million, and an increase of US\$ 35 million in available funds

Equity increased by US\$ 4.9 million, mainly due to US\$ 4.3 million higher net income for the period.

(In millions of U.S. Dollars)

(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	927.4	901.5	-25.9	-2.8%
Liability	800.5	769.7	-30.8	-3.8%
Equity	126.9	131.8	4.9	3.9%
Net income	6.3	10.6	4.3	68.4%

## Davivienda El Salvador

Davivienda El Salvador is the holding company where Davivienda holds a 99.95% stake and which was acquired in 2012. Its affiliates include Banco Davivienda Salvadoreño S.A., Almacenadora Davivienda El Salvador S.A. de C.V., Factoraje Davivienda El Salvador S.A. de C.V., Seguros Comerciales Bolívar S.A. El Salvador, Valores Davivienda El Salvador S.A. and Seguros Bolívar S.A. Seguros of Personas El Salvador.

**Davivienda El Salvador:**  
1,682 employees,  
382 thousand clients.

The Bank is the fourth-largest bank in the country, with a participation in assets of 13.7%, assets of US\$ 1,848 million and a portfolio of US\$ 1,282 million comprised in the following manner: 50% corresponds to the commercial portfolio, 32% to the consumer portfolio, and 18% to mortgage. Net income for 2012 was US\$ 16 million.

The insurance company is the seventh-largest in the country, with premiums of US\$ 11 million, and net income of for US\$ 2 million.

As of December 2012, Davivienda El Salvador has 381,970 active clients, attended by a network of 68 offices, 198 automatic tellers (ATM) and a team of 1,682 employees.

Assets showed a variation of US\$ 60 million, mainly reflected in the credit portfolio, which increased by US\$ 56 million, while available funds grew by US\$ 30, despite a decrease of US\$ 17 million in investments.

Equity increased US\$ 19 million mainly as a result of accumulated profit from previous periods for US\$ 16 million and a profit of US\$3.4 million for 2012.

Accumulated profit increased US\$ 3.4 million, mainly due to the participation in legal reserves.

(In millions of U.S. Dollars)				
(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	1.931,7	<b>1.991,9</b>	60,2	<b>3,1%</b>
Liability	1.690,6	<b>1.731,4</b>	40,7	<b>2,4%</b>
Equity	241,1	<b>260,5</b>	19,4	<b>8,1%</b>
Net income	13,9	<b>17,3</b>	3,4	<b>24,5%</b>

### Consolidated results of foreign subsidiaries as of December 2012<sup>8</sup>

(In millions of U.S. Dollars)				
(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	4,864	<b>4,995</b>	131.1	<b>2.7%</b>
Portfolio	2,833	<b>3,209</b>	376.1	<b>13.3%</b>
Liability	4,159	<b>4,287</b>	127.7	<b>3.1%</b>
Deposits	3,492	<b>3,471</b>	-21.4	<b>-0.6%</b>
Equity	704	<b>708</b>	3.4	<b>0.5%</b>
Profit	35	<b>6</b>	-28.8	<b>-82.6%</b>

<sup>8</sup> As of December 2012, the figures of the Trust Company included the effects of the merger with Fiduciaria Cafetera that took place in December

## Performance of subsidiaries in Colombia

### Fiduciaria Davivienda

As of December 2012, the figures of the Trust Company included the effects of the merger with *Fiduciaria Cafetera* that took place in December

As of December 2012  
Fiduciaria Davivienda merged  
with Fiduciaria Cafetera,  
for a total amount of  
assets of COP 13 trillion.

The amount of the assets managed by *Fiduciaria Davivienda* reached COP12.4 trillion. The trusts administered in the group represented COP5.2 trillion and a 40.3% participation. The administration trusts, with a value of COP\$2.3 trillion had a 17.4% participation, followed by the real estate trusts with COP1.5 trillion and a 11.2% participation. The pension trusts added to the guaranty trusts reached COP1.3 trillion and a 10.3% participation of the total. *Fondo Voluntario de Pensiones Datafuturo* with COP855 billion had 6.6% participation of the total. *Fondo Superior* reached COP 1.1 trillion, increasing its participation to 8.1% of the total. The investment funds *Rentacafe*, *Rentaliquida*, *Daviplus* and *Consolidar* had aggregated assets of COP 794.4 trillion, with 6.1% participation of the total.

Revenue from of the trust commissions amounted to COP27.8 billion, 11.7% higher in 11.7% compared to 2011. *Fondo Voluntario de Pensiones - Dafuturo* generated commissions of COP6.5 billion with 12.1% growth. Together, the businesses managed generated revenue of COP5.6 billion, gross income only shows the amount of commissions received, with a 3.15% increase compared to the same period of 2011. *The Cartera Colectiva Abierta Superior* generated revenue for COP3.5 billion, or 11.3% higher than those of the same period of 2011. The administration trust businesses followed in fourth place, contributing COP2.5 billion and reflecting a growth of 6.4%. Finally, with regards to structured trusts, real state trusts contributed COP2 billion with an increase of 12.8%, and guaranty and retirement trusts with revenues of COP1.5 billion, maintaining the same revenue levels compared to the second semester of 2011.

Commissions of  
collective portfolios  
had an increase  
of 27%.

As for the collective portfolios *Rentacafe*, *Consolidar*, *Rentaliquida* and *Daviplus*, their commissions went from COP4.8 billion to COP6.1 billion, with an important increase of 27%. If we add the collective portfolios to the *Fondo Voluntario de Pensiones*, then *Fiduciaria Davivienda* ranks third in this sector with a market participation of 7.5%, and a balance of COP2.6 trillion.

(In billions of Colombian Pesos)

	Dec. 11	Dec. 12	Variation	
			Value	Porcentaje
Asset	143.3	118.9	-24	-17.0%
Liability	16.8	15.7	-1	-6.5%
Equity	126.5	103.2	-23	-18.4%
Assets under management	9.403.0	12,967.8	3,565	37.9%
Net income	11.7	14.6	3	24.4%

## Davivalores

**At the close of 2012  
the net income of Davivalores  
grew 115% compared  
to 2011.**

At the close of 2012, the operational income of Davivalores grew 53% compared to 2011; 66% of this income was derived from commission agreements for the amount of COP4,037 million. The asset management activity generated COP3,025 million, the placement of primary issuances generated COP401 million and the management of collective portfolios generated for COP59 million.

Assets under management, mainly comprised by shares, reached COP2.1 trillion. Net income of COP4.3 billion for 2012 represented a growth of 115% compared to 2011.

Therefore, 2012 was a year of important advances in the consolidation of the *Sociedad Comisionista de Bolsa* (Stock Brokerage Company) as an important player in the securities market, ranking seventh among the 25 stock brokerage companies that are active in Colombia, as measured by the level of their accumulated net income.

(In billions of Colombian Pesos)

	Dec. 11	Dec. 12	Value	Percentage
Asset	14.8	17.6	2.8	18.9%
Liability	2.0	1.0	-1.0	-50.0%
Equity	12.8	16.6	3.8	29.7%
Assets under management	2,284.3	2,071.7	-212.6	-9.3%
Net income	2.0	4.3	2.3	115.0%

## Risk analysis

Risk administration and management at Davivienda follows the guidelines of Grupo Bolivar and is performed via a strategy of synergies between the companies. This allows Davivienda to optimize technological and academic resources for developing tools that measure, analyze and control the risks assumed. Note 30 to the Financial Statements includes detailed indicators for each one of them.

### Credit Risk Management System (SARC, for its abbreviation in Spanish)

The Bank has continued the process of strengthening its credit risk management model, aimed at controlling and managing the stages of this cycle: origination, follow-up, collections and the management of guarantees. During the first semester of 2013, new origination policies in the consumer banking system will go into effect (specifically free investment and revolving credits), and in the PYME banking system (pilot program classic PYME for Bogota and the Coffee Growing Region). The provisions of the Davivienda credit portfolio reached COP1.41 trillion

at December 2012, representing a 10% increase with regards to the June 2012 provisions. Coverage of non-performing loans rated C, D and E was at 162% and corresponded to a 206% coverage in the corporate banking system and 118% in the personal banking system.

### **Market Risk (SARM, for its abbreviation in Spanish)**

The Bank's Treasury Department performs its duties in accordance with the definitions, strategies and guidelines defined by the Board of Directors, the Asset and Liability Management Committee, and the Financial and Investment Risk Committee. The control and monitoring of the creation of value of the various business lines and/or portfolios is carried out by the Vice- President of Investment Risk of Grupo Bolivar, in coordination with the Bank's Vice-President of Financial Risk and Control, as well as the identification, measurement, control and monitoring of the market risk. On the December 31, 2012, the value of regulatory risk (VeR), calculated per the methodology of the Financial Superintendence of Colombia, was COP194.1 billion. The summary of the internal model used for calculating the value at risk is found in Note 32 of the Financial Statements, as well as the main results of the standard methodology.

### **Liquidity Risk Management System (SARL, for its abbreviation in Spanish)**

Liquidity risk management is carried out in accordance with the definitions, strategies and guidelines provided by the Board of Directors, the Asset and Liability Management Committee, and the guidelines established by the Financial Superintendence of Colombia, which provide the rules related to the Liquidity Risk Management System, and define the Liquidity Risk Indicator (IRL, for its abbreviation in Spanish), which at December 31, 2012 was positive, at COP5.85 trillion in the first band, and in COP3.61 trillion in the third band, which reflects Bank's prudent management. The guidelines of the Liquidity Risk Management System are explained in Note 32 to the Financial Statements.

### **Operative Risk Management System (SARO, for its abbreviation in Spanish)**

The Bank has been developing various operating and technological tools that permit an effective and timely identification, valuation, control and follow-up of the risks that can affect the normal development of the operative processes of its different products and services, seeking to guarantee the quality and reliability of the transactional management for clients and users.

The Bank's Operative Risk Profile as of December 2012, showed that the operative risks identified were adequately controlled, and have been developing action plans for those that require higher controls, pursuant to the guidelines and toler-

ance levels established by the Board of Directors and complying with the legal requirements provided by the External Circular Letter 041, 2007 from the Financial Superintendence of Colombia.

The monitoring of the effectiveness of the operative risk management system is handled by the Board of Directors, the Legal Representative and the Fiscal Auditor at each entity.

### **Internal Control System (SCI, for its abbreviation in Spanish)**

In accordance with the internal control policies approved by the Board of Directors, we designed and implemented internal control procedures, and we have also adjusted them pursuant to the needs of the situation, seeking to remain compliant with the expected results under conditions of security, transparency and efficiency.

According to the External Circular Letter 038, 2009 from the Financial Superintendence of Colombia, the Bank and its affiliates have implemented and continue strengthening their internal control systems, in particular ensuring compliance with those controls qualified as “strong”, and which support the most relevant processes in the entity.

Monitoring of compliance with the objectives and the regulatory requirements is handled by the Board of Directors, the Audit Committee, the Legal Representative and the Statutory Auditor’s Office of each entity, in order to ensure that the preparation, presentation and disclosure of financial information is in accordance with the provisions of the law.

### **Service System for the Financial Consumer (SAC, for its abbreviation in Spanish)**

As a fundamental part of our management, the Bank has been developing various financial education models, aimed at providing financial consumers, via media and in a very didactic manner, the information necessary regarding our products and services, in order to help them better manage their finances.

Likewise, we continue strengthening all the mechanisms that allow service, protection and rendering of services to our financial consumers, seeking the permanent satisfaction of our clients, shareholders, employees and community in general, and while strictly complying with the legal provisions contemplated under Law 1328, 2009 and the External Circular Letter 015, 2010 from the Financial Superintendence of Colombia.

## Risk Management of Money Laundering and Terrorism Financing System (SARLAFT, for its abbreviation in Spanish)

The Bank has implemented a Risk Management of Money Laundering and Terrorism Financing unit (SARLAFT) based on the premise of risk management that includes knowledge of the client and its operations with the company, the definition of market segments, clients, products, distribution channels and jurisdictions, the monitoring of transactions and the operational reports to competent authorities, in order to avoid being used to give a semblance of legality to assets arising from illicit activities and/or to finance terrorist activities, in accordance with the provisions in External Circular Letter 026, 2008 from the Financial Superintendence of Colombia.

SARLAFT is supported by an organizational culture, policies, controls and procedures, which are known by and apply to the entire Organization, and which include the Colombian regulatory frame, as well as related recommendations and best international practices, especially those from the International Financial Action Group "GAFI".

**Training programs  
in order to create awareness  
and seek commitment  
of all the employees.**

The procedures and rules of conduct regarding the application of all the control mechanisms and instruments are included in the Compliance Manual and in the Conduct Code recognized and accessed by all employees in the company.

The Bank periodically performs employee training programs, in order to create awareness and seek commitment of each of them. As a result, the Bank has included the revisions to its control mechanisms designed by and implemented at the Compliance Unit and other areas of the company, as per Fiscal Review and Internal Audits.

With the purpose of complying with the established regulations, the Board of Directors designated a Compliance Official and a substitute, who were duly inducted by the Financial Superintendence of Colombia.

### Information Security Strategies

External Circular Letters 052, 2007; 022, 2010; and 042, 2012

In compliance with the External Circular Letter 052, 2007 from the Financial Superintendence of Colombia, these requirements are included in the preparation of each one of the projects initiated by the Bank, from their planning stage, and in accordance with their compliance with the requirements of this regulation. In the same way, these requirements are taken into account in the improvement and optimization processes that are carried out, guaranteeing their permanence and sustainability for the future.

With the publication of the External Circular Letter 022, in July 2010 from the Financial Superintendence of Colombia, the Bank internally validated its strategies to identify the level of compliance, confirming that it effectively remains within the regulatory framework.

With the publication of External Circular Letter 042, in October 2012 from the Financial Superintendence of Colombia, it was confirmed that the Bank complied with the security requirements of the Mobile Banking channel, in addition, about the requirements related to EMV (Europe and MasterCard Visa, interoperability standard of IC cards - cards with a microprocessor). The Bank began the issuance of chip cards in a timely manner, since the beginning of 2011. Regarding the Automatic Tellers, the company conducted an update process that aims to guarantee the EMV functionality at the Issuer level.

The Bank and its affiliates will continue investigating new trends on security issues and, therefore, on tools and controls that allow the Bank to mitigate the identified risks, in order to be prepared to face new threats, making these controls available and at the service of our clients, and guaranteeing the delivery of products and services with high levels of quality and security.

## Administrative aspects of Banco Davivienda (excluding subsidiaries)

### Legal situation

Currently the Bank does not have claims against it that could affect its solvency or stability. The most important claim processes are listed in Note 19 to the Financial Statements.

### Administrative situation

As of December 2012, the Bank had 10,689 permanent positions, 75 fixed term positions, 467 apprenticeship positions and 332 temporary positions, for a total number of 11,563 employees.

### Intellectual property and copyrights

Davivienda has established internal awareness employee programs, so that through self-regulation, we may be able to comply with intellectual property and copyrights regulations. In addition, these programs are reinforced by periodic Audit visits to the different areas in the Bank, in order to assess this aspect, among others.

### Transactions with Partners and administrators

The transactions made by Davivienda with its Partners and administrators adjust to the Bank's general policies. These transactions are detailed in Note 29 to the Financial Statements.

Credits and deposits with related parties (shareholders, members of the Board of Directors, legal representatives, and others) reached COP269,032 billion and COP284,608 billion, respectively.

With respect to attending the meetings of the Board of Directors, fees and commissions were paid to members and advisors in an amount of COP325 million.

### Extent of the relationships with the corporate group

Traditionally, Banco Davivienda has maintained business relations with companies in the same group, seeking a higher combined efficiency through the specialization of each company on those tasks in which it has competitive advantages.

Below we present a summary of the main transactions with related parties as of December 31, 2012; additional detail is included in Note 29 to the Financial Statements:

<b>(In millions of Colombian Pesos)</b>	
Assets	<b>320,768</b>
Liability	589,064
Revenues	108,734
Expenditures	84,443

No important transactions were completed during the accounting period ended on December 31, 2012, between the Banco Davivienda and other entities influenced by or in the interest of Sociedades Bolívar S.A., nor were any decisions made or rejected with the purpose of benefiting Davivienda by Sociedades Bolívar S.A..

### Payments made to company's directors

Payments made to company's directors reached COP3,824 billion.

### Payments made to related advisors or managers

Payments made to advisors and managers represented by fees reached COP135 million.

## Donations

During the second semester in 2012, the Bank made donations for COP5,837 billion. Part of these funds were managed through the Fundación Bolívar Davivienda.

## Expenditure on advertising and public relations

Advertising expenditures reached COP56,765 billion and public relations expenditures reached COP1,582 billion.

## Foreign assets

Cash and other company assets abroad amounted to COP338,162 billion. Foreign currency obligations reached COP3,358,928 trillion.

## Local and/or foreign investments

Detail of investments in equity securities appear on Note 6.9 to the Financial Statements. These amount to COP1,19 trillion, in this manner:

<b>(In millions of Colombian Pesos)</b>	
Local investments	<b>COP 197,385</b>
International Investments	COP 992,539

## Important events taking place after the accounting period

On January 22, common bonds were issued in the international markets for US\$ 500 million, receiving a demand of US\$ 5,1 trillion with a 5 years term and a fixed rate of 2.95%. This represented the best rate, for any term, ever obtained by a financial issuer Colombia.

## Foreseeable evolution of the Banco Davivienda

Davivienda will continue its integration process for the operations in El Salvador, Honduras and Costa Rica, carrying fundamental elements of its culture to the new affiliates. Locally, it will continue to focus on strengthening its individual and corporate banking systems strategy, and supporting the main projects in the country. Likewise, Davivienda will continue developing the DaviPlata platform, to enable more Colombians to enter the financial system through this service.

## Certification and responsibility of the financial information

We certify to our shareholders that:

The individual Financial Statements and other relevant reports for the period of time from July 1 to December 31, 2012, do not contain defects, inaccuracies or errors that prevent the reader from understanding the Bank's actual equity situation or its operations.

The Bank has suitable disclosure and control systems in place regarding its financial information, with procedures that allow it to assure that this information is properly submitted.

In addition, there are no relevant deficiencies in the design and operation of the internal controls, which could have prevented the Bank from suitably registering, processing, resuming or presenting its financial information as it is expressed in the Internal Systems Control Report.

We appreciate the commitment of our employees and the support of our shareholders, without which these results would not have been possible.

**Carlos Arango Uribe**  
President of the board directors

**Efraín E. Forero Fonseca**  
President



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

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**Design and production:**

Machado y Molina / Corporate Visual Communication

Bogotá, March 2013

## LIST OF ERRATA

**Page 33:** Davivienda Costa Rica, fourth paragraph:

Accumulated profit decreased US\$ 44 million, mainly as a result of the amortization of goodwill for US\$ 38 million and the generation of additional profits for US\$ 6 million.

**Changes for:**

Accumulated profit decreased US\$ 37 million, mainly as a result of the amortization of goodwill for US\$ 50 million and the generation of additional profits for US\$ 13 million.

**Page 33:** Davivienda Costa Rica, Main figures chart:

(Figures in millions of U.S. Dollars)

(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	1,426.8	<b>1,313.5</b>	-113.3	<b>-7.9%</b>
Liability	1,186.3	<b>1,115.0</b>	-71.2	<b>-6.0%</b>
Equity	240.5	<b>198.4</b>	-42.1	<b>-17.5%</b>
Net income	5.1	<b>-32.0</b>	-37.1	<b>NA</b>

**Page 34:** Davivienda Honduras, fifth paragraph:

"Assets declined by US\$ 26 million, mainly due to the transactions in Banco Honduras with maturity investments that decreased by US \$77 million, and an increase of US\$ 35 million in available funds".

**Changes for:**

"Assets declined by US\$ 69 million, mainly due to the transactions in Banco Honduras with maturity investments that decreased by US\$ 93 million, and an increase of US\$24 million in available funds".

**Page 34:** Davivienda Honduras, Main figures chart:

(In millions of U.S. Dollars)

(US\$)	Dec. 11	Dec. 12	Value	Percentage
Asset	971.1	901.5	-69.5	-7.2%
Liability	844.0	769.7	-74.3	-8.8%
Equity	126.9	131.8	4.9	3.9%
Net income	6.3	10.6	4.3	68.4%



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