Notes to the Financial Statements

Banco de Bogotá S.A.

At December 31 and June 30 de 2016

Note 1 - Reporting Entity

Banco de Bogotá S.A. (the Bank) is a private institution headquartered in the city of Bogotá D.C. at Calle 36 No. 7-47. It was incorporated by means of Public Document No. 1923, drawn up and notarized on November 15, 1870 at the Office of the Second Notary Public in Bogotá D.C. The Financial Superintendence of Colombia renewed the Bank's operating license indefinitely, as per Resolution 3140 dated September 24, 1993. The duration of the institution, according to its bylaws, extends to June 30, 2070; however, that term may be reduced by dissolution or increased through extension prior to that date. The business of the Bank is to perform all operations and to enter into all contracts legally authorized for commercial banking establishments, subject to the requirements and limitations existing under Colombian law.

The Bank's operating structure at December 31, 2016 was comprised of ten thousand, six hundred and nine (10,609) direct employees, two thousand, one hundred seventy-six (2,176) employees on fixed-term contracts and four hundred fifteen (415) apprentices from the National Vocational Training Service (SENA). This amounts to a total of thirteen thousand, two hundred (13,200) employees. The Bank also has three thousand seven hundred seventy-four (3,774) staff members hired through outsourcing with specialized companies Additionally, it provides a broad range of services for its customers, based on seven hundred ten (710) offices; fifty-one (51) payment and collection centers; seven thousand, three hundred thirty-seven (7,337) correspondent banks; and one thousand, seven hundred fifty-eight (1,758) ATMs for a total of nine thousand eight hundred fifty-six (9,856) service points in Colombia. This is in addition to its two agencies in the United States: one in Miami and another in New York, which are licensed to carry out banking activities abroad, and a bank branch in Panama City, which has a general license for banking on the local market.

Banco de Bogotá S.A. is a subordinate of Grupo Aval Acciones y Valores S.A.

Note 2 – Basis for the Presentation of Separate Financial Statements and a Summary of Significant Accounting Policies

2.1 Statement of Compliance with the Financial Reporting Standards Accepted in Colombia

The accompanying separate financial statements have been prepared in accordance with the financial reporting standards accepted in Colombia (NCIF). These include the International Financial Reporting Standards (IFRS) at December 31, 2013, which are compiled in Colombian Government Decree 2420/2015 and its amendments, Except in relation to the accounting treatment of classification and valuation of investments under IAS 39 and IFRS 9, the loan portfolio and its impairment, the impairment of foreclosed or repossessed assets, regardless of their accounting classification, for which the accounting provisions issued by the Financial Superintendence of Colombia, included in the Basic Accounting and Financial Circular (BAFC), shall apply, and the option for annual accrual of the wealth tax charged on capital reserves or earnings, as established in Law 1739 / December 2014 including the exception regarding Decree 2496/ 2015 for the actuarial estimate of retirement pensions, which is measured as described in Decree 2783/ 2001.

Partial implementation of the International Financial Reporting Standards (IFRS) for public-interest entities, such as banks, was required under Decree 2784 issued by the Colombian government in December 2012 (compiled by Decree 2420/2015) and is mandatory for accounting record and preparation of the financial statements of public-interest entities as of January 1, 2015.

These separate financial statements were prepared to comply with the legal requirements to which the Bank is subject in its capacity as a legally independent entity. Some accounting principles may differ relative to those applied to the consolidated financial statements. Therefore, the separate financial statements should be read in conjunction with the consolidated financial statements of Banco de Bogotá S.A.

2.2 Measurement Base

The separate financial statements were prepared on the basis of historic costs, apart from the following items, which were measured using an alternative base at each balance sheet date

Item	Measurement base
Financial instruments classified at fair value	Fair value through profit or loss For equity instruments designated in initial recognition, at fair value through in other comprehensive income
Derivative financial instruments	Fair value through profit or loss
Non-current assets held for sale	Fair value less sale cost
Investment in subsidiaries, associates and Joint ventures	Equity method
Investment properties	Fair value through profit or loss
Deferred taxes	Liability method
Employee benefits other than those defined in the short term	Projected credit unit

2.3 The Functional or Reporting Currency

According to International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates, the Bank considers the Colombian peso as its functional and reporting currency, since it is the currency of the primary economic environment where the Bank operates. It also is the currency that affects the cost and income structure. All the information is submitted in millions of pesos and has been rounded to the nearest unit.

Therefore, all balances and transactions denominated in currencies other than the Colombian peso are deemed to be “foreign currency” balances and transactions.

2.4 Presentation of the Financial Statements

The accompanying financial statements are presented taking into account the following aspects

a. Statement of Financial Position

The statement of financial position is presented showing the different asset and liability accounts. These are ordered according to liquidity, in the case of sale, or enforceability, since this type of presentation provides more relevant reliable information for a financial institution. Therefore, the amount expected to be recovered or paid within twelve months and after twelve months is presented in each of the notes on financial assets and liabilities, in accordance with IAS 1 - Presentation of Financial Statements.

b. Statement of Income for the Period and Other Comprehensive Income

These items are presented separately in two statements, as permitted under IAS 1 - Presentation of Financial Statements. Moreover, the income statement is broken down according to the nature of the expenses. This is the model used by financial institutions, because it provides more appropriate and relevant information.

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c. Statement of Cash Flow

The statement of cash flow is presented using the indirect method. In this case, the net cash flow from operating activities is determined by reconciling net income, for the effects of items that do not generate cash flows, the net changes in assets and liabilities derived from operating activities, and for any other item whose monetary effects are regarded as cash flows from investment or financing. Interest income and interest expenses received and paid are part of operating activities.

The following items are taken into consideration when preparing the cash flow statement:

- Operating activities: These are the activities that constitute the Bank's main source of income.
- Investment activities: These concern the acquisition, sale or disposal by any other means of long-term assets and other investments that are not included in cash and cash equivalents.
- Financing activities: These are activities that produce changes in the size and composition of net equity and liabilities that are not part of operating activities or investment activities.

2.5 Transactions in Foreign Currency

Transactions in foreign currency are converted into Colombian pesos using the exchange rate that is in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are converted into the reporting currency, using the exchange rate that is in effect on the closing date of the statement of financial position non-monetary assets and liabilities that are denominated in foreign currency and valued at fair value are converted into the functional currency at the exchange rate prevailing on the date when their fair value was determined. Any exchange differences generated are charged to gain or loss in fair value. Non-monetary assets and liabilities that are denominated in foreign currency and valued at historical cost are measured at the exchange rate prevailing on the date of the transaction. A financial liability designated to hedge a net investment in a foreign operation is recognized directly under other comprehensive income. The rates at December 31, 2016 and June 30, 2016 were $3,000.71 y $2,919.01 respectively.

2.6 Cash and Cash Equivalents

Cash and cash equivalents include ready cash, bank deposits and other short-term investments in active markets that have original maturities at three months or less and arise as part of the routine management of cash surpluses. If a financial investment is to be classified as a cash equivalent, it must be held to fulfill short-term payment commitments, more than for investment purpose or the like. It also must be readily convertible to a specific amount of cash, and be subject to an insignificant risk of changes in value.

2.7 Investments in Subsidiaries, Associates and Joint Ventures

The equity method described in IAS 28 is used to measure investments in subsidiaries, associates and joint ventures. To that end, the Bank adopted, in advance, the amendment to IAS 27 outlined in Decree 2496/2015 for its separate financial statements.

Considering the foregoing, the following describes the accounting treatment afforded to investments in subsidiaries, associates, and joint ventures:

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a. Investments in Subsidiaries

Investments in subsidiaries are those in which the Bank has direct or indirect control; in other words, when it has all the following elements:

• Power over the entity; that is, the rights that give it the ability to direct the relevant activities that significantly affect the subsidiary's returns or yield.

• Exposure or right to variable returns arising from its implication in the subsidiary; and

• Ability to use its power over the subsidiary to influence the amount of the Bank's returns.

Investments in subsidiaries are measured by the equity method, which involves recording investments initially at cost. Later, they are adjusted based on changes subsequent to the investor's acquisition of net assets of the investee. Accordingly, the Bank´s ownership interest in a subsidiary's earnings for the period is recognized under earnings for the period. Its ownership interest in a subsidiary´s other comprehensive income of the subsidiary is recognized under other comprehensive income (OCI) or in another appropriate account under equity, as applicable, pursuant to the application of uniform accounting policies for transactions and other events which, being similar, might have occurred under comparable circumstances

b. Investments in Associates

An associate is an entity over which the Bank has significant influence; namely, on where it has the power to intervene in decisions on financial and operating policy, but without having control or joint control. It is presumed that significant influence is exercised in another entity if the Bank directly or indirectly possesses 20% or more of the voting rights of the investee, unless it can be clearly demonstrated that such influence does not exist.

c. Joint Agreements

A joint agreement is one whereby two or more parties maintain joint control of the agreement. It exists only when decisions on relevant activities require the unanimous consent of the parties that share control.

In turn, a joint agreement is divided into a joint operation, in which the parties with joint control of the agreement are entitled to the assets and liabilities related to the agreement; and a joint venture in which the parties are entitled to the net assets and liabilities of the agreement.

2.8 Loss of Control

Loss of control is a significant economic event in which the parent-subsidiary relationship ceases to exist and gives way to the onset of an investor-investee relationship that is very different from the previous one. Accordingly, and in compliance with IFRS, when control is lost any investment the Bank has in a former subsidiary is classified in the appropriate category and measured at its fair value on the date control is lost. Meanwhile, the gain or loss resulting from the transaction is recognized under income for the period. In addition, other comprehensive income items that are related to the investment in the former subsidiary are reclassified to income for the period or to accrued income, according to the applicable IFRS, using the same basis that would be required if the related assets or liabilities had been disposed of.

2.9 Financial Instruments

a. Financial Investment Assets

The Bank classifies its investments as “trading,” “held to maturity” and “available for sale”. This is according to the business model approved by the Board of Directors of the Bank and the provisions outlined in Chapter I -1 on the Basic Accounting and Financial Circular related to classification, valuation and accounting treatment of investments for the individual or separate financial statements.

This account includes investments acquired by the Bank to maintain a secondary liquidity reserve and to comply with legal or regulatory requirements, so as to maximize the risk-return ratio of portfolios and / or managed assets and to take advantage of opportunities that arise in the markets where it operates.

The Bank values most of its investments using the information supplied by INFOVALMER S.A., which is a pricing service. INFOVALMER S.A. supplies the information required to value investments (prices, rates, curves, margins, etc.) and has valuation methods approved in accordance with Decree 2555 / 2010 and with the instructions outlined in the Basic Legal Circular issued by the Financial Superintendence of Colombia.

The way the different types of investments are classified, valued and recorded, according to the business model defined by the Bank, is described below:

Trading Securities		
Characteristics	**Valuation**	**Entered on the Books**
This portfolio is used to manage fixed-income and variable-income investments other than shares, primarily to obtain profits as a result of variations in the short-term market value of such instruments and the purchase and sale of securities. Leads to the purchase and sale of assets	The investments represented in debt stocks or securities are assessed at fair value based on the price determined by the valuation pricing service. For exceptional cases where an established fair value does not exist on the day of valuation, these securities or bonds are valued exponentially at the internal rate of return. This procedure is performed daily. Holdings in collective investment funds, private capital funds, hedge funds and mutual funds, among others, and the securities issued in the development of securitization processes are to be valued taking into account the unit value calculated by the management company on the day immediately prior to the measurement date. Unless they are listed on securities exchanges that mark to the secondary market in which case they are to be valued with at that price.	These investments are to be recorded in the respective "Investments at Fair Value through Changes in Income" accounts described in the Unitary Catalog of Financial Information for Supervisory Purposes. The difference between the current fair value and the value immediately prior is recorded as a greater or lesser value of the investment, thereby affecting income for the period. This procedure is performed daily

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Held to Maturity		
Characteristics	**Valuation**	**Entered on the Books**
These are securities for which the Bank has the intent and the legal, contractual, financial and operational capacity to hold until maturity or redemption, considering the structure of the financial instruments eligible for this portfolio involves only principal and interest payments. These investments may not be used for money market transactions (simultaneous repurchase agreements or transactions involving a temporary transfer of securities), except in the case of forced or mandatory investments subscribed in the primary market and provided the counterpart in the transaction is the Central Bank of Colombia, the General Office of Public Credit and finance or entities supervised by the Financial Superintendence of Colombia. Similarly, they may be delivered as collateral in a central counterparty risk clearing house to support compliance with the transactions accepted for clearing and settlement and/or as collateral for money market transactions.	They are valued exponentially, according to the internal rate of return calculated at the moment of acquisition, based on a 365-day year. This procedure is performed daily. For fixed-income investments at a floating rate, the internal rate of return is recalculated once the value of the facial indicator changes. In the case of securities that include the prepayment option, the internal rate of return is recalculated once the future flows and the payment date change.	These investments are to be recorded in the respective "Investments at Amortized Cost" account described in the Unitary Catalog of Financial Information for Supervisory Purposes. The difference between the actual fair value and that immediately preceding the respective value is recorded as a greater value of the investment, affecting income for the period. Receivable returns pending collection are recorded as a greater value of the investment. Consequently, the collection of said returns is entered on the books as a lesser value of the investment. This procedure is performed daily.

Available for Sale - Debt Securities		
Characteristics	**Valuation**	**Entered on the Books**
These include stocks or securities and, in general, any kind of investment that is not classified as a trading security or as an investment held to maturity. According to the business model, fixed income investments are managed in this portfolio primarily for the purpose of obtaining contractual flows and making sales when required by circumstances to maintain an optimum combination of profitability, liquidity and coverage that provides the kind of profitability support relevant to the Bank's balance. Securities classified as investments available for sale can be furnished as collateral in a central counterparty risk clearing house to back compliance with transactions accepted	Investments represented in debt stocks or securities are to be valued based on the valuation price determined by the pricing service. For exceptional cases where an established fair value does not exist on the day of valuation, these securities or bonds are valued exponentially at the internal rate of return. This procedure is performed daily.	These investments must be recorded in the respective "Investments at Fair Value with Changes in Other Comprehensive Income- (OCI)" account described in the Unitary Catalog of Financial Information for Supervisory Purposes. The difference between the present value on reappraisal day and the day immediately prior (calculated at the internal rate of return at the time of purchase, based on a 365-day year) must be recorded as a greater value of the investment, with credit to the income accounts. The difference between the fair value and the present value calculated according to the preceding paragraph

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Available for Sale - Debt Securities		
Characteristics	**Valuation**	**Entered on the Books**
by the clearing house for clearing and settlement. Likewise, these investments can be used in money market transactions (simultaneous repurchase agreements, or transactions involving the temporary transfer of securities) and furnished collateral for this kind of transaction.		must be recorded in the respective unrealized gain or loss account (OCI). This procedure is performed daily.

Available for Sale - Equity Securities		
Characteristics	**Valuation**	**Entered on the Books**
Chapter 1-1 in the Basic Accounting and Financial Circular issued by the Financial Superintendence of Colombia indicates investments in subsidiaries and associates, as well as ownership interest in joint ventures and other investments, are part of this category and make the Bank part owner of the issuer.	• Investments in subsidiaries, associates and joint ventures: These investments are recognized by the equity method. • Equity securities in the National Registry of Securities and Issuers (RNVE): These securities are valued according to the price determined by pricing services authorized by the Financial Superintendence of Colombia. Shares in collective investment funds, private capital funds, hedge funds and mutual funds, among others, and securities issued in the development of securitization processes are to be valued by taking into account the value of the unit calculated by the managing company on the day immediately prior to the date of valuation. • Equity securities listed only on foreign stock exchanges: These are valued according to the price determined by the valuation pricing service authorized by the Financial Superintendence of Colombia. In the absence of a valuation method, the most recent closing price in the last 5 trading days shall be used, including the valuation day, or the simple average of the closing prices reported during the last 30 days. If traded on more than one foreign stock exchange, that of the market of origin will be used. The price of the security shall be converted into	These investments are recorded initially at cost and are adjusted subsequently according to the changes in the equity of the investee in accordance to the with ownership interest. Accordingly, the Bank's stake in the profits or losses of subsidiaries, associates and joint ventures is recognized under income for the period, while its stake in their other comprehensive income (OCI) is recognized in the other comprehensive income account, or in another appropriate account under equity. The effect of the valuation or assessment of investments in equity securities, other than those in subsidiaries, associates and joint ventures, is recorded in the respective "Unrealized Gain or Loss" account under other comprehensive income (OCI), charged or credited to the investment.

Available for Sale - Equity Securities		
Characteristics	**Valuation**	**Entered on the Books**
	Colombian pesos. • Equity securities listed in foreign securities quoting systems authorized in Colombia: Valued according to the price supplied by the pricing services authorized by the Financial Superintendence of Colombia. • Equity securities not listed on stock exchanges: (investments in equity instruments through Other Comprehensive Income - OCI): Valued according to the valuation price determined by the pricing service designated as official for the respective segment. When the pricing service does not have a method for valuing these investments, the acquisition cost is increased or decreased by the percentage the investor´s ownership interest in subsequent changes in the equity of the issuer, calculated on the basis of certified financial statements at June 30 and December 31 of each year, or the most recent statements, when known.	

Investment Reclassification

Investments may be reclassified when the following requirements are met.

Reclassification from Investments Held to Maturity to Trading Investments

Reclassification is possible in any of the following circumstances:

- When the conditions of the issuer, its parent company, its subsidiaries or affiliated parties are seriously impaired.
- When changes in regulations make it impossible to maintain the investment.
- When mergers or institutional restructuring lead to reclassification or realization of the investment, either to maintain the previous position concerning interest-rate risk or to adjust to the credit-risk policy established previously by the resulting entity.
- In the case of other unforeseen events, subject to prior authorization from the Financial Superintendence of Colombia.

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Reclassification from Investments Available for Sale to Trading Investments or Investments Held to Maturity

Reclassification is possible when any of the circumstances described in the previous paragraph occurs or when:

- When the significant activities of the business are redefined as a result of situations such as a change in the economic cycle or the market niches where the supervised entity operates, or changes in its appetite for risk.
- When assumptions the business model has defined previously on adjustment in the management of investments materialize.
- When the investor loses its status as a parent or controlling company and this also implies the decision to dispose of investments in the short term, as of that date.

When investments available for sale are reclassified as trading investments, the income from the reclassification of such investments must be recognized and maintained in Other Comprehensive Income (OCI) as an unrealized gain or loss, until the respective investment is sold. The accounting treatment afforded to trading investments, as previously described, is applied from the date of reclassification.

When investments available for sale are reclassified as investments held to maturity, the standards on valuing and recording the latter must be observed. Therefore, unrealized gains or losses that are recorded in the OCI account are cancelled out against the registered value of the investment. In this way, the inversion will remain registered as if it had always been classified in the held-to-maturity category. As of that date, those are value based at the internal rate of return; on the day prior to reclassification.

Investment Repurchase Rights

These are investments that represent the collateral in money market transactions such as repos and simultaneous operations. The Bank retains the economic rights and benefits associated with the investment and all the risks inherent therein, although legal ownership is transferred when the money market operation is carried out.

These securities continue to be valued daily and accounted for in the balance sheet and statement of income, consistent with the methodology and procedure applicable to investments, according to the category in which they are included prior to acquisition of the repurchase agreement.

Investments Furnished as Collateral

These are investments in bonds or debt securities that are furnished as collateral to support the fulfillment of operations accepted for clearing and settlement by a central counterparty risk clearing house.

These securities are valued daily and accounted for in the balance sheet and statement of income, consistent with the methodology and procedures applicable to the category in which they were included prior to being furnished as collateral.

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Impairment or Losses Due to the Issuer's Risk Classification

The price of trading investments for which no fair value exists on the valuation day, and the price of investments classified as investments held to maturity, as well as equity investments that are valued according to changes in equity, are adjusted on each valuation date based on their credit risk rating. This is done according to the following criteria:

- The rating of the issuer and/or security in question, when it exists.

- Objective evidence that an impairment loss on the value of these assets has occurred or could occur. This criterion applies even for recording a larger impairment than the one resulting from simply using the rating of the issuer and/or security, if required based on the evidence.

The amount of an impairment loss is always recognized in the statement of income for the period, regardless of whether an amount for the respective investment is recorded in Other Comprehensive Income (OCI). However, there are some exceptions; namely, domestic or foreign bonds and/or securities issued or secured by the Colombian government, those issued by the Central Bank of Colombia, and those issued or secured by the Financial Institution Guarantee Fund (FOGAFIN in spanish).

Impairment of investments in associates and joint ventures is measured and entered on the books according to IAS 36.

Securities and/or Bonds of Unrated Issues or Issuers

Securities or bonds that are not externally rated or issued by entities that are not classified will be rated as follows.

Category / Risk	Characteristics	Allowances
A – Normal	Complies with the terms agreed on in the stock or security, with adequate ability to pay principal and interest.	None required.
B – Acceptable	Issues with uncertainty factors that could affect the ability to continue to comply adequately with debt service. Moreover, the issuer's financial statements and additional available information reflect weaknesses that could affect its financial position.	With respect to debt securities and/or stocks, the value at which they are entered on the books may not exceed eighty percent (80%) of the net face value of amortization up to the date of valuation. In the case of equity securities and/or stocks, the net value of credit risk allowances (cost less the allowance) entered on the books may not be more than eighty percent (80%) of the acquisition cost.

Category / Risk	Characteristics	Allowances
C – Appreciable	Issues with high or medium probability of defaulting on timely payment of principal and interest. Moreover, the issuer's financial statements and other available information show deficiencies in its financial position that compromise recovery of the investment.	In terms of debt securities and/or stock, the values at which they are entered on the books may not exceed sixty percent (60%) of the net face value of amortization up to the date of valuation. In the case of equity securities and/or stocks, the net value of credit risk allowances (cost less the allowance) entered on the books may not exceed sixty percent (60%) of the acquisition cost.
D – Significant	Issues that default on the terms agreed in the instrument. In addition, the respective financial statements and other available data show serious weaknesses in the issuer's financial situation.	In terms of debt securities and/or stock, the values entered on the books may not exceed forty percent (40%) of the net face value of amortization up to the date of valuation. In the case of equity securities and/or stocks, the net value of credit risk allowances (cost less the allowance) entered on the books may not exceed forty percent (40%) of the acquisition cost.
E – Uncollectible	Issuers with financial statements and other available data that suggests the investment is uncollectible.	The value of these investments is provisioned in its entirety.

Externally Rated Issues or Issuers

Debt securities or stocks with one or more ratings and debt securities or stocks ranked by external credit rating agencies that are recognized by the Financial Superintendence of Colombia may not be recorded for an amount that exceeds, The following percentages of the net face value of amortization prior to the valuation date.

Long-term Rating	Maximum Value %	Short-term Rating	Maximum Value %
BB+, BB, BB-	Ninety (90)	3	Ninety (90)
B+, B, B-	Seventy (70)	4	Fifty (50)
CCC	Fifty (50)	5 and 6	Zero (0)
DD,EE	Zero (0)		

The issuer's rating is used to estimate allowances for time certificates of deposit.

If the allowances for investments that are classified as "held to maturity" and for which it is possible to establish a fair value are higher than those estimated according to the standard indicated above, the latter shall apply. This allowance pertains to the difference between the registered value of the investment and the fair value, when it is less.

In the event the investment or the issuer is rated by more than one rating agency, the lowest rating is taken into account, provided these ratings were issued within the last three (3) months, or the most recent rating when there is a lapse of more than three (3) months between the two ratings.

b. Operations with Derivative Financial Instruments

According to International Financial Reporting Standard "IFRS 9," a derivative is a financial instrument or other contract whose value changes over the time in response to the changes in an underlying variable (a specified interest rate, the price of the financial instrument, the raw material quoted, a foreign exchange rate, etc.). It does not require an initial net investment, nor does it require a smaller investment than would be required for other types of contracts from which a similar response to changes in market conditions is expected, and it will be liquidated at a future date.

In the course of its operations, the Bank generally trades in financial markets with financial instruments such as forward contracts, futures, swaps and spot transactions, be it for hedging or trading purposes.

All derivative operations are recorded at the moment of the initial transaction and at their fair value. Subsequent changes in fair value are adjusted with debit or credit to the statement of income, as appropriate, unless the derivative is designated as a hedge instrument. If so, it will depend on the nature of hedged item and the type of hedging relationship. The Bank designates derivatives to hedge future changes in the currency exposure of a net investment in a foreign operation, making the following entry, The part of the gain or loss on the hedge instrument that determines an effective hedge is recognized in Other Comprehensive Income (OCI), while the ineffective part is recognized in the statement of income for the period. Any gains or losses on the hedge instrument that are accumulated under equity will be reclassified in the statement of income at the moment the foreign operation is disposed of all or in part.

At the start of the transaction, the Bank documents the existing relationship between the hedge instrument and the hedged item, as well as the risk-management objective and strategy for undertaking the hedge relationship. It also documents its assessment of the effectiveness of the hedge relationship in offsetting the exchange risk exposure generated by these investments.

2.10 Loan Portfolio and Financial Lease Transactions

The provisions established by the Financial Superintendence of Colombia in Chapter II of the Basic Accounting and Financial Circular are applied to accounting treatment of the loan portfolio.

Loans are recorded at their disbursement value, except for portfolio purchases and / or factoring, which are recorded at the acquisition cost.

Financial income from assets delivered under a financial lease is measured based on a constant rate of return on the net financial investment.

a. Loan portfolio classification

The loan portfolio is classified into four (4) types of credit, as described below.

Commercial

These are loans granted to individuals or legal entities for the development of organized business activities and are different from loans granted in the microcredit category.

Consumer

These loans, regardless of their amount, are granted to individuals to finance the acquisition of consumer goods or the payment of services for non-commercial or non-business purposes. They are different from loans in the microcredit category.

Home Mortgages

These loans, regardless of their amount, are granted to individuals for the purchase of a new or existing home, or for the construction of an individual home. According to Law 546 / 1999, home loans are denominated in constant value units (UVR) or Colombian pesos, and are backed by a first mortgage on the property being financed.

The repayment period ranges from a minimum of five (5) years to a maximum of twenty (20) years. Home loans may be prepaid, all or in part, at any time and without penalty. In the case of partial prepayment, the borrower is entitled to decide if the amount paid will go to reduce the monthly installment or the mortgage repayment period. These loans also have a remunerative rate of interest, which is applied to the outstanding balance denominated in UVRs or Colombian pesos. Interest is charged in arrears and may not be capitalized. A mortgage may be for as much as seventy-percent (70%) of the value of the property, as determined by the purchase price or by a professional appraisal done within six (6) months before the loan is granted. Loans to finance low-income housing may be for as much as eighty percent (80%) of the value of the property. In all cases, the property being financed must be insured against the risk of fire and earthquake.

Microcredit

These are the loans referred to in Article 39, Law 590/2000, or the regulations that amend, substitute or add to it, and loans made to a micro-business where the primary source of repayment is the income derived from its commercial activities.

The borrower's debt balance may not exceed one hundred and twenty (120) times the legal minimum monthly wage in effect when the loan is approved. The debt balance is understood as the amount of current borrowing for which the respective small business is responsible to the financial sector and to other sectors. It is found in the records of the database operators consulted by the respective creditor, excluding mortgages for home financing, and adding the value of the new loan.

A micro-business is understood as an economic production unit that is operated by a private individual or legal entity and is engaged in activities related to business, farming and livestock, industry, trade or services, be they rural or urban, with a staff of not more than ten (10) workers and total assets amounting to less than five hundred (500) times the current minimum monthly wage.

According to Law 590/ 2000, Article 2, Paragraph 1, "as for the classification of microenterprises, small and medium-sized companies with combined parameters for personnel and total assets different from those indicated, the determining factor for this effect will be total assets.

b. Criteria for Credit Risk Assessment, qualification and provision

The Bank continuously assesses the risk inherent in its loan assets. This is done when a loan is granted and throughout the life of the loan, even in cases of restructuring.

The Credit Risk Management System (SARC – Spanish acronym) was designed and adopted specifically for that purpose. It is comprised of credit-risk management policies and processes, reference models to estimate or quantify anticipated losses, a system of allowances to cover credit risk, and procedures for internal control.

Loans are granted on the basis of what is known about the potential borrower, the borrower's creditworthiness, and the terms of the loan agreement to be entered into. Among others, these include the financial terms of the loan, the collateral being provided, the sources of payment, and the macroeconomic conditions to which the borrower might be exposed.

The loan approval process involves a series of variables established for each of the portfolios. These variables make it possible to identify borrowers who fit the Bank's risk profile. The segmentation and discrimination processes for loan portfolios and potential borrowers serve as the basis for their rating. The methods and procedures included in the loan approval process allow the Bank to monitor and control credit exposure for the various individual portfolios, as well as the aggregate portfolio, thereby avoiding an excessive concentration of lending per borrower, economic sector, economic group, risk factor, etc.

The Bank constantly monitors and ranks its lending operations according to the loan approval process, which is founded on several criteria; namely, information on the historical pattern of portfolios and loans; the particular characteristics of borrowers, their loans and the collateral backing them, the borrower's credit history or reputation with other institutions, financial information that provides an understanding of the borrower's financial situation and any macroeconomic and sector variables that might affect the normal development of lending operations.

When assessing regional government agencies, the Bank verifies compliance with the provisions outlined in Law 358/1997, Law 550/ 1999 and Law 617 / 2000.

Loan Portfolio Assessment and Reclassification

The Bank evaluates the risk to its loan portfolio, making changes in the respective ratings when justified in light of new analysis or information.

It fulfills this obligation by considering the borrower's credit history with other lenders, particularly if the information provided by credit reporting agencies or other sources shows the borrower has any restructured loans at the time of the assessment.

Nevertheless, the Bank assesses and reclassifies the loan portfolio i) when loans fall into arrears after being restructured, in which case they must be reclassified immediately, and ii) during May and November, at the very least, recording the results of the assessment and reclassifying, at the close of the following month, as appropriate.

Credit Risk Rating

Commercial and consumer loans are classified and rated in the appropriate risk category, pursuant to the standards and provisions outlined in Chapter II of Basic Accounting and Financial Circular 100/1995, as detailed in Attachment 3 on application of the Commercial Loan Reference Model (MRC) and Attachment 5, which contains instructions on the Consumer Loan Reference Model (MRCO). Credit risk assessment is based on a variety of criteria; namely, information on the past performance of portfolios and loans, the particular characteristics of borrowers, their credit history with other lenders and their financial information, in addition to the sector and macroeconomic variables indicated below.

Category	Granting	Commercial Loans Granted	Consumer Loans Granted
“AA”	New loans rated “AA” when granted are classified in this category.	Loans with a rating equivalent to “AA” obtained through application of the Commercial Loan Portfolio Model (MRC- Spanish acronym), as provided for in the respective standard	Loans with a rating equivalent to “AA” obtained through application of the Consumer Loan Portfolio Reference Model (MRCO- Spanish acronym), as provided for in the respective standard
"A"	New loans rated “A” when granted are classified in this category.	Loans with a rating equivalent to “A” obtained through application of the MRC rating method, as provided for in the respective standard	Loans with a rating equivalent to “A” obtained through application of the MRCO rating methods, as provided for in the respective standard"
“BB”	New loans rated “BB” when granted are classified in this category.	Loans with a rating equivalent to “BB” obtained through application of the MRC rating method, as provided for in the respective standard	Loans with a rating equivalent to “BB” obtained through application of the MRCO rating method, as provided for in the respective standard"
"B"	New loans rated “B” when granted are classified in this category.	Loans with a rating equivalent to “B” obtained through the application of the MRC rating method, as provided for in the respective standard	Loans with a rating equivalent to “B” obtained through application of the MRCO rating method, as provided for in the respective standard
“CC”	New loans rated “CC” when granted are classified in this category.	Loans with a rating equivalent to “CC” obtained through the application of the MRC rating method, as provided for in the respective standard	Loans with a rating equivalent to “CC” obtained through application of the MRCO rating method, as provided for in the respective standard
"Default"		Existing loans 150 days or more past due.	Consumer loans more than 90 days past due.

The Bank applies the following table to standardize the commercial and consumer loan portfolio risk ratings in the borrowing reports and in the entries in its financial statements.

Group Category	Reporting Categories	
	Commercial	Consumer
A	AA	AA “A” - currently 0-30 days past due
B	A BB	“A” - currently 30 days past due BB
	B	B
C	CC	CC
	C	C
D	D	D
E	E	E

When the Bank rates customers as being in default, based on the reference models adopted by the Financial Superintendence of Colombia, they are standardized as follows:

Category E = Customers in default with an assigned LGD equal to one hundred percent (100%).

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Category D = All other customers rated as being in default.

For the purpose of standardizing the consumer loan portfolio, the "current default" referred to in the foregoing table is understood as the maximum posted by the debtor for aligned products at the evaluation date.

The Bank must rate the debtors in higher risk categories when it has additional risks to justify any such change.

The mortgage and microcredit portfolio is classified as follows, taking loan arrears aging into account.

Category	Microcredit	Mortgage
"A" Normal Risk	Loans that are current, or up to 1 month past due	Payments up-to-date or up to 2 months past due
"B" Acceptable Risk	Loans more than 1 month but less than 2 months past due	More than 2 months past due, but less than 5 months
"C" Appreciable Risk	Loans more than 2 months but less than 3 months past due	More than 5 months past due, but less than 12 months
"D" Significant Risk	Loans more than 3 months but less than 4 months past due	More than 12 months past due, but less than 18 months
"E" Risk of Non-recoverability	Loans more than 4 months past due	Loans more than 18 months past due

Impairment (Allowances) for the Loan Portfolio and Accounts Receivable

The Bank has a system of allowances to cover credit risk. These allowances are calculated on the outstanding balance by applying the commercial loan portfolio reference model (MRC - Spanish acronym) and the consumer loan portfolio reference model (MRCO – Spanish acronym). In the case of the mortgage and microcredit portfolios, the allowance is determined based on the customer's record of arrears.

- **The Commercial and Consumer Loan Portfolio**

The Bank has adopted the commercial and consumer reference models established by the Financial Superintendence of Colombia to estimate the allowances for this portfolio. The allowances in the reference models are calculated as the sum of the "pro-cyclical individual component (PIC)" and the "counter-cyclical individual component (CIC)". The respective methodologies are defined according to the accumulative phase applied by the Bank, which includes indicators related to the loan allowances, efficiency and portfolio growth.

The PIC is the expected loss calculated with matrix A for the entire portfolio; that is, the result obtained by multiplying the debtor's exposure, by the probability of default (hereinafter, PD) for matrix A and the loss given default (hereafter LGD) associated with the debtor's collateral, as established in the respective reference model.

The CIC is the maximum value between the counter-cyclical individual component in the previous period (t-1), affected by the exposure, and the difference between the expected loss calculated with matrix B and the expected loss calculated with matrix A at the time the allowance (t) is estimated.

The processes used to segment and discriminate the loan portfolios and their potential borrowers serve as a basis for estimating expected losses using the Commercial Loan Portfolio Reference Model (MRC). This model is founded on segments differentiated by the debtors' asset level, pursuant to the following criteria:

Commercial Loan Classification by Asset Level	
Company Size	**Asset Level**
Large companies	More than 15,000 SSMLV
Medium-sized companies	Between 5,000 and 15,000 SSMLV
Small companies	Under 5,000 SSMLV

All private individuals with commercial loans are grouped into the category of the model labeled "Natural People."

The Consumer Reference Model (MRCO) is based on segments differentiated by products and by the lenders that grant these loans. The idea is to preserve the distinctive features of market niches and the products being made available.

The following segments are defined by the Bank for the MRCO:

- General - Vehicles: Loans to purchase vehicles.

- General - Other: Loans to purchase consumer goods other than vehicles. Credit cards are not included in this segment.

- Credit card: Revolving credit to acquire consumer goods with a credit card.

The reference models for the commercial and consumer loan portfolio make it possible to identify the components of expected losses, based on the following parameters.

Probability of Default (PD)

This is the probability that borrowers will default within a 12-month period.

Probability of default is defined according to the following matrices, which were established by the Financial Superintendence of Colombia:

Commercial Loan Portfolio

Rating	Large Company		Medium Company		Small Company		Natural People	
	Matrix A	**Matrix B**	**Matrix A**	**Matrix B**	**Matrix A**	**Matrix B**	**Matrix A**	**Matrix B**
AA	1.53%	2.19%	1.51%	4.19%	4.18%	7.52%	5.27%	8.22%
A	2.24%	3.54%	2.40%	6.32%	5.30%	8.64%	6.39%	9.41%
BB	9.55%	14.13%	11.65%	18.49%	18.56%	20.26%	18.72%	22.36%
B	12.24%	15.22%	14.64%	21.45%	22.73%	24.15%	22.00%	25.81%
CC	19.77%	23.35%	23.09%	26.70%	32.50%	33.57%	32.21%	37.01%
Default	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(Continúa)

Consumer Loan Portfolio

Rating	Matrix A			Matrix B		
	General - Vehicles	General - Other	Credit Cards	General - Vehicles	General – Other	Credit Cards
AA	0.97%	2.10%	1.58%	2.75%	3.88%	3.36%
A	3.12%	3.88%	5.35%	4.91%	5.67%	7.13%
BB	7.48%	12.68%	9.53%	16.53%	21.72%	18.57%
B	15.76%	14.16%	14.17%	24.80%	23.20%	23.21%
CC	31.01%	22.57%	17.06%	44.84%	36.40%	30.89%
Default	100.0%	100.0%	100.0%	100.00%	100.00%	100.00%

This is how the probability of migrating between a debtor's current rating and a default rating in the next twelve (12) months is obtained for each debtor-segment in the commercial and consumer loan portfolio, according to the general credit-risk performance cycle.

Loss Given Default (LGD)

Loss given default is defined as the economic loss the Bank would incur if any of the default situations were to occur. The LGD for borrowers in the “default category” would increase gradually, according to the days that transpire after their classification in that category.

Loan collateral is taken into account to calculate the losses expected in the event of default and, therefore, to determine the size of the allowances.

The Bank considers suitable collateral as that which has been duly developed, has a value established on the basis of technical and objective criteria, offers legally effective support for payment of the secured loan, and is reasonably easy to execute.

To evaluate the backing offered and the possibility of realizing each item of collateral, the Bank considers the nature, value, coverage and liquidity of the collateral, as well as the potential cost of its realization and the legal requirements necessary to make it enforceable.

The following is LGD, by type of collateral.

Commercial portfolio

Type of Collateral	LGD	Days past default	New LGD	Days past default	New LGD
Suitable collateral					
Subordinated loans	75%	270	90%	540	100%
Admissible financial collateral	0-12%	0	0%	0	0%
Commercial and residential real estate	40%	540	70%	1080	100%
Assets furnished in real estate leasing	35%	540	70%	1080	100%
Assets furnished in non-real estate leasing	45%	360	80%	720	100%
Collection rights	45%	360	80%	720	100%
Other suitable collateral	50%	360	80%	720	100%
Unsuitable collateral	55%	270	70%	540	100%
Unsecured	55%	210	80%	420	100%

Consumer portfolio

Type of Collateral	LGD	Days past default	New LGD	Days past default	New LGD
Suitable collateral					
Admissible financial collateral	0-12%	0	0%	0	0%
Commercial and residential real estate	40%	360	70%	720	100%
Assets furnished in real estate leasing	35%	360	70%	720	100%
Assets furnished in non-real estate leasing	45%	270	70%	540	100%
Collection rights	45%	360	80%	720	100%
Other suitable collateral	50%	270	70%	540	100%
Unsuitable collateral	60%	210	70%	420	100%
Unsecured	75%	30	85%	90	100%

To equate the different types of collateral furnished in loan agreements with the segments listed above, the Bank classifies them by groups, as follows.

Suitable Collateral:

The following are classified as admissible financial collateral (AFC):

- Cash collateral deposits have a LGD of 0%.
- Stand-by letters have a LGD of 0%.
- Loan insurance has a LGD of 12%.
- Sovereign guarantees (Law 617 / 2000) have a LGD of 0%.
- Collateral issued by guarantee funds that manage government resources has a LGD of 12%.
- Securities issued by financial institutions and pledged as collateral have a LGD of 12%.

✓ Commercial and residential real estate
✓ Assets furnished under a real estate lease
✓ Assets furnished under a non-real estate lease
✓ Collection rights (CR)): Collateral that affords the right to charge rent or commercial flows related to the debtor’s underlying assets.
✓ Other suitable collateral: Collateral not listed in the previous points and the collateral referred to in Law 1676/ 2013 (real estate collateral) are classified in this category.

Unsuitable Collateral: This category includes co-signers, guarantors and payment orders, among others.

Unsecured: All collateral not listed in any of the foregoing sections and all unsecured loans are classified by the bank in this category.

Therefore, each debtor will have a different LGD, based on the type of collateral. That LGD will apply to the actual percentage of coverage the collateral represents with respect to the obligation.

Inasmuch as collateral constitutes an important factor in calculating losses, the Bank's policies and criteria applicable to collateral are described below.

Policy on admitting and managing collateral

Collateral constitutes additional support the Bank requires from its customers to reduce the risks inherent in lending. Collateral is not regarded as a payment instrument.

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Requirement for Additional Collateral

- When required according to legal regulations on credit limits.
- Loans maturing in more than three (3) years preferably should have admissible collateral.
- Collateral may not be shared with any of the customer's other creditors, unless shared to the same degree with the Bank's subordinates outside the country, with its affiliates or in syndicated loans.

Formalities for constituting collateral when granting loans

- The documents whereby collateral is constituted must adhere to the instructions prepared to that effect by the Legal Department of the Bank.

- The following apply to collateral when constituted.

✓ In the case of non-residential property constituting collateral, the value at the time the collateral is furnished is that of a technical appraisal done no more than three (3) years prior.

✓ In the case of movable property such as machinery and/or equipment constituting collateral, the value is established according to its age. In other words, if the machinery in question is less than one year old, the value will be the invoiced value for three years; if it is more than one year old, it will be the professionally appraised value on the date the item is furnished as collateral.

✓ In the case of movable property such as vehicles constituting collateral, the reference values published by Fasecolda are used or, if unavailable, commercial appraisals published by the Ministry of Transport are used.

✓ As for other assets constituting collateral, the value of the collateral at the time it is furnished is the professionally appraised value.

Collateral Management

- It is the borrower's responsibility to maintain the collateral appropriately. The commercial officer assigned to the customer must verify compliance with this rule by:

  ✓ Supervising the constitution of collateral.
  ✓ Verifying the existence and validity of insurance policies.
  ✓ Verifying the existence of all required documentation and information, and making sure it is filed properly.

- The Collateral Control System facilitates this task by providing:

  ✓ Information on the expiration of insurance policies.
  ✓ Information on documents.

- The Document Management Center is responsible for the suitable custody of collateral.

Distribution of Collateral

- A loan may be backed by collateral belonging to the borrower or by collateral owned by someone other than the borrower.

- Collateral is allocated for up to one hundred percent (100%) of the outstanding balance on a loan.

Open Collateral

- When collateral covers several borrowers, priority in allocation is given to those with the highest PD.

- When several loans have the same PD, because they pertain to the same borrower, priority in allocation is given the loan with the largest outstanding balance.

- Collateral pending allocation to the loans it secures is allocated in ascending order of LGD.

- For loans with no deferred payments, the exposed balance of the loan (principal, interest, others) is sent for distribution.

- For loans with deferred payments, the exposed balance of the loan is sent once the deferred payments have been deducted.

Closed Collateral

The indicated loan is covered only up to 100% of the outstanding balance, without exceeding the value of the legal limit of the collateral.

Valuing Collateral

External Circular 043/2011 issued by the Financial Superintendence of Colombia contains instructions on the mandatory assessment of suitable collateral for loans, based on the following criteria.

- Real estate for residential use:

A professional appraisal is required to constitute collateral of this type. The appraisal shall be valid for no more than one (1) year. In the case of new property or property less than one year old that is acquired by a financial institution to enter into a lease, the value at the time the collateral is furnished is either the acquisition value of the property or the value according to a professional appraisal.

At the end of that period, the value shall be updated annually, using the following indexes:

✓ The Urban and Rural Real Estate Index (IVIUR), for real estate located in Bogotá D.C.
✓ The Property Valuation Index, for the rest of the country.

- Non-residential real estate:

A professional appraisal is required to constitute collateral of this type. In the case of new property or property less than one year old that is acquired by a financial institution to enter into a lease, the value at the time the collateral is furnished is either the acquisition value of the property or the value according to a professional appraisal. The following mechanisms shall be applied, as appropriate, to keep the value of such collateral up to date.

- ✓ For property located in Bogotá DC: The initial technical appraisal or the acquisition value, as applicable, shall be valid for one (1) year. After than time, the value must be updated annually by applying the readjustment values in the Urban and Rural Real Estate Index (IVIUR)

- ✓ For property located outside Bogotá DC: The initial technical appraisal or the acquisition value, as applicable, is valid for no more than three (3) years. After that time, a new technical appraisal is required at least every three (3) years to keep the value of the collateral up to date.

- Collateral guarantees on movable property - machinery and equipment

The instructions outlined in paragraphs i) and ii) of this section shall apply, as appropriate, when the machinery and equipment specified in the table below is furnished as collateral.

Type of asset	Useful life (years)
Software	3
Hardware	
Furniture and Fixtures	5
Domestic Electrical and Gas Appliances	
Industrial Machinery and Equipment	10

New machinery and equipment less than one year old: The purchase price shown on the respective invoice shall be used as the value of the collateral, when constituted. This amount shall be valid for one (1) year, after which it shall be updated annually, using the straight line depreciation method and in accordance with the useful life of the respective asset.

Assets more than one year old: The professionally appraised value shall be used as the value of the collateral, when constituted. It shall be valid for one (1) year, after which the value of the collateral shall be updated annually, using the straight line depreciation method and in accordance with the useful life of the respective asset.

Should the asset be subject to amendment or repowering to increase its useful life, a new professional appraisal is required to adjust the value of the collateral. This amount shall be valid for one (1) year, after which it shall be updated annually, using the straight line depreciation method and in accordance with the useful life of the respective asset.

Notwithstanding the foregoing instructions, the entity may choose to assess the collateral covered in this section by having it professionally appraised. Any such assessment shall be valid for one (1) year, after which it shall be updated annually, using the straight line depreciation method and in accordance with the useful life of the respective asset.

- Collateral guarantees on movable property - Vehicles

Vehicles classified in the Fasecolda Price Listing: The value of the respective vehicle shall be the value published in the Fasecolda Price Listing at the time the collateral is constituted and at subsequent monthly updates.

Vehicles not classified in the Fasecolda Price Listing: The Bank may use the information on commercial appraisals published by the Ministry of Transportation to determine the value of these assets. The value indicated in the respective sales invoice may be used as the initial value of the collateral and it shall be valid for three (3) months. After that period, the value shall be updated in keeping with the value listed in

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the Fasecolda Price Listing or according to the information on commercial appraisals published by the Ministry of Transportation.

- Securities used as collateral

The value of the collateral is the value supplied by a pricing service authorized by the Financial Superintendence of Colombia.

- Other assets used as collateral

The value of the collateral shall be the professionally appraised value, which shall be updated depending on the particular features of the asset.

Exposed Value of the Asset

In the case of commercial and consumer loans, the exposed value of the asset is understood as the current outstanding principal, interest, accounts receivable for interest and other accounts receivable.

- **Home Mortgages and Microcredit**

General Allowance

The general allowance corresponds to at least one percent (1%) of the total gross portfolio in the case of microcredit and mortgages.

The Bank invariably maintains allowances equal to no less than the following percentages of outstanding balances.

Category	Microcredit		Mortgage		
	Principal %	Interest and Other Items %	Secured Principal %	Unsecured Principal %	Interest and Other Items
A – Normal	1	1	1	1	1
B – Acceptable	2.2	100	3.2	100	100
C – Appreciable	20	100	10	100	100
D – Significant	50	100	20	100	100
E – Uncollectible	100	100	30	100	100

In terms of the mortgage portfolio, if a loan remains in category "E" for two (2) consecutive years, the allowance on the secured portion increases to sixty percent (60.0%). If one (1) additional year passes under these conditions, the allowance on the secured portion increases to one hundred percent (100%).

Effect of Suitable Collateral on the Constitution of Individual Allowances

For the purpose of constituting individual allowances, it is understood that a collateral guarantee secures only the principal of a loan. Therefore, the unamortized balance of loans secured with suitable collateral is provisioned according to the following percentages

- For the unsecured portion of mortgage loans, the percentage is applied to the difference between the unpaid balance and one hundred percent (100%) of the value of the collateral. For the secured portion, it is applied to one hundred percent (100%) of the balance of the secured debt.

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- For microcredit, the percentage is applied to the difference between the unpaid balance and seventy percent (70%) of the value of the collateral. In these cases, depending on the nature of the collateral and the amount of time the loan is past due, only the percentages of the total value of the collateral, as listed in the following tables, are considered for provisioning.

Non-mortgage Collateral	
Time Past Due	Percentage Secured
0 to 12 months	70%
Over 12 months to 24 months	50%
Over 24 months	0%

Mortgage Collateral or Suitable Mortgage Trust Guarantee	
Time Past Due	Percentage Secured
0 to 18 months	70%
Over 18 months to 24 months	50%
Over 24 months to 30 months	30%
Over 30 months to 36 months	15%
Over 36 months	0%

Alignment Rules

The Bank aligns the ratings of its borrowers according to the following criteria.

- Prior to establishing allowances and equating ratings, the Bank conducts a monthly internal alignment for each borrower, placing loans of the same type to the same borrower in the highest risk category.

- By law, Bank is obliged to consolidate its financial statements. Therefore, loans of the same type to the same borrower are assigned to the same risk category.

c. Recognition of Income from Yields and Financial Leases

Interest income from the loan portfolio and financial leasing is recognized when accrued.

Suspension of Accrual interest

When a loan is past due, the Bank suspends accrual of interest, monetary correction, exchange adjustments and revenue from other items, as per the following table.

Type of Loan	Arrears Over
Commercial	3 months
Consumer	2 months
Mortgage	2 months
Microcredit	1 month

Therefore, the statement of income is not affected until such amounts are actually collected. Until that time, the respective entry is made in the memorandum accounts.

Interest accrual also is suspended from the first day of default on loans for which yield accrual has been suspended in the past.

In cases where the interest recorded in memorandum accounts or balances written off, including principal, interest and other proceeds, is to be capitalized as a result of restructuring or other types of agreements, it is recorded as a deferred credit and amortized in the statement of income in proportion to the amounts actually received.

Special Rule on Allowances for Accounts Receivable (Interest, Monetary Correction, Leasing Payments, Exchange Adjustments and Other Items)

When the Bank suspends the accrual of interest, monetary correction, exchange adjustments, leasing payments and other income from these items, a full allowance is made for the total amount accrued and not collected under those headings, except in the following cases:

- No allowance is made for operations with items entered under deferred credit, as they are offset in liabilities.

- Customers classified in risk categories "C" or "D" who are subject to accrual, since it is being in arrears that activates suspension of accrual, not their classification. This even includes arrears of one day for repeater offenders.

d. Restructuring Processes

Loan restructuring is understood as any exceptional mechanism implemented through the execution of any legal transaction to alter the originally agreed conditions, in order to appropriately address the debtor's obligation prior to real or potential impairment of its ability to pay. Additionally, agreements signed within the context of Law 550 / 1999, Law 617 / 2000 and Law 1116 / 2006, or the regulations that add to or replace these statutes, are considered restructuring processes, as are extraordinary restructurings and novations.

Tax Reform Law 617/ 2000

In the case of restructuring under the tax and financial reform programs subscribed as per Law 17/ 2000, sovereign guarantees were provided for loans contracted by regional government agencies with financial institutions supervised by the Financial Superintendence of Colombia, provided they met the requirements outlined in that legislation and the respective fiscal adjustment were entered into before June 30, 2001.

The respective guarantee could be as much as forty percent (40.0%) for loans outstanding at December 31, 1999 and up to one hundred percent (100.0%) in the case of new loans used for tax adjustment purposes.

These restructurings reversed the allowances constituted for the sovereign-secured portion of the restructured debt. The restructured portion not secured by the government kept the rating it had at June 30 2001.

If the restructuring agreement is not fulfilled, the borrower is classified in the category it occupied prior to restructuring, or in a higher risk category.

Borrowers must comply fully with all the terms and conditions outlined in the restructuring agreement in order to improve their rating after restructuring.

If a regional government agency defaults on the agreement, the portion of the outstanding debt not backed by a sovereign guarantee on the date of default is reclassified in risk category ”E”.

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Restructuring Agreements

In the case of loans that were restructured before Law 550/1999 took effect, the Bank suspended interest accrual on the outstanding balance at the onset of restructuring negotiations and maintained the rating assigned to the loan at that particular point in time. However, a customer in risk category “A” was reclassified to at least category “B” and an allowance equal to one hundred percent (100.0%) was established.

When a customer is admitted to the restructuring process under the terms of Law 1116/ 2006, the Bank suspends interest accrual and classifies the customer in a risk category consistent with its situation at the time. If the customer’s situation subsequently worsens or the proposed agreement is perceived as not meeting the Bank’s expectations, the rating is reviewed and the debt is reclassified in the pertinent risk category. If no agreement is reached, or if the courts order a legal settlement, the client is classified as being “in default”.

Restructured loans may keep the rating they had immediately prior to restructuring, provided the restructuring agreement leads to an improvement in the borrower’s ability to pay and/or reduces the likelihood of default. If restructuring contemplates grace periods for the repayment of principal, that rating is maintained only when those periods do not extend beyond one (1) year as of the date the agreement is signed.

Loan ratings may improve or the “default” condition may be changed once loans have been restructured, but only if the borrower demonstrates a pattern indicative of regular and effective repayment of principal, pursuant to normal credit behavior, and provided the borrower maintains or improves its ability to pay.

e. Write-offs

A loan that is fully-provisioned (100%) may be written off when the Bank’s management believes it is uncollectable or offers only a remote and uncertain possibility of recovery, provided that agencies specializing in debt collection through the courts and the bank´s legal counsel are of the opinion that all possible means of collection have been exhausted.

Write-offs do not exempt the officers in charge of loan management from continuing with procedures to collect on the loan.

The Board of Directors is the only body with the authority to write-off loans that are unlikely to be recovered.

2.11 Leased Assets

a. Assets Delivered on Lease

Assets the Bank delivers on lease imply arrangements that are classified as a financial lease or an operating lease. This classification is determined when the lease agreement is signed. A lease is classified as a financial lease when all the advantages and risks inherent in the property are substantially transferred; otherwise it is classified as an operating lease. Agreements classified as financial leases are included on the balance sheet under "Loan Portfolio and Financial Leasing Operations" and are recorded in the same way as all other loans granted by the Bank. Agreements classified as operating leases are included in the account for “Property, Plant and Equipment” and are recorded and depreciated in the same way as these kinds of assets.

b. Assets Received on Lease

Assets received under a financial lease in which all risks and benefits inherent in ownership of the leased asset are transferred substantially are recorded at the onset of the lease, they are included in the balance sheet as own-use property, plant and equipment or as investment property, according to their objective, and are entered initially and simultaneously on the books under assets and liabilities for a value equal to the fair value of the asset received on lease or the present value of the minimum lease payments, whichever is lower.

The present value of minimum lease payments is established by using the interest rate implicit in the lease agreement. If it does not contain a rate, the average interest rate on the bonds the Bank markets is used. Any initial direct cost incurred by the lessee is added to the amount recognized as an asset. The value recorded as a liability is included in the financial liabilities account and is recorded the same way as financial liabilities.

The accrual fees on operating leases are recorded on a linear basis under income and during the term of the lease.

2.12 Non-current Assets Held for Sale

Assets the Bank intends to sell, since they are expected to be recovered mainly through sales rather than through continued use, and their sale is considered highly probable within a term not exceeding one year, are recorded as "Non-current assets held for sale ". These assets are recorded at their book value at the time of their transfer to this account or at their fair value, less estimated sales costs, whichever is lower, and the difference between the two is recognized in the income statement.

If such assets are not sold after one year, they are reclassified to the categories where they originated (investment property, property, plant and equipment, other assets, etc.), unless the deadline for completion of the sale is extended. This can occur under certain situations that are beyond the entity's control and when there is sufficient evidence to maintain the commitment to the sale plan

The Bank does not depreciate (or amortize) non-current assets as long as they are classified as held for sale or as long as they are part of a group of assets for disposal that are classified as held for sale, and as long as interest and expenses attributable to the liabilities of a group of assets for disposal that have been classified as held for sale continue to be recognized.

Impairment losses due to initial or subsequent reductions in the value of the asset (or a group of assets for disposal) are recognized by the Bank, in the income statement, up to the fair value, less the sale costs.

The Bank recognizes gains from any subsequent increase derived from measurement at fair value, minus the costs to sell an asset, but without exceeding the accumulated impairment loss that might have been recognized.

a. Foreclosed Assets

The value of assets received by the Bank through foreclosures on outstanding loans in its favor is registered in this account.

Foreclosed real estate is accepted on the basis of a professional commercial appraisal. Movable assets, shares of stock and equities are accepted at their market value.

The following are the conditions for recording assets received through foreclosure:

The initial entry is based on the value decided by the courts or agreed on with the debtors, taking into account the fair value of the foreclosed asset. The resulting differences are recorded as an expense changed to the statement of income or as an account payable to the debtor, as applicable.

Once a foreclosed asset is received and the debtor's balances are adjusted, the asset in question is analyzed to determine how it will be classified for accounting purposes. Its classification in the appropriate asset category will depend on the intent or specific use the Bank has for the asset and the criteria established in the International Financial Reporting Standards adopted in Colombia.

Also, regardless of the accounting classification that is determined for the asset (whether in portfolio, investments, investment properties, non-current assets held for sale and other assets), the foreclosed allowance is calculated as instructed by the Financial Superintendence of Colombia by applying Chapter III of the Basic Accounting and Financial Circular which indicates the purpose of said allowance is not to impair the value of the asset but to prevent risk and to preserve the Bank's equity, as described below.

Allowances for Foreclosures

- **Real Estate**

Allowances are constituted using the model developed by the Bank and approved by the Financial Superintendence of Colombia. The model estimates the maximum loss expected on the sale of foreclosed real estate, according to the history of recoveries on assets sold and including expenses incurred in the receipt, upkeep and sale of such properties, which are grouped into common categories to estimate the base allowance rate. This rate is adjusted by a factor that takes into account the time transpired between receipt of the asset and until eight percent (80%) of the allowance is achieved within a maximum period of forty-eight (48) months.

However, in the event an extension is not requested prior to expiration of the deadline for disposal of the property, or if an extension is not granted, the Bank must constitute an additional allowance of up to 80% of the value of the foreclosed asset. This is done pursuant to its internal models and once two (2) years have passed.

- **Movable Assets**

In the case of foreclosed movables, an allowance is established within the year following receipt of the item. It estimates the maximum expected loss on the sale of goods received in foreclosure and is equivalent to 35% of the acquisition cost of the foreclosed item. The allowance is increased during the second year by an additional 35%, until it is equivalent to 70% of the book value of the foreclosed item, prior to provisioning. Once the legal deadline for the sale has expired, without an extension being authorized, the allowance is adjusted to 100% of the book value of the foreclosed item, before provisioning. If the deadline is extended, the remaining 30% of the allowance may be constituted within the term thereof. "

Notwithstanding the aforementioned rules on provisioning, foreclosed movable assets that pertain to investment securities are valued by applying the criteria contemplated to that effect in Chapter I-1 of the Basic Accounting and Financial Circular, taking into account their classification as investments held for trading, available for sale or held to maturity.

The allowance made for foreclosed assets or those returned in financial leasing operations is reversed when the assets are sold for cash. If they are sold on credit, placed in the portfolio or made a part of financial leasing operations, the profits that are generated are deferred within the period agreed on for the transaction.

b. Rules on the Legal Deadline for Sale

According to the Organic Law of the Financial System, assets received in lieu of payment are to be sold within two (2) years following the date of their receipt

The Bank may ask the Financial Superintendence of Colombia to extend the deadline for the disposal of foreclosed assets. However, regardless of the situation, the respective request must be submitted before the legal deadline expires. It also must demonstrate it has been impossible to sell the asset, despite diligent efforts to that effect. In any case, the deadline may not be extended for more than two (2) years as of the date the initial deadline was set to expire. During the extension period, efforts to dispose of such nonperforming assets must continue.

2.13 Investment Properties

According to International Accounting Standard (IAS) 40, investment properties are defined as land or buildings, considered all or in part, the Bank owns to obtain rent, asset valuation or both, as opposed to owning them for its own use.

Investment properties are initially measured at cost. This includes their purchase price, including import costs and non-deductible taxes, less commercial discounts and any cost directly attributable to bringing the asset to the location and the necessary conditions for its appropriate operation provided by management.

Some assets might have been acquired in exchange for one or more non-monetary assets, in which case the cost of that asset will be measured at its fair value, unless the exchange transaction is not commercial in nature and / or the fair value of the asset received or delivered cannot be measured reliably.

As a policy, the Group chose the fair value model for subsequent measurement, in accordance with the parameters outlined in IFRS 13. Fair value is measured through technical appraisals, and gains or losses arising from changes in fair value are included in earnings for the period when they arise.

2.14 Property, Plant and Equipment

Assets held by the Bank for its use, to supply goods and services or for administrative purposes and which it expects to use for more than one period are recognized as property, plant and equipment.

Property, plant and equipment are initially measured initially at cost, which includes:

• Their purchase price, including import costs and non-recoverable indirect taxes, after deducting commercial discounts;

• Any cost directly attributable to bringing the asset to the location and placing it in the condition necessary for its correct and proper operation;

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• The initial estimate of the cost of dismantling and removing the element, as well as rehabilitation of the site where it is placed; and

• Borrowing costs: Costs related to a qualifying asset, which is one that necessarily requires a substantial period before it is ready to be used as intended or to be sold, are capitalized and, in the other cases, they are recognized in earnings for the period.

The Bank chose, as its accounting policy, the cost model for subsequently measuring assets classified as property, plant and equipment. It includes the cost of such assets, less accumulated appreciation and the accumulated value of impairment losses.

The Bank depreciates by components, the assets that have significant cost and different useful lives in relation to the total cost of the element. This is done as follows

	Components / Incidence		
Type of building	**# 1**	**# 2**	**# 3**
	Foundations – structure and roof	**Walls and Divisions**	**Finishing**
Commercial buildings Commercial premises Office buildings	30%	18%	52%
Warehouses	44%	23%	33%

Depreciation is calculated by the straight-line method on the acquisition cost of assets, less their residual value. It is understood that the land on which buildings and other constructions are erected has an indefinite useful life and, therefore, is not subject to depreciation. Depreciation is charged to income and it is calculated based on useful life, as follows.

Account	**Useful life**
Buildings:	
Foundations - structure and roof	50 to 70 years
Walls and divisions	20 to 30 years
Finishing	10 to 20 years
Equipment and machinery	Between 10 and 25 years
PC / Laptops / Mobile Devices	3 to 7 years
Servers	3 to 5 years
Communications	5 to 8 years
Specific amplification equipment	5 to 7 years
ATMs	5 to 10 years
Medium and high-capacity equipment: electrical plant > to 40 KW / UPS > to 30 kVA / Air Conditioning > to 15 T.R.	10 to 12 years
Electrical generator/UPS/Air conditioning in buildings	5 to 10 years
Furniture and fixtures	3 to 10 years
Vehicles	5 to 10 years

The useful life and residual value of these assets are based on independent appraisals, primarily in the case of buildings, or on the opinions of other specialized personnel, and are revised at least at the close of each accounting period.

Expenses for the maintenance and upkeep of property and equipment are recognized as an expense in the period when they are incurred, and are recorded under "Management Costs".

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Derecognition

The book value of an item of property, plant and equipment is derecognized when no further associated future economic benefits are expected. The profits or losses from derecognition are recorded in the statement of income.

Impairment of Property, Plant and Equipment

When closing out each six-month period, the Bank analyzes whether there are any internal or external indications that a material asset is impaired. If there is evidence of impairment, it analyzes whether or not the impairment actually exists. This is done by comparing the net value of the asset on the books to its recoverable amount (fair value less the costs of owning the asset and its value in use, whichever is greater). When the book value exceeds the recoverable amount, it is adjusted to the recoverable amount by modifying future depreciation charges to bring them in line with the remaining useful life of the asset.

Moreover, when there are indications the value of a material asset has been recovered, the Bank estimates the recoverable amount of the asset and records it in the statement of income for the period, reversing the impairment losses recorded in previous periods and, consequently, adjusting future charges for its amortization. In no case may the reversal of an asset's loss from impairment assume an increase in its book value above what it would have had if impairment losses had not been recorded in previous periods.

2.15 Goodwill

Goodwill represents the price paid in excess of the fair value of the assets and liabilities acquired in a business combination (with some exceptions, where the book value is used). Goodwill is considered to have an indefinite useful life and is not amortized; however, it is subject an annual assessment for impairment. In cases where there are indications that some of the cash-generating units to which goodwill was allocated might be impaired, the Bank conducts an assessment, through an independent expert, and uses that appraisal to determine if any impairment exists. If so, it is recorded against income. Once an impairment loss is recognized, it is not reversed in subsequent periods.

In the annual impairment test, the cash flow valuation method is used for each of the investments that generated the effects of goodwill. If the net present value of discounted future cash flows is less than their carrying amount, impairment is recorded.

2.16 Other Intangibles Assets

Bank's intangible assets are non-monetary assets without physical substance. They arise as a result of a legal transaction or are developed internally. Their cost can be estimated reliably, and it is considered probable that future economic benefits will flow to the Bank from these assets

Intangible assets consist primarily of computer programs, which are measured initially by the cost incurred in their acquisition or the cost of their internal development phase. Costs incurred in the research phase are taken directly to income. Following their initial recognition, these assets are amortized during their estimated useful life, which is up to 10 years for computer programs. This estimate is based on technical concepts and the Bank's experience.

Licenses are defined as an asset with a finite useful life, which is amortized during its useful life. This amortization is recorded on a straight line basis, according to the estimated useful life of the asset. Licenses are amortized in a period of up to 5 years.

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At the close of each accounting period, the Bank analyzes whether there are external and internal indications of impairment, and in such cases, the accounting policy on property, plant and equipment is followed to determine if recognition of impairment loss applies. Any impairment losses or subsequent reversals are recognized in earnings for the year.

2.17 Financial Guarantees

An agreement that obliges the issuer to make specific payments to reimburse the creditor for losses incurred when a specific borrower fails to meet its payment obligation according to the terms - original or modified - of a debt instrument, irrespective of its legal structure, is regarded as a “financial guarantee”. A financial guarantee can take various forms, such as bonds or financial surety, among others.

In its initial recognition, a financial guarantee is recognized as a liability at fair value. Generally, fair value is the actual value of commissions and yields to be earned over the life of such agreements. The balancing entry in assets is the amount of assimilated commissions and returns charged at the start-up of the operations and the accounts receivable for the actual value of the future cash flows pending receipt.

A financial guarantee, irrespective of the guarantor, instrument or other circumstances, is analyzed regularly to determine the credit risk to which it is exposed and, if necessary, to estimate the need to constitute an allowance for it. Any such allowance is determined by applying criteria similar to those used to quantify impairment losses on financial assets.

Allowances constituted for financial guarantee agreements that are considered impaired are reported under liabilities as "Allowances - Allowances for Contingent Risks and Commitments" and charged to earnings for the period.

Income from guarantee instruments is reported in the “Income from Commissions” account in the statement of earnings for the period, and is calculated by applying the rate established in the respective contract to the nominal amount of the guarantee.

2.18 Financial Liabilites

A financial liability is any contractual obligation assumed by the Bank to deliver cash or another financial asset to another person or entity, or to exchange financial assets or financial liabilities of the entity.

Financial liabilities are recognized and measured at their amortized cost, provided they pertain to the typical deposit-taking activities of financial institutions. Derivatives are an exception and are measured at fair value, based on evidence supporting compliance with the applicable requirements in IFRS 9.

Amortized cost is understood as the acquisition cost of a financial liability adjusted (plus or minus, as the case may be) to repayments of principal and the portion systematically recognized in the income statement as the difference between the initial cost and the respective redemption value at maturity.

The amortized cost of financial liabilities, checking accounts, savings accounts, fixed-term certificates of deposits, bonds issued, in domestic currency denominated bonds and borrowing is determined on the basis of the face value of the obligation, including expenses incurred to pay for interest.

With financial liabilities pertaining to outstanding investment securities and bonds in foreign currency (Note 21.3), the transaction costs in financial liabilities that classify as incremental costs are recognized as

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a liability deduction, and the interest rate in effect is recalculated. On that basis, the respective financial expenditures are recorded in earnings for the period, except in instances where they have been designated as hedging instruments, in which case the respective accounting policy is applied. Financial liabilities are derecognized from the statement of financial position only when the obligations they generate have been extinguished.

2.19 Employee Benefits

The Bank provides the following benefits to its employees as compensation for the services they render

a. Short- term benefits

These are benefits the Bank expects to settle fully during the twelve months following the end of the reporting period in question. According to Colombian labor law and the Bank's labor agreements, these benefits include severance pay, interest on severance pay, vacation pay, vacation bonuses, legal and discretionary bonuses, assistance and contributions to social security and the payroll taxes paid to government agencies. These benefits are measured at their face value. They accumulate through accrual accounting and are charged to the statement of income.

b. Post- employment benefits

These are benefits the Bank pays to its employees upon retirement or completion of their period of employment. They are different from dismissal compensation and involve retirement pensions and severance pay assumed directly by the Bank for employees who are covered by the labor laws that were in effect prior to Law 100/1993. They also include the bonuses paid to employees when they leave the Bank due to retirement.

The liability for post-employment benefits in defined contribution plans (payment of the Bank's contributions to pension funds) is measured on an undiscounted basis and is recorded by the accrual system charged to income. Plans for defined contributions do not require the use of actuarial assumptions to measure the liability or expense and, therefore, do not generate actuarial gains or losses.

The liability for post-employment benefits related to severance pay and retirement bonuses is determined based on the present value of the estimated future payments to be made to employees. These payments are calculated based on actuarial studies prepared via the projected unit credit method, using assumptions of mortality rates, salary increases, staff turnover and certain interest rates determined on the basis of income from current bond market yields at the end of the period on sovereign bonds or highly-rated corporate bonds. With the projected unit credit method, the future benefits to be paid to employees are assigned to each accounting period in which the employee renders service. Therefore, the expense for these benefits is recorded in the Bank's income statement and includes the present cost assigned to the service in the actuarial calculation, plus the financial cost of the calculated liability.

Changes in the liability for post-employment benefits, due to changes in actuarial assumptions, are recorded in equity under other comprehensive income (OCI).

According to the exception outlined in Decree 2496/ 2015, the parameters established in Decree 2783/2001, which is detailed below, will be used to determine the liability for this post-employment benefit, since they constitute a better approximation to the market.

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- Explicitly incorporate future wage and pension increases, using for that purpose a rate equal to the average rate of inflation recorded by the National Bureau of Statistics (DANE – Spanish Acronym) for the last ten (10) years, calculated at January 1 of the tax year in which the estimate is to be made.

- A real technical interest rate equivalent to the average fixed-term deposit rate (DTF – Spanish Acronym) registered by Banco de la República (the Central Bank of Colombia) for the last ten (10) years, calculated at January 1 of the tax year in which the estimate is to be made.

- The anticipated increase in income must be considered at the start of the second half of the first year in the case of active and retired employees.

c. Other Long-term Benefits

Other long-term benefits include all employee benefits other than short-term employee benefits, post-employment benefits and employee work contract termination benefits. According to the collective bargain agreements and the labor pacts signed by the Bank, these benefits fundamentally pertain to seniority bonuses.

Liabilities for long-term employee benefits are determined in the same way as the post-employment severance and retirement bonuses benefits described above in paragraph b. The only difference is that changes in actuarial liability due to changes in the actuarial assumptions are also registered in the statement of income.

d. Work Contract Termination Benefits

Work contract termination benefits are the payments the Bank is required to make when it decides, unilaterally, to terminate an employee's contract or when an employee decides to accept an offer from the Bank in exchange for terminating his or her work contract. These benefits correspond to the number of days of severance pay required under Colombian law, plus other additional days the Bank unilaterally decides to grant its employees in such cases.

Termination benefits are recorded as a liability charged to income on the following dates, whichever comes first.

- Upon formal notice to the employee of the Bank's decision to terminate the contract.

- When allowances for restructuring costs that involve employment termination benefits are recognized

Therefore, if work-contract termination benefits are expected to be settled fully during twelve months after the reporting period in question, the Bank applies the requirements of the policy on short-term employee benefits. However, if work contract termination benefits are not expected to be settled fully within twelve months after the reporting period in question, the Bank applies the requirements of the policy on other long-term benefits for employees.

2.20 Taxes

a. Income taxes

The income tax expense includes current tax, the so-called Income Tax for Equity (CREE) and deferred taxes. It is recognized in the income statement, except the portion that pertains to items recognized as "Other Comprehensive Income" (OCI).

The details of the policy adopted for each of these items are explained below.

b. Current Tax and CREE

Regular income tax includes taxes that are expected to be paid or charged to taxable income or loss for the year, and any adjustment related to previous years. It is measured using the approved tax rates in effect, or those about to be approved as of the date of the balance sheet. Regular income tax also includes any tax on dividends.

Law 1607 / 2012 in Colombia is created the so-called Income Tax for Equality (CREE). It is levied on income that is obtained and likely to increase equity. It does not include windfall profits or non-taxable income and is calculated according to the tax rates that have been approved.

Law 1819 passed on December 29, 2016 provides for a structural tax reform that repeals the articles in Law 1607/2012 pertaining to the Income Tax for Equity (CREE). Accordingly, CREE will apply only up until the year 2016. Likewise, the general income tax rate was changed from 25% to 34% for 2017 and to 33% as of 2018, and an income and complementary tax surcharge was created for the years 2017 and 2018, with respective rates of 6% and 4%.

c. Deferred Taxes

Deferred taxes are recognized on temporary differences that arise between the tax base for assets and liabilities and the amounts recorded in the financial statements. These differences result in amounts that are deductible or taxable when determining fiscal gains or losses in future periods, either when the asset's carrying value is recovered or the liability is settled. Nonetheless, deferred tax liabilities are not recorded: i) if they stem from initial recognition of goodwill; ii) if they arise from initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction does not affect accounting or tax gains or losses; and iii) on investments in subsidiaries, associates or joint ventures when the opportunity to reverse temporary differences is controlled by the Bank and it is not likely they will be reversed in the foreseeable future.

Deferred tax assets are recognized only to the extent that the entity is likely to have future taxable income against which deductible temporary differences can be applied.

Deferred tax assets and liabilities are offset when there is a legal right to offset current deferred tax assets against current tax liabilities and when the deferred tax asset and liability are for income taxed levied by the same tax authority on the same entity or on different entities when there is an intention to offset the balances on a net basis.

d. Wealth Tax

Law 1739, which was enacted by the Colombian government in December 2014, created a wealth tax payable by all entities in Colombia with more than 1 billion in net worth. For accounting purposes in Colombia, the law stipulates this tax is incurred annually from January 1, 2015 to 2018 and may be charged to the equity reserves in the equity account. The Bank chose to apply this exception and registered the wealth tax incurred as chargeable to its equity reserves at January 1 of each year.

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2.21 Provisions and Contingencies

a. Provisions

Provisions are liabilities of uncertain amount or duration. They are recognized in the statement of financial position if:

- The Bank has an existing obligation (legal or implicit) that is the result of a past event;
- It is likely the obligation will have to be settled with resources that embody economic benefits; or
- The bank can make a reliable estimate of the amount of the obligation

The amount recognized as a provision is determined at the end of the reporting period, by the best estimate and based on what is reported. In cases where sale or disposal is expected in the long run, the present value is discounted as long as the discount is significant and the cost of providing this estimate does not outweigh its benefits.

A provision may be used only to cover the expenditure for which it was recognized originally. If the entity has an onerous contract, current obligations arising thereof must be recognized and measured in the financial statements as provision.

Provisions are updated regularly, at least at the end of each period, and are adjusted to reflect the best estimate available at the time. The updating of an provision to reflect the passing of time is recognized in income for the period as a financial expense. In the event an outflow of resources to settle the obligation is no longer probable, the provision is reversed and the contingent liability is disclosed, as appropriate. If there is any change in the estimates, it is accounted for prospectively as a change in the accounting estimate, as per IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors"

b. Contingent Liabilities

A contingent liability is a potential obligation that is based on past events and may be incurred depending on the outcome of one or more future events that are beyond the control of the Bank. Contingent liabilities are entered on the books and are recognized as allowances to the extent that they become probable obligations.

c. Contingent Assets

Assets of a possible nature, arising out of past events, the existence of which is to be confirmed only by the occurrence or by the non-occurrence of one or more uncertain events in the future that are not entirely within the control of the Bank, are not recognized in the statement of financial position. Instead, they are disclosed as contingent assets when their occurrence is probable. When the contingent event is certain, the asset and the associated income are recognized in earnings for the period.

2.22 Income

Income is measured by the fair value of the compensation received or receivable. It represents amounts to be collected for goods or services provided, net of discounts, returns and the value added tax. The Bank recognizes income when its amount can be measured reliably, when it is probable that future economic benefits will flow to the entity, and when the specific criteria for the Bank's activities have been met.

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a. Provision of services

Income from services is recognized at the moment when it can be estimated reliably, considering the extent to which the service being provided is completed.

Income from ordinary activities is recognized in the accounting periods during which the service is provided. When services are provided through an undetermined number of acts over a specified period of time, revenue from ordinary activities is recognized in a linear fashion over the agreed time period.

b. Customer Loyalty Programs

The Bank operates a loyalty plan that includes a number of programs such as Best Classic and Gold Points, Platinum, Movistar and Andres Carne de Res, among others. Customers accumulate points for purchases made and can redeem them for prizes, pursuant to the policies and prize plan in effect at the date of redemption. The award points are recognized as an identifiable component separate from the initial sale transaction, with the fair value of the benefit received between the award points and the other components of the sale being assigned in such a way that the loyalty points are recognized initially as deferred income at fair value. Income from award points is recognized in earnings for the period when they are exchanged.

c. Income from Commissions

Commissions are recorded as income in earnings for the period, as follows:

- Commissions for banking services, when the respective services are provided.
- Credit card commissions are recorded and amortized on a straight-line basis during the period to which they pertain.

d. Income from Interest and Dividends

Interest income and dividends are recognized on the following basis:

• Interest is recognized using the effective interest rate method.

• Dividends are recognized when the Bank's right to receive them is established, and only for those shares where it has no control or significant influence.

e. Other Income

Income not included in the aforementioned categories is recognized by the Bank, in the statement of earnings for the period, when the definition of income is met, as described in the Framework for Financial Information.

2.23 Net Earnings per Share

Earnings per share are calculated by dividing the net profit or loss attributable to the Bank's shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are determined the same way as net profit, but the weighted average number of shares outstanding is adjusted to account for the dilutive potential, when appliable.

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Note 3 - Use of Accounting Judgments and Estimates with a Significant Impact on the Financial Statements

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements and the book value of assets and liabilities in the next accounting period. These judgments and estimates are evaluated continuously and are based on the Bank's experience as well as other factors, including the expectation of future events that are believed to be reasonable.

In the process of applying its accounting policies, the Bank also makes certain judgments apart from those involving estimates. The following are the ones with the most significant impact on the amounts recognized in the financial statements and the estimates that can prompt a major adjustment in the book value of assets and liabilities in the coming year:

3.1 Deconsolidation (Loss of Control) of Subsidiaries

To determine the accounting policy applicable to loss of control, the Bank recognizes that IFRS 10 establishes specific accounting treatment, without excluding transactions between entities under common control. The accounting policy was set up in accordance with the requirements stipulated in IAS 8, so as to provide reliable and relevant financial information.

3.2 Business Model

In Chapter I-1 of its Basic Accounting and Financial Circular, the Financial Superintendence of Colombia determined that investments would be classified according to the business model established by the Bank. Therefore, when making an assessment as to whether or not the objective of a business model is to hold assets in order to collect contractual cash flows, the Bank considers at what level of its commercial activities that assessment should be made. Generally speaking, a business model is something that can be illustrated by the way the business is managed and the information that is provided to management. However, in some circumstances, more judgment may be required to determine whether a particular activity involves a business model with certain infrequent sales of assets or if the anticipated sales indicate there are two separate business models.

The Bank takes the following into consideration when determining if its business model for financial asset management is to maintain assets to collect contractual cash flows.

- The policies and procedures indicated for the loan portfolio, by management, and how those policies operate in practice.
- How management assesses loan performance.
- Whether or not the management strategy is focused on obtaining income from contract interest.
- The frequency of any expected sale of assets.
- The reason for any sale of assets.
- If the assets for sale are held for a prolonged period in relation to their contract maturity, or if they are sold shortly after being acquired or far in advance of their maturity.

Specifically, the Bank uses its judgment to determine the objective of the business model for loans that are held for liquidity purposes.

Its central treasury maintains some debt instruments in a separate loan portfolio to obtain a long-term yield and as a liquidity reserve. These instruments may be sold to resolve unexpected liquidity deficits, but

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such sales are not expected to be more frequent. The Bank considers these instruments as part of a business model that is intended to hold assets to collect contractual cash flows. It maintains other debt instruments in separate loan portfolios for the purpose of managing short-term liquidity. Sales of this portfolio are frequent in order to satisfy continuous commercial needs. The Bank has determined these instruments are not maintained within a business model bent on maintaining assets to collect contractual cash flows.

When a business model involves transferring the contract rights to cash flows from financial assets to third parties and the transferred assets are not derecognized, the Bank reviews the agreements in order to determine their impact when assessing the objective of the business model.

In this assessment, the Bank considers whether or not, under the agreements, it will continue to receive cash flows from the assets, either directly from the issuer or indirectly form the receiver, including whether or not the assets will be repurchased from the receiver.

In the case of contractual cash flows from financial assets, the Bank uses its judgment to determine if the contract terms of the financial assets it generates or acquires lead to cash flows on specific dates that represent only payment of principal and interest on outstanding principal and that qualify for measurement at amortized cost. In this assessment, the Bank takes all the contract terms into account, including any pre-payment term or allowances in order to extend the maturity of the assets. It also considers the terms that change the amount and timing of the cash flows, and whether or not the contract terms contain leveraging.

In cases where the Bank’s rights to financial assets are limited to specific assets of the debtor (non-recourse assets), the Bank evaluates whether the contract terms of those financial assets limit cash flows in a way that is inconsistent with the payments that represent principal and interest. When the Bank invests in contractually linked instruments (tranches), it uses its judgment to determine if the exposure to credit risk in the acquired tranche is equal to or less than the exposure to credit risk in the respective group of financial instruments. If so, the acquired tranche would qualify to be measured at amortized cost.

3.3 Financial Asset Impairment:

a. Impairment (Allowances) on Loan Portfolio

Pursuant to the standards set by the Financial Superintendence of Colombia, the Bank regularly reviews its portfolio of loans and financial leases to assess whether or not impairment should be recorded and charged to income for the period. This is done in light of the guidelines established in Chapter II of the Basic Accounting and Financial Circular. In the case of commercial loans and commercial leases, the Bank exercises its judgement to decide their credit risk rating in accordance with the borrower’s ability to pay, which is evaluated based on the borrower’s financial statements and the fair value of the collateral granted. The idea is to determine if there is observable information that indicates a decline in the customer's estimated cash flow. When granting consumer loans and consumer leases, the Bank uses internal scoring models that assign a rating dependent on the risk level. The rating is subsequently adjusted, basically taking into account the historical performance of these loans, the collateral that supports them, the debtor's performance with other entities and the debtor’s financial information. The risk rating for the mortgage portfolio is based essentially on the number of days the customer is in arrears.

Once the various loan portfolios are rated according to their level of risk, the respective allowances are calculated using the percentages in the allowance tables established specifically for each type of loan by the Financial Superintendence of Colombia. These percentages also are indicated in Note 3, Section 3.10, Paragraph g - “Loan Portfolio and Financial Leasing Operations”.

In addition, as instructed by the Financial Superintendence of Colombia, the Bank establishes a general allowance for home mortgages and microcredit that is equal to 1% of the total portfolio, charged to earnings.

The Bank believes the loan portfolio allowances at December 31 and June 30 2016 are sufficient to cover any possible losses on its portfolio of loans that are outstanding on those dates.

b. Impairment (Allowance) on Investment:

In the case of Impairment (allowances) for its investments, the Bank makes a judgement based on financial information about the issuers, a review of their credit quality and other macroeconomic variables, then issues an internal rating. This qualification is revised in light of the one issued by the agencies that have rated the investment. When there is a likelihood of impairment, the allowance to be made (for impairment) is estimated as provided for in Chapter I-1 of the Basic Accounting and Financial Circular, according to the percentages indicated in Note 2, Section 2.9, Paragraph a - "Financial Instruments - Financial Assets for Investment".

3.4 Fair Value of Financial Derivatives

Information on the fair values of Level-2 financial instruments, apart from the quoted prices included in Level 1, which are directly or indirectly observable for assets or liabilities, are disclosed in Note 5.

Determining fair value and valuing financial instruments. These values are determined according to the three levels in the fair-value hierarchy, which reflect the importance of the input used in this measurement.

The Bank defines “observable” data as market information that is available already, regularly updated or distributed, verifiable, and reflects the assumptions market players would use to set the price of the asset or liability in question.

3.5 Deferred Income Tax

The Bank evaluates the possibility of realizing deferred income tax assets over time. These represent income taxes that can be recovered through future deductions from taxable gains, and are recorded in the statement of financial position. Deferred income tax assets are recoverable to the extent that it is possible to take advantage of the relative tax benefits. Future tax income and the amount of tax benefits that are probable in the future are based on mid-term plans prepared by management. The business plan is founded on management’s expectations, which are believed to be reasonable under the circumstances.

The Bank estimates the deferred income tax assets registered at December 31 and June 30, 2016 would be recoverable, given the estimates of future taxable income. Deferred tax liabilities are recognized on the temporary differences associated with the undistributed profits of the subsidiaries, unless the Bank controls the dividend policy of the subsidiary and it is likely the temporary difference will not be reversed in the foreseeable future. See Note 18.

3.6 Assessment of Impairment of Cash-generating Units with Allocated Goodwill

The Bank's management assesses impairment of the groups of cash-generating units to which the goodwill registered in its financial statements has been allocated and when there are signs that some of these groups might be impaired. This assessment is done for the year ended at November 30 and is founded on studies conducted to that effect by independent experts who are hired for that purpose.

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Developed in accordance with IAS 36 - *Impairment of Assets*, these studies are based on valuations of the groups of cash-generating units that have been assigned the respective goodwill in their acquisition. This is done by the discounted cash flow method, taking into account factors such as the economic situation of the country and the sector where the Bank operates, historical financial information, forecasts for growth in income and costs over the next five years and, later, growth in perpetuity, considering their profit capitalization rates, discounted at risk-free interest rates that are adjusted by the risk premiums required in light of each company's circumstances.

The methods and assumptions used to assess the value of the cash-generating units to which goodwill is allocated were reviewed by management. Based on that review, management concluded there was no need to record any impairment at December 31 and June 30, 2016, since the amounts recoverable from these units are significantly higher than their book value.

3.7 Estimates for Lawsuits

The Bank estimates and records an allowance for legal cases. The idea, in this respect, is to be able to cover possible losses in suits involving labor, civil, mercantile, tax or other disputes. This estimate is based on management's opinion, supported by the opinions of outside legal advisors, when warranted by the situation and when losses are considered probable and can be quantified reasonably. Due to the nature of these claims, lawsuits and/or processes, it is impossible, in some cases, to make an accurate prediction. Therefore, any differences between the amounts actually disbursed and the initial estimates and allowances are recognized in the period when they are identified.

3.8 Employee Benefits

Post-employment benefits (severance pay and retirement bonuses) and other long-term obligations (seniority bonuses) are measured in accordance with the requirements of IAS 19 – "Employee Benefits". This measurement depends on a wide variety of long-term premises and assumptions that are based on actuarial findings, including estimates of the present value of projected future payments of employee benefits, considering the likelihood of potential future events, such as increases in the minimum wage and demographic experience. These premises and assumptions can have an effect on the amount and on future contributions, if there is any variation.

The discount rate makes it possible to determine future cash flows at present value on the date of measurement. The Bank establishes a long-term rate that represents the market rate on fixed-income investments, or the rate on government bonds that are denominated in the currency in which the benefit will be paid, and considers the timing and amounts of future employee-benefit payments. In this case, it has selected the rate on government bonds.

According to Decree 2496/ 2015, the market parameters established in Decree 2783/ 2001 will be used as the best approximation to the market so as to determine the liability for this post-employment benefit.

Changes in post-employment benefit liabilities due to changes in actuarial assumptions are recorded under equity in the account for other comprehensive income (OCI)

<u>Note 4 - New Pronouncements on Accounting</u>

The Bank actively analyzes developments with respect to the standards adopted by regulatory agencies in Colombia and by the International Accounting Standards Board (IASB), as well as any amendments to those standards. The new pronouncements that have been issued in that respect, but have yet to be applied because they are still not in force, are summarized as follows. They are in the process of being

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assessed and their application is not expected to have a major impact on the Bank's separate financial statements.

4.1 Pronouncements Issued by Supervisory Organism and Accounting Regulations in Colombia

- **The Ministries of Commerce, Industry and Tourism and Finance and Public Credit**

a) Decree 2496 Issued in December 2015

Decree 2420/2015, which is the single regulatory decree on accounting standards, financial information and information assurance was amended through Decree 2496, thereby incorporating into Colombian law the amendments to the International Financial Reporting Standards that were issued during 2014 In Colombia, these amendments will apply as of January 1, 2017, with the exception of IFRS15- Income from Ordinary Activities in Contracts with Customers, which will be applicable as of January 1, 2018, and the Conceptual Framework for Financial Information, effective as of January 1, 2016. Application of the amendments in advance is allowed.

This new regulatory technical framework includes, among other standards, the new version of IFRS 9, which substantially modifies the impairment requirements (allowances) for financial assets (see Note 4.1.c.)

As mentioned in Note 2.1, IFRS 9 is not applicable to accounting for the loan portfolio and its impairment, for the classification and assessment of investments, and for the impairment of foreclosed or restituted assets in the Bank's separate financial statements, for which applicable instructions have been issued by the Financial Superintendent of Colombia.

b) Decree 2131 Issued in December 2016

Decree 2131 amended decrees 2496 and 2420 of 2015, thereby making the amendments to the International Financial Reporting Standards issued during 2015 part of Colombian law. It was clarified that the application date in the IFRS will not be taken into account for their application in Colombia, and they are disclosed for informative purposes with respect to their application at the international level. The dates on which the standards take effect are those indicated in the decree, with application of the amendments being established as of January 1, 2018, including the new version of IFRS 9. Early application of the new standards is allowed.

4.2 Pronouncements by the International Accounting Standards Board (IASB)

The following is a summary of the new pronouncements on international accounting standards issued by the International Accounting Standards Board (IASB) after January 1, 2014, which the Bank has yet to apply since they have not taken force in Colombia.

- **<u>Amendments Announced by the IASB during 2014</u>**

Pursuant to Single Decree 2420/2015 and its subsequent amending decrees, the following amendments issued by the IASB during 2014 shall be applied in Colombia as of January 1, 2017, with the exception of IFRS 15-Revenue from Ordinary Activities in Contracts with Customers and IFRS 9-Financial Instruments, which must be applied as of January 1, 2018. However, their early application is allowed.

a. Modifications to IAS 1 – Presentation of Financial Statements – Initiative on Information to be Disclosed

The modifications to IAS 1 were issued in December 2014. The IASB added an initiative on disclosure in terms of its 2013 work program, so as to complement the work done on the Draft Framework Project. The amendments clarify that materiality applies to financial statements as a whole; the inclusion of immaterial information may affect the usefulness of the disclosures and require the use of professional judgment to determine what information to disclose, where and in what order to present it.

The amendment is effective at the international level as of January 1, 2016 and its early application is allowed.

b. IFRS 9 - Financial Instruments

The IASB published the full version of IFRS 9 in July 2014. It includes the amendments from previous years, a new expected-loss model, and changes in the classification and measurement requirements for financial assets, among other modifications.

This new standard replaces IAS 39 and deals with the recognition and derecognition of financial assets and liabilities, the classification, measurement and impairment of financial assets under expected credit losses, and hedge accounting.

The hedge accounting, as defined in IFRS 9, adds requirements that align hedge accounting with risk management, establish an approach based on the principles of hedge accounting, and address the inconsistencies and weaknesses in the hedge accounting model of IAS 39.

IFRS 9 is effective at the international level as of January 1, 2018 and its early application is allowed.

c. IFRS 15 – Revenue from Ordinary Activities in Contracts with Customers

IFRS 15, issued in May 2014, establishes a general framework on the nature, amount, timing and uncertainty of the income and cash flows generated by an entity's contracts with its customers, so as to determine when an entity should recognize income at a transaction price it believes it will be entitled to receive in exchange for them. IFRS 15 incorporates the requirements outlined in IAS 11-Construction Contracts, IAS 18-Revenue from Ordinary Activities, IFRIC 13-Customer Loyalty Programs, IFRIC 15-Building Construction Agreements, IFRIC 18-Transfer of Assets from Customers and IAS 31 - Revenue - Swaps of Advertising Services.

In September 2015, the IASB modified the application date for this new standard, which will be effective at the international level for the annual periods beginning on or after January 1, 2018. However, its early application is allowed.

d. Annual Improvements in IFRS- 2012-2014 Cycle

In September 2014, the IASB issued improvements to IFRS 5-Non-current Assets Held for Sale and Discontinued Operations, IFRS 7-Financial Instruments: Disclosures, IAS 19-Employee Benefits and IAS 34-Interim Financial Information, with application at the international level starting on January 1, 2016 and early application being allowed. The improvements involve clarification or correction of inconsistencies, without making changes in the requirements.

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e. Other Modifications

During 2014, the IASB also issued the following modifications that are not expected to have a significant impact on the Bank's separate financial statements.

- IFRS 11- Joint Arrangements - Accounting for acquisitions of ownership interest in joint operations.

- IAS 16 - Property, Plant and Equipment and IAS 3- Intangibles - Clarification of depreciation and amortization methods that are acceptable.

- IFRS 11 and IAS 28- Investments in Associates and Joint Ventures - Sale or contribution of assets between an investor and its associate or joint venture.

- IFRS 10 - Consolidated Financial Statements and IAS 28- Changes in Investment Entities on application of the consolidation exception.

- **Amendments Announced by the IASB during 2015**

In September 2015, the IASB amended the application date for IFRS 15. As indicated earlier, it is from January 1, 2018.

- **Amendments Announced by the IASB during 2016**

In accordance with Decree 2131/2016, which amends Single Decree 2420/2015, the following amendments will be applicable in Colombia as of January 1, 2018. The exception is IFRS 16 – Leases, because it had not yet been subject to public discussion:

f. IFRS 16 – Leases

IFRS 16, issued in January 2016 by the IASB, eliminates the dual accounting model for leaseholders, which distinguishes between financial leases, which are entered on the balance sheet, and operating leases, which are not recognize on the balance sheet but in the Income Statement as the leasing payments are accrued. Instead, there is a single model for the balance sheet, which is similar to the current model for financial leases.

The current practice is maintained in the case of the lessor. In other words, lessors or landlords continue to classify leases as either capital or operating leases. For the leaseholder or tenant, the lease becomes a liability and the right to use the leased property becomes an equivalent asset. Therefore, the size of the balance sheet will be increased with new assets, but so will the debt.

g. Other Modifications

During 2016, the IASB also issued the following modifications that are not expected to have a significant impact on the Bank's separate financial statements.

- IAS 12 - Income Tax - Clarification on the recognition of deferred tax assets for unrealized losses.

- IFRS 15 - Modifications, especially to clarify how to identify a performance obligation, whether an entity acts as the principal or agent, and whether the income from the grant of a license should be recognized at a particular point in time or over time.

- Annual Improvements 2014 - 2016. Modifications to IFRS 12, IFRS 1 and IAS 28.
- IFRS 2 - Share-based Payment.
- IFRIC 22 - Interpretation on how to determine the exchange rate related to prepayments in foreign currency.
- IAS 40 - Investment Property. Clarification of transfer requirements

Note 5 - Estimating Fair Value

The fair value of financial assets and liabilities traded in active markets (such as financial assets in the form of debt and equity securities and derivatives quoted actively on securities exchanges and interbank markets) is based on dirty prices supplied by an official pricing service authorized by the Financial Superintendence of Colombia. The pricing service determines these prices based on the weighted averages of the transactions that occur during the trading day.

An active market is one where transactions for assets or liabilities are carried out with sufficient frequency and in enough volume to provide a steady stream of information on prices. A dirty price is a bond pricing quote that includes the present value of all future cash flows, plus accrued interest from the date of issue or the last interest payment up to the completion date of the sales transaction. The fair value of financial assets and liabilities that are not listed in an active market is defined using the valuation techniques determined by the pricing service or by the Bank's management.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques that are defined by the pricing service or by the Group. The valuation techniques used for non-standardized financial instruments such as options, currency swaps and over-the-counter derivatives include interest-rate or currency valuation curves. Price suppliers construct these curves using market data extrapolated to the specific conditions of the instrument being valued. They also employ discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market players who take maximum advantage of market data and rely as little as possible on entity-specific information.

The Bank calculates the fair value of fixed income instruments and derivatives daily, using price information and / or input supplied by the officially designated pricing service (INFOVALMER Proveedor de Precios para la Valoración S.A.). was authorized after complying with the standards applicable to valuation price suppliers in Colombia, including its corporate objective, operating rules, process for approving valuation methodologies and required technological infrastructure, among other aspects. After evaluating the methodologies used by INFOVALMER S.A., it was concluded the fair value calculated for derivatives, based on the prices and input delivered by the pricing service, is adequate.

The Bank is allowed to use models it has developed internally for instruments that do not have active markets. Generally speaking, these models are based on valuation methods and techniques that are standard in the financial sector. Valuation models are used primarily to assess unlisted equity securities. Some of the input for these models cannot be observed in the market; so, it is estimated on the basis of assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and the valuation techniques used may not fully reflect all the factors relevant to the Bank's

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positions. Therefore, valuations are adjusted, as needed, to accommodate additional factors such as model risk, liquidity risk and counterparty risk.

The fair value of non-monetary assets such as investment property is determined by independent appraisers, using the replacement cost method.

The fair value hierarchy includes the following levels:

- Level 1 entries are prices quoted (with no adjustment) on active markets for assets or liabilities identical to those the organization can access on the measurement date.
- Level 2 entries are different from the quoted prices at Level 1 and are observable directly or indirectly for the assets or liabilities in question.
- Level 3 entries are not observable for the assets or liabilities in question.

The level of hierarchy at which a measurement of fair value is classified in its entirety is determined based on the lowest level entry that is significant to measure fair value as a whole. As a result, the importance of an entry is assessed in relation to the measurement of fair value in its entirety. Market-listed financial instruments that are not considered assets, but are valued according to prices quoted on the market, the prices supplied by pricing services or alternative pricing sources supported by observable entries, are classified at Level 2.

If a measurement of fair value uses observable input that requires a significant adjustment based on unobservable input, it is a Level 3 assessment. Evaluating the importance of a particular entry to the measurement of fair value in its entirety requires professional judgement, with consideration being given to the specific factors of the asset or liability in question.

The Bank defines observable data as readily available market data that are distributed or updated regularly by a pricing service, are reliable and verifiable, are not subject to copyrights, and come from independent sources that are actively involved in the reference market.

5.1 Fair Value Measurements on Recurring Basis

Measurements of fair value calculated on a recurring basis are measurements the IFRS accounting standards require or allow in the statement of financial position at the end of each accounting period.

The Bank's assets and liabilities measured on a recurring basis and by type, within the fair value hierarchy at December 31 and June 30, 2016, are shown below.

		December 31, 2016			
		Level 1	**Level 2**	**Level 3**	**Total**
Assets					
Investments in debt securities for trading					
In Colombian pesos					
Issued or secured by the Colombian government	$	88,003	11,079	0	99,082
Issued or secured by other entities of the Colombian government		0	21,094	0	21,094
Issued or secured by other financial institutions		0	135,909	0	135,909
Issued or secured by non-financial entities		0	16,870	0	16,870
Others		0	43,055	0	43,055
In foreign currency					
Issued or secured by the Colombian government		0	19,716	0	19,716
Issued or secured by other entities of the Colombian government entities		0	20,747	0	20,747

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		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Issued or secured by other financial institutions		0	104,100	0	104,100
		88,003	**372,570**	**0**	**460,573**
Investments in debt securities available for sale					
In Colombian pesos					
Issued or secured by the Colombian government		2,405,728	141,810	0	2,547,538
Issued or secured by other entities of the Colombian government		0	12,726	0	12,726
Issued or secured by non-financial entities		0	17,923	0	17,923
In foreign currency					
Issued or secured by the Colombian government		0	43,838	0	43,838
Issued or secured by other financial institutions		1,557	223,144	0	224,701
		2,407,285	**439,441**	**0**	**2.846,726**
Investments in equity instruments for trading		**0**	**275**	**0**	**275**
Investments in equity instruments available for sale		**183**	**55**	**154,080**	**154,318**
Trading derivatives					
Currency forwards		0	175,349	0	175,349
Interest rate swaps		0	31,592	0	31,592
Currency swaps		0	30,554	0	30,554
Currency options and others		0	15,546	0	15,546
		0	**253,041**	**0**	**253,041**
Hedging derivatives					
Currency forwards		0	117,037	0	117,037
		0	**117,037**	**0**	**117,037**
Non-financial assets					
Investment properties (1)		0	0	40,090	40,090
		0	**0**	**40,090**	**40,090**
Total assets at fair value, recurring	**$**	**2,495,471**	**1,182,419**	**194,170**	**3,872,060**
Liabilities					
Trading derivatives					
Currency forwards		0	143,225	0	143,225
Interest rate swaps		0	18,496	0	18,496
Currency swaps		0	147,990	0	147,990
Currency options and others		0	19,611	0	19,611
		0	**329,322**	**0**	**329,322**
Hedging derivatives					
Currency forwards		0	35,644	0	35,644
		0	**35,644**	**0**	**35,644**
Total liabilities at fair value, recurring	**$**	**0**	**364,966**	**0**	**364,966**

		June 30, 2016			
		Level 1	Level 2	Level 3	Total
Assets					
Investments in debt securities for trading					
In Colombian pesos					
Issued or secured by the Colombian government	$	115,749	59,423	0	175,172
Issued or secured by other entities of the Colombian government		0	10,681	0	10,681
Issued or secured by other financial institutions		0	115,890	0	115,890
Issued or secured by non-financial entities		0	15,306	0	15,306
Others		0	45,736	0	45,736
In foreign currency					
Issued or secured by other entities of the Colombian government entities		0	20,721	0	20,721
Issued or secured by other financial institutions		0	103,206	0	103,206
		115,749	**370,963**	**0**	**486,712**

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	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments in debt securities available for sale				
In Colombian pesos				
Issued or secured by the Colombian government	2,825,102	0	0	2,825,102
Issued or secured by other entities of the Colombian government	0	6,959	0	6,959
Issued or secured by non-financial entities	0	16,261	0	16,261
In foreign currency				
Issued or secured by the Colombian government	0	92,057	0	92,057
Issued or secured by other entities of the Colombian government	11,024	184,728	0	195,752
	2,836,126	**300,005**	**0**	**3,136,131**
Investments in equity instruments for trading	**0**	**265**	**0**	**265**
Investments in equity instruments available for sale	**160**	**166**	**25,602**	**25,928**
Trading derivatives				
Currency forwards	0	324,872	0	324,872
Interest rate swaps	0	64,249	0	64,249
Currency swaps	0	32,990	0	32,990
Currency options and others	0	16,011	0	16,011
	0	**438,122**	**0**	**438,122**
Hedging derivatives				
Currency forwards	0	400,389	0	400,389
	0	**400,389**	**0**	**400,389**
Non-financial assets				
Investment properties (1)	0	0	40,812	40,812
	0	**0**	**40,812**	**40,812**
Total assets at fair value, recurring	**$ 2,952,035**	**1,509,910**	**66,414**	**4,528,359**
Liabilities				
Trading derivatives				
Currency forwards	0	213,693	0	213,693
Interest rate swaps	0	58,861	0	58,861
Currency swaps	0	147,141	0	147,141
Currency options and others	0	13,229	0	13,229
	0	**432,924**	**0**	**432,924**
Hedging derivatives				
Currency forwards	0	75,990	0	75,990
	0	**75,990**	**0**	**75,990**
Total liabilities at fair value, recurring	**$ 0**	**508,914**	**0**	**508,914**

(1) The reconciliation between the opening and closing balances, with separate disclosure of the changes in the Level 3 hierarchy during the period, is detailed in Note 15 on investment property.

5.2 Measurements of Fair Value on a Non-recurring Basis

The following is a breakdown at December 31 and June 30, 2016 of the assets that remained assessed at fair value as a result of an impairment evaluation in the use of IFRS standards that are applicable to each account, but do not require a measurement at fair value on a recurring basis.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Non-current assets held for sale	$ 0	0	95,649	95,649

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Non-current assets held for sale	$ 0	0	13,261	13,261

5.3 Determining Fair Value

According to the methodologies approved for pricing services by the Financial Superintendence of Colombia, the service receives information from all external and internal trading sources, specifically information that is registered within established hours.

To determine fair value at levels 1 and 2 in the fair value hierarchy, each instrument is evaluated, one by one, based on information on the type of calculation reported by INFOVALMER S.A. and the expert opinion of the front and the middle offices. The latter issue an opinion based on aspects such as continuity in the historic publication of prices, the amount in circulation, the record of operations performed, the number of price contributors as a measure of depth, knowledge of the market, continuous quotes for one or more counterparts in a specific security, and bid-offer spreads.

The most common methodologies applicable to derivative instruments are the following.

- **Valuation of foreign currency forwards**: The price supplier publishes assigned curves, according to the origin currency of the underlying asset. These curves are comprised of nominal rates in arrears associated with exchange rate forwards.

- **Valuation of forwards on bonds**: For the valuation of forwards at a specific date, the theoretical future value of the bond is calculated, based on its price on the valuation date and the risk-free rate of the reference country of the underlying asset. Then, the present value of the difference between the theoretical future value and the bond price agreed in the forward contract is obtained using, for the discount, the risk-free rate of the reference country of the underlying asset at the number of days remaining in the contract.

- **Valuation of swap operations:** The service publishes the assigned curves, according to the underlying asset; that is, swap base curves (exchange of payments associated with variable interest rates), domestic and foreign curves, and implicit curves associated with exchange forwards.

- **Valuation of OTC options:** The service publishes the assigned curves, according to the origin currency of the underlying asset; that is, forward exchange curves for the domestic currency in the transaction, implicit curves associated with exchange forwards, swap curves assigned according to the underlying asset, matrix and implicit volatility curves.

a. Equity Securities

The investments classified at Level 3 have significant unobservable entries. Level 3 instruments primarily include investments in equity instruments that are not publically traded.

The Bank has equity investments in a number of entities where its ownership interest is less than 20%. Some of this stake was received as payment for customer obligations in the past and some was acquired because it is needed to develop the Bank's operations and those of its subsidiaries. The Bank’s ownership interest in Deceval and the Central Counterparty Clearing House are two examples of the latter. In general, the companies in this category are not listed on the stock market and, as a result, their fair value at December 31, 2016 was determined with the help of outside consultans. For this purpose, the advisors used different valuation methodologies that are acceptable under international standards, such as the adjusted net asset value method, valuation by applying multiples of comparable companies, and the discounted cash flow method. The latter, used in most cases, is constructed based on medium-term projections of the financial statements of the entities subject to assessment and a portion of the historical figures and results thereof. These projections and their respective residual values were discounted based on interest rates determined with information published by different price providers, adjusted for risk premiums associated with each rated entity.

The following table summarizes the ranges of the main variables used in the valuations.

Variable	Range
Inflation growth	Between 3% and 4%
Growth in gross domestic product	Between 3% and 5%
During the five years of the forecast	Between 3% and 5% annually, in constant terms
Income	Between 3% and 5%
Costs and expenses	Inflation
Growth in perpetuity after five years	Between 1% and 2%
Discount interest rate	

The following table shows a sensitivity analysis of the changes in these variables in the Bank's equity, considering the variations in the fair value of these investments are recorded in equity, since they pertain to investments classified as available for sale:

Changes in the variables used to analyze the sensitivity of investments are presented for December 2016, as the adjusted cash flow method is considered more appropriate than the multiples method. It better reflects the potential value of the company, making it possible to capture – in current value - its actual performance and potential for future growth.

December 31, 2016

Methods and Variables	Variation	Favorable impact	Unfavorable impact
Discounted cash flow			
Growth during the five-year projection:			
Net income	1%	416	(525)
Growth in residual values after five years	10%	414	(385)
Discount interest rates	50PB	827	(923)
Net asset method			
Assets	10%	250	(254)

June 30, 2016

Methods and Variables	Variation	Favorable impact	Unfavorable impact
Discounted cash flow			
Growth during the five-year projection:			
Net income	1%	488	(493)
Growth in residual values after five years	10%	332	(399)
Discount interest rates	50PB	620	(493)
Multiples method			
EBITDA value	1%	1	0
Number of times EBITDA	10% of the number of times	6	(5)
Net asset method			
Assets	10%	265	(274)

b. Investment Property

Investment properties are reported in the statement of financial position at their fair value, as determined in reports prepared by independent experts at the end of each reporting period.

The frequency of property transactions is low due to current conditions in the country. However, management estimates there is sufficient market activity to provide comparable prices for orderly transactions of similar properties when determining the fair value of the Bank's investment property (see Note 15).

The preparation of investment property assessment reports excludes foreclosure transactions. The Bank has reviewed the assumptions used in assessments by independent experts and believes that factors such as inflation, interest rates and the like have been determined appropriately, considering market conditions at the end of the reporting period.

Notwithstanding the foregoing, management believes investment property assessment currently is subject to a high degree of judgment and an increased likelihood that current income from the sale of such assets might differ from their book value. Assessments of investment property are considered at Level 3 of the hierarchy in fair-value measurement.

In the case of investment properties, an increase (decrease) of 1% in the market value of these assest would result in a fair value measurement that is $1,416 higher (lower), as appropriate.

The balances at the beginning of the period and the closing balances of the fair-value measurements classified in Level 3 are reconciled in the following table:

		December 31, 2016		June 30, 2016	
		Equity instruments	**Investment properties**	**Equity instruments**	**Investment properties**
Opening balance	**$**	**25,602**	**40,812**	**28,784**	**40,536**
Valuation adjustment with effect on earnings		0	2,743	0	340
Valuation adjustments with effect on OCI		3,273	0	(437)	0
Additions		125,635	0	138	0
Redemptions		0	(14,901)	(3,899)	(867)
Reclassifications to investment properties		0	17,961	0	1,198
Effect of monetary conversion		0	0	(1)	0
Subtotal	**$**	**154,510**	**46,615**	**24,585**	**41,207**
Impairment		(430)	(6,525)	1,017	(395)
Total		**154,080**	**40,090**	**25,602**	**40,812**

c. The Fair Value of Financial Assets and Liabilities Recorded at Amortized Cost for Disclosure Purposes Only

The following describes how financial assets and liabilities were handled to maturity, from an accounting standpoint, and assessed at fair value solely for the purpose of this disclosure.

- **Fixed-income investments held to maturity:** The fair value of fixed-income investments held to maturity was determined using the dirty price supplied by the pricing service. Bonds with an active market and a market price on the day of the valuation are classified as Level 1 assets. Those that do not have an active market and / or a price provided by the pricing service; that is, bonds with an estimated price (the present value of all future cash flows, discounted with the benchmark rate and the respective margin) are classified as a Level 2 valuation.

- **Loan portfolio:** The fair value of the loan portfolio was determined by using cash flow models discounted at the interest rates offered by banks on new loans, taking into account the credit risk and maturity period. This is regarded as a Level 3 valuation.

- **Customer deposits:** The fair value of demand deposits is equal to their book value. In the case of term deposits under 180 days, their fair value was regarded as equal to their book value. For time deposits over 180 days, fair value was estimated using a discounted cash flow model at the interest rates offered by banks, according to the maturity period. This is regarded as a Level 2 valuation.

- **Financial obligations and other liabilities:** The book value of financial obligations and other short-term liabilities was taken as their fair value. The fair value of long-term financial obligations was determined using discounted cash flow models at risk-free interest rates adjusted with the particular risk premiums of each entity. The fair value of bonds issued is determined by their prices quoted on the stock market, in which case the valuation is Level 1. For other obligations, it is Level 2.

The following table summarizes the fair values of the Bank's financial assets and liabilities at December 31, 2016 and June 30, 2016, recorded at their nominal cost or amortized cost solely for disclosure purposes, and their respective book value

		December 31, 2016				
		Book value	Estimate of fair value			
			Level 1	Level 2	level 3	Total
Assets						
Investments held to maturity	$	1,242,014	24,156	1,193,936	0	1,218,092
Loan portfolio		50,311,674	0	0	54,088,082	54,088,082
Liabilities						
Customer deposits		32,662,663	0	32,662,663	0	32,662,663
Term deposit certificates		16,603,801	0	16,645,966	0	16,645,966
Bank acceptances		607,603	0	607,603	0	607,603
Interbank funds		947,958	0	947,958	0	947,958
Financial obligations		3,873,225	0	3,893,796	0	3,893,796
Bonds Issued		6,904,954	5,987,114	0	0	5,987,114

		June 30, 2016				
		Book value	Estimate of Fair Value			
			Level 1	Level 2	Level 3	Total
Assets						
Investments held to maturity	$	1,076,061	23,603	1,025,045	0	1,048,648
Loan portfolio		49,533,651	0	0	51,953,559	51,953,559
Liabilities						
Customer deposits		30,858,891	0	30,858,891	0	30,858,891
Term deposit certificates		16,596,539	0	16,695,770	0	16,695,770
Bank acceptances		1,075,988	0	1,075,988	0	1,075,988
Interbank funds		1,687,646	0	1,687,646	0	1,687,646
Financial obligations		5,011,287	0	5,122,564	0	5,122,564
Bonds Issued		5,234,008	5,512,728	0	0	5,512,728

Note 6 - Financial Risk Management

6.1 Description of Risk Management Objectives, Policies and Processes

The Bank's objective is to maximize returns for its investors, through proper risk management. The following are the principles guiding that effort.

- Provide customers with security and continuity in the services being offered.

(Continúa)

- Make risk management a part of every institutional process.

- Arrive at collective decisions within each of the committees and the Board of Directors on commercial loans and other investment operations.

- Have extensive, in-depth knowledge of the market, based on management's leadership and experience.

- Establish clear risk policies based on a top-down approach with respect to:

  ✓ Compliance with know-your-customer policies.

  ✓ Structures for granting commercial loans based on a clear identification of sources of repayment and the debtor's capacity to generate a cash flow.

- Diversify the commercial loan portfolio in terms of industries and economic groups.

- Specialize in consumer products niches.

- Make extensive use of credit rating and scoring models that are updated permanently, so as to ensure a build-up in consumer loans with high credit ratings.

- Follow conservative policies with respect to:

  ✓ Composition of the trading portfolio biased toward less volatile instruments,
  ✓ Proprietary trading operations, and
  ✓ Variable remuneration for the trading staff.

6.2 The Risk Culture

The risk culture at the Bank is based on the principles indicated in the section above. It is conveyed to every unit within the Bank and supported by the following guidelines.

- The authority-delegation structure within the Bank requires that a large number of transactions be sent to decision-making centers, such as the risk or credit committees. The large number and frequency of meetings held by these committees guarantee a high degree of swiftness in resolving proposals and ensures that senior management is constantly involved in managing the various risks.

- The Bank has detailed manuals on procedures and policies for adequate risk management.

- It also has implemented a limit system on maximum exposure, which is updated on a regular basis to address new circumstances in the markets and the risks to which they are exposed.

- Information systems are in place to monitor risk exposure on a recurring basis. The idea, in this respect, is to ensure that approval limits are systematically met and, if necessary, to take proper corrective action.

- The primary risks are analyzed not only when they arise or when problems occur during the normal course of business, but als**o** on a recurrent basis.

- The Bank offers adequate and continuous training courses on the risk culture at every level within the organization.

6.3 Corporate Structure for Risk Management

According to the guidelines established by the Bank, the corporate structure for risk management is comprised of the following levels

- Board of Directors
- Risk committees
- Administrative processes for risk management
- Internal Auditing Department

a. Board of Directors

It is the responsibility of the Board of Directors of the Bank to adopt the following decisions or actions, among others, with respect to proper organization of the risk management system.

- Define and approve general policies and strategies on the internal control system for risk management

- Approve policies on managing the different risks.

- Approve trading and counterparty limits, according to defined attributes.

- Approve exposure and limits for different types of risks.

- Approve the procedures to be followed when exceeding the established limits.

- Approve different procedures and methods for risk management.

- Approve the allocation of human, physical and technical resources for risk management.

- Create the necessary committees to ensure operations that generate exposure are properly organized, controlled and monitored, and define the duties of such committees.

- Approve internal control systems for risk management.

- Require management to submit periodic reports on the levels of exposure to various risks.

- Evaluate recommendations and corrective actions proposed for risk management processes.

- Conduct monitoring and follow-up at its regular meetings, based on periodic reports submitted to the Auditing Committee on risk management within the Bank and the measures taken to control or mitigate the more relevant risks.

- Approve the nature and scope of the strategic businesses and markets where the Bank will operate.

b. The Risk Committees

The Treasury and Credit Risk Committee

The Bank has a treasury and credit risk committee, among others. Comprised of members of the Board of Directors, this committee meets regularly to discuss, measure, control and analyze credit risk management (SARC) and treasury risk management (SARM). Its primary duties are to:

- Monitor the Bank's credit and treasury risk profile to ensure exposure remains within the established parameters, pursuant to the Bank's risk limits and policies.
- Evaluate incursion into new markets and new products.
- Assess policies, strategies and rules of procedure for commercial activities with respect to both treasury and loan operations.
- Ensure the methods for risk management and measurement are appropriate, considering the Bank's characteristics and activities.

The Asset and Liability Committees

The Bank has asset and liability committees (ALCO or ALICO Committee). Their job is to assist senior management in defining policies and limits, in monitoring the control and measurement systems used to guide the management of assets and liabilities, and in liquidity risk management developed though the different liquidity risk management systems (SARL).

Its main function is to:

- Establish adequate procedures and mechanisms for liquidity risk management.
- Monitor liquidity risk exposure reports.
- Pinpoint the origin of exposure and identify, through sensitivity analysis, the probability of lower returns or the need for resources due to movement in cash flow.

The Auditing Committee

The Bank has an auditing committee that aims to evaluates and monitors its internal control system. The main duties of this committee are the following.

- Propose to the Board of Directors, for its approval, the structure, procedures and methods required for the internal control system to operate.

- Evaluate the Bank's internal control structure to determine if the designed procedures reasonably protect its assets and the third-party assets it manages or has custody of, and to verify that there are controls in place to ensure that transactions are properly authorized and reported. To that end, mandatory periodic reports, as well as any others that might be required, are submitted to the Auditing Committee by the Statutory Auditor, the Auditing Department and the areas responsible for managing the different risk systems.

- Monitor risk exposure levels, implications for the organization, and the measures taken to control and mitigate risk.

c. Administrative Processes for Risk Management

Consistent with its business models, the Bank has structures and procedures concerning the administrative processes to be followed for risk management, which are well defined and documented in manuals. It also has a variety of technological tools to monitor and control risk. These are discussed, in detail, herein.

d. Internal Auditing Department

The Bank´s internal auditing department is independent from management and depends directly on the auditing committee. Pursuant to their assigned duties, these committees conduct periodic assessments of compliance with the policies and procedures the Bank follows to manage risk. Their reports are submitted directly to the risk and auditing committee, which is in charge of monitoring the Bank's management when it comes to the corrective measures taken. The Bank also receives regular visits from the internal auditors to monitor compliance with its risk management policies. Their reports are submitted directly to management and to the Bank's auditing committee.

6.4 Individual Risk Analysis

The Bank is exposed to a range of financial, operational, reputational and legal risks during the normal course of its business.

The financial risks include: i) market risk (price risks, interest rate risk and exchange rate risk, as explained later), and ii) structural risks posed by the make-up of the Bank's statement of financial position with respect to assets and liabilities. The most important ones, in this respect, are the risk of fluctuation in the exchange rate, liquidity risk and interest rate risk.

The following is an analysis of each of these risks.

a. Credit Risk

The Bank assumes credit risk daily on two fronts. One involves lending, which includes commercial, consumer, mortgage and microcredit operations. The other is treasury activity; namely, interbank operations, investment portfolio management, transactions in derivatives and foreign exchange trading, among other operations. Although these are independent businesses, the nature of counterparty insolvency risk is equivalent and, therefore, the criteria applied to manage that risk are the same.

The principles and rules on managing credit risk are outlined in our Loan Manual, which is conceived for traditional banking activity, as well as treasury operations. The assessment criteria applied to measure credit risk follow the principal guidelines establish by the Credit and Treasury Risk Committee.

The highest authority on credit is the Board of Directors of the Bank. It approves operational and counterparty limits, according to a defined set of attributes. Risk control is exercised essentially through three mechanisms: annual allocation of operational limits and daily control; regular assessment of solvency per issuer; and reporting on the concentration of investments, by economic group.

Loan approval also hinges on considerations such as probability of default, counterparty limits, the recovery rate on collateral received, the terms of loans, and concentration by economic sector, among others.

(Continúa)

Consolidated Credit Risk Exposure

The Bank is exposed to credit risk, which consists of the debtor causing a financial loss by not fulfilling its obligations in a timely manner and in the full amount of the debt. The Bank's exposure to credit risk is a product of its loan activities and transactions with counterparties that result in the acquisition of financial assets.

The maximum exposure to credit risk is reflected in the book value of the financial assets listed in the statement of financial position at December 31 and June 30, 2016, as indicated below:

		December 31, 2016	June 30, 2016
Assets			
Deposits in banks other than the Central Bank of Colombia (Banco de la República)	$	3,782,780	2,594,750
Financial instruments available for trading			
Government		160,639	221,880
Financial entities		240,009	219,096
Other sectors		59,925	45,736
		460,573	**486,712**
Financial instruments available for sale			
Government		2,604,102	2,940,379
Financial entities		224,701	195,752
Other sectors		17,923	0
		2,846,726	**3,136,131**
Financial derivatives for trading and hedging		**370,078**	**838,511**
Financial instruments held to maturity			
Government		1,242,014	1,076,061
		1,242,014	**1,076,061**
Loan portfolio			
Commercial		39,460,839	39,380,966
Consumer		9,886,095	9,263,143
Mortgage portfolio		2,433,523	2,176,828
Microcredit		375,932	369,748
Other accounts receivable		518,162	287,687
		52,674,551	**51,478,372**
Total financial assets with credit risk		**61,376,722**	**59,610,537**
Financial instruments with credit risk - off-balance sheet at their face value			
Financial collateral and guarantees		1,880,576	2,052,026
Credit limits		7,527,142	5,635,792
Total exposure to off-balance sheet credit risk		**9,407,718**	**7,687,818**
Total maximum exposure to credit risk	$	**70,784,440**	**67,298,355**

The impact of netting assets and liabilities to potentially reduce exposure to credit risk is not significant. In the case of collateral and commitments to extend the amount of a loan, the maximum exposure to credit risk is the amount of the commitment. See Note 9 to that effect. Credit risk is mitigated through guarantees and collateral, as described below:

Credit Risk Mitigation, Collateral and Other Improvements in Credit Risk

In cases defined as such, the Bank's maximum exposure to credit risk is reduced through collateral and other credit enhancements, which lower credit risk. The existence of collateral can be a necessary measure; however, in and of itself, collateral is not enough to accept credit risk. The Bank's policies on credit risk require, first and foremost, an assessment of the debtor's ability to pay and its capacity to generate sufficient sources of funding to enable debt repayment.

The methods employed to assess collateral involve the use of independent real estate appraisers, the market value of securities, or valuation of the companies issuing the securities. All collateral must be assessed from a legal standpoint and developed pursuant to the parameters for its provision and in accordance with applicable legislation.

The details of collateral received to secure loans granted by the Bank at the consolidated level are listed in Note 9.

Policies to Prevent Excessive Concentrations of Credit Risk

The Bank maintains maximum risk-level concentration rates to prevent excessive concentrations of credit risk at the individual level and in economic sectors. The limit to its exposure in a loan commitment to a specific customer depends on the customer's risk rating.

By law, Banks in Colombia are not allowed to grant individual loans for more than 10% of their regulatory capital, which is calculated according to a set of rules established for that purpose by the Financial Superintendence of Colombia, provided the loan does not have what is considered acceptable collateral in light of the legal standards. However, individual loans may be up to 25% of the Bank's regulatory capital, if they are secured with acceptable collateral.

A breakdown of Group-wide credit risk in the different geographic areas is provided in Note 9. These areas are determined according to the debtor's country of residence, without taking into account the debtor credit-risk impairment allowances that were established or loan portfolio, by economic sector.

Sovereign debt

Investments in financial assets in the form of debt instruments at December 31 and June 30, 2016 consist largely of securities issued or secured by the Colombian government or by foreign governments. These account for 60.1% and 66.3% of the total portfolio, in that order.

The following is a breakdown of sovereign debt exposure, by country:

		December 31, 2016		June 30, 2016	
		Value	Share	Value	Share
Investment grade (1)					
Colombia	$	2,710,174	99,1%	3,092,331	99,2%
USA		24,152	0,9%	23,577	0,8%
Total sovereign risk	**$**	**2,734,326**	**100.0%**	**3,115,908**	**100,0%**
Others (2)		**1,814,987**		**1,582,996**	
Total debt securities		**4,549,313**		**4,698,904**	

(1) El Investment grade includes F1 + F3 credit ratings from Fitch Ratings Colombia S.A., BRC 1+ to BRC 3 from BRC de Colombia, and A1 to A3 from and Standard & Poor's.

(2) Pertains to other debt instruments with corporations, financial institutions, and other public and multilateral entities.

The Process of Granting Counterparty Loans and Limits

The Bank has its Credit Risk Management System (SARC)), which is run by the Office of Credit and Treasury Risk Management. Among its functions, SARC focuses on designing, implementing and assessing the risk policies and tools defined by the Credit and Treasury Risk Committee and the Board of Directors.

Credit management follows policies that are clearly defined by the Board of Directors. These are reviewed and modified regularly to reflect changes and expectations in the markets where the Bank is active, as well as regulations and other factors to be considered when formulating such policies.

The Bank has several different models its uses to assess credit risk. There are financial rating models for the loan portfolio. These are based on the customer's financial information and its financial history with the Bank or with the financial system in general. There are scoring models for massive portfolios (consumption, housing and microcredit), which are based on information regarding behavior towards the Bank and the financial system, as well as sociodemographic and customer profile variables. In addition, the financial risk of the operation is analyzed based on the debtor's ability to pay and to generate future funds.

The Credit-risk Monitoring Process

The Bank's credit-risk monitoring process is conducted in several stages. These include daily monitoring and management of collections, based on an analysis of the non-performing portfolio, by age; classification by risk level; continuous monitoring of high-risk customers; a restructuring process; and the receipt of foreclosed assets.

The Banco evaluates the risk posed by each of its debtors. This is done monthly, according to their financial information and/or performance. Based on that information, it classifies customers into one of five risk levels: A- Normal, B- Subnormal, C-Deficient, D-Doubtful and E-Uncollectible.

In the case of consumer loans, all the elements in the credit cycle are analyzed continuously, from design and origination to the collection process and cross-selling. The Bank has a set of standard reports and a series of committees for regular monitoring and follow-up in this respect.

For commercial loans, the Bank assesses portfolio concentration quarterly in 25 economic sectors, and evaluates the level of risk in each of them.

It also has a system of financial alerts that lead to individual customer analysis in situations of possible increased credit risk. These studies are analyzed in evaluation committees that meet periodically. Delinquency, risk, the coverage of allowances and loan concentration levels are monitored continuously through a system of reports that are conveyed to senior management.

See Note 9 for details on distribution of the non-performing portfolio at December 31 and June 30, 2016, by age and risk classification.

Calculating Allowances

The process of calculating allowances follows the set of guidelines established to that effect by the Financial Superintendence of Colombia, as outlined in Chapter 2 of the Basic Accounting and Financial Circular, specifically Attachment 3 on commercial loans (Reference Model for the Commercial Portfolio), Attachment 5 on consumer loans (Reference Model for the Consumer Portfolio) and Attachment 1 on home mortgages and microcredit (General System of Loan Assessment, Rating and Provisioning).

Restructuring Credit Operations Due to Debtor's Financial Problems

The Bank periodically restructures the debts of customers who have problems fulfilling their loan obligations. This restructuring process is done at the borrower's request and usually consists of extending terms, lowering interest rates or forgiving part of the debt, depending on the customer's needs.

The fundamental policy on granting this sort of refinancing is to provide the customer with the debt payment conditions required to adapt to a new situation for generating funds, based on financial feasibility.

When a loan is restructured because the debtor has financial problems, it is flagged in the Bank's files as a restructured loan, pursuant to the regulations established in that respect by the Financial Superintendence of Colombia. The restructuring process has a negative impact on the debtor's credit risk rating. After restructuring, the customer's risk rating will improve only if the customer complies with the terms of the agreement, within a reasonable period of time, and its new financial situation is adequate, or additional and sufficient collateral is provided.

Restructured loans are included for impairment assessment and to determine impairment allowances. However, flagging a restructured loan does not necessarily mean it is classified as impaired, since new collateral to secure the obligation is obtained in most cases

The following is a value of restructured loans at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Local	$	1,582,216	1,390,973
Total restructure	$	1,582,216	1,390,973

Receipt of Foreclosed Assets

When persuasive collection or loan restructuring processes do not produce satisfactory results within a reasonable amount of time, collection is carried out through legal means or agreements are reached with the customer to receive foreclosed assets. The Bank has a set of clearly established policies for receiving foreclosed assets and has separate departments that specialize in handling these cases, in receiving foreclosed assets, and in managing their subsequent sale.

The following is a breakdown of foreclosed assets and those sold:

		December 31, 2016	June 30, 2016
Foreclosed assets	$	129,439	15,283
Sold assets		6,738	6,108

b. Market Risk

Market risk is defined as the potential loss the Bank faces as a result of adverse fluctuations in prices or market rates, such as interest rates, exchange rates, and other factors that affect the value of the products it markets.

The Market Risk Management System (SARM) allows the Bank to identify measure, control and monitor the market risk to which it might be exposed, according to the positions assumed in carrying out its operations.

The Bank reported the following financial assets and liabilities at fair value subject to market risk (trading) at December 31 and June 30, 2016.

		December 31, 2016	June 30, 2016
Assets			
Financial debt assets			
Trading	$	460,573	486,712
Available for sale		2,846,726	3,136,131
		3,307,299	**3,622,843**
Trading derivatives		253,041	438,122
Hedging derivatives		117,037	400,389
Total assets		**3,677,377**	**4,461,354**
Liabilities			
Trading derivatives		329,322	432,924
Hedging derivatives		35,644	75,990
Total liabilities		**364,966**	**508,914**
Net position	$	**3,312,411**	**3,952,440**

Nature and Scope of the Risks Posed by Financial Instruments

- **Interest Rate Risk**

The treasury portfolios are exposed to interest-rate risk when their value depends on the level of certain interest rates in the financial market.

- **Exchange Rate Risk**

Both the bank book and treasury book are exposed to exchange risk when their value depends on the level of certain foreign exchange rates in the financial market.

Description of Risk Exposure

- **Interest Rate Exposure**

The Bank's treasury portfolios are exposed to interest-rate risk when a change in the market value of asset positions compared to a change in interest rates does not match the change in the market value of the liability position, and this difference is not offset by a change in the market value of other instruments, or when the future margin depends on interest rates, due to pending operations.

- **Exchange Rate Exposure**

The treasury portfolios are exposed to exchange risk when the actual value of the asset positions in each currency does not match the actual value of the liability positions in the same currency, and the difference is not offset. Positions are taken in derivative products where the underlying asset is exposed to exchange risk and the sensitivity of the value to variations in exchange rates has not been immunized completely. Positions are taken in interest rate risk in currencies other than the reference currency; these can alter the parity between the value of asset positions and the value of liability positions in said currency, which generates losses or profits, or when the margin depends directly on the exchange rates.

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Description of Risk Management Objectives, Polices and Processes

The Bank participates in monetary, exchange and capital markets in an effort to meet its needs and those of its customers. This is done according to well established policies and risk levels. In that regard, it manages various portfolios of financial assets within the permitted limits and risk levels.

The risks assumed in bank book and treasury book operations are consistent with the institution's overall business strategy and its appetite for risk, based on the depth of the markets for each instrument, its impact on risk-weighted assets and the capital adequacy level, the profit budget established for each business unit, and the structure of the balance sheet.

Business strategies are established in light of approved limits, seeking a balance in the profit/risk ratio. There also is a structure of limits that is congruent with the Bank's overall philosophy, based on the extent of its capital, the performance of earnings, and its tolerance for risk.

Market Risk Management

The Bank's senior management and its Board of Directors play an active role in risk management and control, by analyzing an established protocol of reports and presiding over a number of committees. This represents a combined and comprehensive effort to monitor - both technically and fundamentally - the different variables that influence markets at internal and external levels. It also is a way to support strategic decisions.

Furthermore, analyzing and monitoring the various risks incurred by the Bank in its operations is fundamental to making decisions and assessing results. On the other hand, a permanent analysis of macroeconomic conditions is essential to achieving an ideal combination of risk, return and liquidity.

The risks assumed in the Bank's operations are reflected in a framework of limits to its positions in different instruments. These limits are based on the specific strategy of the institution, the depth of the markets where it operates, the impact on risk-weighted assets and capital adequacy levels, and the structure of its balance sheet. These limits are monitored daily and reported weekly to the Board of Directors.

The Bank also implements hedging strategies to minimize the risks associated with interest rates and exchange rates for some of the items on its balance sheet. It does so by taking positions in derivative instruments such as non-deliverable TES forwards, simultaneous operations and exchange forwards.

According to the Bank's risk management strategy, exposure to exchange risk generated by investments in affiliates and agencies abroad is hedged through a combination of "non-derivative" instruments (USD denominated debt) and "derivative" instruments (a portfolio of dollar - peso forwards). From an accounting perspective, these instruments are treated as hedges and all respective requirements are met.

The economic relationship between financial instrument and the hedged item is explained in Note 8, section 8.6.2

Risk Measurement Methods

Market risks are quantified through the use of value-at-risk models (internal and standard), and measurements are made by the historical simulation method. The Board of Directors approves a framework of limits, based on the value-at-risk associated with the annual budget for earnings, and sets additional limits depending on the type of risk in question.

The Bank uses the standard model to measure, control and manage market interest and exchange risk and share price risk in the treasury and bank books, as required by the Financial Superintendence of Colombia, pursuant to Chapter XXI of the Basic Accounting and Financial Circular. These exercises are performed daily and monthly for risk exposure. At present, asset and liability positions in the treasury book are mapped by zones and bands, according to the duration of the portfolios, the investment in equity securities and the net position in foreign currency (asset, less liability). This is done for both the bank book and the treasury book, in line with the standard model recommended by the Basel Committee.

The Bank also has parametric and non-parametric internal management models that are based on the value-at-risk (VaR) method. These models contribute to market-risk management by being used to identify and analyze variations in risk factors (interest rates, exchange rates and price indexes) with respect to the value of the different instruments in the Bank's portfolios. The parametric VaR model, the conditional VaR model and historical simulation are the ones used.

Use of these methods has made it possible to estimate profits and capital at risk. This, in turn, facilitates resource allocation to the various business units, as well as a comparison of activities in different markets and identification of the positions that pose the most risk to the treasury business. These tools also are used to set limits on traders' positions and to review positions and strategies quickly, as market conditions evolve.

The methods used to measure VaR are assessed regularly and back-tested to check their efficiency. The Bank also has tools to carry out portfolio stress and/or sensitivity tests, using simulations of extreme scenarios. Furthermore, it has set limits according to the "type of risk" associated with each of the instruments that make up the different portfolios (sensitivity or impact on portfolio value as a result of fluctuations in interest rate or respective factors - impact of variations in specific risk factors: interest rate (Rho), exchange rate (Delta) and volatility (Vega).

The Bank has counterparty and trading limits, per operator, for each trading platform in the markets where it operates. These limits are controlled daily by it back office and middle office. Trading limits, per operator, are assigned to the different levels of hierarchy in the treasury business, depending on the officer's experience in the market, in trading the type of product in question, and in portfolio management.

It also has a process to monitor the clean prices of the international vector (fixed-income bonds issued abroad) and input published by INFOVALMER S.A. for valuing derivatives. This is done daily to identify prices and/ or input that show significant differences between the information provided by the pricing service and the prices observed on the market.

Monitoring of this sort is intended to provide the pricing service with feedback on the most significant differences in prices and/ or input, so they can be revised.

Fixed income bonds issued abroad also are subject to a qualitative analysis of liquidity to determine the depth of the market for instruments of this type and to identify their hierarchy or fair value.

Finally, part of the effort to monitor operations includes controlling the different aspects of trading, such as negotiated terms, unconventional or off-market operations, operations with related parties, etc.

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Quantitative Data

The VaR indicators presented by the Bank during the first and the second semester of 2016 are summarized below:

Maximum, Minimum and Average VaR
At December 31, 2016

	Minimum	Average	Maximum	Latest
Interest rate in pesos	219,045	243,625	257,979	242,785
Exchange rate	28,680	37,906	48,130	48,130
Shares of stock	618	638	679	679
Mutual funds	39	40	40	40
Total VaR	**262,527**	**282,209**	**291,636**	**291,636**

Maximum, Minimum and Average VaR
At June 30, 2016

	Minimum	Average	Maximum	Latest
Interest rate in pesos	247,070	288,209	320,292	247,070
Exchange rate	24,222	26,941	35,301	35,301
Shares of stock	489	516	597	597
Mutual funds	38	38	39	39
Total VaR	**283,007**	**315,704**	**345,063**	**283,007**

- **Risk of Variation in the Foreign Exchange Rate**

The bulk of the Bank's assets and liabilities in foreign currency are held in US dollars.

The following is a breakdown, in pesos, of the assets and liabilities in foreign currency held by the Bank:

	December 31, 2016			
	Millions of US dollars	Millions of euros	Other currencies expressed in millions of US dollars	Total in millions of Colombian pesos
Assets				
Cash and cash equivalents	1,260.4	1.5	0.6	$ 3,788,677
Debt securities for trading	48.2	0.0	0.0	144,563
Debt securities available for sale	89.5	0.0	0.0	268,539
Investment held to maturity	8.0	0.0	0.0	24,152
Investment in subsidiaries, associates and joint ventures	3,517.6	0.0	0.0	10,555,149
Loan portfolio and financial leasing operations	1,839.5	1.2	0.2	5,524,391
Other accounts receivable	23.9	0.0	0.0	71,588
Property, plant and equipment	0.4	0.0	0.0	1,082
Other assets	2.3	0.0	11.0	40,168
Total assets	**6,789.8**	**2.7**	**11.8**	**20,418,309**
Liabilities				
Customer deposits	2,331.6	1.2	0.2	7,001,157
Short-term financial obligations	87.9	0.2	0.0	264,469
Obligations with rediscount entities	80.3	0.0	0.0	241,016
Long-term financial obligations	979.7	1.2	0.2	2,944,248
Bonds Issued	2,218.4	0.0	0.0	6,656,720
Employee benefits	0.0	0.0	0.0	134

(Continúa)

	December 31, 2016 Millions of US dollars	Millions of euros	Other currencies expressed in millions of US dollars	Total in millions of Colombian pesos
Allowances	0.4	0.0	0.0	1,163
Income tax liability	0.0	0.0	0.0	100
Accounts payable and other liabilities	2.0	0.0	0.0	6,113
Total liabilities	**5,700.3**	**2.6**	**0.4**	**17,115,120**
Net asset (liability) position	**1,089.5**	**0.1**	**11.4**	**$ 3,303,189**

	June 30, 2016 Millions of US dollars	Millions of euros	Other currencies expressed in millions of US dollars	Total in millions of Colombian pesos
Assets in foreign currency				
Cash and cash equivalents	$ 887.9	2.8	0.2	2,601,380
Debt securities for trading	42.5	0.0	0.0	123,927
Debt securities available for sale	98.6	0.0	0.0	287,809
Investment held to maturity	8.1	0.0	0.0	23,577
Investment in subsidiaries, associates and joint ventures	3,387.4	0.0	0.0	9,887,951
Loan portfolio and financial leasing operations	1,759.8	1.0	0.0	5,139,936
Other accounts receivable	26.3	0.0	0.0	76,856
Property, plant and equipment	0.3	0.0	0.0	1,012
Other assets	1.6	0.0	0.0	4,658
Total assets in foreign currency	**6,212.5**	**3.8**	**0.2**	**18,147,106**
Liabilities in foreign currency				
Customer deposits	1,775.2	0.4	0.1	5,183,398
Short-term financial obligations	52.1	3.2	0.0	162,534
Obligations with rediscount entities	87.6	0.0	0.0	255,568
Long-term financial obligations	1,538.4	0.7	0.2	4,493,366
Bonds issued	1,711.9	0.0	0.0	4,997,041
Employee benefits	0	0.0	0.0	127
Allowances	0.4	0.0	0.0	1,071
Income tax liability	0.1	0.0	0.0	150
Accounts payable and other liabilities	0.9	0.0	0.0	2,672
Total liabilities in foreign currency	**5,166.6**	**4.3**	**0.3**	**15,095,926**
Net asset (liability) position in foreign currency	**$ 1,045.9**	**(0.5)**	**(0.1)**	**3,051,180**

The Bank has a number of investments in subsidiaries and branches abroad. Their net assets are exposed to financial-statement-conversion risk for consolidation purposes.

The exposure posed by net assets in operations abroad is hedged primarily with financial obligations, bonds and derivatives in foreign currency.

If the value of the US dollar against the Colombian peso would have increased by $10 Colombian pesos per US$1 at December 31 and June 30, 2016, assets would have increased by $68,045 y $62,169 and liabilities by $57,037 y $51,716, respectively.

- **Risk in the Interest Rate Structure**

The Bank is exposed to the effects of fluctuations in the interest-rate market that affect its financial position and future cash flows. Interest margins can increase as a result of changes in interest rates, but they also can decline and create losses in the event of unexpected movement in interest rates. So, they are monitored regularly in this sense, and limits are set on the degree of mismatch in the repricing of assets and liabilities due to changes in interest rates.

The following table shows the assets and liabilities, according to repricing bands at December 31 and June 30, 2016.

	December 31, 2016				
Assets	**Up to 1 Month**	**From 1 to 6 Months**	**From 6 to 12 Months**	**More than 1 year**	**Total**
Cash and cash equivalents	$ 7,093,044	0	0	0	7,093,044
Debt securities for trading	460,573	0	0	0	460,573
Debt securities available for sale	69,532	25,881	40,318	2,710,995	2,846,726
Held to maturity investment	1,146,449	95,565	0	0	1,242,014
Commercial loans	12,859,290	21,481,472	859,670	4,260,407	39,460,839
Consumer loans	299,257	113,937	976,116	8,496,785	9,886,095
Home mortgages	2,922	27,547	8,433	2,394,621	2,433,523
Microcredit	2,001	10,556	32,688	330,687	375,932
Trading derivatives	253,041	0	0	0	253,041
Hedging derivatives	117,037	0	0	0	117,037
Total Assets	**22,303,146**	**21,754,958**	**1,917,225**	**18,193,495**	**64,168,824**
Liabilities					
Current account deposits	12,490,502	0	0	0	12,490,502
Savings deposits	20,108,158	0	0	0	20,108,158
Certificates of time deposit	3,020,753	6,999,850	2,876,935	3,706,263	16,603,801
Others	64,003	0	0	0	64,003
Interbank and overnight funds	947,958	0	0	0	947,958
Credit from banks and others	1,444,713	2,841,250	194,865	0	4,480,828
Bonds issued	1,872,699	159,596	0	4,872,659	6,904,954
Trading derivatives	329,322	0	0	0	329,322
Hedging derivatives	35,644	0	0	0	35,644
Total liabilities	**$ 40,313,752**	**10,000,696**	**3,071,800**	**8,578,922**	**61,965,170**

	June 30, 2016				
Assets	**Up to 1 Month**	**From 1 to 6 Months**	**From 6 to 12 Months**	**More than 1 year**	**Total**
Cash and cash equivalents	$ 6,273,807	0	0	0	6,273,807
Debt securities for trading	486,712	0	0	0	486,712
Debt securities available for sale	0	0	67,457	3,068,674	3,136,131
Held to maturity investment	914,571	137,913	23,577	0	1,076,061
Commercial loans	13,445,439	12,505,238	0	13,430,281	39,380,966
Consumer loans	64,455	216,725	0	8,981,963	9,263,143
Home mortgages	2,381	3,184	0	2,171,263	2,176,828
Microcredit	0	11	0	369,737	369,748
Trading derivatives	438,122	0	0	0	438,122
Hedging derivatives	400,389	0	0	0	400,389
Total Assets	**22,025,876**	**12,863,071**	**91,034**	**28,021,926**	**63,001,907**
Liabilities					
Current account deposits	9,546,135	0	0	0	9,546,135
Savings deposits	21,216,422	0	0	0	21,216,422
Certificates of time deposit	7,888,833	6,828,642	1,571,544	307,520	16,596,539
Others	96,334	0	0	0	96,334
Interbank and overnight funds	1,687,646	0	0	0	1,687,646
Credit from banks and others	1,073,328	3,019,604	225,415	1,768,928	6,087,275
Bonds issued	0	0	2,024,287	3,209,721	5,234,008
Trading derivatives	432,924	0	0	0	432,924
Hedging derivatives	75,990	0	0	0	75,990
Total liabilities	**$ 42,017,612**	**9,848,246**	**3,821,246**	**5,286,169**	**60,973,273**

The following is a breakdown according to the type of interest rates on financial assets and liabilities at December 31 and June 30, 2016:

		December 31, 2016				
		Less than one year		More than one year		
Assets		**Variable**	**Fixed**	**Variable**	**Fixed**	**Total**
Debt securities for trading	$	50,471	116,126	29,122	264,854	460,573
Debt securities available for sale		0	135,732	0	2,710,994	2,846,726
Held to maturity investment		1,217,862	24,152	0	0	1,242,014
Commercial loans		13,147,920	3,330,773	18,797,192	4,184,954	39,460,839
Consumer loans		217,153	3,174,869	253,282	6,240,791	9,886,095
Home mortgages		16,345	150,626	6,329	2,260,223	2,433,523
Microcredit		9,797	163,500	2	202,633	375,932
Total assets		**14,659,548**	**7,095,778**	**19,085,927**	**15,864,449**	**56,705,702**
Liabilities						
Current account deposits	$	0	12,490,502	0	0	12,490,502
Certificates of time deposit		5,039,804	7,857,734	2,751,960	954,303	16,603,801
Savings deposits		0	20,108,158	0	0	20,108,158
Others		0	64,003	0	0	64,003
Interbank and overnight funds		0	947,958	0	0	947,958
Credit from banks and others		315,100	2,955,770	1,209,958	0	4,480,828
Bonds issued		45,470	2,199,866	50,250	4,609,368	6,904,954
Total Liabilities	$	**5,400,374**	**46,623,991**	**4,012,168**	**5,563,671**	**61,600,204**

		June 30, 2016				
		Less than one year		More than one year		
Assets		**Variable**	**Fixed**	**Variable**	**Fixed**	**Total**
Debt securities for trading	$	68,212	184,815	0	233,685	486,712
Debt securities available for sale		0	67,457	0	3,068,674	3,136,131
Held to maturity investment		1,052,484	23,577	0	0	1,076,061
Commercial loans		10,324,892	7,561,912	15,625,785	5,868,377	39,380,966
Consumer loans		122,372	3,002,441	158,808	5,979,522	9,263,143
Home mortgages		445	114,402	5,119	2,056,862	2,176,828
Microcredit		5	163,489	6	206.248	369,748
Total Assets		**11,568,410**	**11,118,093**	**15,789,718**	**17,413,368**	**55,889,589**
Liabilities						
Current account deposits	$	0	9,546,135	0	0	9,546,135
Certificates of time deposit		6,604,437	8,035,263	1,649,319	307,520	16,596,539
Savings deposits		0	21,216,422	0	0	21,216,422
Others		0	96,334	0	0	96,334
Interbank and overnight funds		0	1,687,646	0	0	1,687,646
Credit from banks and others		363,230	2,900,744	1,219,518	1,603,783	6,087,275
Bonds issued		45,470	2,039,706	50,250	3,098,582	5,234,008
Total Liabilities	$	**7,013,137**	**45,522,250**	**2,919,087**	**5,009,885**	**60,464,359**

If interest rates had been 50 basis points lower (higher), with all other variables remaining constant, the Bank's half-year earnings at December 31 and June 30, 2016 would have increased (decreased) by $ 23,673 million and $ 21,402 million, respectively, mainly because of a lower (higher) interest expense on financial obligations.

- **Other Activities**

The value of the derivatives has been adjusted as of January 1, 2015, by including counterparty credit risk and that of the Bank, as per IFRS 13.

(Continúa)

c. Liquidity Risk

- **Management and Models**

The Bank manages liquidity risk according to the standard model described in Chapter VI of the Basic Accounting and Financial Circular issued by the Financial Superintendence of Colombia and pursuant to the applicable rules on liquidity risk management. This process adheres to the fundamental principles of the Liquidity Risk Management System (SARL), which establish the minimum reasonable parameters entities must monitor to effectively manage the liquidity risk to which they are exposed in their operations.

A liquidity risk indicator (LRI) is calculated weekly for periods of 7, 15 and 30 days and used to measure liquidity risk, as per the standard model of the Financial Superintendence of Colombia.

As part of liquidity risk analysis, the Bank measures the volatility and/or stability of deposits (with or without contractual maturity), debt levels, the structure of assets and liabilities, the extent of asset liquidity, the availability of lines of credit and the general effectiveness of assets and liabilities. This is accomplished through statistical analysis. The idea is to have enough liquidity on hand (including liquid assets, guarantees and collateral) to deal with possible scenarios of own or systemic stress.

Liquid assets include cash plus investments (trading, available for sale or held to maturity) adjusted by a liquidity haircut at 33 days, which is calculated monthly by the Central Bank of Colombia (Banco de la República). This haircut reflects the premium a financial entity would have to pay to carry out interbank or simultaneous repo operations. By the same token, liquid assets in foreign currency are adjusted by an exchange rate haircut at one month that reflects their volatility in the event positions in foreign currency have to be sold to meet liquidity needs. Entities must maintain a level of high-quality liquid assets equivalent to at least 70% of their total liquid assets. High-quality liquid assets are understood as cash and the liquid assets the Central Bank of Colombia receives for its monetary contraction and expansion operations.

A quantification of funds obtained on the money market is an integral part of the liquidity measurement each bank does. Primary and secondary sources of liquidity are identified, based on technical studies, in order to have a range of funding suppliers. The goal is to ensure funding stability and sufficiency and to minimize any concentration of funding sources. Once identified, sources of funding are assigned to the different lines of business, according to the budget and the nature and depth of the markets.

The availability of resources is monitored daily, not only to meet reserve requirements, but also to forecast and/or anticipate possible changes in the institution’s liquidity risk profile and to be able to make strategic decisions, as appropriate. In this respect, the Bank has liquidity warning indicators to determine the current situation, as well as the strategies to be followed in each case. These include, among others, liquidity risk indicators (LRI), deposit concentration levels, and use of the Central Bank's liquidity quotas.

Senior management is made aware of the Bank’s liquidity situation, through the Technical Committee on Assets and Liabilities, and adopts the necessary decisions. These take into account the high-quality liquid assets that must be maintained, tolerance in liquidity management or minimum liquidity, strategies for granting loans and obtaining funds, policies on placing liquidity surpluses, changes in the characteristics of new and existing products, diversification of funding sources to prevent any concentration of deposits with in few investors or savers, hedging strategies, the Bank’s statement of income, and the changes in the structure of its balance sheet.

(Continúa)

Banks in Colombia are required to maintain enough cash on hand and in restricted banks to meet the requirments of the Central Bank of Colombia and the Financial Superintendence of Colombia. These funds are part of the legal reserve requirement and are calculated on average daily deposits in the following accounts, according to the percentages listed below.

Item	Required percentage
Deposits and demand accounts and up to 30 days	11%
Public entity deposits	11%
Deposits and demand accounts after 30 days	11%
Ordinary savings deposits	11%
Fixed-term savings deposits	11%
Trading security repurchase agreements	11%
Accounts other than deposits	11%
Term deposits certificates:	
Under 540 days	4,5%
540 days or more	0%

- **Quantitative Data**

The following is a summary of the liquid assets that are expected to be available during a period of 90 days at December 31 and June 30, 2016, pursuant to the provisions established by the Financial Superintendence of Colombia

		Liquid assets available at the end of the period	From 1 to 7 days	From 8 to 15 days	From 16 to 30 days	From 31 to 90 days
December 31, 2016	$	10,058,552	8,732,532	5,604,879	3,786,496	786,898

		Liquid assets available at the end of the period	From 1 to 7 days	From 8 to 15 days	From 16 to 30 days	From 31 to 90 days
June 30, 2016	$	8,688,716	7,848,738	6,843,171	5,308,708	(1,056,728)

An analysis of the maturities of the Bank's financial assets and liabilities at December 31 and June 30, 2016 shows the remaining contractual maturities listed below.

		December 31, 2016				
Assets		**Less than one month**	**From one to six months**	**From six to twelve months**	**More than one year**	**Total**
Cash and cash equivalents	$	7,093,044				7,093,044
Debt securities for trading		460,573				460,573
Debt securities available for sale		69,532	25,881	40,318	2,710,995	2,846,726
Held to maturity investment		161,731	569,548	530,555	0	1,261,834
Commercial loans		2,911,124	9,157,908	7,006,742	27,424,943	46,500,717
Consumer loans		398,297	1,751,059	2,169,747	8,246,419	12,565,522
Home mortgages		35,318	170,262	193,737	4,163,948	4,563,265
Microcredit		25,013	113,006	126,468	260,152	524,639
Trading derivatives		253,041	0	0	0	253,041
Hedging derivatives		117,037	0	0	0	117,037
Total Assets		**11,524,710**	**11,787,664**	**10,067,567**	**42,806,457**	**76,186,398**
Liabilities						
Current account deposits		12,490,502	0	0	0	12,490,502
Savings deposits		20,108,158	0	0	0	20,108,158
Certificates of time deposit		2,892,424	7,303,075	3,127,847	4,263,502	17,586,848
Other		64,003	0	0	0	64,003
interbank and overnight funds		947,958	0	0	0	947,958
Credit from banks and others		570,932	1,488,976	1,326,103	1,583,931	4,969,942
Bonds issued		1,845,437	271,320	143,471	7,149,376	9,409,604

Liabilities		December 31, 2016 Less than one month	From one to six months	From six to twelve months	More than one year	Total
Trading derivatives		329,322	0	0	0	329,322
Hedging derivatives		35,644	0	0	0	35,644
Total Liabilities	**$**	**39,284,380**	**9,063,371**	**4,597,421**	**12,996,809**	**65,941,981**

Assets		June 30, 2016 Less than one month	From one to six months	From six to twelve months	More than one year	Total
Cash and cash equivalents	$	6,273,807	0	0	0	6,273,807
Debt securities for trading		486,712	0	0	0	486,712
Debt securities available for sale		0	0	67,457	3,068,674	3,136,131
Investment held for sale		45,639	331,513	720,462	0	1,097,614
Commercial loans		3,398,732	9,121,417	7,363,527	27,018,936	46,902,612
Consumer loans		346,278	1,707,774	1,970,656	7,857,443	11,882,151
Home mortgages		29,844	148,824	159,251	4,339,793	4,677,712
Microcredit		24,895	113,086	116,513	243,261	497,755
Trading derivatives		438,122	0	0	0	438,122
Hedging derivatives		400,389	0	0	0	400,389
Total Assets		**11,444,418**	**11,422,614**	**10,397,866**	**42,528,107**	**75,793,005**
Liabilities						
Current account deposits		9,546,135	0	0	0	9,546,135
Savings deposits		21,216,422	0	0	0	21,216,422
Certificates of deposit		2,013,646	7,909,811	5,174,148	2,570,143	17,667,748
Other		96,334	0	0	0	96,334
interbank and overnight funds		1,687,646	0	0	0	1,687,646
Credit from banks and others		215,751	2,544,595	700,612	3,968,597	7,429,555
Bonds Issued		43,785	93,956	2,018,639	4,820,758	6,977,138
Trading derivatives		432,924	0	0	0	432,924
Hedging derivatives		75,990	0	0	0	75,990
Total Liabilities	**$**	**35,328,633**	**10,548,362**	**7,893,399**	**11,359,498**	**65,129,892**

d. Operating Risk

The Bank’s Operational Risk Management System (SARO-Spanish acronym) was implemented according to the guidelines established in Chapter XXIII of the Basic Accounting and Financial Circular (External Circular 100 / 1995) issued by the Financial Superintendence of Colombia. This system is operated by the Operational Risk Management and Internal Control System, which is part of the Control and Compliance Unit.

Thanks to SARO, the Bank has improved its understanding and control of the risks in its processes, activities, products and operating lines, and has managed to reduce errors and identify opportunities for improvement to support the development and operation of new products and services.

The Operational Risk Manual outlines the Bank’s policies, standards and procedures to ensure its business is managed within defined levels of appetite for risk. The Business Continuity Management System Manual contains guidelines on how the Bank would operate in the event it does not have the basic resources it needs to function.

The Bank keeps a detailed log of all operational risk events (ORE) that are reported by the risk managers and entered in the expense accounts assigned for proper accounting follow-up.

The Department of Operational Risk Management (GRO- Spanish acronym) takes part in the Bank's activities through its involvement in the complaints, claims and fraud committees and in matters that affect the process and/or the customers. It also helps to operate the Financial Customer Service System (SACF) through efforts to identify measure and control the risks derived from implementing that system and from registering the risks and controls involved in compliance with the Sarbanes-Oxley Law (SOX). This department also participates in the Information Security Committee, which analyzes the operational risks associated with the information assets generated in the banking process.

The operational risk profile at December 31, 2016 contained risks and controls for 215 processes. The updated model is dynamic and takes into account the tests run on controls, the effort made to filter risks and controls, the changes in structure, roles, applications and procedures (updates), and the processes that were included, as well as the new processes documented by the Systems and Operations Division.

The operational-risk management model takes into account the best practices outlined by the Basel Committee on Banking Supervision and by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Regionally speaking, it also meets the regulatory requirements established in that respect by the supervisory organism in the countries where the Bank operates.

In light of the foregoing, operational risk is defined as the possibility that events caused by people, information technology or inadequate or failed internal processes, as well as those occasioned by outside events, might have a negative impact that could undermine accomplishment of the institution' objectives. Given the nature of the organization, there is operational risk in all the Bank´s activities.

The organization's priority is to identify and manage primary risk factors, regardless of whether or not they might result in monetary loss. This measurement also helps to set priorities for operational risk management.

The operational risk management system is a process that includes the following.

- Measurement from the standpoint of the control environment
- Identification and assessment of operational risks
- Treatment and mitigation of operational risks
- Risk monitoring and review
- Recording and entering losses on the books caused by incidents involving operational risk

In addition, the Bank has formally established policies to manage information security, business continuity and fraud prevention. There is also an ethics code to support the proper management of operational risks within the organization.

The following are the figures resulting from each update of the Bank's operating risk profile at December 31 and June 30, 2016:

	December 31, 2016	June 30, 2016
Processes	215	213
Risks	1,594	1,736
Failures	2,251	2,679
Controls	4,320	4,583

The losses registered for operational-risk events during the six months ended at December 31, 2016 came to $ 6,765 million. From an accounting standpoint, they break down as follows: labor fines and penalties (19,7%), losses in D/C due to credit card fraud (16,6%), operating process failures with deposit-taking products in D/C (14.6%), operating process failures with borrowing products in D/C (9.7%), claims for cash and clearing losses in D/C (7.3%), losses on savings account claims (5.3%) and losses on other operational risk accounts (26.8%).

As per the Basel risk classification, these events are distributed according to: implementation and management processes (40%), external fraud (31%), human resources (21%), and others (8%). Those with the highest incidence are the following.

- Execution and management processes: An erroneous lien and the cancellation of accounts receivable constituted wrongly in the year 2013- were not included in the settlement process after bankruptcy proceedings with the client

- External fraud: fraudulent use of credit cards (counterfeit cards, information that is lifted from magnetic-stripe cards or altered, both nationally and internationally).

- Human resources: creation or increase in allowances, payment for costs and convictions in labor suits.

e. Risk of Money Laundering and Terrorism Financing

Efforts to support the Bank's Money Laundering and Terrorist Financing Risk Management System (SARLAFT) have produced good results and fall within the regulatory framework established to that effect by the Financial Superintendence of Colombia, particularly the instructions outlined in Part, I, Heading IV, Chapter IV of Basic Legal Circular. What has been accomplished is in keeping with prevailing regulations, with the policies and methods adopted by the Bank's maximum decision-making body, and with the recommendations outlined in international standards on the matter

- **Managing the Risk of Money Laundering and Terrorism Financing**

The Bank develops its operations as dictated by law and ethical principles, pursuing sound banking practices. It continues to adhere to the methods, procedures, responsibilities and functions required to manage properly the risk of money laundering and terrorism financing properly.

The activities carried out in terms of SARLAFT took into account the methodologies adopted by the Bank, which allowed the mitigation of risks to continue. This was accomplished thanks to the application of controls designed for each of the risk factors (Customers, Products, Distribution Channels and Jurisdiction), while maintaining an acceptable profile. This last aspect is corroborated by the absence of events or situations that were contrary to the good reputation Bank has maintained with respect to SARLAFT.

- **Stages in the Money Laundering and Terrorism Financing Risk Management System**

In response to international recommendations and Colombian law on SARLAFT, the approach to dealing with what the Bank has identified as the risks of money laundering and terrorist financing (ML/TF) is based on the idea of continuous improvement and on minimizing the existence of such risks, insofar as is reasonably possible.

Methods for solid risk management have been adopted successfully to develop the stages that frame SARLAFT. As a result, the Bank has been able to pinpoint and analyze ML/TF risks within the organization and to design and effectively apply policies and procedures consistent with those risks. In that respect, all relevant, inherent and residual risk factors in the banking sector and in commerce, among other areas, have been taken into account on a nationwide basis, and even beyond, if necessary to determine the Bank's risk profile and the level of mitigation that is appropriate.

As for the identification stage, which is intended to detect the risks inherent in the development of our activities, sixteen (16) generic risks have been identified. They include the catalogue of fourteen (14) risks defined by Grupo AVAL.

In addition, with respect to the regulatory framework, which indicates entities must identify, analyze and examine ML/TF risks prior to launching a new product or modifying the characteristics of an existing one, and before entering a new market or launching or modifying distribution channels, studies (6) done during the second half of 2016 produced specific recommendations on the adoption of controls to mitigate the risks that might arise from the standpoint of the four risk factors.

As for the measurement stage, particularly the measurement of inherent risks where the possibility or probability of occurrence is identified, along with the impact if the risk were to materialize, regardless of the mitigation measures or the controls that have been established, no changes were made in the measurement of these risks during the second half of 2016.

In terms of the control stage, the Bank has designed a methodology that enables it to verify the effectiveness of these controls, so as to eventually establish a ML/TF residual risk profile. At this point in time, there is an inventory of 31 controls that have been tested to validate their effectiveness. They are described as follows.

Controlling the customer risk factor: The Bank has implemented a series of controls to mitigate ML / TF risk from the standpoint of the customer. These focus on different aspects, such as the process of customer acceptance, updating customer information and validating public information, among other aspects. The activities for this risk factor include analyzing means of communication; managing the communication system (SIMEDCO); monitoring customers who are PEP; cross-checking against public lists when accepting new customers; analyzing the risk posed by campaigns to market new products; analyzing the quality of the information in CRM; monitoring the process whereby the Bank accepts customers and updates their financial information; referencing products to liabilities; analyzing suppliers, shareholders and foreclosed assets; analyzing applications from foreigners to become customers of the Bank; and examining unusual transactions.

Controlling the product risk factor: Considering the standard definition of a product and pursuant to the methodology adopted by the Bank, the activities developed to combat this risk factor include analyzing product transactions through the implementation of SMT-SARLAFT; analyzing operations in foreign currency; monitoring cashier's checks; following up on credit cards with a positive balance; tracking cash transactions; and monitoring embargoed accounts. The goal is look at the way products perform and particularly those that are more exposed to ML/TF risk. This is done according to international and national recommendations and the respective procedures establish by the Bank.

Controlling the distribution-channel risk factor: Different routes and models have been developed to identify unusual events in the distribution channel, as part of the controls to mitigate risk. This is done with SPSS Modeler, which allows for a more detailed analysis. Specifically, it lets us select transactions that do not fit a customer's normal behavior when using a particular channel, or transactions that require more attention by virtue of their nature. The advanced control activities for this factor include monitoring AVAL operations, monitoring ACH transactions, tracking acquisitions, and monitoring Internet operations.

Controlling the jurisdiction risk factor: The jurisdiction risk factor is interpreted as the geographical location where the Bank is present and is involved by providing its services. This factor is analyzed in light of social, political, economic and security circumstances that might affect transactions at certain geographic locations, both domestically and internationally. The Bank has designed an illogical site method to identify transactions that seem to be unrelated to the place where they originate and their destination.

Controls in the business units: During the six months in question, there were informative visits to 38 offices nationwide, all of which were in-situ. They focused primarily on the customer acceptance process, publicly exposed people PEP, political campaigns, cash transactions, transaction analysis using the SMT-SARLAFT application, reports of no unusual transactions without ROI, foreign currency operations, information updating, and training. Twenty- one(21) SARLAFT inventory controls were evaluated during these visits. They are executed by the offices and constitute the basis for mitigating the risks related to money laundering and terrorism financing.

Other control activities: The Bank has implemented a number of additional controls to supplement those described above by supporting and complementing proper ML/TF risk management. Among others, these activities include certifying “no reports of unusual transactions,” conducting management surveys, the “ABCs of knowing the customer,” and compiling and delivering “Knowledge of Code of Ethics and Conduct” certificates. Nine (9) internal controls that are the responsibility of the Compliance Control Unit were validated as well. They were assessed by developing a run-through test to determine their effectiveness in mitigating the inherent risk.

The extent of the residual risk of ML/TF is defined by associating the effectiveness of the controls with respect to each risk and following the measurement methodology.

Finally, as part of monitoring, the results of the SARLAFT stages are documented in Enterprise Risk Assessor (ERA), which is used to track the ML/TF risk level. This software also made it possible to calculate the residual risk at Level 1, which translates into a frequency and impact tending towards zero, maintaining stable performance compared to previous periods. In addition, several indicators have been defined that reflect, in a general way, SARLAFT management with respect to points that are sensitive and have more of an impact in terms of the objectives of ML/TF risk management

- **Elements of the Money Laundering and Terrorism Financing Risk Management System**

The Bank orients its activities in line with the guiding principle on risk management, which indicate the institution’s operations must comply with the highest ethical and control standards. Therefore, sound banking practices and compliance with the law are the top priority, above and beyond business goals. In practical terms, this translates into application of the criteria, policies and procedures used to manage SARLAFT, making it possible to mitigate these risks down to the lowest level of the organization, as is customary at the Bank.

The Bank submitted institutional reports to the Financial Information and Analysis Unit (UIAF). This was done in due course, as required by law and pursuant to the amounts and characteristics stipulated in Part I, Title IV, Chapter IV of the Basic Legal Circular issued by the Financial Superintendence of Colombia. The competent authorities with respect to for surveillance and control also were provided with the information required under the law. An important part of the Bank´s policy is to give these authorities our support and cooperation, within the bounds of the law.
The Money Laundering and Terrorism Financing Risk Management System (SARLAFT) supports the commercial activities of the Bank, since control is part of business management. These processes are

used to advantage in an effort to serve the customer's needs and requirements promptly and as best possible.

In the second half of 2016, the Bank followed up on the SARLAFT reports submitted by the Office of Government Accounting and the Statutory Auditor, so as to address their recommendations for optimizing the system. According to the reports received by the Bank, the results of SARLAFT management within the bank are considered satisfactory.

The Bank remains dedicated to risk management and it has the technological tools to implement policies such as those focused on "knowing the customer" and "knowing the market". The objective is to single out unusual transactions and to report suspicious ones to the Financial Information Unit (UIAF), taking into account the objective criteria the organization has establish, as provided for by law. It is worth noting that the elements and mechanisms the Bank has at its disposal to help SARLAFT operate successfully are being improved constantly, particularly in terms of applications and methods for analysis to monitor and avert ML/TF risk.

The ML/TF risk management system is bolstered by a process of segmentation the bank has developed through the use tools for data mining tools. This segmentation allows us to identify each risk factor (customer, product, channel and jurisdiction) and to monitor the Bank's operations to detect transactions that appear to be unusual in light of the profile established for each segment.

The Bank also continues to operate an institutional training program that imparts guidelines to all employees on the regulatory framework and the control mechanisms that are being implemented to prevent and mitigate the risk of ML / TF within the organization, all of which helps to strengthening the SARLAFT culture. One hundred percent (100%) of the Bank's employees were covered by this program in 2016, through the various training schemes that are used.

The Bank conducted activities particular to SARLAFT during the latter half of 2016, continuing the management initiatives instituted in previous periods and accepting the recommendations of the Board of Directors and the regulatory agencies.

The risk of money laundering and terrorism financing is managed by adhering to each step in the SARLAFT system. The focus is on adequate risk management, as described herein, particularly management that reflects an undeviating commitment from our employees to be part of the SARLAFT culture the Bank has developed. The organization remains committed to ML/TF risk management issues as part of its corporate responsibility to society and to the regulators.

f. Legal Risk

The Legal Division supports legal risk management for the Bank's operations. Specifically it defines and institutes the necessary procedures to adequately control the legal risks inherent in banking operations, making sure those controls comply with legal standards and are properly documented. It also analyzes and drafts contracts for operations conducted in the various business units.

As instructed by the supervisory agency, the Bank appraised the claims lodged against it and established the allowances necessary to cover probable losses. This was done based on the opinion of its lawyers. See Note 30 item 30.4 to the financial statements for an explanation of the lawsuits pending against the Bank, apart from those classified as remotely probable.

Note 7 - Cash and Cash Equivalents

The following is a breakdown of cash and cash equivalents:

		December 31, 2016	June 30, 2016
Domestic currency			
Cash	$	1,622,165	1,674,396
Central Bank of Colombia		1,680,280	1,995,670
Banks and other financial entities		1,676	1,533
Exchange		246	828
Subtotal		**3,304,367**	3,672,427
Foreign currency			
Cash		7,573	8,164
Banks and other financial entities		3,781,104	2,593,216
Subtotal		**3,788,677**	2,601,380
Total	$	**7,093,044**	6,273,807

The loan quality determined by independent credit-rating agencies for the major financial institutions in which the Bank holds cash is as follows:

		December 31, 2016	June 30, 2016
Credit rating			
Sovereign debt		1,680,280	1,995,670
Investment grade		3,782,780	2,594,750
No rating or not available		1,629,984	1,683,387
Total	$	**7,093,044**	6,273,807

The legal reserve requirement in Colombia at December 31 and June 30, 2016 was11% for deposits in current and savings accounts and 4.5% for certificates of deposit under 18 months

The legal reserve required to meet liquidity requirements on current deposits at December 31 and June 30, 2016 was $3,239,722 and $3,238,176 respectively.

The legal reserve required to meet liquidity requirements for certificates of deposit under 18 months at December 31 and June 30, 2016 was $315,788 and $314,908, respectively.

There are no restrictions on cash and cash equivalents.

Note 8 - Financial Assets for Investment

8.1 Investments for trading

The following is a breakdown of financial assets in the form of debt securities and equity securities:

		December 31, 2016	June 30, 2016
Debt securities			
In Colombian pesos			
Issued or secured by the Colombian government	$	99,082	175,172
Issued or secured by other entities of the Colombian government		21,094	10,681
Issued or secured by other financial institutions		135,909	115,890
Issued or secured by non-financial entities		16,870	15,306
Others		43,055	45,736
Subtotal		**316,010**	**362,785**

		December 31, 2016	June 30, 2016
In foreign currency			
Issued or secured by the Colombian government		19,716	0
Issued or secured by other entities of the Colombian government		20,747	20,721
Issued or secured by other financial institutions		104,100	103,206
Subtotal		144,563	123,927
Total debt securities		**460,573**	**486,712**
Equity securities			
With changes in income			
Collective investment funds		275	265
Total financial assets in debt instruments and investments in equity securities	$	**460,848**	**486,977**

Credit rating on investments for trading

The following is a breakdown of the credit ratings provided by independent risk rating agencies for the main counterparties in the debt securities and equity instruments:

		December 31, 2016	June 30, 2016
Speculative	$	71,871	74,037
Investment grade		388,977	412,940
	$	**460,848**	486,977

Time bands of trading securities

The following table is a summary of debt securities for trading, listed according to maturity.

		December 31, 2016	June 30, 2016
Up to 1 month	$	20,225	58,014
More than 1 month and not more than 3 months		2,014	22,735
More than 3 months and not more than 1 year		144,358	77,994
More than 1 year and not more than 5 years		245,908	275,372
More than 5 years and not more than 10 years		47,433	50,141
More than 10 years		635	2,456
	$	**460,573**	486,712

8.2 Investments available for sale

The following is a breakdown of financial assets in the form of debt securities and investments in equity securities:

	December 31, 2016	June 30, 2016
Debt securities		
In Colombian pesos		
Issued or secured by the Colombian government	2,547,538	2,825,102
Issued or secured by other entities of the Colombian government	12,726	6,959
Issued or secured by non-financial entities	17,923	16,261
Subtotal	**2,578,187**	**2,848,322**
In foreign currency		
Issued or secured by the Colombian government	43,838	92,057
Issued or secured by other financial institutions	224,701	195,752
Subtotal	**268,539**	**287,809**
Total debt securities	**2,846,726**	**3,136,131**

		December 31, 2016	June 30, 2016
Equity securities			
With changes in equity			
Corporate shares of stock in Colombian pesos (1)		150,368	25,768
Mutual investment funds in Colombian pesos		55	0
Corporate shares of stock in foreign currency		3,895	160
Total equity securities		**154,318**	**25,928**
Total financial assets in debt instruments and investments in equity securities	$	**3,001,044**	**3,162,059**

(1) The increase is due to recognition of the Credibanco investment as a result of the decision taken in August 26, 2016 at its General Meeting of Shareholders, which transformed Credibanco from a non-profit organization to a limited liability company. As a result, 1,481,040,952 shares were assigned to the Bank as an associate; this is equivalent to an ownership interest of 16.3988%, which was classified as an equity investment of under 20%. At the same time, the changes in fair value will have an impact on OCI.

Credit rating on investments available for sale

The following is a breakdown of the credit ratings provided by independent risk rating agencies for the main counterparties in the debt securities and equity instruments:

		December 31, 2016	June 30, 2016
Speculative	$	56,197	57,844
Investment grade		2,932,797	3,078,453
No rating or not available		12,050	25,762
	$	**3,001,044**	**3,162,059**

Time bands for investments available for sale

The following is a summary of debt securities, by date of maturity:

		December 31, 2016	June 30, 2016
Up to 1 month	$	69,532	0
More than 3 months and not more than 1 year		66,200	67,460
More than 1 year and not more than 5 years		1,688,941	1,824,818
More than 5 years and not more than 10 years		880,243	1,110,886
More than 10 years		141,810	132,967
	$	**2,846,726**	**3,136,131**

Reclassification of investments

Pursuant to Section a), Part 4.2 of Chapter I-1 in the Basic Accounting and Financial Circular, which provides for investments available for sale to be reclassified as trading securities, there were no reclassifications at December 31 and June 30 2016.

8.3 Investment held to maturity

The balance of financial assets in investments held to maturity at December 31 and June 30, 2016 includes the following:

	December 31, 2016	June 30, 2016
Debt securities		
In Colombian pesos		
Issued or secured by other agencies of the Colombian government	1,217,862	1,052,484
Subtotal	1,217,862	1,052,484

(Continúa)

		December 31, 2016	June 30, 2016
In foreign currency			
Issued or secured by foreign governments		24,152	23,577
Total debt securities	**$**	**1,242,014**	**1,076,061**

The portfolio of investments held to maturity at December 31 and June 30, 2016 showed no securities furnished as collateral.

Credit rating for investments held to maturity

The following is a breakdown of the credit ratings provided by independent risk rating agencies for the main counterparties in the debt securities in which the Bank holds financial assets at amortized cost.

		December 31, 2016	June 30, 2016
Investment grade	$	1,242,014	1,076,061

Time bands for investments held to maturity

The following is a summary of financial assets, by date of maturity:

		December 31, 2016	June 30, 2016
Up to 1 month	$	335,974	39,318
More than 1 month and not more than 3 months		12,107	0
More than 3 months and not more than 1 year		893,933	1,036,743
Total	$	**1,242,014**	**1,076,061**

8.4 Impaired Investments available for sale in equity securities

The following is the activity in impaired investments available for sale in equity instruments:

		December 31, 2016	June 30, 2016
Opening balance	**$**	**19,148**	**20,054**
Impairment		561	585
Recovery of impairment		(21)	(97)
Reclassification (1)		0	(1,394)
Closing balance	**$**	**19,688**	**19,148**

(1) An investment of $2,400 in trust rights was reclassified as other assets at June 30, 2016, while $1,006 in foreclosed assets pertaining to the shareholding in Mapana S.A. were reclassified as investments.

8.5 Financial Derivatives

8.5.1 Financial Derivatives for Trading

The table below shows the fair values at the end of the period for the exchange and securities forwards, futures, options, interest rate swaps and exchange swaps to which the Bank is committed.

		December 31, 2016		June 30, 2016	
		Notional amount	Fair value	Notional amount	Fair value
Derivative assets					
Forward contracts					
Purchase of foreign currency	$	2,427,873	70,673	1,036,663	74,026
Sale of foreign currency		(4,642,900)	104,676	(5,478,841)	250,846
		(2,215,027)	**175,349**	**(4,442,178)**	**324,872**
Swaps					
Foreign currency		235,742	30,554	199,792	32,990
Interest rate		4,710,567	31,592	2,719,453	64,249
Others (1)		(1,986)	2	(2,400)	690
		4,944,323	**62,148**	**2,916,845**	**97,929**
Futures contracts(2)					
Purchase of currency		1,068,253	0	410,121	0
Sale of currency		(1,197,283)	0	(713,114)	0
		(129,030)	**0**	**(302,993)**	**0**
Currency purchase options		**739,512**	**15,544**	**434,450**	**15,321**
Total derivative assets		**3,339,778**	**253,041**	**(1,393,876)**	**438,122**
Derivative liabilities					
Forward contracts					
Purchase of foreign currency		(4,588,569)	124,115	(5,212,385)	199,475
Sale of foreign currency		1,980,336	19,110	686,822	14,218
		(2,608,233)	**143,225**	**(4,525,563)**	**213,693**
Swaps					
Foreign currency		612,663	147,990	361,141	147,141
Interest rate		3,099,891	18,496	2,441,825	58,861
Others (1)		1,702	4	(55,322)	622
		3,714,256	**166,490**	**2,747,644**	**206,624**
Futures contracts (2)					
Purchase of currency		(1,994,104)	0	(2,029,121)	0
Sale of currency		408,997	0	162,006	0
		(1,585,107)	**0**	**(1,867,115)**	**0**
Currency purchase options		**556,310**	**19,607**	**249,443**	**12,607**
Total derivative liabilities		**77,226**	**329,322**	**(3,395,591)**	**432,924**
Net position	**$**	**3,262,552**	**(76,281)**	**2,001,715**	**5,198**

1) At December 31 and June 30, 2016, the Bank had spot market operations in foreign currency transactions. Respectively, these included $ 2 and $ 690 in active operations and $ 4 and $ 622 in liability operations.

2) With derivatives of this type, gains and losses are settled daily. The Central Counterparty Clearing House (CRCC) reports the results of settlement by the parties and proceeds to debit or credit the losses or gains that are made. This is done on a daily basis.

In the case of futures, the dollar / peso exchange rate at contract maturity is settled against the underlying price (TRM) published on the last trading day.

Since futures are cleared and settled daily, the value of the obligation is equal to the value of the right. These values are updated daily, according to the market price of the respective future and the effect on profit and loss is equivalent to the change in the fair price of the future.

The main change in the trading portfolios corresponds primarily to the strategic management of each one portfolio, due to market conditions characterized by extreme variations and fluctuations in the representative rate of exchange (TRM) and/or interest rates.

Financial derivatives contracted by the Bank are traded on financial markets, both off-shore and domestically. The fair value of derivatives varies positively or negatively as a result of foreign-exchange and interest rate fluctuations, the passing of time and other risk factors, depending on the type of instrument and the underlying asset.

The Bank had obligations at December 31 and June 30, 2016, implying the delivery of $329,322 and $432,924 in financial assets in debt securities or foreign currency at fair value and the receipt of $ 253,041 and $438,122 in financial assets or foreign currency at a fair value, respectively.

8.5.2 Financial Derivatives for Hedging

The financial derivatives for hedging reported at December 31 and June 30, 2016 include the following:

		December 31, 2016		June 30, 2016	
		Notional amount	Fair value	Notional amount	Fair value
Derivative assets for hedging					
Forward contracts					
Purchase of foreign currency	$	292,569	1,272	366,336	884
Sale of foreign currency		(3,426,811)	115,765	(3,888,121)	399,505
		(3,134,242)	**117,037**	**(3,521,785)**	**400,389**
Futures contracts (1)					
Purchase of currency		150,036	0	8,757	0
Sale of currency		(973,730)	0	(1,577,725)	0
		(823,694)	**0**	**(1,568,968)**	**0**
Total derivative assets for hedging		**(3,957,936)**	**117,037**	**(5,090,753)**	**400,389**
Derivative liabilities for hedging					
Forward contracts					
Purchase of foreign currency		(769,682)	21,836	(1,161,766)	65,058
Sale of foreign currency		1,359,322	13,808	411,580	10,932
		589,640	**35,644**	**(750,186)**	**75,990**
Futures contracts (1)					
Purchase of currency		(363,086)	0	(457,117)	0
Sale of currency		190,545	0	0	0
		(172,541)	**0**	**(457,117)**	**0**
Total derivative liabilities for hedging		**417,099**	**35,644**	**(1,207,303)**	**75,990**
Net position	**$**	**(4,375,035)**	**81,393**	**(3,883,450)**	**324,399**

(1) Profits and losses are settled daily with derivatives of this type. The Central Counterparty Clearing House (CRCC) reports the results of the trade for the parties and proceeds to debit or credit the gains made or the losses incurred. This is done on a daily basis.

In the case of dollar / peso currency futures, when the contract matures settlement are made against the underlying price (TRM) published on the last day of trading.

In as much as futures are cleared and settled daily, the value of the obligation is equal to the value of the right. These values are updated every day, according to the market price of the respective future, and the effect on profit and loss is equivalent to the change in fair value of the currency future.

The following is a breakdown of credit ratings, by independent credit rating agencies, for the primary investment counterparties in derivative assets.

		December 31, 2016	June 30, 2016
Investment grade	$	361,500	814,204
Speculative		248	128
No rating or not available		8,330	24,179
Total	$	**370,078**	**838,511**

8.5.3 Derivative Guarantees

The nominal amounts of the derivatives delivered and received as collateral are listed below.

Collateral Type		December 31, 2016	June 30, 2016
Cash			
Delivered	$	69,556	39,848
Received		20,375	76,486
Total	$	**89,931**	**116,334**

8.5.4 Hedge Accounting

Banco de Bogotá uses hedge accounting for its investments in foreign subsidiaries and agencies with non-derivative instruments (obligations in foreign currency) and derivative operations such as those defined in paragraphs 72 and 78 of IAS 39.

These operations are intended to protect the Bank against the exchange risk (dollar / peso) in the structural positions of its subsidiaries and agencies abroad, which are denominated in US dollars.

At maturity, the hedging instruments are renewed successively, in order to comply with the strategy of reducing the rate risk the Bank might have in a specific period.

Foreign exchange gains or losses on investments in subsidiaries or affiliates, or even foreign exchange gains or losses that are not entirely eliminated in the consolidation with foreign branches, are recorded under “other comprehensive income” (OCI).

Instruments for hedging

Non-derivative: According to paragraph 72 of IAS 39, a financial asset or liability that is not a derivative may be designated as a hedging instrument only to hedge a risk in foreign currency. By the same token, a portion of a complete instrument for hedging, such as 50% of the notional amount, can be designated as a hedging instrument in a hedging relationship.

For this reason, external debt operations are susceptible to being designated as hedges against the investment in subsidiaries and agencies abroad.

The effects of variations in the peso/ US dollar exchange rate generated by debt in US dollars designated for hedging are recorded in “other comprehensive income”.

Derivatives: The Bank uses financial derivatives (dollar – peso forwards) to cover the remaining amount of the balance of net foreign investment not hedged with non-derivative instruments (debt). The idea is afford as much protection as possible against the spot effect of the net investment in subsidiaries and agencies abroad, which is expressed in dollars.

Derivative transactions are valued daily, indicating the result attributable to the exchange risk. The effect of the change in the exchange on the portion of the net foreign investment that is hedged with derivative transactions also is determined daily. In this way, the effectiveness of the hedging relationship that is established daily is calculated retrospectively from one day to the next.

(Continúa)

Measuring Effectiveness and Ineffectiveness

A hedge is considered effective if, at the beginning of the period and in subsequent periods, the changes in the fair value or in the cash flows attributable to the hedged risk during the period for which the hedge has been designated are offset and effectiveness of the hedge is within range of 80% to 125%.

The Bank has documented tests of the effectiveness of hedging its net foreign currency investments, based on the portion of the net investment hedged at the beginning of the hedging relationship. The hedging at December 31 and June 30, 2016 is considered to be perfectly effective, since the critical terms and risks of the obligations that serve as hedging instruments are identical to those of the primary hedged position.

Accounting Effect of Hedging the Net Investment of Foreign Businesses

The assets and liabilities in the hedging strategy are converted from dollars into the Bank's functional currency at the representative market rate of exchange, which is certified daily by the Financial Superintendence of Colombia. This generates a gain or loss on the exchange difference.

The following shows the fluctuation of the Colombian peso against the US dollar:

Date	Value of US 1.00	Variation
December 31, 2015	3,149.47	
June 30, 2016	2,919.01	(230.46)
December 31, 2016	3,000.71	81.7

According to the above, the following is a breakdown of hedging on these investments, before taxes:

		December 31, 2016								
		Millions of US dollars					Millions of Colombian pesos			
Detail of the investment		Value of the investment	Nominal Value	Value of the hedge in foreign currency obligations	Value of hedging with forward and futures contracts: Assets	Value of hedging with forward and futures contracts: Liabilities	Adjustment for conversion of the financial statements	Exchange difference in foreign currency obligations	Exchange difference in forward and futures contracts	Net
Leasing Bogotá Panamá	$	3,437	2,868	(2,074)	(1,240)	(107)	1,807,782	(468,918)	(1,336,923)	1,941
Other Banco de Bogotá subsidiaries and agencies (1)		101	81	0	(72)	(28)	56,526	0	(54,862)	1,666
Total	**$**	**3,538**	**2,949**	**(2,074)**	**(1,312)**	**(135)**	**1,864,308**	**(468,918)**	**(1,391,785)**	**3,607**

		June 30, 2016								
		Millions of US dollars					Millions of Colombian pesos			
Detail of the investment		Value of the investment	Nominal Value	Value of the hedge in foreign currency obligations	Value of hedging with forward and futures contracts: Assets	Value of hedging with forward and futures contracts: Liabilities	Adjustment for conversion of the financial statements	Exchange difference in foreign currency obligations	Exchange difference in forward and futures contracts	Net
Leasing Bogotá Panamá	$	3,312	2,868	(2,074)	(1,545)	314	1,536,817	(299,464)	(1,237,503)	(150)
Other Banco de Bogotá subsidiaries and agencies (1)		95	81	0	0	(93)	48,631	0	(46,691)	1,940
Total	**$**	**3,407**	**2,949**	**(2,074)**	**(1,545)**	**221**	**1,585,448**	**(299,464)**	**(1,284,194)**	**1,790**

(1) Includes Banco de Bogotá Panamá, Banco Bogotá Finance, Ficentro and the investments in the foreign branches in Miami, New York and Nassau.

Hedging with Forward Contracts

As of January 1, 2014, forward sale contracts in US dollars were formally designated as hedging instruments for part of the net foreign investment in Leasing Bogotá Panama and the foreign subsidiaries of Banco de Bogotá. The forward contracts were signed with other financial sector counterparts and subsequently documented as a "hedging strategy" through which new forward contracts are entered into simultaneously when the previous ones expire.

Hedging with financial liabilities in foreign currency in US dollars

According to IAS 39, non-derivative financial debt instruments may be designated to hedge the risk of changes in the foreign exchange rate. This being the case, the Bank proceeded to designate debt securities as instruments to hedge its net investments abroad, doing so as follows

- Bonds issued by the Bank on international markets under regulation 144A in December 2011, which mature on January 15, 2017, were designated to hedge the net investment in Leasing Bogotá Panama for US $ 595 million.

- Bonds issued by the Bank on international markets under regulation 144A in February 2013, which mature in February 2023, were designated to hedge the net investment in Leasing Bogotá Panama for US $ 398 million.

- In May 2016, the Bank issued $600 million in bonds on international markets under regulation 144A. They were designated immediately to hedge Leasing Bogotá Panama’s investment of US $ 581 million to replace forward positions.

- In November 2016, the Bank issued $500 million in bonds on international markets under regulation 144A. They were designated immediately to hedge Leasing Bogotá Panama's investment.

Note 9 - Loan Portfolio and Financial Leasing Operations

The balance sheet account listing financial assets from the loan portfolio is classified according to commercial loans, consumer loans, home mortgages and microcredit. This is the same classification adopted by the Financial Superintendence of Colombia in its new Unitary Catalogue of Financial Information (CUIF). Nevertheless, for disclosure purposes and considering how important financial leases are to the Bank, this portfolio is listed separately, for disclosure purposes, in all the tables in this note and according to the following reclassification

		December 31, 2016		
Type		**Loan Portfolio**	**Financial Leases**	**Balance according to revelation**
Commercial	$	36,622,771	2,838,068	39,460,839
Consumer		9,861,690	24,405	9,886,095
Mortgage		2,125,314	308,209	2,433,523
Microcredit		375,932	0	375,932
Total loan portfolio	**$**	**48,985,707**	**3,170,682**	**52,156,389**

(Continúa)

Type		June 30, 2016		
		Loan portfolio	**Financial Leases**	**Balance according to revelation**
Commercial	$	36,593,101	2,787,865	39,380,966
Consumer		9,240,393	22,750	9,263,143
Mortgage		1,914,042	262,786	2,176,828
Microcredit		369,748	0	369,748
Total loan portfolio	**$**	**48,117,284**	**3,073,401**	**51,190,685**

The following shows the loan portfolio, by type:

		December 31, 2016						
		Suitable Collateral			Other Collateral			
		Principal	Interest and Financial Component	Other Items	Principal	Interest and Financial Component	Other Items	Total
Commercial	$	15,128,722	146,323	268	23,857,310	310,843	17,373	39,460,839
Consumer		955,557	7,446	197	8,790,157	114,878	17,860	9,886,095
Mortgage		2,418,250	13,110	2,163	0	0	0	2,433,523
Microcredit		121,457	103	0	244,687	7,135	2,550	375,932
Total gross portfolio		**18,623,986**	**166,982**	**2,628**	**32,892,154**	**432,856**	**37,783**	**52,156,389**
Allowance		(404,640)	(3,095)	(409)	(1,351,584)	(66,702)	(18,285)	(1,844,715)
Total net portfolio	$	**18,219,346**	**163,887**	**2,219**	**31,540,570**	**366,154**	**19,498**	**50,311,674**

		June 30, 2016						
		Suitable Collatera			Other Collateral			
		Principal	Interest and financial Component	Other Items	Principal	Interest and financial Components	Other Items	Total
Commercial	$	14,997,963	130,054	601	23,401,819	295,879	554,650	39,380,966
Consumer		968,642	7,392	205	8,170,941	103,402	12,561	9,263,143
Mortgage		2,163,359	12,008	1,461	0	0	0	2,176,828
Microcredit		120,671	128	0	239,681	6,974	2,294	369,748
Total gross portfolio		**18,250,635**	**149,582**	**2,267**	**31,812,441**	**406,255**	**569,505**	**51,190,685**
Allowance		(365,607)	(3,107)	(427)	(1,218,335)	(55,531)	(14,027)	(1,657,034)
Total net porfolio	**$**	**17,885,028**	**146,475**	**1,840**	**30,594,106**	**350,724**	**555,478**	**49,533,651**

The following is a breakdown of the portfolio, according to the different credit lines.

		December 31, 2016	June 30, 2016
Ordinary loans	$	41,056,360	39,788,727
Credit cards		2,620,185	2,523,837
Home mortgage loans		2,065,005	1,859,104
Leased out movables		1,779,039	1,753,887
Leased out real estate		1,391,643	1,319,514
Loans with resources from other institutions		1,341,401	1,407,461
Loans to builders		713,916	628,326
Microcredits		375,932	369,748
Loans to micro-businesses and SMEs		262,055	256,068
Reimbursements, in advance		243,787	233,186
Bank overdrafts in checking accounts		114,952	200,364
Credit cards - covered		99,254	112,411
Employee loans		52,023	48,973
Non-recourse factoring		25,264	29,033
Other		15,573	646,760
Discounts		0	13,286
Subtotal		**52,156,389**	**51,190,685**
Allowance		(1,844,715)	(1,657,034)
Total	**$**	**50,311,674**	**49,533,651**

The following shows the classification of the loan portfolio, according to the type of risk.

	Suitable Collateral						
	December 31, 2016						
					Allowance		
		Principal	Interest and financial component	Others items	Principal	Interest and financial component	Other items
Commercial							
A – Normal	$	11,505,263	130,938	62	143,387	1,596	3
B – Acceptable		497,218	4,110	66	18,621	195	5
C – Appreciable		430,926	2,631	44	45,220	254	6
D – Significant		107,619	40	6	46,686	40	6
E – Uncollectible		15,206	0	0	15,206	0	0
Subtotal		**12,556,232**	**137,719**	**178**	**269,120**	**2,085**	**20**
Consumer							
A – Normal		878,761	7,111	156	14,870	116	7
B – Acceptable		13,037	191	29	693	9	1
C – Appreciable		14,029	33	2	2,272	6	0
D – Significant		26,743	17	5	14,506	17	5
E – Uncollectible		597	0	1	597	0	1
Subtotal		**933,167**	**7,352**	**193**	**32,938**	**148**	**14**
Mortgage							
A – Normal		2,073,663	11,301	1,692	20,738	210	87
B – Acceptable		16,427	122	57	613	122	52
C – Appreciable		10,836	103	50	1,194	103	50
D – Significant		4,441	55	49	1,671	53	49
E – Uncollectible		6,321	99	98	3,519	99	98
Subtotal		**2,111,688**	**11,680**	**1,946**	**27,735**	**587**	**336**
Microcredit							
A – Normal		103,228	103	0	1,032	1	0
B – Acceptable		3,862	0	0	124	0	0
C – Appreciable		3,175	0	0	635	0	0
D – Significant		2,403	0	0	1,202	0	0
E – Uncollectible		8,789	0	0	8,789	0	0
Subtotal		**121,457**	**103**	**0**	**11,782**	**1**	**0**
Commercial financial leasing							
A – Normal		2,333,857	8,020	68	29,938	105	3
B – Acceptable		151,825	431	2	5,438	12	0
C – Appreciable		43,924	149	13	5,120	88	7
D – Significant		40,546	4	7	16,224	4	7
E – Uncollectible		2,338	0	0	2,338	0	0
Subtotal		**2,572,490**	**8,604**	**90**	**59,058**	**209**	**17**
Consumer financial leasing							
A – Normal		21,288	94	4	328	1	0
B – Acceptable		398	0	0	12	0	0
C – Appreciable		225	0	0	40	0	0
D – Significant		459	0	0	233	0	0
E – Uncollectible		20	0	0	20	0	0
Subtotal		**22,390**	**94**	**4**	**633**	**1**	**0**
Home – mortgage financial leasing							
A – Normal		303,229	1,391	199	3,032	25	4
B – Acceptable		2,182	20	6	176	20	6
C – Appreciable		800	5	4	80	5	4
D – Significant		187	5	3	37	5	3
E – Uncollectible		164	9	5	49	9	5
Subtotal		**306,562**	**1,430**	**217**	**3,374**	**64**	**22**
Total	**$**	**18,623,986**	**166,982**	**2,628**	**404,640**	**3,095**	**409**

	Other Collateral					
	December 31, 2016					
				Allowance		
	Principal	Interest and financial component	Others items	Principal	Interest and financial component	Other items
Commercial						
A – Normal	$ 21,934,110	244,439	8,781	314,098	3,679	4,473
B – Acceptable	528,078	7,959	286	19,381	1,677	171
C – Appreciable	744,918	13,511	402	83,498	10,538	402
D – Significant	248,229	15,190	1,142	170,875	15,190	1,142
E – Uncollectible	165,367	11,989	4,241	159,878	9,857	2,355
Subtotal	**23,620,702**	**293,088**	**14,852**	**747,730**	**40,941**	**8,543**
Consumer						
A – Normal	8,129,966	93,234	14,159	260,222	3,642	3,558
B – Acceptable	203,326	5,681	595	25,551	1,203	258
C – Appreciable	187,045	5,213	444	36,884	3,925	444
D – Significant	209,936	8,219	1,132	162,371	8,219	1,132
E – Uncollectible	58,300	2,439	1,289	58,300	2,439	822
Subtotal	**8,788,573**	**114,786**	**17,619**	**543,328**	**19,428**	**6,214**
Microcredit						
A – Normal	214,178	6,102	1,103	2,142	262	587
B – Acceptable	6,321	218	138	202	216	138
C – Appreciable	4,851	137	131	970	137	131
D – Significant	3,743	118	197	1,871	118	154
E – Uncollectible	15,594	560	981	15,594	560	981
Subtotal	**244,687**	**7,135**	**2,550**	**20,779**	**1,293**	**1,991**
Commercial Financial leasing						
A – Normal	205,920	10,275	898	2,882	152	49
B – Acceptable	16,557	2,176	157	218	146	22
C – Appreciable	5,037	1,755	274	292	1,173	180
D – Significant	7,498	3,128	816	7,498	3,128	816
E – Uncollectible	1,596	421	376	1,572	421	376
Subtotal	**236,608**	**17,755**	**2,521**	**12,462**	**5,020**	**1,443**
Consumer Financial leasing						
A – Normal	1,501	64	143	20	2	7
B – Acceptable	65	10	4	3	0	0
C – Appreciable	0	2	26	0	2	19
D – Significant	18	16	44	11	16	44
E – Uncollectible	0	0	24	0	0	24
Subtotal	**1,584**	**92**	**241**	**34**	**20**	**94**
General Allowance	**0**	**0**	**0**	**27,251**	**0**	**0**
Total	**$ 32,892,154**	**432,856**	**37,783**	**1,351,584**	**66,702**	**18,285**

	Suitable Collateral					
	June 30, 2016					
				Allowance		
	Principal	Interest and Financial Component	Other Items	Principal	Interest and Financial Component	Other Items
Commercial						
A – Normal	$ 11,153,887	105,889	89	138,602	1,366	5
B – Acceptable	732,647	14,302	72	18,422	397	6
C – Appreciable	351,735	2,236	0	37,499	268	0
D – Significant	86,376	68	3	38,374	68	3
E – Uncollectible	7,079	0	0	7,079	0	0
Subtotal	**12,331,724**	**122,495**	**164**	**239,976**	**2,099**	**14**
Consumer						
A – Normal	897,089	7,044	161	14,012	105	8
B – Acceptable	13,786	230	32	666	8	1
C – Appreciable	14,008	22	1	2,287	3	0
D – Significant	19,188	8	6	10,242	8	6
E – Uncollectible	3,280	2	0	3,280	2	0
Subtotal	**947,351**	**7,306**	**200**	**30,487**	**126**	**15**

(Continúa)

	Suitable Collateral June 30, 2016			Allowance		
	Principal	Interest and Financial Component	Other Items	Principal	Interest and Financial Component	Other Items
Home Mortgage						
A – Normal	1,874,156	10,435	1,066	18,742	215	76
B – Acceptable	11,137	98	20	464	79	18
C – Appreciable	7,373	65	39	777	56	33
D – Significant	4,285	63	43	1,534	63	43
E – Uncollectible	5,095	89	78	2,391	89	78
Subtotal	**1,902,046**	**10,750**	**1,246**	**23,908**	**502**	**248**
Microcredit						
A – Normal	105,013	128	0	1,050	1	0
B – Acceptable	4,101	0	0	131	0	0
C – Appreciable	2,400	0	0	480	0	0
D – Significant	1,664	0	0	832	0	0
E – Uncollectible	7,493	0	0	7,493	0	0
Subtotal	**120,671**	**128**	**0**	**9,986**	**1**	**0**
Commercial financial leasing						
A - Normal	2,473,083	7,057	239	29,703	96	6
B - Acceptable	109,622	223	70	3,171	8	3
C - Appreciable	51,269	275	119	6,901	217	118
D -Significant	30,326	3	9	16,276	3	9
E – Uncollectible	1,939	1	0	1,907	1	0
Subtotal	**2,666,239**	**7,559**	**437**	**57,958**	**325**	**136**
Consumer financial leasing						
A – Normal	20,162	86	5	256	1	0
B – Acceptable	521	0	0	15	0	0
C – Appreciable	148	0	0	25	0	0
D – Significant	437	0	0	197	0	0
E – Uncollectible	23	0	0	23	0	0
Subtotal	**21,291**	**86**	**5**	**516**	**1**	**0**
Residential financial leasing						
A – Normal	259,189	1,218	204	2,592	13	3
B – Acceptable	1,000	12	4	32	12	4
C – Appreciable	727	19	3	73	19	3
D – Significant	397	9	4	79	9	4
Subtotal	**261,313**	**1,258**	**215**	**2,776**	**53**	**14**
Total	**$ 18,250,635**	**149,582**	**2,267**	**365,607**	**3,107**	**427**

	Other collateral June 30, 2016			Allowance		
	Principal	Interest and Financial Component	Other Items	Principal	Interest and Financial Component	Other Items
Commercial						
A – Normal	$ 22,034,892	233,260	546,375	348,142	122	1,361
B – Acceptable	491,661	8,316	290	3,794	991	139
C – Appreciable	410,825	12,381	7	40,864	8,482	7
D – Significant	230,182	12,482	1,412	156,981	12,482	1,412
E – Uncollectible	141,473	10,911	4,251	139,590	10,911	4,251
Subtotal	**23,309,033**	**277,350**	**552,335**	**689,371**	**32,988**	**7,170**
Consumer						
A – Normal	7,537,626	83,548	9,441	239,509	3,560	1,442
B – Acceptable	188,923	5,251	501	12,429	1,095	204
C – Appreciable	187,605	4,784	387	20,143	3,670	350
D – Significant	208,056	7,584	929	158,649	7,584	929
E – Uncollectible	47,613	2,126	1,162	47,588	2,126	1,162
Subtotal	**8,169,823**	**103,293**	**12,420**	**478,318**	**18,035**	**4,087**
Microcredit						

(Continúa)

	Other collateral June 30, 2016					
				Allowance		
	Principal	Interest and Financial Component	Other Items	Principal	Interest and Financial Component	Other Items
A – Normal	213,244	5,997	1,048	2,132	300	504
B – Acceptable	6,407	215	126	205	215	115
C – Appreciable	3,826	122	102	765	122	95
D – Significant	3,015	102	123	1,507	102	123
E – Uncollectible	13,189	538	895	13,189	538	895
Subtotal	**239,681**	**6,974**	**2,294**	**17,798**	**1,277**	**1,732**
Commercial financial leasing						
A – Normal	69,488	13,822	1,197	3,240	227	45
B – Acceptable	12,460	1,550	126	321	89	11
C – Appreciable	3,288	1,252	537	317	989	492
D – Significant	5,786	1,342	228	2,378	1,342	228
E – Uncollectible	1,764	563	227	1,764	563	227
Subtotal	**92,786**	**18,529**	**2,315**	**8,020**	**3,210**	**1,003**
Consumer financial leasing						
A – Normal	998	76	96	14	1	2
B – Acceptable	0	14	4	0	2	1
C – Appreciable	0	1	15	0	0	6
D – Significant	87	16	18	86	16	18
E – Uncollectible	33	2	8	33	2	8
Subtotal	**1,118**	**109**	**141**	**133**	**21**	**35**
General allowance	0	0	0	24,695	0	0
Total	**$ 31,812,441**	**406,255**	**569,505**	**1,218,335**	**55,531**	**14,027**

The loan portfolio, by economic sector, breaks down as follows:

	December 31, 2016						
Economics Sectors	Commercial	Consumer	Home-Mortgage	Microcredit	Financial Leasing	Total	Portion %
Agriculture, livestock, forestry and fishing	$ 1,067,170	169,032	24,530	28,870	108,881	1,398,483	3%
Mining and quarrying	1,015,144	9,661	2,239	283	61,675	1,089,002	2%
Manufacturing industries	7,221,253	158,512	34,136	43,602	650,375	8,107,878	15%
Supply of electricity, gas, steam and air conditioning	2,770,516	514	93	91	15,452	2,786,666	5%
Water distribution; waste water evacuation and treatment, waste management and environmental sanitation activities	182,216	5,093	593	1,433	33,929	223,264	0%
Construction	3,904,225	99,878	22,474	4,026	184,944	4,215,547	8%
Wholesale and Retail; Automobile and motorcycle repair	5,575,260	716,416	143,422	183,299	414,736	7,033,133	14%
Transport, storage	3,370,591	321,979	66,772	13,266	576,460	4,349,068	8%
Accommodation and food services	254,259	76,187	18,333	22,013	35,315	406,107	1%
Information and communications	721,417	25,219	6,280	3,095	16,052	772,063	2%
Financial and insurance activities	4,088,305	10,702	3,837	287	15,921	4,119,052	8%
Real estate activities	1,159,050	33,468	7,031	604	178,425	1,378,578	3%
Professional, scientific and technical activities	1,492,349	674,599	235,781	21,069	132,094	2,555,892	5%
Administrative services and support activities	717,518	38,902	7,619	4,496	79,022	847,557	2%
Public administration and defense; social security plans with mandatory affiliation	1,245,373	0	0	8	6,160	1,251,541	2%

(Continúa)

Economics Sectors		December 31, 2016 Commercial	Consumer	Home-Mortgage	Microcredit	Financial Leasing	Total	Portion %
Education		313,175	21,709	7,774	695	59,593	402,946	1%
Human health care and social assistance activities		730,454	77,753	31,791	1,043	274,223	1,115,264	2%
Artistic, entertainment and recreational activities		70,954	189,142	2,348	1,286	7,311	271,041	0%
Other service activities		310,077	35,737	7,382	10,058	19,835	383,089	1%
Activities of individual households as employers		12	449	0	23	0	484	0%
Activities of extraterritorial organizations entities		870	284	75	3	212,527	213,759	0%
Salaried employee		314,803	6,918,902	1,444,448	33,547	73,811	8,785,511	17%
Capital investors		97,780	277,552	58,356	2,835	13,941	450,464	1%
Total	**$**	**36,622,771**	**9,861,690**	**2,125,314**	**375,932**	**3,170,682**	**52,156,389**	**100%**

Sectors		June 30, 2016 Commercial	Consumer	Home mortgages	Microcredit	Financial Leases	Total	Portion (%)
Agriculture, livestock, forestry and fishing	$	1,072,441	161,617	21,801	27,157	103,384	1,386,400	3%
Mining and quarrying		1,111,345	9,164	2,269	322	63,391	1,186,491	2%
Manufacturing industries		6,619,182	150,563	31,417	42,228	625,335	7,468,725	15%
Supply of electricity, gas, steam and air conditioning		3,023,664	598	95	70	3,002	3,027,429	6%
Water distribution; waste water evacuation and treatment, waste management and environmental sanitation activities		151,163	5,030	506	1,307	28,800	186,806	0%
Construction		3,607,402	96,699	20,427	3,669	187,634	3,915,831	8%
Wholesale and Retail; Automobile and motorcycle repair		5,659,036	662,425	129,085	182,005	409,658	7,042,209	14%
Transport, storage		3,481,450	300,312	59,007	12,904	567,387	4,421,060	9%
Accommodation and food services		244,706	69,236	16,786	22,809	30,303	383,840	1%
Information and communications		706,506	23,277	5,446	3,190	18,228	756,647	1%
Financial and insurance activities		4,089,034	9,812	3,867	192	22,282	4,125,187	8%
Real estate activities		1,055,076	32,020	6,682	607	194,337	1,288,722	3%
Professional, scientific and technical activities		1,528,189	637,846	216,730	21,080	121,895	2,525,740	5%
Administrative services and support activities		803,240	35,538	7,311	3,872	70,439	920,400	2%
Public administration and defense; social security plans with mandatory affiliation		1,228,302	0	0	15	6,401	1,234,718	2%
Education		313,225	19,921	7,229	768	60,121	401,264	1%
Human health care and social assistance activities		748,855	71,871	30,376	1,000	269,376	1,121,478	2%
Artistic, entertainment and recreational activities		68,947	170,793	2,245	1,188	7,298	250,471	0%
Other service activities		643,068	31,916	7,783	9,771	19,519	712,057	1%
Activities of individual households as employers		10	452	0	26	0	488	0%
Activities of extraterritorial organizations and entities		1,124	221	76	5	0	1,426	0%
Salaried employee		346,205	6,485,015	1,290,597	32,578	233,397	8,387,792	16%
Capital investors		90,931	266,067	54,307	2,985	31,214	445,504	1%
Total	**$**	**36,593,101**	**9,240,393**	**1,914,042**	**369,748**	**3,073,401**	**51,190,685**	**100%**

(Continúa)

BANCO DE BOGOTÁ

Notes to the Separate Financial Statements

The loan portfolio, by geographic area, breaks down as follows:

	Suitable collateral					
	December 31, 2016					
				Allowances		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial						
Amazon Region	$ 15,250	96	1	514	12	0
Andean Region	11,012,320	115,787	152	240,569	1,731	18
Caribbean Region	1,194,028	18,463	23	21,590	283	2
Island Region	11,461	48	0	159	1	0
Orinoco Region	303,448	3,250	2	5,760	56	0
Pacific Region	19,725	75	0	528	2	0
Subtotal	**12,556,232**	**137,719**	**178**	**269,120**	**2,085**	**20**
Consumer						
Amazon Region	2,442	30	0	83	1	0
Andean Region	849,449	6,558	170	29,486	132	12
Caribbean Region	74,220	682	22	3,145	13	1
Island Region	335	6	0	7	0	0
Orinoco Region	5,841	70	1	165	2	1
Pacific Region	880	6	0	52	0	0
Subtotal	**933,167**	**7,352**	**193**	**32,938**	**148**	**14**
Home mortgages						
Amazon Region	4,157	21	4	51	2	1
Andean Region	1,799,268	9,997	1,637	23,780	448	254
Caribbean Region	241,708	1,268	235	3,013	96	57
Island Region	2,002	14	1	20	0	0
Orinoco Region	61,606	366	67	842	41	24
Pacific Region	2,947	14	2	29	0	0
Subtotal	**2,111,688**	**11,680**	**1,946**	**27,735**	**587**	**336**
Microcredit						
Amazon Region	1,540	2	0	210	0	0
Andean Region	90,859	85	0	8,685	1	0
Caribbean Region	19,683	13	0	1,915	0	0
Island Region	204	0	0	29	0	0
Orinoco Region	7,515	3	0	817	0	0
Pacific Region	1,656	0	0	126	0	0
Subtotal	**121,457**	**103**	**0**	**11,782**	**1**	**0**
Commercial financial leasing						
Amazon Region	2,244	8	0	99	0	0
Andean Region	2,284,256	7,693	88	49,294	193	16
Caribbean Region	261,309	788	1	8,337	11	0
Island Region	435	4	0	16	0	0
Orinoco Region	19,242	96	1	1,148	5	1
Pacific Region	5,004	15	0	164	0	0
Subtotal	**2,572,490**	**8,604**	**90**	**59,058**	**209**	**17**
Consumer financial leasing						
Amazon Region	19	0	0	0	0	0
Andean Region	21,278	90	4	565	1	0
Caribbean Region	1,073	4	0	68	0	0
Orinoco Region	20	0	0	0	0	0
Subtotal	**22,390**	**94**	**4**	**633**	**1**	**0**
Home-mortgage financial leasing						
Andean Region	264,961	1,263	183	2,929	52	18
Caribbean Region	38,220	150	31	411	12	4
Orinoco Region	2,596	14	2	26	0	0
Pacific Region	785	3	1	8	0	0
Subtotal	**306,562**	**1,430**	**217**	**3,374**	**64**	**22**
Total	**$ 18,623,986**	**166,982**	**2,628**	**404,640**	**3,095**	**409**

(Continúa)

		Other Collateral					
		December 31, 2016					
					Allowances		
		Principal	Interest	Other items	Principal	Interest	Other items
Commercial							
Amazon Region	$	11,017	483	211	948	108	85
Andean Region		17,510,240	244,554	11,637	595,377	35,910	6,557
Caribbean Region		2,296,876	20,961	1,964	93,919	3,343	1,339
Island Region		5,836	100	9	200	14	1
Orinoco Region		112,593	3,672	917	10,136	1,174	486
Pacific Region		36,804	368	114	1,911	111	75
Miami		1,671,762	11,887	0	20,701	145	0
New York		1,868,821	10,498	0	22,510	126	0
Panamá		106,753	565	0	2,028	10	0
Subtotal		**23,620,702**	**293,088**	**14,852**	**747,730**	**40,941**	**8,543**
Consumer							
Amazon Region		56,375	815	115	4,086	147	35
Andean Region		7,616,105	97,118	14,435	449,639	15,476	5,066
Caribbean Region		750,167	11,299	2,196	59,677	2,542	799
Island Region		15,942	233	31	900	30	8
Orinoco Region		279,744	4,316	690	24,141	1,060	256
Pacific Region		70,240	1,005	152	4,885	173	50
Subtotal		**8,788,573**	**114,786**	**17,619**	**543,328**	**19,428**	**6,214**
Microcredit							
Amazon Region		2,758	91	38	286	27	27
Andean Region		196,821	5,658	1,831	15,787	987	1,448
Caribbean Region		29,132	887	455	2,873	169	350
Island Region		211	7	5	29	0	3
Orinoco Region		13,662	425	183	1,598	98	138
Pacific Region		2,103	67	38	206	12	25
Subtotal		**244,687**	**7,135**	**2,550**	**20,779**	**1,293**	**1,991**
Commercial financial leasing							
Amazon Region		0	16	5	0	9	2
Andean Region		201,899	13,911	2,279	531	3,513	1,362
Caribbean Region		28,262	3,635	172	11,673	1,442	51
Island Region		0	0	2	0	0	0
Orinoco Region		6,301	176	55	253	51	27
Pacific Region		146	17	8	5	5	1
Subtotal		**236,608**	**17,755**	**2,521**	**12,462**	**5,020**	**1,443**
Consumer financial leasing							
Andean Region		1,582	85	230	34	17	88
Caribbean Region		2	7	11	0	3	6
Subtotal		**1,584**	**92**	**241**	**34**	**20**	**94**
General Allowances		**0**	**0**	**0**	**27,251**	**0**	**0**
Total	**$**	**32,892,154**	**432,856**	**37,783**	**1,351,584**	**66,702**	**18,285**

		Suitable collateral					
		June 30, 2016					
					Provision		
		Principal	Interest	Other items	Principal	Interest	Other items
Commercial							
Amazon Region	$	16,115	118	1	541	13	0
Andean Region		10,982,115	106,694	145	216,100	1,839	12
Caribbean Region		1,000,017	12,623	16	16,703	195	2
Island Region		13,094	52	0	191	1	0
Orinoco Region		302,623	2,944	2	5,790	49	0
Pacific Region		17,760	64	0	651	2	0
Subtotal		**12,331,724**	**122,495**	**164**	**239,976**	**2,099**	**14**
Consumer							
Amazon Region		2,396	27	0	44	1	0
Andean Region		881,681	6,662	179	27,782	115	14
Caribbean Region		57,061	560	20	2,163	9	1
Island Region		143	1	0	5	0	0
Orinoco Region		5,331	52	1	380	1	0
Pacific Region		739	4	0	113	0	0
Subtotal		**947,351**	**7,306**	**200**	**30,487**	**126**	**15**

(Continúa)

	Suitable collateral June 30, 2016 Principal	Interest	Other items	Provision Principal	Provision Interest	Provision Other items
Home mortgages						
Amazon Region	3,423	20	2	37	2	0
Andean Region	1,625,699	9,184	1,024	20,673	403	206
Caribbean Region	214,975	1,208	173	2,482	70	31
Island Region	1,304	6	1	13	0	0
Orinoco Region	54,230	321	45	679	27	11
Pacific Region	2,415	11	1	24	0	0
Subtotal	**1,902,046**	**10,750**	**1,246**	**23,908**	**502**	**248**
Microcredit						
Amazon Region	1,658	3	0	141	0	0
Andean Region	90,115	99	0	7,405	1	0
Caribbean Region	19,640	21	0	1,641	0	0
Island Region	238	0	0	33	0	0
Orinoco Region	7,600	5	0	643	0	0
Pacific Region	1,420	0	0	123	0	0
Subtotal	**120,671**	**128**	**0**	**9,986**	**1**	**0**
Commercial financial leasing						
Amazon Region	1,921	5	0	81	0	0
Andean Region	2,383,846	6,923	431	39,970	312	133
Caribbean Region	251,466	527	4	16,270	9	2
Island Region	135	0	0	5	0	0
Orinoco Region	22,636	85	1	1,404	3	1
Pacific Region	6,235	19	1	228	1	0
Subtotal	**2,666,239**	**7,559**	**437**	**57,958**	**325**	**136**
Consumer financial leasing						
Amazon Region	20	0	0	0	0	0
Andean Region	19,934	84	5	443	1	0
Caribbean Region	1,282	2	0	72	0	0
Orinoco Region	55	0	0	1	0	0
Subtotal	**21,291**	**86**	**5**	**516**	**1**	**0**
Home-mortgage financial leasing						
Andean Region	231,384	1,108	170	2,455	45	13
Caribbean Region	26,648	130	44	288	8	1
Orinoco Region	2,465	17	1	25	0	0
Pacific Region	816	3	0	8	0	0
Subtotal	**261,313**	**1,258**	**215**	**2,776**	**53**	**14**
Total	**$ 18,250,635**	**149,582**	**2,267**	**365,607**	**3,107**	**427**

	Other collateral June 30, 2016 Principal	Interest	Other items	Allowance Principal	Allowance Interest	Allowance Other items
Commercial						
Amazon Region	$ 12,813	556	194	1,751	187	95
Andean Region	17,651,073	218,916	549,529	568,739	28,385	5,450
Caribbean Region	2,268,562	32,191	1,727	64,722	3,087	1,151
Island Region	6,144	139	7	187	5	1
Orinoco Region	109,277	3,228	788	9,001	934	418
Pacific Region	23,961	344	90	1,762	109	55
Miami	1,755,487	11,978	0	24,731	151	0
New York	1,374,250	9,211	0	16,553	111	0
Panamá	107,466	787	0	1,925	19	0
Subtotal	**23,309,033**	**277,350**	**552,335**	**689,371**	**32,988**	**7,170**
Consumer						
Amazon Region	53,190	767	80	3,738	148	27
Andean Region	7,086,065	86,930	10,463	395,804	14,405	3,360
Caribbean Region	687,884	10,412	1,309	51,649	2,303	465
Island Region	14,601	208	20	719	28	5
Orinoco Region	263,470	4,059	439	21,751	969	189
Pacific Region	64,613	917	109	4,657	182	41
Subtotal	**8,169,823**	**103,293**	**12,420**	**478,318**	**18,035**	**4,087**

	Other collateral					
	June 30, 2016					
				Allowance		
	Principal	Interest	Other items	Principal	Interest	Other items
Microcredit						
Amazon Region	2,821	85	28	232	18	19
Andean Region	192,686	5,528	1,696	13,639	992	1,293
Caribbean Region	28,215	863	393	2,460	160	298
Island Region	246	10	3	33	1	2
Orinoco Region	13,968	429	146	1,271	90	100
Pacific Region	1,745	59	28	163	16	20
Subtotal	**239,681**	**6,974**	**2,294**	**17,798**	**1,277**	**1,732**
Commercial financial leasing						
Amazon Region	0	14	5	0	1	0
Andean Region	64,522	15,477	2,042	6,349	2,092	889
Caribbean Region	22,442	2,783	134	1,583	1,044	25
Island Region	293	0	0	10	0	0
Orinoco Region	5,311	226	110	71	67	87
Pacific Region	218	29	24	7	6	2
Subtotal	**92,786**	**18,529**	**2,315**	**8,020**	**3,210**	**1,003**
Consumer financial leasing						
Andean Region	971	100	134	131	18	32
Caribbean Region	147	9	7	2	3	3
Subtotal	**1,118**	**109**	**141**	**133**	**21**	**35**
General Allowances	0	0	0	24,695	0	0
Total	**$ 31,812,441**	**406,255**	**569,505**	**1,218,335**	**55,531**	**14,027**

The following are the details of the loan portfolio, by type of currency:

	December 31, 2016			
Loan Types	Domestic Currency	Foreign currency	UVR	Total
Commercial	**$** 31,101,856	5,520,915	0	36,622,771
Consumer	9,861,690	0	0	9,861,690
Mortgage	2,118,337	0	6,977	2,125,314
Microcredit	375,932	0	0	375,932
Commercial Leasing	2,806,125	31,943	0	2,838,068
Consumer Leasing	24,405	0	0	24,405
Residential Leasing	308,209	0	0	308,209
Total	**$ 46,596,554**	**5,552,858**	**6,977**	**52,156,389**

	June 30, 2016			
Loan Types	Domestic currency	Foreign currency	UVR	Total
Commercial	$ 31,457,068	5,136,033	0	36,593,101
Consumer	9,240,393	0	0	9,240,393
Mortgage	1,906,144	0	7,898	1,914,042
Microcredit	369,748	0	0	369,748
Commercial Leasing	2,756,270	31,595	0	2,787,865
Consumer Leasing	22,750	0	0	22,750
Residential Leasing	262,786	0	0	262,786
Total	**$ 46,015,159**	**5,167,628**	**7,898**	**51,190,685**

The following are the details of the loan portfolio, by maturity:

	December 31, 2016					
	0 to 1 year	1 to 3 year	3 to 5 year	5 to 10 year	More than 10 Years	Total
Commercial	$ 15,419,058	10,651,226	5,640,649	251,658	4,660,180	36,622,771
Consumer	3,384,025	3,869,984	1,740,719	865,613	1,349	9,861,690
Mortgage	120,612	232,766	254,535	685,035	832,366	2,125,314
Microcredit	173,297	179,807	18,973	3,855	0	375,932
Commercial Leasing	1,046,109	696,170	415,482	658,694	21,613	2,838,068
Consumer Leasing	7,997	11,598	4,746	64	0	24,405
Residential Leasing	46,360	17,956	24,016	73,766	146,111	308,209
Total	**$ 20,197,458**	**15,659,507**	**8,099,120**	**2,538,685**	**5,661,619**	**52,156,389**

	June 30, 2016					
	0 to 1 year	1 to 3 year	3 to 5 year	5 to 10 year	More than 10 Years	Total
Commercial	$ 17,948,964	9,238,585	5,475,443	3,749,782	180,327	36,593,101
Consumer	3,227,588	3,641,037	1,679,472	690,854	1,442	9,240,393
Mortgage	98,602	191,098	212,855	589,552	821,935	1,914,042
Microcredit	178,716	175,661	15,099	267	5	369,748
Commercial Leasing	937,727	656,974	414,310	683,520	95,334	2,787,865
Consumer Leasing	4,360	8,175	9,716	499	0	22,750
Residential Leasing	21,609	3,081	3,830	8,030	226,236	262,786
Total	**$ 22,417,566**	**13,914,611**	**7,810,725**	**5,722,504**	**1,325,279**	**51,190,685**

The following is a breakdown of the restructured loan portfolio:

	December 31, 2016					
				Allowances		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial						
Law 1116	$ 318,153	3,435	187	118,324	2,694	187
Law 550	34,862	6,734	0	25,538	4,370	0
Law 617	58,065	418	0	522	2	0
Ordinary loans	332,043	5,374	1,816	49,411	3,514	1,756
Universal processes pending of creditors	276,840	7,197	766	85,534	7,018	766
Other types of restructuring	86,353	2,397	445	60,393	2,393	445
Subtotal	**1,106,316**	**25,555**	**3,214**	**339,722**	**19,991**	**3,154**
Consumer						
Law 1116	821	6	11	617	6	11
Ordinary loans	346,241	6,791	1,456	99,903	4,213	1,172
Universal processes pending of creditors	4,519	164	72	3,896	164	72
Other types of restructuring	461	5	3	354	5	3
Subtotal	**352,042**	**6,966**	**1,542**	**104,770**	**4,388**	**1,258**
Home Mortgages						
Law 1116	2,237	0	0	22	0	0
Ordinary loans	6,321	26	14	230	15	12
Universal processes pending of creditors	864	17	8	226	17	8
Other types of restructuring	730	18	7	138	18	7
Subtotal	**10,152**	**61**	**29**	**616**	**50**	**27**

(Continúa)

	December 31, 2016					
				Allowances		
	Principal	Interest	Other items	Principal	Interest	Other items
Microcredit						
Law 1116	50	5	1	1	5	1
Ordinary loans	23,608	98	683	9,706	90	678
Universal processes pending of creditors	10	1	2	10	1	2
Other types of restructuring	1	0	0	1	0	0
Subtotal	**23,669**	**104**	**686**	**9,718**	**96**	**681**
Commercial financial leasing						
Law 1116	1,602	111	15	405	100	12
Ordinary loans	3,065	40	3	488	20	3
Universal processes pending of creditors	42,539	2,641	612	17,600	2,633	610
Other types of restructuring	568	37	27	505	37	27
Subtotal	**47,774**	**2,829**	**657**	**18,998**	**2,790**	**652**
Consumer financial leasing						
Ordinary loans	349	2	2	27	0	1
Subtotal	**349**	**2**	**2**	**27**	**0**	**1**
Home-mortgage financial leasing						
Ordinary loans	267	0	0	3	0	0
Subtotal	**267**	**0**	**0**	**3**	**0**	**0**
Totals						
Law 1116	322,863	3,557	214	119,369	2,805	211
Law 550	34,862	6,734	0	25,538	4,370	0
Law 617	58,065	418	0	522	2	0
Ordinary loans	711,894	12,331	3,974	159,768	7,852	3,622
Universal processes pending of creditors	324,772	10,020	1,460	107,266	9,833	1,458
Other types of restructuring	88,113	2,457	482	61,391	2,453	482
Total	$ **1,540,569**	**35,517**	**6,130**	**473,854**	**27,315**	**5,773**

	June 30, 2016					
				Allowances		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial						
Law 1116	$ 300,382	3,231	204	103,022	2,432	191
Law 550	35,415	6,363	0	29,214	834	0
Law 617	25,388	429	0	198	2	0
Ordinary loans	296,988	6,311	1,439	51,803	4,358	1,409
Universal processes pending of creditors	264,698	6,219	676	75,939	6,083	676
Other types of restructuring	65,817	2,174	411	39,442	2,171	411
Subtotal	**988,688**	**24,727**	**2,730**	**299,618**	**15,880**	**2,687**
Consumer						
Law 1116	661	5	10	521	5	10
Ordinary loans	295,738	5,704	625	81,870	3,796	541
Universal processes pending of creditors	3,553	126	62	3,250	126	62
Other types of restructuring	616	11	5	487	11	5
Subtotal	**300,568**	**5,846**	**702**	**86,128**	**3,938**	**618**
Home mortgages						
Law 1116	272	0	0	3	0	0
Ordinary loans	2,057	5	5	91	3	5
Universal processes pending of creditors	2,167	51	35	836	51	35
Other types of restructuring	47	0	0	0	0	0
Subtotal	**4,543**	**56**	**40**	**930**	**54**	**40**
Microcredit						
Law 1116	50	5	1	1	5	1
Ordinary loans	21,138	47	472	6,438	38	469
Universal processes pending of creditors	10	1	2	10	1	2
Other types of restructuring	1	0	0	1	0	0
Subtotal	**21,199**	**53**	**475**	**6,450**	**44**	**472**

(Continúa)

	June 30, 2016					
				Allowances		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial finance leases						
Law 1116	1,371	43	12	705	42	12
Law 550	32	14	0	32	14	0
Ordinary loans	1,312	9	0	144	1	0
Universal processes pending of creditors	36,534	1,250	136	14,845	1,202	133
Other types of restructuring	412	30	5	257	30	5
Subtotal	**39,661**	**1,346**	**153**	**15,983**	**1,289**	**150**
Consumers finance leases						
Ordinary loans	90	0	0	18	0	0
Universal processes pending of creditors	85	3	8	85	3	8
Subtotal	**175**	**3**	**8**	**103**	**3**	**8**
Totals						
Law 1116	302,736	3,284	227	104,252	2,484	214
Law 550	35,447	6,377	0	29,246	848	0
Law 617	25,388	429	0	198	2	0
Ordinary loans	617,323	12,076	2,541	140,364	8,196	2,424
Universal processes pending of creditors	307,047	7,650	919	94,965	7,466	916
Other types of restructuring	66,893	2,215	421	40,187	2,212	421
Total	**$ 1,354,834**	**32,031**	**4,108**	**409,212**	**21,208**	**3,975**

The restructured loan portfolio, by credit rating, breaks down as follows:

	Suitable Collateral						
	December 31, 2016						
					Allowance		
Credit rating	No. Loans	Principal	Interest	Other items	Principal	Interest	Others
Commercial							
A – Normal	133	$ 60,628	314	0	545	1	0
B – Acceptable	257	85,067	241	0	2,844	13	0
C – Appreciable	606	220,810	174	1	26,400	17	0
D – Significant	664	46,949	14	0	21,779	14	0
E – Uncollectible	46	13,789	0	0	13,789	0	0
Subtotal	**1,706**	**427,243**	**743**	**1**	**65,357**	**45**	**0**
Consumer							
A – Normal	368	7,946	12	0	315	0	0
B – Acceptable	70	1,502	8	0	122	1	0
C – Appreciable	339	5,762	10	0	1,027	1	0
D – Significant	284	6,419	1	2	3,444	1	2
E – Uncollectible	5	207	0	0	207	0	0
Subtotal	**1,066**	**21,836**	**31**	**2**	**5,115**	**3**	**2**
Home-mortgages							
A – Normal	69	6,679	15	5	65	4	3
B – Acceptable	16	1,187	6	3	50	6	3
C – Appreciable	8	1,262	16	6	149	16	6
D – Significant	3	746	19	7	155	19	7
E – Uncollectible	4	278	5	8	197	5	8
Subtotal	**100**	**10,152**	**61**	**29**	**616**	**50**	**27**
Microcredit							
A – Normal	468	3,197	0	0	34	0	0
B – Acceptable	109	697	0	0	22	0	0
C – Appreciable	107	813	0	0	163	0	0
D – Significant	81	527	0	0	263	0	0
E – Uncollectible	338	3,127	0	0	3,127	0	0
Subtotal	**1,103**	**8,361**	**0**	**0**	**3,609**	**0**	**0**

(Continúa)

Credit rating	Suitable Collateral December 31, 2016 No. Loans		Principal	Interest	Other items	Allowance Principal	Allowance Interest	Allowance Others
Commercial Financial Leasing								
B – Acceptable	1		102	0	0	4	0	0
C – Appreciable	75		11,173	92	1	1,468	81	1
D – Significant	24		29,529	0	0	12,926	0	0
E – Uncollectible	9		763	0	0	763	0	0
Subtotal	**109**		**41,567**	**92**	**1**	**15,161**	**81**	**1**
Consumer Financial leasing								
A - Normal	2		233	0	0	3	0	0
C - Appreciable	2		116	0	0	24	0	0
Subtotal	**4**		**349**	**0**	**0**	**27**	**0**	**0**
Home-mortgage Financial leasing								
A - Normal	2		267	0	0	3	0	0
Subtotal	**2**		**267**	**0**	**0**	**3**	**0**	**0**
Total restructured	**4,090**	$	**509,775**	**927**	**33**	**89,888**	**179**	**30**

Credit rating	Other Collateral December 31, 2016 No. Loans		Principal	Interest	Other items	Allowances Principal	Allowances Interest	Allowances Others
Commercial								
A – Normal	393	$	39,097	227	15	707	10	12
B – Acceptable	651		69,216	929	93	3,711	187	75
C – Appreciable	2,222		295,070	6,751	367	40,761	5,230	329
D – Significant	2,091		134,191	6,661	1,669	93,091	6,639	1,669
E – Uncollectible	1,259		141,499	10,244	1,069	136,095	7,880	1,069
Subtotal	**6,616**		**679,073**	**24,812**	**3,213**	**274,365**	**19,946**	**3,154**
Consumer								
A – Normal	21,164		118,604	1,521	206	9,281	256	102
B – Acceptable	11,580		47,647	1,030	148	7,769	370	59
C – Appreciable	17,449		88,949	1,790	336	19,254	1,165	245
D – Significant	10,404		57,422	1,952	637	45,767	1,952	637
E – Uncollectible	2,501		17,584	642	213	17,584	642	213
Subtotal	**63,098**		**330,206**	**6,935**	**1,540**	**99,655**	**4,385**	**1,256**
Microcredit								
A – Normal	1,263		6,406	29	72	64	21	67
B – Acceptable	261		1,292	6	34	41	6	34
C – Appreciable	242		1,419	10	44	284	10	44
D – Significant	179		942	4	46	471	4	46
E – Uncollectible	889		5,249	55	490	5,249	55	490
Subtotal	**2,834**		**15,308**	**104**	**686**	**6,109**	**96**	**681**
Commercial financial leasing								
C – Appreciable	8		2,462	838	41	92	810	37
D – Significant	18		3,529	1,838	578	3,529	1,838	578
E – Uncollectible	14		216	61	36	216	61	36
Subtotal	**40**		**6,207**	**2,737**	**656**	**3,837**	**2,709**	**651**
Consumer financial leasing								
D – Significant	0		0	2	1	0	0	0
E – Uncollectible	0		0	0	1	0	0	1
Subtotal	**0**		**0**	**2**	**2**	**0**	**0**	**1**
Total	**72,588**	$	**1,030,794**	**34,590**	**6,097**	**383,966**	**27,136**	**5,743**

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Notes to the Separate Financial Statements

Credit rating	Suitable Collateral June 30, 2016 No. Loans	Principal	Interest	Other items	Allowance Principal	Allowance Interest	Allowance Others
Commercial							
A – Normal	145	$ 29,700	378	0	241	2	0
B – Acceptable	218	35,630	846	0	995	16	0
C – Appreciable	443	216,304	480	0	24,673	56	0
D – Significant	324	37,978	38	1	20,629	38	0
E – Uncollectible	39	5,534	0	0	5,534	0	0
Subtotal	**1,169**	**325,146**	**1,742**	**1**	**52,072**	**112**	**0**
Consumer							
A – Normal	319	6,499	9	0	227	0	0
B – Acceptable	48	1,129	4	0	86	0	0
C – Appreciable	320	5,471	6	0	989	1	0
D – Significant	177	3,676	1	2	1,904	0	2
E – Uncollectible	17	386	0	0	386	0	0
Subtotal	**881**	**17,161**	**20**	**2**	**3,592**	**1**	**2**
Home Mortgages							
A – Normal	37	2,035	4	1	20	2	1
B – Acceptable	7	225	0	1	38	0	1
C – Appreciable	2	186	2	1	19	2	1
D – Significant	2	28	0	1	11	0	1
E – Uncollectible	4	2,069	50	36	842	50	36
Subtotal	**52**	**4,543**	**56**	**40**	**930**	**54**	**40**
Microcredit							
A – Normal	535	3,838	0	0	38	0	0
B – Acceptable	92	706	0	0	23	0	0
C – Appreciable	78	538	0	0	108	0	0
D – Significant	57	389	0	0	195	0	0
E – Uncollectible	246	2,111	0	0	2,111	0	0
Subtotal	**1,008**	**7,582**	**0**	**0**	**2,475**	**0**	**0**
Commercial finance leases							
C – Appreciable	74	11,025	179	116	1,164	170	116
D – Significant	17	23,534	1	1	12,770	1	1
E – Uncollectible	5	520	1	0	520	1	0
Subtotal	**96**	**35,079**	**181**	**117**	**14,454**	**172**	**117**
Consumer finance leases							
C – Appreciable	1	90	0	0	18	0	0
Subtotal	**1**	**90**	**0**	**0**	**18**	**0**	**0**
Total restructured loans	**3,207**	**$ 389,601**	**1,999**	**160**	**73,541**	**339**	**159**

Credit rating	Other collateral June 30, 2016 No. Loans	Principal	Interest	Other items	Allowance Principal	Allowance Interest	Allowance Others
Commercial							
A – Normal	461	$ 60,117	249	31	1,028	9	17
B – Acceptable	598	54,633	887	66	1,736	442	61
C – Appreciable	2,203	311,155	6,593	292	43,237	5,246	269
D – Significant	1,679	119,806	6,141	1,358	85,573	6,141	1,358
E – Uncollectible	1,270	117,831	9,115	982	115,972	3,930	982
Subtotal	**6,211**	**663,542**	**22,985**	**2,729**	**247,546**	**15,768**	**2,687**
Consumer							
A – Normal	17,536	94,227	1,227	122	6,870	314	83
B – Acceptable	10,572	40,493	841	51	6,628	456	37
C – Appreciable	17,943	87,855	1,707	159	18,408	1,116	128
D – Significant	8,791	48,195	1,532	273	37,993	1,532	273

	Other collateral						
	June 30, 2016						
					Allowance		
Credit rating	No. Loans	Principal	Interest	Other items	Principal	Interest	Others
E – Uncollectible	2,468	12,637	519	95	12,637	519	95
Subtotal	**57,310**	**283,407**	**5,826**	**700**	**82,536**	**3,937**	**616**
Microcredit							
A – Normal	1,365	7,422	32	68	74	23	65
B – Acceptable	209	1,189	2	26	38	2	26
C – Appreciable	175	943	1	34	189	1	34
D – Significant	132	777	2	29	388	2	29
E – Uncollectible	512	3,286	16	318	3,286	16	318
Subtotal	**2,393**	**13,617**	**53**	**475**	**3,975**	**44**	**472**
Commercial finance leases							
C – Appreciable	3	301	139	7	33	91	4
D – Significant	14	4,133	978	16	1,348	978	16
E – Uncollectible	10	148	48	13	148	48	13
Subtotal	**27**	**4,582**	**1,165**	**36**	**1,529**	**1,117**	**33**
Consumer finance leases							
D – Significant	2	85	3	6	85	3	6
E – Uncollectible	1	0	0	2	0	0	2
Subtotal	**3**	**85**	**3**	**8**	**85**	**3**	**8**
Total	**65,944**	**$ 965,233**	**30,032**	**3,948**	**335,671**	**20,869**	**3,816**

The restructured loan portfolio, by economic sector, breaks down as follows:

	December 31, 2016						
Sectors	Commercial	Consumer	Home Mortgages	Microcredit	Financial Leases	Total	%
Agriculture, livestock, forestry and fishing	$ 58,884	9,551	0	1,441	351	70,227	4.44%
Mining and quarrying	32,273	933	0	47	29,619	62,872	3.97%
Manufacturing industries	450,422	8,468	1,333	2,911	9,659	472,793	29.88%
Supply of electricity, gas, steam and air conditioning	6,322	18	0	0	0	6,340	0.40%
Water distribution; waste water evacuation and treatment, waste management and environmental sanitation activities	1,754	308	0	71	205	2,338	0.15%
Construction	206,017	6,615	421	288	939	214,280	13.54%
Wholesale and retail, automobile and motorcycle repair	153,550	34,934	1,180	11,176	1,763	202,603	12.81%
Transport, storage	29,377	13,403	254	862	1,803	45,699	2.89%
Accommodation and food services	3,344	4,316	70	1,844	292	9,866	0.62%
Information and communications	5,753	1,566	0	281	0	7,600	0.48%
Financial and insurance activities	772	562	101	5	0	1,440	0.09%
Real estate activities	634	836	137	47	0	1,654	0.10%
Professional, scientific and technical activities	37,225	37,861	2,405	1,794	6,315	85,600	5.41%
Administrative services and support activities	9,968	2,469	44	259	359	13,099	0.83%
Public administration and defense; social security plans with mandatory affiliation	100,603	0	0	0	0	100,603	6.38%
Education	6,946	1,195	0	15	0	8,156	0.52%
Human health care and social assistance activities	12,404	2,781	0	40	0	15,225	0.96%
Artistic, entertainment and recreational activities	321	1,108	0	71	0	1,500	0.09%
Other service activities	2,215	2,959	190	591	113	6,068	0.38%

(Continúa)

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Notes to the Separate Financial Statements

Sectors		December 31, 2016 Commercial	Consumer	Home Mortgages	Microcredit	Financial Leases	Total	%
Activities of individual households as employers		0	51	0	0	0	51	0.00%
Activities of extraterritorial organizations and entities		6	54	0	0	0	60	0.00%
Salaried employee		14,331	221,738	3,835	2,494	462	242,860	15.35%
Capital investors		1,964	8,824	272	222	0	11,282	0.71%
Total	**$**	**1,135,085**	**360,550**	**10,242**	**24,459**	**51,880**	**1,582,216**	**100%**

Sectors		June 30, 2016 Commercial	Consumer	Home Mortgages	Microcredit	Financial Leases	Total	%
Agriculture, livestock, forestry and fishing	$	60,801	8,409	0	1,194	541	70,945	5.10%
Mining and quarrying		28,789	853	0	38	27715	57,395	4.13%
Manufacturing industries		377,279	7,665	231	2,430	3033	390,638	28.08%
Supply of electricity, gas, steam and air conditioning		6,471	40	0	1	0	6,512	0.47%
Water distribution; waste water evacuation and treatment, waste management and environmental sanitation activities		1,664	236	0	82	0	1,982	0.14%
Construction		215,041	5,564	208	286	1112	222,211	15.98%
Wholesale and retail, automobile and motorcycle repair		141,977	30,341	289	9,820	486	182,913	13.15%
Transport, storage		28,161	11,513	77	844	6883	47,478	3.41%
Accommodation and food services		3,135	3,208	71	1,719	329	8,462	0.61%
Information and communications		7,563	1,273	0	216	0	9,052	0.65%
Financial and insurance activities		704	412	0	6	0	1,122	0.08%
Real estate activities		684	620	0	80	0	1,384	0.10%
Professional, scientific and technical activities		23,895	33,443	2,429	1,731	531	62,029	4.46%
Administrative services and support activities		4,908	2,146	0	231	316	7,601	0.55%
Public administration and defense; social security plans with mandatory affiliation		75,421	0	0	0	0	75,421	5.42%
Education		6,532	1,089	0	27	0	7,648	0.55%
Human health care and social assistance activities		9,085	2,285	0	63	0	11,433	0.82%
Artistic, entertainment and recreational activities		633	1,114	0	56	0	1,803	0.13%
Other service activities		1,217	2,631	0	447	113	4,408	0.32%
Activities of individual households as employers		2	46	0	0	0	48	0.00%
Activities of extraterritorial organizations and entities		5	3	0	0	0	8	0.00%
Salaried employee		19,675	186,424	1,062	2,226	193	209,580	15.07%
Capital investors		2,503	7,801	272	230	94	10,900	0.78%
Total	**$**	**1,016,145**	**307,116**	**4,639**	**21,727**	**41,346**	**1,390,973**	**100.00%**

(Continúa)

The restructured loan portfolio, by geographic area, breaks down as follows:

	Suitable collateral					
	December 31, 2016					
				Allowance		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial						
Amazon Region	$ 470	8	0	97	8	0
Andean Region	370,325	619	1	62,125	33	0
Caribbean Region	49,635	113	0	2,074	4	0
Island Region	230	0	0	7	0	0
Orinoco Region	5,560	3	0	924	0	0
Pacific Region	1,023	0	0	130	0	0
Subtotal	**427,243**	**743**	**1**	**65,357**	**45**	**0**
Consumer						
Amazon Region	134	4	0	6	0	0
Andean Region	19,622	16	2	4,764	2	2
Caribbean Region	1,694	4	0	291	0	0
Island Region	23	0	0	2	0	0
Orinoco Region	299	7	0	40	1	0
Pacific Region	64	0	0	12	0	0
Subtotal	**21,836**	**31**	**2**	**5,115**	**3**	**2**
Home-mortgage						
Andean Region	7,837	41	19	444	31	17
Caribbean Region	1,964	20	9	164	19	9
Orinoco Region	351	0	1	8	0	1
Subtotal	**10,152**	**61**	**29**	**616**	**50**	**27**
Microcredit						
Amazon Region	153	0	0	92	0	0
Andean Region	6,017	0	0	2,569	0	0
Caribbean Region	1,503	0	0	680	0	0
Island Region	10	0	0	7	0	0
Orinoco Region	560	0	0	206	0	0
Pacific Region	118	0	0	55	0	0
Subtotal	**8,361**	**0**	**0**	**3,609**	**0**	**0**
Commercial financial leasing						
Andean Region	13,897	92	1	12,428	81	1
Caribbean Region	26,723	0	0	2,534	0	0
Orinoco Region	947	0	0	199	0	0
Subtotal	**41,567**	**92**	**1**	**15,161**	**81**	**1**
Consumer financial leasing						
Andean Region	349	0	0	27	0	0
Subtotal	**349**	**0**	**0**	**27**	**0**	**0**
Home-mortgage financial leasing						
Andean Region	267	0	0	3	0	0
Subtotal	**267**	**0**	**0**	**3**	**0**	**0**
Total	**$ 509,775**	**927**	**33**	**89,888**	**179**	**30**

		Other Collateral					
		December 31, 2016					
					Allowance		
		Principal	Interest	Other items	Principal	Interest	Other items
Commercial							
Amazon Region	$	193	6	10	55	5	10
Andean Region		596,747	22,721	2,469	245,626	18,143	2,419
Caribbean Region		74,861	1,659	523	24,696	1,439	519
Island Region		242	2	0	35	2	0
Orinoco Region		5,298	350	154	3,022	284	150
Pacific Region		1,732	74	57	931	73	56
Subtotal		**679,073**	**24,812**	**3,213**	**274,365**	**19,946**	**3,154**
Consumer							
Amazon Region		2,759	63	8	767	31	5
Andean Region		260,911	5,318	1,258	78,051	3,329	1,034
Caribbean Region		43,761	1,020	190	13,876	685	152
Island Region		720	19	2	158	11	1
Orinoco Region		17,566	426	68	5,607	275	53
Pacific Region		4,489	89	14	1,196	54	11
Subtotal		**330,206**	**6,935**	**1,540**	**99,655**	**4,385**	**1,256**
Microcredit							
Amazon Region		208	3	12	99	2	12
Andean Region		11,949	81	494	4,594	76	494
Caribbean Region		1,942	12	129	898	11	125
Island Region		10	0	1	7	0	1
Orinoco Region		1,039	7	38	427	6	37
Pacific Region		160	1	12	84	1	12
Subtotal		**15,308**	**104**	**686**	**6,109**	**96**	**681**
Commercial financial leasing							
Andean Region		4,481	1,506	647	2,649	1,486	642
Caribbean Region		1,095	1,214	9	1,095	1,214	9
Orinoco Region		631	17	0	93	9	0
Subtotal		**6,207**	**2,737**	**656**	**3,837**	**2,709**	**651**
Consumer financial leasing							
Andean Region		0	2	2	0	0	1
Subtotal		**0**	**2**	**2**	**0**	**0**	**1**
Total	**$**	**1,030,794**	**34,590**	**6,097**	**383,966**	**27,136**	**5,743**

		Suitable Collateral					
		June 30, 2016					
					Allowance		
		Principal	Interest	Other items	Principal	Interest	Other items
Commercial							
Amazon Region	$	260	9	0	84	8	0
Andean Region		312,845	1,651	1	49,933	94	0
Caribbean Region		8,617	63	0	1,109	8	0
Island Region		11	0	0	0	0	0
Orinoco Region		2,299	19	0	627	2	0
Pacific Region		1,114	0	0	319	0	0
Subtotal		**325,146**	**1,742**	**1**	**52,072**	**112**	**0**
Consumer							
Amazon Region		137	4	0	6	0	0
Andean Region		16,207	15	2	3,400	1	2
Caribbean Region		631	1	0	120	0	0
Island Region		26	0	0	2	0	0
Orinoco Region		142	0	0	63	0	0
Pacific Region		18	0	0	1	0	0
Subtotal		**17,161**	**20**	**2**	**3,592**	**1**	**2**

(Continúa)

	Suitable Collateral June 30, 2016					
				Allowance		
	Principal	Interest	Other items	Principal	Interest	Other items
Home Mortgages						
Andean Region	4,217	55	40	927	54	40
Caribbean Region	326	1	0	3	0	0
Subtotal	**4,543**	**56**	**40**	**930**	**54**	**40**
Microcredit						
Amazon Region	120	0	0	49	0	0
Andean Region	5,564	0	0	1,801	0	0
Caribbean Region	1,404	0	0	459	0	0
Island Region	10	0	0	7	0	0
Orinoco Region	379	0	0	119	0	0
Pacific Region	105	0	0	40	0	0
Subtotal	**7,582**	**0**	**0**	**2,475**	**0**	**0**
Commercial financial leasing						
Andean Region	12,042	180	117	1,979	172	117
Caribbean Region	23,037	1	0	12,475	0	0
Subtotal	**35,079**	**181**	**117**	**14,454**	**172**	**117**
Consumer financial leasing						
Andean Region	90	0	0	18	0	0
Subtotal	**90**	**0**	**0**	**18**	**0**	**0**
Total	**$ 389,601**	**1,999**	**160**	**73,541**	**339**	**159**

	Other Collateral June 30, 2016					
				Allowance		
	Principal	Interest	Other items	Principal	Interest	Other items
Commercial						
Amazon Region	$ 103	2	4	28	2	4
Andean Region	588,607	21,279	2,219	223,560	14,177	2,194
Caribbean Region	69,120	1,370	385	20,680	1,302	372
Island Region	23	0	0	2	0	0
Orinoco Region	4,161	274	99	2,531	229	95
Pacific Region	1,528	60	22	745	58	22
Subtotal	**663,542**	**22,985**	**2,729**	**247,546**	**15,768**	**2,687**
Consumer						
Amazon Region	2,030	44	3	512	25	3
Andean Region	227,697	4,544	586	65,475	3,042	517
Caribbean Region	35,665	837	73	11,198	598	64
Island Region	532	11	1	130	8	0
Orinoco Region	14,070	324	30	4,337	226	26
Pacific Region	3,413	66	7	884	38	6
Subtotal	**283,407**	**5,826**	**700**	**82,536**	**3,937**	**616**
Microcredit						
Amazon Region	186	1	3	63	1	3
Andean Region	10,905	48	366	3,072	40	363
Caribbean Region	1,602	3	80	523	2	80
Island Region	11	0	0	7	0	0
Orinoco Region	778	1	21	265	1	21
Pacific Region	135	0	5	45	0	5
Subtotal	**13,617**	**53**	**475**	**3,975**	**44**	**472**
Commercial financial leasing						
Andean Region	708	222	35	399	175	32
Caribbean Region	3,874	943	1	1,130	942	1
Subtotal	**4,582**	**1,165**	**36**	**1,529**	**1,117**	**33**
Consumer financial leasing						
Andean Region	85	3	8	85	3	8
Subtotal	**85**	**3**	**8**	**85**	**3**	**8**
Total	**$ 965,233**	**30,032**	**3,948**	**335,671**	**20,869**	**3,816**

(Continúa)

The loan portfolio write-offs break down as follows:

		December 31, 2016			
		Principal	Interest	Other items	Total
Commercial	$	38,817	2,282	2,436	43,535
Consumer		231,145	9,548	7,277	247,970
Home-mortgage		424	7	5	436
Microcredit		11,595	452	1,288	13,335
Commercial leasing		166	6	9	181
Consumer leasing		1,215	232	90	1,537
Total	**$**	**283,362**	**12,527**	**11,105**	**306,994**

		June 30, 2016			
		Principal	Interest	Other items	Total
Commercial	$	221,611	9,319	7,662	238,592
Consumer		237,403	6,137	2,254	245,794
Microcredit		10,434	371	1,090	11,895
Commercial leasing		1,897	110	14	2,021
Consumer leasing		142	3	7	152
Total	**$**	**471,487**	**15,940**	**11,027**	**498,454**

The following is a breakdown of the recovery of write-offs and loan portfolio allowances:

		December 31, 2016		June 30, 2016	
		Recovery of Loans Written Off	Recovery of Allowance	Recovery of Loans Written Off	Recovery of Allowance
Commercial	$	44,242	222,103	5,582	204,248
Consumer		38,878	152,006	34,759	152,220
Mortgage		98	3,109	35	3,488
Microcredit		1,946	10,570	2,078	11,167
Consumer leasing		20	83	116	231
Commercial leasing		168	26,157	251	19,472
Home-mortgage leasing		0	497	0	368
Total	**$**	**85,352**	**414,525**	**42,821**	**391,194**

The following are the details of the loan portfolio allowance and financial leasing:

		December 31, 2016	June 30, 2016
Balance at start of period	**$**	**1,657,034**	**1,624,971**
Allowance charged to income		910,302	929,701
Write-offs		(306,994)	(498,454)
Debt forgiveness		(1,877)	(5,804)
Recovery of allowance		(414,525)	(391,194)
Exchange adjustment		775	(2,186)
Closing balance	**$**	**1,844,715**	**1,657,034**

- The following is the reconciliation between the gross investment in financial leases and the present value of the minimum lease payments receivable at December 31 and June 30, 2016:

financial leasing agreements		December 31, 2016	June 30, 2016
Total gross rent receivable in the future	$	6,572,488	4,093,740
Less unrealized financial income		(3,401,806)	(1,020,339)
Net investment in financial leasing agreements	**$**	**3,170,682**	**3,073,401**

• The following is a breakdown of the maturity of gross and net investments in financial leasing.

		December 31, 2016			
		0-1 years	1-5 years	More than 5 years	Total
Gross investment in financial leasing	$	774,207	1,302,065	4,496,216	6,572,488
Financial income not earned from financial leasing - interest		(1,678)	(184,760)	(3,215,368)	(3,401,806)
Total minimum financial leasing receivable (present value)	**$**	**772,529**	**1,117,305**	**1,280,848**	**3,170,682**

		June 30, 2016			
		0-1 years	1-5 years	More than 5 years	Total
Gross investment in financial leasing	$	748,569	1,265,428	2,079,743	4,093,740
Financial income not earned from financial leasing - interest		(31,053)	(183,387)	(805,899)	(1,020,339)
Total minimum financial leasing receivable (present value)	**$**	**717,516**	**1,082,041**	**1,273,844**	**3,073,401**

The Bank grants loans in the form of financial leases for machinery and equipment, computer equipment, movable goods, furniture and fixtures, vehicles and boats, trains and airplanes. The amount of financing generally fluctuates between a maximum of 100% of the value of the asset, in the case of new assets, and 70% for used assets. The installments for these loans are between 120 months maximum and 24 month minimum for borrowers who have a tax benefit. In most cases, the option to buy is a maximum of 20% of the value of the asset and a minimum of 1% in the specific case of furniture and fixtures.

Note 10 - Other Accounts Receivable

The following are the details of other accounts receivable:

		December 31, 2016	June 30, 2016
Electronic transactions in process	$	166,153	76,589
Transfers to ICETEX of balances declared abandoned		104,540	0
Collateral deposits (1)		71,697	77,672
Dividends		43,090	25,581
Transfers to the National Treasury- inactive accounts		33,589	32,568
Commissions and fees		22,803	19,569
Compensation electronic deposits– Credibanco		21,559	5,523
Others - Diverse		16,818	9,662
Expenses paid in advance		13,624	2,739
Seller commitments		9,255	19,008
Savings account shortfall		5,388	4,906
Forward compliance		3,756	1,140
Expenses paid in advance		3,171	1,283
Advances on contract with suppliers		2,704	4,320
Advances and withholding		15	7,128
Subtotal		**518,162**	**287,688**
Allowance for other accounts receivable		(34,199)	(27,454)
Total	$	**483,963**	**260,234**

(1) Collateral deposits for the margin call on derivatives with off-shore counterparties at December 31 and June 30, 2016came to $69,556 and $74,406, in that order.

The following are the details of activity in the allowance at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Net balance	$	**27,454**	**27,045**
Allowance		19,069	4,881
Write-offs		(8,058)	(803)
Recoveries		(4,266)	(3,669)
Closing balance	$	**34,199**	**27,454**

Note 11 - Non-current Assets Held for Sale

Non-current assets held for sale are primarily assets received through foreclosure on assets pledged as loan collateral. Accordingly, the Bank's intention is to sell them immediately, and it has departments, processes and special sales programs to so do foreclose assets are either sold for cash or financing for their sale is provided to potential buyers under normal market conditions. Consequently, they are expected to be sold within a period of 24 months subsequent to their classification as assets held for sale. In fact, purchase commitment agreements already exist for some of these assets. Note 6 on credit risk contains information on assets received through foreclosure and sold during the period. In the two six-month periods ended at December 31 and June 30, 2016, there were no changes in plans for the disposal of non-current assets held for sale.

The Bank had 41 assets classified as available for sale at December 31, 2016, including 22 real estate properties (lots, warehouses and apartments); seven (7) movable assets (machinery and equipment, stock and fiduciary rights), and 22 returned assets (vehicle, machinery and equipment).

During the second half of 2016, the Bank sold 12 assets that were registered as available for sale, while and 26 assets that did not meet the regulatory requirements to be classified in that group were reclassified to other fronts.

The following is a breakdown of the non-current assets held for sale:

		December 31, 2016				June 30, 2016			
		Cost	Allowance	% Imp	Total	Cost	Allowance	% Imp	Total
Foreclosed assets									
Movable assets	$	91,048	(19,765)	22%	71,283	15,925	(10,420)	65%	5,505
Real estate other than housing		17,640	(11,640)	66%	6,000	14,473	(8,207)	57%	6,266
		108,688	**(31,405)**	**29%**	**77,283**	**30,398**	**(18,627)**	**61%**	**11,771**
Assets returned under leasing agreements									
Machinery and equipment		158	(98)	62%	60	383	(230)	60%	153
Vehicles		206	(169)	82%	37	207	(96)	46%	111
Real estate		27,208	(8,939)	33%	18,269	1,383	(157)	11%	1,226
		27,572	**(9,206)**	**33%**	**18,366**	**1,973**	**(483)**	**24%**	**1,490**
Total	$	**136,260**	**(40,611)**	**30%**	**95,649**	**32,371**	**(19,110)**	**59%**	**13,261**

The following is a breakdown of non-current assets held for sale:

		December 31, 2016	June 30, 2016
Opening balance	$	**32,371**	26,370
Additions		129,439	15,283
Reclassifications (1)		(18,714)	(3,174)
Cost of assets sold		(6,738)	(6,108)
Exchange difference		(98)	0
Closing balance	$	**136,260**	32,371

(1) At December 31, 2016, $15,562 in assets were transferred to investment property, $2,890 to property, plant and equipment, and $262 to other assets. At June 30, 2016, $1,006 were transferred to investments, $970 to other assets and $1,198 to investment properties.

The following shows the activity in the allowance for foreclosed assets:

		Foreclosed assets	Leased assets returned	Total
Balance at December 31, 2015	**$**	**13,533**	**644**	**14,177**
Allowance charged to expenses		7,353	233	7,586
Allowance used in sales		(25)	(199)	(224)
Recoveries		(231)	(195)	(426)
Reclassifications (1)		(2,003)	0	(2,003)
Balance at June 30, 2016	**$**	**18,627**	**483**	**19,110**
Allowance charged to expenses		26,834	9,069	35,903
Allowance used in sales		(1,002)	(32)	(1,034)
Recoveries		(2,313)	(141)	(2,454)
Reclassifications (2)		(10,741)	(173)	(10,914)
Balance at December 31, 2016	**$**	**31,405**	**9,206**	**40,611**

(1) These pertain to the transfer of $ 461 to other assets, $ 536 to investment properties, and $ 1,006 to investments

(2) These pertain to the transfer of $11,136 in assets available for sale to investments properties and $173 to other assets.

The following are the liabilities associated with the groups of assets held for sale:

		December 31, 2016	June 30, 2016
Commercial accounts payable	$	9,270	7,855
Total	**$**	9,270	**7,855**

Marketing Plan

The Bank takes the following steps to market non-current assets held for sale.

• There is a sales force specialized in real estate. It promotes sales, provides the commercial areas with support in handling proposals, visits the regions on a regular basis to strengthen efforts to market property, supports the steps taken to obtain an urban standard applicable to real estate in order to verify its highest and best potential for development, and takes part in committees to attend to and monitor the various ongoing negotiations.

• Real estate properties are visited regularly to keep the sales force and management familiar with the properties the Bank has for sale. This approach makes it possible to identify the strengths of each property, its marketing potential and state of conservation, so as to allow for effective sales management.

• Sales are promoted through advertisements in major national newspapers and in the Bank's real estate magazine. The results, in this respect, have been satisfactory. Information is sent directly to potential customers and a list of properties is published on the Banks website (www.bancodebogota.com.co).

Note 12 - Gain on Deconsolidation of Subsidiaries (Loss of control)

12.1 Casa de Bolsa S.A.

The previous shareholders agreement that gave the Bank control of Casa de Bolsa S.A. was amended on December 21, 2016. As a result, Casa de Bolsa S.A. became an associate and Corficolombiana S.A. became its new controlling entity.

Pursuant to the specific deconsolidation (loss of control) requirements outlined in IFRS 10, the Bank recognized a gain of $ 1,066, which is reported in the statement of earnings for the period as a "Gain on deconsolidation (loss of control) of subsidiaries". This amount is the result of the fair value of the shares in Casa de Bolsa S.A. being determined at $ 7,770, compared to their book value of $6,704 prior to loss of control.

12.2 Corporación Financiera Colombiana S.A.

The shareholders' agreement signed in years past between Banco de Bogotá S.A., Banco de Occidente S.A., Banco Popular S.A. and Grupo Aval Acciones y Valores S.A., whereby the Bank was the entity controlling Corporación Financiera Colombiana S.A., was amended on June 21, 2016. Primarily, the strategic objective of this amendment was to focus the consolidated management of Banco de Bogotá on the financial business and, additionally, to strengthen the Bank's capital structure. The amendment involved transferring direct control to Grupo Aval Acciones y Valores S.A. (the parent company) and keeping at least one member of the Bank on the Board of Directors of Corporacion Financiera Colombiana S.A. As a result, the Bank lost control of Corporación Financiera Colombiana S.A. but became an associate and still exercises significant influence, with decision-making power being limited to its 38.35% share of voting rights.

Pursuant to the specific requirements on deconsolidation (loss of control) outlined in IFRS 10, the Bank recognized a gain of $ 2,199,889. This amount is presented in the income statement for the period as a "Gain on Deconsolidation of subsidiaries (Loss of Control)". It is based on the fair value of the Bank's shares of stock in said entity, which was measured at $ 3,319,236, compared to their book value prior to the loss of control, which was $ 1,119,347.

As per the instructions outlined in Circular 45 issued on July 8, 2016 by the Financial Superintendence of Colombia, the fair value of shares classified as "high turnover stock" was determined according to the price quoted on the Colombian Stock Exchange on June 30, 2016.

In addition, $8,164 in other comprehensive income were transferred to income for the period, and accumulated earnings were reduced by $ 21,162, in compliance with the applicable IFRS.

As indicated in Note 2.8, the Bank adopted the equity method as its accounting policy on investment in associates.

(Continúa)

Note 13 - Investments in Subsidiaries, Associates and Joint Ventures

The investment in subsidiaries, associates and joint ventures breaks down as follows:

		December 31, 2016	June 30, 2016
Subsidiaries	$	11,513,181	10,896,561
Associates		3,347,614	3,346,431
Joint ventures (1)		0	1,384
Total	**$**	**14,860,795**	**14,244,376**

(1) As a result of the payments charged to the joint ATH business at the end of December 2016 for $ 8,195 in fees pertaining to software maintenance, technology and the transport of securities, an equity loss occurred that implied canceling the balance of the investment and recognizing the respective liability.

The following is the movement in investments in associates.

		December 31, 2016	June 30, 2016
Opening balance for the period	**$**	**3,346,431**	**1,669**
Increase from deconsolidation of subsidiaries		6,704	1,111,981
Ownership interest in earnings for the period		26,097	93,448
Ownership interest in other comprehensive income		(8,163)	(15,445)
Dividends received		(24,521)	(29,226)
Profit from loss of control measured at fair value		1,066	2,184,004
Closing balance for the period	**$**	**3,347,614**	**3,346,431**

There is no contingent liability related to the Bank's participation in investments in associates and joint ventures.

The following shows the movement in investments in joint ventures.

		December 31, 2016	June 30, 2016
Opening balance for the period	**$**	**1,384**	**1,384**
Ownership interest in earnings for the period		(1,972)	0
Reclassifications		588	0
Closing balance for the period	**$**	**0**	**1,384**

The following shows the movement in impairment of investments in subsidiaries

		December 31, 2016	June 30, 2016
Opening balance	**$**	**1,131**	**1,221**
Impairment		47	26
Recovery		(15)	(116)
Closing balance	**$**	**1,163**	**1,131**

(Continúa)

Details of Investments in Subsidiaries

Name of the company	% Shares	Headquarters		Book value at: December 31, 2016 Assets	Liabilities	Profit
Almaviva S.A.	94.92%	Bogotá	$	114,409	39,876	10,943
Banco de Bogotá Panamá S.A.	100.00%	Panamá		8,001,434	7,760,312	19,098
Bogotá Finance Corporation	100.00%	Cayman Islands		258	0	1
Corporación Financiera Centroamericana S.A. (Ficentro) (2)	49.78%	Panamá		0	1	0
Fiduciaria Bogotá S.A.	94.99%	Bogotá		404,523	120,884	37,396
AFP - Porvenir S.A.(2)	36.51%	Bogotá		2,428,156	903,534	166,625
Aportes en Línea S.A.(2)	2.04%	Bogotá		46,175	8,026	7,340
Leasing Bogotá Panamá	100.00%	Panamá		64,960,951	54,646,662	432,487
Megalínea S.A.	94.90%	Bogotá	$	19,149	15,097	431

Name of the company	% Shares	Headquarters		Book value at: June 30, 2016 Assets	Liabilities	Profit
Almaviva S.A.	94.92%	Bogotá	$	111,106	42,537	5,305
Banco de Bogotá Panamá S.A.	100.00%	Panamá		4,640,194	4,422,304	20,032
Bogotá Finance Corporation	100.00%	Cayman Islands		250	0	1
Casa de Bolsa S.A. (1)	22.80%	Bogotá		70,653	41,569	490
Corporación Financiera Centroamericana S.A. (Ficentro) (1)	49.78%	Panamá		0	1	0
Fiduciaria Bogotá S.A.	94.99%	Bogotá		385,058	72,941	35,803
AFP – Porvenir S.A.	36.51%	Bogotá		2,377,804	963,680	188,135
Aportes en Línea S.A. (2)	2.04%	Bogotá		38,408	7,599	6,463
Leasing Bogotá Panamá	100.00%	Panamá		59,905,640	50,235,323	524,464
Megalínea S.A.	94.90%	Bogotá		13,221	9,601	380

(1) Although the Bank owns only 22.8% of Casa de Bolsa, it carries out activities that exert control over the company, which it maintains even after the deconsolidation (loss of control) of Corporación Financiera Colombiana S.A. (See note 12). Accordingly this is why this continues to be classified as an investment in a subsidiary, as per the requirements established in IFRS 10.

(2) Entities where the Bank has less than 50% of shares but carries out control activities in accordance with IFRS 10, which is why these entities are consolidated.

The following is the corporate purpose of the investments in subsidiaries in which the Bank is invested:

	Subsidiaries	Corporate Purpose
1	Almaviva S.A.	General Storage deposit, Customs Agent and Comprehensive Logistics Operator
2	Banco de Bogotá Panamá S.A.	Licensed internationally for banking outside the country.
3	Bogotá Finance Corporation	Financial transactions and investment activities
4	Corporación Financiera Centroamericana S.A. (Ficentro)	Loan recovery
5	Fiduciaria Bogotá S.A.	Enters into commercial trust agreements and fiduciary mandates, as provided for by law
6	AFP - Porvenir S.A.	Pension and severance fund manager
7	Aportes en Línea S.A.	Information operator
8	Leasing Bogotá Panamá	Financial transactions and investment activities
9	Megalínea S.A.	A technical and administrative services company

Investments in Associates and Joint Ventures

The following is a breakdown of the financial situation of associates and joint ventures at December 31, and June 30, 2016:

	Share %	Headquarter		December 31, 2016			June 30, 2016		
				Assets	Liabilities	Profit	Assets	Liabilities	Profit
A Toda Hora S.A.	19.99%	Bogotá	$	8,104	506	306	8,122	796	34
Corporación Financiera Colombiana S.A.	38.35%	Bogotá		9,428,471	6,521,755	59,034	10,118,618	7,198,526	249,421
Casa de Bolsa S.A. (1)	22.80%	Bogotá		61,269	31,861	(446)	0	0	0
Pizano S.A	16.85%	Bogotá	$	267,431	139,094	(11,147)	289,989	150,133	(6,601)

(1) The Bank lost control of Casa de Bolsa in order to focus its efforts on activities particular to the banking business, which are more efficient and profitable. Accordingly, in its separate financial statements, the Bank began to recognize its investment in that company as an investment in an associate, based on the equity method.

Joint ventures

	% Shares	Headquarter		December 31, 2016			June 30, 2016		
				Assets	Liabilities	Profit	Assets	Liabilities	Profit
A Toda Hora S.A.	25.0%	Bogotá	$	39,515	41,828	(1,442)	45,147	39,674	5,829

The following is the corporate purpose of the associates and joint ventures in which the Bank is invested

	Associates and Joint Ventures	Corporate purpose
1	A Toda Hora S.A.	Offers a low-value payment system
2	Corporación Financiera Colombiana S.A.	Specializes in a wide range of products for private banking, investment banking, treasury operations and equity income investments.
3	Pizano S.A	Manufacturer of laminated wood products.
4	Casa de Bolsa S.A	Brokerage house (Securities Brokerage and Securities Fund Management)

<u>Note 14 - Property, Plant and Equipment</u>

The following is a breakdown of property, plant and equipment:

		December 31, 2016		
		Cost	Accumulated depreciations	Net
Land	$	155,291	0	155,291
Buildings and constructions		495,521	(111,419)	384,102
Vehicles		2,264	(1,679)	585
Office furniture, fixtures and equipment		225,335	(147,039)	78,296
Computer equipment		406,596	(304,528)	102,068
Improvements to other's property		50,170	(22,020)	28,150
Ongoing construction		4,350	0	4,350
Total property, plant and equipment	$	**1,339,527**	**(586,685)**	**752,842**

(Continúa)

		June 30, 2016		
		Cost	Accumulated depreciation	Net
Land	$	138,783	0	138,783
Buildings and constructions		420,907	(90,751)	330,156
Vehicles		2,264	(1,444)	820
Office furniture, fixtures and equipment		222,037	(141,020)	81,017
Computer equipment		384,073	(288,594)	95,479
Improvements to other's property		47,888	(16,852)	31,036
Ongoing construction		81,077	0	81,077
Total property, plant and equipment	**$**	**1,297,029**	**(538,661)**	**758,368**

The following is the activity in property, plant and equipment:

		Balances at June 30, 2016	Exchange difference	Additions	Retirement	Reclassifications (1)	Balance at December 31, 2016
Land	$	138,783	0	3,547	(436)	13,397	155,291
Buildings and constructions		420,907	0	9,454	(1,407)	66,567	495,521
Vehicles		2,264	0	0	0	0	2,264
Office furniture, fixtures and equipment		222,037	32	5,336	(2,070)	0	225,335
Computer equipment		384,073	49	27,426	(4,952)	0	406,596
Improvements to other's property		47,888	4	2,526	(248)	0	50,170
Ongoing construction		81,077	0	2,225	(1,878)	(77,074)	4,350
Total assets	$	**1,297,029**	**85**	**50,514**	**(10,991)**	**2,890**	**1,339,527**

		Balances at December 31, 2015	Exchange difference	Additions	Retirement	Reclassifications	Balances at June 30, 2016
Land	$	138,783	0	0	0	0	138,783
Buildings and constructions		420,370	0	0	0	537	420,907
Vehicles		2,264	0	0	0	0	2,264
Office furniture, fixtures and equipment		221,504	(91)	5,456	(2,846)	(1,986)	222,037
Computer equipment		355,116	(158)	27,614	(1,873)	3,374	384,073
Improvements to other's property		44,220	(13)	4,436	(755)	0	47,888
Ongoing construction		79,860	0	5,096	(1,954)	(1,925)	81,077
Total assets	**$**	**1,262,117**	**(262)**	**42,602**	**(7,428)**	**0**	**1,297,029**

(1) Pertains to $2,890 in transfers from non-current assets held for sale.

The decommissioning costs required and included at December 31, 2016 and June 30, 2016to restore assets received on lease come to $16,622 and $14,888 respectively.

The following is the activity in depreciation on property, plant and equipment:

		Buildings	Vehicles	Furniture and fixtures	Computer equipment	Improvement to others' property	Total
Balance at December 31, 2015	**$**	**74,946**	**1,208**	**135,368**	**271,085**	**10,656**	**493,263**
Depreciation		15,805	236	8,343	19,440	6,200	50,024
Retirements/sales		0	0	(2,458)	(1,998)	0	(4,456)
Reclassifications		0	0	(162)	162	0	0
Adjustment for the exchange difference		0	0	(71)	(95)	(4)	(170)
Balance at June 30, 2016		**90,751**	**1,444**	**141,020**	**288,594**	**16,852**	**538,661**
Depreciation		21,065	235	7,872	19,312	5,168	53,652
Retirements/sales		(397)	0	(1,872)	(3,414)	0	(5,683)
Adjustment for the exchange difference		0	0	19	36	0	55
Balance at December 31, 2016	**$**	**111,419**	**1,679**	**147,039**	**304,528**	**22,020**	**586,685**

There were no restrictions on ownership of property, plant and equipment registered at December 31, and June 30, 2016.

The Bank conducted a qualitative analysis of impairment at December 31 and June 30, 2016 taking into account internal and external sources of information. In light of that analysis, it was determined that certain assets might have some impairment and their recoverable value was identified based on their fair value, which was determined through an independent technical appraisal.

Note 15 - Investment Properties

The following is a breakdown of investment properties:

		December 31, 2016			June 30, 2016		
		Land	Buildings	Total	Land	Buildings	Total
Cost	$	121,277	20,308	141,585	116,688	19,094	135,782
Impairment		(94,826)	(6,669)	(101,495)	(89,536)	(5,434)	(94,970)
Total	**$**	**26,451**	**13,639**	**40,090**	**27,152**	**13,660**	**40,812**

The following shows the activity in the cost of investment properties:

		Lands	Buildings	Total
Balance at December 31, 2015	**$**	**115,910**	**19,201**	**135,111**
Changes in measurement of fair value		340	0	340
Reclassifications (1)		919	279	1,198
Retirements		(481)	(386)	(867)
Balance at June 30, 2016		**116,688**	**19,094**	**135,782**
Changes in measurement of fair value		2,054	689	2,743
Reclassifications (2)		13,151	4,810	17,961
Retirements/Sales		(10,616)	(4,285)	(14,901)
Balance at December 31, 2016	**$**	**121,277**	**20,308**	**141,585**

(1) Pertains to transfers of investments held for sale to investment property.
(2) Pertains to the transfer of $15,562 in non-current assets held for sale and $2,399 in other assets.

The following is the activity in terms of investment property impairment:

		Land	Buildings	Total
Balances at December 31, 2015	**$**	**89,107**	**5,468**	**94,575**
Impairment charged to expenses		274	89	363
Reclassifications (1)		431	105	536
Recovery		(276)	(142)	(418)
Retirement/sales		0	(86)	(86)
Balances June 30, 2016		**89,536**	**5,434**	**94,970**
Impairment charged to expenses		3,960	1,529	5,489
Reclassifications (2)		10,788	2,352	13,140
Recovery		(1,455)	(127)	(1,582)
Retirement/sales		(8,003)	(2,519)	(10,522)
Balances at December 31, 2016		**94,826**	**6,669**	**101,495**

(1) Pertains to transfers of investments held for sale to investment property.
(2) Pertains to the transfer of $ 10,741 in non-current assets held for sale and $ 2,399 in other assets.

Income for the period is shown below.

		December 31, 2016	June 30, 2016
Rental income from investment properties	$	473	474
Direct operating expenses from investment property that generates income from sales		(127)	(176)
Total	**$**	**346**	**298**

- There were no contractual obligations to acquire investment properties during the periods in question.

- There are no restrictions on the sale of investment properties.

Note 16 - Goodwill

16.1 Assessment of Impairment of the Cash-generating Units to Which Goodwill is allocated.

The Bank's management evaluates impairment of the goodwill listed on its consolidated financial statements, doing so annually and considering that the useful life of goodwill is indefinite. This assessment is based on respective studies done by independent experts who were engaged for that purpose, as per IAS 36 - Impairment of Assets.

These studies are based on valuations of the cash-generating units to which goodwill is assigned when acquired. In this case, valuation is done by the discounted cash flow method and takes into account a number of factors, such as the economic situation in the country and in the sector where the acquired entity operates, historical financial information, and projections on growth of the company's revenues and expenses in the next five years and, subsequently, growth in perpetuity, considering its profit capitalization rates, discounted at risk-free interest rates that are adjusted by the required risk premiums, given the circumstances of each company.

The methodologies and assumptions used to valuate the various cash-generating units to which goodwill is assigned were reviewed by management and, based on that review, it was concluded there is no need to record impairment at December 31, 2016, inasmuch as the recoverable amounts are significantly higher than the carrying amounts.

The value of goodwill registered in the Bank´s financial statements is subsequent to the following acquisitions.

Company		December 31, 2016	June 30, 2016
Megabanco	$	465,905	465,905
		465,905	**465,905**

The following are the details of the goodwill allocated to the group of cash-generating units. These units represent the lowest level within the Bank that is monitored by management and are not larger than the operating segments.

		December 31, 2016			
Group of cash-generating units		Book value of goodwill	Book value of CGU	Fair value of CGU (1)	Excess
CGU in Banco de Bogotá (Megabanco)	$	465,905	5,579,593	9,976,659	4,397,066
TOTAL	**$**	**465,905**			

Group of cash-generating units		June 30, 2016 Book value of goodwill	Book value of CGU	Fair value of CGU (1)	Excess
CGU in Banco de Bogotá (Megabanco)	$	465,905	5,502,572	9,479,653	3,977,081
TOTAL	**$**	**465,905**			

(1) Fair value determined in the impairment analysis done in December 2016.

16.2 Details of Goodwill, by acquired Company:

- **Banco de Crédito y Desarrollo Social – Megabanco S.A.**

Goodwill was generated with the acquisition of ninety-four point ninety-nine percent (94.99%) of the shares of stock in Banco de Crédito y Desarrollo Social – MEGABANCO S.A. This operation was authorized by the Financial Superintendence of Colombia as per Resolution No. 917 dated 2 June 2006.

The respective goodwill was allocated to the groups of cash-generating units involved in the following lines of business:

	Ownership interest (%)		Value
Commercial	32.7%	$	152,539
Consumer	30.8%		143,287
Payroll loans	27.0%		125,934
Vehicles	6.7%		31,304
Microcredit	2.8%		12,841
Total	100.00%	$	465,905

The latest valuation update for the business lines of the groups of cash-generating units with allocated goodwill was done by Incorbank S. A. The respective assessment is outlined in its January 2017 report and is based on the Bank's financial statements at 30 November, 2016, given the merger with the acquired company. It was concluded there are no situations whatsoever that would indicate possible impairment, since $9,976,659 in fair value resulting from that assessment exceeds $5,579,593 in book value for the CGI groups.

The following are the primary assumptions used as the basis for the impairment analysis done in December 2016.

	December 31, 2016 2017	2018	2019	2020	2021
Lending rate on the loan portfolio and investments	10.5%	10.0%	9.6%	9.2%	9.0%
Borrowing rate	4.7%	4.1%	3.7%	3.2%	3.2%
Growth in income from commissions	17.2%	21.3%	12.2%	12.2%	15.6%
Growth in expenses	7.0%	10.8%	10.8%	11.0%	12.7%
Inflation	4.1%	3.0%	3.1%	3.0%	3.0%
Discount rate after taxes	15.7%				
Growth rate after five years	3.0%				

	June 30, 2016 2016	2017	2018	2019	2020
Lending rate on the loan portfolio and investments	10.7%	10.7%	11.0%	11.2%	11.2%
Borrowing rate	4.1%	3.8%	3.7%	3.6%	3.6%
Growth in income from commissions	26.7%	25.0%	12.3%	12.4%	15.1%
Growth in expenses	32.6%	12.7%	15.0%	16.9%	15.4%
Inflation	5.0%	3.6%	3.0%	3.0%	3.0%
Discount rate after taxes	13.9%				
Growth rate after five years	3.0%				

(Continúa)

A 10-year projection was done to estimate goodwill, based on macroeconomic assumptions and those related to the businesses listed in the foregoing table. The following is a description of that process.

- Lending rates on loans and investments were projected based on the Bank's past earnings and the projection for the FTD rate.
- Borrowing rates were projected based on the Bank's historical earnings and how these rates could be affected by the FTD rate.
- Estimated growth in commissions and expenses is based on the growth in loans and other operations estimated by the Bank, and according to the prevailing structure in each line of business, so as to keep its efficiency level steady.
- The rate of inflation used in the projections is based on reports from outside sources, such as the International Monetary Fund, and on documents and projections from experts, such as those of Latinfocus and others
- The growth rate used for the terminal value was 3%, which is the rate employed in the latest studies.

The discount rate after taxes used to discount dividend flows reflects the specific risks relative to each cash-generating unit. If the estimated discount rate of 15.7% had been 0.5% higher than the rate estimated in the independent studies, it would not have been necessary to reduce the book value of goodwill, since the fair value of the groups of cash-generating units with this sensitivity would be $ 9,467,010. This exceeds the book value, which comes to $ 5,579,593 at December 31, 2016.

Note 17 - Intangible Assets

17.1 Activity in Intangible Assets

The activity in amortization of intangible assets other than goodwill is shown below:

		Cost	Amortization	Total
Balance at December 31, 2015	$	**214,060**	**19,232**	**194,828**
Additions		53,310	0	53,310
Amortization charged to expenses (1)		0	5,486	(5,486)
Transfers		(450)	(311)	(139)
Balance at June 30, 2016		**266,920**	**24,407**	**242,513**
Additions		43,930	0	43,930
Amortization charged to expenses (2)		0	14,141	(14,141)
Transfers		16	16	0
Balance at December 31, 2016	$	**310,866**	**38,564**	**272,302**

(1) Amortization charged to expenses for intangible assets (licenses and computer software and applications at June 30, 2016 comes to $ 5,047, while $ 439 were charged to various items.

(2) Amortization charged to intangible expenses at December 2016 includes $ 10,861 reported under amortization of intangible assets (licenses and computer software and applications) and $ 3.279 under licenses and franchises.

17.2 Intangible Assets with Internal Development

The following shows the activity in intangible assets developed internally.

		Licenses		Computer software		Total intangible assets generated internally		
		Cost	Amortization	Cost	Amortization	Cost	Amortization	Total
Balance at December 31, 2015	$	**5,613**	**0**	**170,088**	**14,911**	**175,701**	**14,911**	**160,790**
Additions		852	0	41,652	0	42,504	0	42,504
Amortization charged to expenditure		0	66	0	2,167	0	2,233	(2,233)
Transfers		(5,802)	0	5,802	0	0	0	0
Balance at June 30, 2016		**663**	**66**	**217,542**	**17,078**	**218,205**	**17,144**	**201,061**
Additions		0	0	32,753	0	32,753	0	32,753
Amortization charged to expenditure		0	66	0	9,755	0	9,821	(9,821)
Transfers		0	0	16	16	16	16	0
Balance at December 31, 2016	$	**663**	**132**	**250,311**	**26,849**	**250,974**	**26,981**	**223,993**

17.3 Intangible Assets Not Developed Internally

The following is the activity in intangible assets that are not developed internally.

		Licenses		Computer software		Other intangible assets		Total intangible assets not generated internally		
		Costo	Amor-tización	Costo	Amor-tización	Costo	Amor-tización	Costo	Amor-tización	Total
Balance at December 31, 2015	$	**10,099**	**683**	**15,171**	**2,857**	**13,089**	**781**	**38,359**	**4,321**	**34,038**
Additions		10,806	0	0	0	0	0	10,806	0	10,806
Amortization charged to expenditure		0	2,148	0	1,040	0	65	0	3,253	(3,253)
Transfers		5,566	0	7,073	535	(13,089)	(846)	(450)	(311)	(139)
Balance at June 30, 2016		**26,471**	**2,831**	**22,244**	**4,432**	**0**	**0**	**48,715**	**7,263**	**41,452**
Additions		11,177	0	0	0	0	0	11,177	0	11,177
Amortization charged to expenditure		0	3,214	0	1,106	0	0	0	4,320	(4,320)
Transfers		0	0	0	0	0	0	0	0	0
Balance at December 31, 2016	$	**37,648**	**6,045**	**22,244**	**5,538**	**0**	**0**	**59,892**	**11,583**	**48,309**

<u>Note 18 - Income Tax</u>

18.1 Components of the Income Tax Expense:

The income tax expense for the years ended at December 31 and June 30, 2016 includes the following:

		December 31, 2016	June 30, 2016
Current tax	$	62,436	48,600
Allowance for tax positions		160	601
Deferred taxes		211,134	151,545
Total income tax	**$**	**273,730**	**200,746**

Under IAS 12, current and deferred taxes are recognized in the statement of earnings as income or an expense, unless they originate with a transaction or event that is recognized outside the statement of earnings, such as equity in the form of other comprehensive income. Accordingly, during the six months ended at December 31, and June 30, 2016, $23,511 and $42,251 in a current tax expense, respectively, and $288,244 in a deferred tax expense and $117,141 in income, respectively, associated primarily with operations to hedge the exchange difference in investments in foreign subsidiaries, were registered in equity under “other comprehensive income” (OCI). For tax purposes, these amounts are part of taxable income (See Note 18, Section 5).

For tax purposes, pursuant to Article 165 of Law 1607 / 2012 and Regulatory Decree 2548 / 2014, the waivers or remissions established in the tax law on accounting standards refer to the standards in effect up to December 31, 2014. The remissions outlined in the tax rules as of January 1, 2017 shall refer the new technical regulatory frameworks on accounting in Colombia (Financial Information Reporting Accounting Standards Accepted in Colombia), according to the provisions of Law 1819/2016.

18.2 Reconciliation between the Nominal Tax Rate and the Effective Tax Rate:

The following are the basic parameters applicable to income tax in Colombia.

• The following are the income tax rates in effect at December 31, 2016:

	2016	2017	2018	2019
Income and complementary tax	25%	25%	25%	25%
Income Tax for Equity (CREE)	9%	9%	9%	9%
CREE surcharge	6%	8%	9%	
Total Rate	**40%**	**42%**	**43%**	**34%**

• Given entry into force of Law 1819/2016, the following are the income tax rates applicable as of January 1, 2017.

	2017	2018	2019
General income tax rate	34%	33%	33%
Income and complementary tax surcharge	6%	4%	
Total rate	**40%**	**37%**	**33%**

• The basis for determining income and complementary tax and the so-called Income Tax for Equity (CREE) up to December 31, 2016 could not be less than 3% of net equity on the last day of the immediately preceding tax year. As of January 1, 2017, the applicable rate is 3.5%.

• Up until December 31, 2016, tax losses on future taxable income could be offset without a time limit. Beginning in 2017, tax losses may be offset against ordinary net income obtained during the following 12 tax years.

• Surplus presumptive income can be offset in five (5) tax years thereafter.

• Capital gains are taxed at a rate of 10%.

According to paragraph 81 (c) of IAS 12 the following is a breakdown of the reconciliation between the total tax expense on the Bank’s income calculated at the tax rates currently in force and the tax expense actually entered on the income statement for the six months ended at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Profit before income tax	**$**	**1,227,572**	**3,481,799**
Theoretical tax expense calculated according to current tax rates of 40%		491,029	1,392,719
Plus or (minus) taxes related to the following items:			
Non-deductible expenses		21,153	19,983
Received taxed dividends		0	9,048
Income by the equity method, not constituting income		(233,390)	(302,050)
Interest and other income not subject to income tax		(3,486)	(32,331)
Effect on deferred tax from measuring the expected rates at which the differences will be reverted		137	(1,697)
Allowance for tax positions		160	601
Gain on stake in Corporación Financiera Colombiana S.A. measured at fair value		0	(883,221)
Other items		(1,873)	(2,306)
Total tax expense for the period	**$**	**273,730**	**200,746**

18.3 Deferred Taxes on Investments in Subsidiaries, Associates and Joint ventures:

Pursuant to paragraph 39 in IAS 12, the Bank recorded no deferred tax liabilities related to temporary differences on investments in subsidiaries and associates. This is because: i) the Bank controls the subsidiaries and controls the decision to sell its investments in associates; therefore, it can decide on the reversal of such temporary differences; and (ii) the Bank does not plan to do so in the foreseeable future or, if it does, there would be no tax repercussions as a result.

The temporary differences for the items indicated came to $ 6,430,958 and $ 6,030,675 at December 31 and June 30, 2016 in that order.

18.4 Deferred Taxes, by Type of Temporary Differences:

The differences between the book value of assets and liabilities and their tax base give rise to temporary differences that generate deferred tax. These were calculated and recorded for the six months ended at December 31 and June 30, 2016 based on the tax rates in effect, as references for the years when those temporary differences will reversed.

		Balance at June 30, 2016	**Income (expense) in earnings**	**Income (expense) unrealized in OCI**	**Reclassifications**	**Balance at December 31, 2016**
Deferred tax assets						
Assessment of fixed-income investments	$	47,109	(724)	(18,289)	0	28,096
Loss on derivatives		68,188	(17,661)	0	(50,527)	0
Differences between the accounting and tax bases for letters of credit		11,535	2,682	0	0	14,217
Higher tax cost of non-current assets held for sale		589	(589)	0	0	0
Higher tax cost of deferred charges		20,983	6,575	0	0	27,558
Tax credits to be amortized		535,788	(176,621)	0	0	359,167
Liability allowances for loyalty programs and ICA		26,823	820	0	0	27,643
Employee benefits		27,264	(2,132)	5,351	0	30,483
Others		1,856	(1,856)	0	0	0
Subtotal	$	**740,135**	**(189,506)**	**(12,938)**	**(50,527)**	**487,164**

(Continúa)

Deferred tax liabilities		Balance at June 30, 2016	Income (expense) in earnings	Income (expense) unrealized in OCI	Reclassifications	Balance at December 31, 2016
Assessment of equity investments	$	4,847	47,601	(34)	0	52,414
Income on derivatives		215,650	(31,794)	(130,045)	(50,527)	3,284
Higher accounting cost of non-current assets held for sale		8,189	(1,235)	0	0	6,954
Higher accounting cost of property, plant and equipment		72,711	(5,853)	0	0	66,858
Higher accounting cost of intangible assets		36,825	(1,263)	0	0	35,562
Goodwill		24,227	6,484	0	0	30,711
Others		18,946	7,688	0	0	26,634
Subtotal		**381,395**	**21,628**	**(130,079)**	**(50,527)**	**222,417**
Total, Net	$	**358,740**	**(211,134)**	**117,141**	0	**264,747**

		Balance at December 31, 2015	Income (expense) in earnings	Income (expense) unrealized in OCI	Balance at June 30, 2016
Deferred tax assets					
Assessment of fixed-income investments	$	93,586	(2,038)	(44,439)	47,109
Loss on derivatives		203,931	30,862	(166,605)	68,188
Differences between the accounting and tax bases for letters of credit		12,923	(1,388)	0	11,535
Higher tax cost of non-current assets held for sale		994	(405)	0	589
Higher tax cost of deferred charges		10,540	10,443	0	20,983
Tax credits to be amortized		641,750	(106,673)	711	535,788
Provisiones pasivas por programas de fidelización e ICA Liability provisions loyalty programs and ICA		22,022	4,801	0	26,823
Beneficios a empleados		26,693	(174)	745	27,264
Otros		1,383	473	0	1,856
Subtotal	$	**1,013,822**	**(64,099)**	**(209,588)**	**740,135**
Deferred tax liabilities		**Balance at December 31, 2015**	**Income (expense) in earnings**	**Income (expense) unrealized in OCI**	**Balance at June 30, 2016**
Assessment of equity investments	$	3,289	(1,125)	2,683	4,847
Income from derivatives		71,597	68,080	75,973	215,650
Higher accounting costs of non-current assets held for sale		2,418	5,771	0	8,189
Higher accounting cost of property, plant and equipment		77,628	(4,917)	0	72,711
Higher accounting cost of intangible assets		29,762	7,063	0	36,825
Goodwill		19,110	5,117	0	24,227
Others		11,489	7,457	0	18,946
Subtotal		**215,293**	**87,446**	**78,656**	**381,395**
Total, Net	$	**798,529**	**(151,545)**	**(288,244)**	**358,740**

The Bank offset deferred tax assets and liabilities as provided for in paragraph 74 of IAS 12, taking into account application of the tax provisions currently in effect in Colombia with respect to the legal right to offset current tax assets and liabilities.

(Continúa)

18.5 Effect of Current and Deferred Taxes on Each Component of the Statement of Other Comprehensive Income in Equity

The effects of current and deferred taxes on each component of the statement of other comprehensive income in equity are detailed below.

		Six months ended at:							
		December 31, 2016				June 30, 2016			
		Amount before taxes	(Expense) - Income Current tax	(Expense) - Income Deferred tax	Net	Amount before taxes	(Expense) - Income Current tax	(Expense) - Income Deferred tax	Net
Items that can be reclassified later to income for the period									
Exchange difference on derivatives in foreign currency	$	(107,591)	(86,124)	130,045	(63,670)	399,154	133,543	(241,867)	290,830
Exchange difference on bonds in foreign currency		(169,454)	67,782	0	(101,672)	378,259	(151,304)	0	226,955
Exchange difference on investments in foreign subsidiaries		278,861	0	0	278,861	(777,682)	0	0	(777,682)
Profit (loss) on unrealized investments in debt securities available for sale		44,309	0	(18,255)	26,054	131,356	0	(47,122)	84,234
Stake in other comprehensive income of subsidiaries		(135,083)	0	0	(135,083)	64,322	0	0	64,322
Exchange difference in foreign branches		12,924	(5,169)	0	7,755	(33,429)	(24,490)	0	(57,919)
Subtotals		**(76,034)**	**(23,511)**	**111,790**	**12,245**	**161,980**	**(42,251)**	**(288,989)**	**(169,260)**
Items reclassified to earnings for the period									
Deconsolidated entities		**5**	**0**	**0**	**5**	**(8,164)**	**0**	**0**	**(8,164)**
Entries that will not be reclassified to income									
Actuarial gain (loss) on defined benefit plans		(15,209)	0	5,351	(9,858)	(2,063)	0	745	(1,318)
Subtotals		**(15,209)**	**0**	**5,351**	**(9,858)**	**(2,063)**	**0**	**745**	**(1,318)**
Total other comprehensive income for the period	**$**	**(91,238)**	**(23,511)**	**117,141**	**2,392**	**151,753**	**(42,251)**	**(288,244)**	**(178,742)**

Open Tax Position

The allowances for open tax positions at December 31 and June 30, 2016 came to $4,591 and $4,431, respectively. The charge to income during the six months ended at December 31 and June 30 2016 was $160 and $601, in that order.

The balances at December 31 and June 30, 2016 are expected to be used entirely or released when the tax authority's right to review tax returns expires.

18.6 Realization of Deferred Tax Assets:

Up until December 31, 2016, the exchange difference on assets and liabilities in foreign currency had an impact on tax earnings and estimates of their future projections, depending on the behavior of the exchange rate, except in the case of the exchange difference on investments in foreign companies, in which case the tax consequences were generated at the time of their disposal. These estimates of tax projections are the basis for the recovery of deferred tax assets on tax credits arising from tax losses and surplus presumptive income to be applied to future tax earnings and on other items.

As of January 1, 2017, the exchange difference on assets and liabilities in foreign currency will have no tax repercussions until the moment of transfer or payment, in the case of assets, or settlement or partial payment in the case of liabilities.

Considering the aforementioned change, the estimate of future tax earnings is based mainly on the projection for the banking operation developed by the Bank. Its positive trend is expected to continue, thereby allowing deferred tax assets to be recovered.

Note 19 - Other Assets

The following table shows the details of other assets:

		December 31, 2016	June 30, 2016
Artistic and cultural assets	$	15,649	15,538
Foreign currency operations pending legalization		2,010	378
Office supplies and stationary in warehouse and plastic CC-DC		1,319	2,021
Pending credits to correspondent Banks – letters of credit		482	148
Shares and/or contributions to social clubs - Corporations –Non-profit entities		387	387
Various		345	418
Reclassification of foreclosed assets		256	398
Total	**$**	**20,448**	**19,288**

Note 20 - Deposits

20.1 Customer Deposits – Interest Rate

Effective annual interest rates on customer deposits are shown below:

	December 31, 2016				June 30, 2016			
	Domestic currency		Foreign currency		Domestic currency		Foreign currency	
	Rate		Rate		Rate		Rate	
	Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Checking accounts	0.00%	8.54%	0.10%	0.55%	0.0%	8.55%	0.10%	0.55%
Savings accounts	0.10%	8.60%	0.10%	1.25%	0.0%	8.77%	0.10%	1.25%
Time certificates of deposit	1.02%	12.27%	0.20%	2.57%	1.0%	13.42%	0.35%	2.40%

20.2 Deposits, by Sector

The following shows the concentration of deposits from customers, by economic sector:

		December 31, 2016		June 30, 2016	
		Amount	%	Amount	%
Government or agencies of the Colombian government	$	6,958,598	14%	7,244,271	15%
Colombian municipalities and departments		2,092,032	4%	2,056,917	4%
Foreign government		278,625	1%	228,639	0%
Manufacturing		7,127,423	14%	7,194,706	15%
Real estate		5,789,344	12%	5,653,461	12%
Commerce		7,625,922	15%	8,100,069	17%
Agriculture and livestock		2,693,382	5%	2,062,592	4%
people		3,662,911	7%	3,552,878	7%
Services		1,092,114	2%	1,172,239	2%
Others		11,946,113	24%	10,189,658	21%
Total	**$**	**49,266,464**	100%	**47,455,430**	100%

Note 21 - Financial Obligations

21.1 Short Term

Short-term financial obligations break down as follows:

		December 31, 2016	June 30, 2016
Domestic currency			
Interbank funds purchased	$	80,048	0
Transfer commitments in simultaneous operations		0	24,581
Commitments to transfer investments in simultaneous operations		601,591	1,499,110
Correspondent Banks		1,851	1,421
Subtotal in domestic currency		**683,490**	**1,525,112**
Foreign currency			
Interbank funds purchased		264,135	148,873
Correspondent Banks		333	13,661
Subtotal in foreign currency		**264,468**	162,534
Total	**$**	**947,958**	**1,687,646**

Short-term Financial Obligations – Effective Interest Rates

The following is a summary of the effective interest rates on short-term financial obligations.

	December 31, 2016			
	In Colombian pesos		In foreign currency	
	Rate min %	Rate max %	Rate min %	Rate max %
Interbank funds and repos and simultaneous operations	7.14%	7.50%	0.80%	1.41%

	June 30, 2016			
	In Colombian pesos		In foreign currency	
	Rate Min. %	Rate Max. %	Rate Min. %	Rate Max. %
Interbank funds and repos and simultaneous operations	6.50%	7.75%	0.55%	0.55%

21.2 Long term

The following is a breakdown of the long-term financial obligations:

Entity		December 31, 2016	June 30, 2016	Interest rate in force
Banco de Comercio Exterior	$	173,265	199,705	Between 1.70% and 21.38%
Fondo para el Financiamiento del Sector Agropecuario FINAGRO		124,705	139,655	Between 3.38% and 14.63%
Financiera de Desarrollo Territorial S.A FINDETER		911,988	880,159	Between 2.84% and 12.81%
Foreign Banks		0	144,277	Between 0.00% and 2.79%
Current portion (1)		3,270,870	3,263,974	
Others		0	1,459,505	Between 0.00% and 0.00%
Total	**$**	**4,480,828**	**6,087,275**	

(1) The maturity bands for short-term and long-term obligations are in listed in the note on liquidity risk.

The following shows the remaining contractual maturities of obligations with rediscount entities and bank loans, among others:

Year		December 31, 2016	June 30, 2016
2016	$	0	2,676,371
2017		3,270,870	866,182
2018		233,814	227,595
2019		238,730	233,943
After 2019		737,414	2,083,184
Total	**$**	**4,480,828**	**6,087,275**

21.3 Outstanding Investment Securities - Bonds Issued

The following is a breakdown of the bonds issued:

December 31, 2016

	Type of issue	Series		Amount of issue	Balance	Interest rate	Issue date	Maturity date
2010 Issue (1)	Subordinated bonds	"AS1" (CPC)	$	45,470	50,609	CPI + 5.33% AA	23-Feb-10	Between 23-Feb-17 and 23-Feb-20
		"AS4" (CPI)		50,250	55,985	CPI + 5.45% AA		
		"BS1" (UVR)		49,195	67,167	UVR + 5.29% AA		
		"BS4" (UVR)		55,084	74,473	UVR + 5,45% AA		
				199,999	**248,234**			
2011 Issue (2)	Ordinary bonds abroad	Single series (fixed rate)		1,163,634	1,841,387	5.00% AV	19-Dec-11	15-Jan-17
2013 Issue (2)	Subordinated bonds abroad	Single series (fixed rate)		897,315	1,524,597	5.38% AV	19-Feb-13	19-Jan-23
2016 Issue (2)	Subordinated bonds abroad	Single series (fixed rate)		1,760,928	1,774,926	6.25% AV	12-May-16	12-May-26
2016 Issue (2)	Subordinated bonds abroad	Single series (fixed rate)		1,535,200	1,515,810	6.25% AV	04-Nov-16	12-May-26
				5,357,077	**6,656,720**			
			$	**5,557,076**	**6,904,954**			

June 30, 2016

	Type of issue	Series		Amount of issue	Balance	Interest rate	Issue date	Maturity date
2010 Issue (1)	Subordinated bonds	"AS1" (CPI)	$	45,470	47,588	CPI + 5.33% AA	23-Feb-10	Between 23-Feb-17 y 23-Feb-20
		"AS4" (CPI)		50,250	52,614	CPI + 5.45% AA		
		"BS1" (UVR)		49,195	64,512	CPI + 5.29% AA		
		"BS4" (UVR)		55,084	72,253	CPI + 5,45% AA		
				199,999	**236,967**			

(Continúa)

	June 30, 2016						
	Type of issue	Series	Amount of issue	Balance	Interest rate	Issue date	Maturity date
2011 Issue (2)	Ordinary bonds abroad	Single series (fixed rate)	1,163,634	1,787,320	5.00% AS	19-Ddec-11	15-Jan-17
2013 Issue (2)	Subordinated bonds abroad	Single series (fixed rate)	897,315	1,482,456	5.38% AS	19-Feb-13	19-Feb-23
2016 Issue (2)	Subordinated bonds abroad	Single series (fixed rate)	1,760,928	1,727,265	6.25% AS	12-May-16	12-May-26
			3,821,877	**4,997,041**			
			$ **4,021,876**	**5,234,008**			

(1) The bonds issued in 2010 pay interest annually in arrears and the principal at maturity. These are unsecured notes.

(2) The bonds issued in 2011, 2013 and 2016 pay interest semi-annually in arrears and the principal at maturity. These are unsecured notes.

Note 22 - Employee Benefits

Under Colombian labor law and pursuant to the labor agreements and collective bargaining pacts signed by the Bank, its employees are entitled to a series of short- and long-term benefits such as retirement bonuses, retirement pensions and severance pay in the case of employees who are still subject to the labor laws that were in effect prior to Law 50/1990.

The Bank is exposed to a number of risks (interest rate and operational risks) inherent in its employee benefit plans. It tries to minimize them by implementing policies and procedures for risk management.

The following is a breakdown of the allowances for employee benefits at December 31 and June, 30 2016:

	December 31, 2016	June 30, 2016
Short-term benefits	$ 88,688	68,139
Post-employment benefits	118,118	105,246
Long-term benefits	88,019	76,509
	$ **294,825**	**249,894**

22.1 Short–term Benefits

Short-term benefits for employees include salaries, paid vacation time, vacation bonuses, mandatory and discretionary bonuses, various types of assistance, payroll taxes, severance pay and interest on severance pay, as per Law 50/1990.

22.2 Post-employment Benefits

In Colombia, pensions for employees who retire after reaching a certain age and completing a specific period of service are assumed by public or private pension funds, based on defined contribution plans in which the company and the employee pay monthly amounts determined by law, so the employee will have a pension upon retirement. However, in the case of some employees who were hired before 1968 and have met the requirements with respect to time of service and age, their pensions are assumed directly by the Bank.

The Bank recognizes an additional bonus, either discretionary or provided for in collective bargaining agreements, for employees who retire once they comply with the age and years of service required for a pension fund to grant them a retirement pension.

The Bank has a group of employees with severance pay benefits that were recognized by law prior to the enactment of Law 50/ 1990. In this case, the benefit is cumulative and is paid based on the last salary earned by the employee, multiplied by the number of years of service, less any advances the employee might have received against the new benefit.

The following table shows the activity in post-employment and other long-term employee benefits during the six months ended at December 31 and June 30, 2016:

		Retirement benefits (2)		Other benefits (1)	
		December 31, 2016	June 30, 2016	December 31, 2016	June 30, 2016
Opening balance	$	**105,246**	**105,565**	**76,509**	**77,142**
Interest cost (3)		4,123	4,027	3,052	3,052
Costs incurred during the period		258	258	3,159	3,159
		4,381	**4,285**	**6,211**	**6,211**
Gain)/loss on changes in interest rates, inflation rates and salary adjustments		3,734	2,063	3,712	0
(Gain)/loss effect of changes in the experience		11,475	0	6,329	0
		15,209	**2,063**	**10,041**	**0**
Payments to employees (4)		(4,114)	(6,667)	(4,740)	(6,845)
Closing Balance	**$**	**120,722**	**105,246**	**88,021**	**76,509**

(1) These pertain to seniority bonuses that are not mandatory by law.
(2) Retirement benefits at December 31, 2016 include retroactive advances on severance pay not considered in the actuarial calculation.
(3) The interest cost of other (five-year) benefits at December 31 and June 30, 2016 includes $ 253 and $ 202 in respective deferred project costs.
(4) The actuarial calculation of retroactive severance pay at December 31, 2016 does not include the advance payment of severance pay incurred in the amount of $ 2,604.

22.3 Actuarial Assumptions

The variables used to calculate the projected liability for retirement and other long-term benefits are listed below:

	December 31, 2016		June 30, 2016	
	Other benefits	Retirement Pensions (1)	Other benefits	Retirement Pensions (1)
Discount rate	7.40%	9.96%	9.00%	7.82%
Inflation rate	3.50%	4.93%	3.50%	2.88%
Rate of salary increase	3.50%	4.93%	3.50%	2.88%
Rate of increase in pensions	3.50%	4.93%	3.50%	2.88%
Employee turnover rate	3.98%		3.98%	

(1) Includes the amendment in rates for retirement pensions, as per Decree 2496/2015.

The employee turnover rate is calculated based on an average between year one of service and 40 for men and women.

Employee life expectancy is calculated according to the mortality tables published by the Financial Superintendence of Colombia. These are constructed on the basis of mortality experiences provided by several insurance companies that operate in Colombia.

The discount rate is assigned according to the duration of the plan. Those with a longer horizon have a higher rate than short-term plans. Accordingly, for plans with longer horizons, the higher rate will be the TES curve.

22.4 Sensitivity Analysis

The following is a sensitivity analysis of post-employment liabilities, based on the financial and actuarial variables, with the other variables remaining constant:

Post-employment	Change in the variable	Increase in the variable	Decline in the variable
		+50 points	-50 points
Discount rate	0.50%	3.25% decline	3.52% increase
Salary growth rate	0.50%	3.89% increase	4.06% decline
Pension growth rate	0.50%	3.89% increase	4.06% decline

Long-term Benefits	Change in the variable	Increase in the variable	Decline in the variable
		+50 points	-50 points
Discount rate	0.50%	2.85% decline	3.02% increase
Salary growth rate	0.50%	3.12% increase	2.97% decline
Pension growth rate	0.50%	3.12% increase	2.97% decline

22.5 Expected Payments for Future Benefits

Future benefits, which reflect service, as appropriate, are expected to be paid as follows:

Year		Retirement benefits	Other benefits
2017	$	15,427	6,524
2018		14,109	11,600
2019		13,385	13,349
2020		13,487	13,819
2021		14,063	11,994
Years 2022–2025	$	64,747	61,889

22.6 Other Long-term Benefits

The Bank grants its employees discretionary, long-term seniority bonuses, depending on their years of service. These bonuses are given every five, ten, fifteen and twenty years, etc. Each payment is calculated according to a certain number of salary days (between 15 and 180 days).

Compensation for key management personnel in each benefit category is described in Note 31 - Related Parties.

<u>Note 23 - Provisions</u>

The following is the activity in provisions:

		Lawsuits, fines, penalties and damages (1)	Other sundry provisions (2)	Total
Balance at December 31, 2015	**$**	**10,134**	**16,215**	**26,349**
New provisions		426	0	426
Increase (decrease) in existing provisions		(2,558)	3,153	595
Provisions used		(336)	0	(336)
Reversed unused provisions		(303)	0	(303)
Balance at June 30, 2016		**7,363**	**19,368**	**26,731**

		Lawsuits, fines, penalties and damages (1)	Other sundry provisions (2)	Total
New provisions		1,086	16,452	17,538
Increase (decrease) in existing provisions		(491)	(2,394)	(2,885)
provisions used		0	(1,394)	(1,394)
Reversed unused provisions		(529)	(251)	(780)
Balance at December 31, 2016	**$**	**7,429**	**31,781**	**39,210**

(1) Labor, civil and administrative proceedings filed against the Bank by third parties for which $ 5,553 and $ 5,572 in provisions were recognized respectively at December 31 and June 30, 2016, respectively. A disbursement schedule for these provisions cannot be determined, due to the diversity of the processes and the different stages they are at. However, the Bank does not expect the amounts provisioned will change significantly as a result of the payments to be made in each of the processes.

(2) Pertains mainly to expenses for dismantling ATMs and making improvements to property it leases. The respective provisions came to $ 16,622 and $ 14,953 at December 31 and June 30, 2016. The provisions established to cover payments to franchises (Visa, Master Card, Redeban and Credibanco) for operations carried out at establishments by the Bank's cardholders and other expenses generated by the credit card business came to $ 13,996 and $ 3,344 at December 31 and June 30, 2016, in that order. Such provisions are canceled in the course of the month following the date they are constituted.

Note 24 - Accounts Payable and Other Liabilities

The following is a breakdown of accounts payable and other liabilities.

		December 31, 2016	June 30, 2016
Accounts payable on sight for services – collections	$	412,530	210,874
Dividends and surpluses payable		260,532	242,133
Compensation on transactions with ACH, PSE and CENIT		211,222	87,434
Cash-over on withdrawals and advances at electronic tellers		196,178	1,634
Payments to suppliers and for services		185,061	140,726
Withholdings and other employee contributions		71,193	62,175
Anticipated income		56,958	46,358
Accounts payable with respect to loans or prepaid penalty		43,010	10,134
Other taxes		39,081	101,469
Account payable for principal & interest on Peace Bonds		28,872	29,010
Visa Smart card payments – Visa Electrón		28,123	33,515
Collection services		27,281	25,248
Certificates of deposit - matured		26,659	26,366
Contributions on financial transactions		21,595	14,183
Electronic currency –e-wallet for coffee growers		21,107	8,949
Distribution of funds pending credit to clients		17,905	21,753
Cancelled accounts		15,669	15,643
Interest from restructuring processes		14,857	0
Lien orders		11,884	11,836
Promises buyers		11,288	14,104
Sales tax payable		10,860	9,030
Uncashed drawn checks		7,968	10,018
Security bonds		7,356	7,369
Balances in favor of cancelled portfolio		4,801	5,003
Cash-exchange surpluses		3,507	2,914
Exchange rates, restatement in foreign currency		2,060	1,637
Commissions and fees		2,030	1,417
Transactions at automatic tellers in the ATH network		10	107,892
Other accounts payable		72,691	53,921
Total	$	**1,812,288**	**1,302,745**

Note 25 - Shareholders´ Equity

25.1 Capital in Shares of Stock

The face value of authorized, issued and outstanding common shares of stock in the Bank was $ 10.00 pesos each at December 31 and June 30, 2016. These shares are represented as follows:

		December 31, 2016	June 30, 2016
Number of authorized shares of stock		500,000,000	500,000,000
Number of shares of stock subscribed and paid		331,280,555	331,280,555
Subscribed and paid-in capital	$	3,313	3,313

The Bank has issued no preferred shares.

25.2 Reserves

The following is the make-up of reserves at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Legal reserves			
Appropriation of net profits	$	8,157,030	5,412,477
Statutory and occasional reserves			
Tax provisions		5,380	2,067
To maintain stability of the dividend		596,330	581,237
Subtotal		**601,710**	**583,304**
Total	**$**	**8,758,740**	**5,995,781**

Legal Reserve

By law, all lending institutions are required to create a legal reserve by appropriating ten percent (10%) their net earnings, each year, until the reserve equals fifty percent (50.0%) of subscribed capital. This legal reserve may be reduced to less than fifty percent (50.0%) of subscribed capital to cover losses in excess of undistributed profits. However, it may not be used to pay dividends or to cover expenses or losses as long as the Bank has undistributed profits.

A decision on a commitment to appropriate a certain percentage of yearly profits for the legal reserve is reached at each shareholder's meeting. At the one in March 2016, this appropriation commitment was set at 50% (on profits for the first half of the year); at the shareholders' meeting in September 2016, it was set at 30% (of the profits for the second half of the year).

Statutory and Discretionary Reserves

These are decided during the meetings of shareholders.

25.3 Declared Dividends

Dividends are declared and paid to shareholders based on unconsolidated net profits from the immediately preceding six months. The declared dividends were the following:

		December 31, 2016 (1)	June 30, 2016
Unconsolidated earnings from the preceding period	$	1,073,000	1,008,948
Dividends paid in cash		$250.00 per share payable in the first ten (10) days of each month between October 2016 and March 2017 (based on profits in the first half of 2016).	$230.00 per share payable in the first ten (10) days of each month between April 2016 and September 2016 (based on profits in the second half of 2015).
Outstanding common shares		331,280,555	331,280,555
Total declared dividends	**$**	**496,921**	**457,167**

(1) Does not include the Corficolombiana deconsolidation gain (loss of control) of $ 2,208,053.

25.4 Earnings per Basic Shares

The calculation of earnings per share in the six months ended at December 31 and June 30, 2016 breaks down as follows:

		December 31, 2016	June 30, 2016
Earnings for the period	$	953,842	3,281,053
Ordinary outstanding shares		331,280,555	331,280,555
Earnings per basic share	$	2,879	9,904

There are no rights or privileges on outstanding ordinary shares.

The Bank had no transactions with diluted effects at December 31 and June 30, 2016. Consequently, basic earnings are equal to diluted earnings.

See Note 32 on policies for capital management.

Adjustments for First-time Adoption of IFRS

As instructed by the Financial Superintendence of Colombia in Circular 36/2014, the net positive differences that are generated when supervised institutions adopt IFRS for the first time may not be distributed to cover losses, nor may they be capitalized, distributed as profits/ dividends, or recognized as reserves. They may be used only when effectively realized with third parties, other than related parties, and in accordance with IFRS principles.

Net positive differences generated when adopting IFRS for the first time may not be used to comply with prudent requirements on regulatory capital, which is the minimum amount required to operate, depending on the nature of each institution supervised by the Financial Superintendence of Colombia. If the first-time adoption of IFRS generates net negative differences, they will be deducted from regulatory capital.

Note 26 - Other Comprehensive Income

The following is a breakdown of the balances and activity in “other comprehensive income” included under equity during the periods ended at December 31 and June 30, 2016:

		Exchange difference for foreign subsidiaries	Hedged financial obligations	Derivative hedging	Unrealized gain on investments in debt securities	Unrealized gain on investments in equity securities	Application of the equity method to subsidiaries and associates	Adjustment for exchange difference for foreign subsidiaries	Employee benefits	Income tax (1)	First-time adoption	TOTAL OCI
Balance at December 31, 2015	**$**	**2,363,129**	**(677,723)**	**(1,683,348)**	**(261,587)**	**30,653**	**(207,439)**	**137,331**	**10,481**	**946,529**	**(43,870)**	**614,156**
Deconsolidation Corficolombiana S.A.		0	0	0	0	0	12,997	0	0	0	0	12,997
Activity in the period		(777,682)	378,259	399,154	132,219	(863)	43,161	(33,429)	(2,063)	(330,495)	0	(191,739)
Balance at June 30, 2016	**$**	**1,585,447**	**(299,464)**	**(1,284,194)**	**(129,368)**	**29,790**	**(151,281)**	**103,902**	**8,418**	**616,034**	**(43,870)**	**435,414**
Deconsolidation Casa de Bolsa S.A.		0	0	0	0	0	(394)	0	0	0	0	(394)
Activity in the period		278,861	(169,454)	(107,591)	43,475	834	(134,684)	12,924	(15,209)	93,630	0	2,786
Balance at December 31, 2016	**$**	**1,864,308**	**(468,918)**	**(1,391,785)**	**(85,893)**	**30,624**	**(286,359)**	**116,826**	**(6,791)**	**709,664**	**(43,870)**	**437,806**

(1) See Note 18, paragraph 18.5 for details on current and deferred taxes.

Note 27 - Income, Expenses for Commissions and Other Services

The following is a breakdown of income, expenses for commissions and other services for the six month ended at December 31 and June 30, 2016:

	December 31, 2016	June 30, 2016
Expenses for commissions and fees		
Banking services	49,259	45,676
Services rendered to branches in the office network	13,641	13,097
Others	12,277	11,417
Data processing services	5,831	5,394
Total of commissions and fees expenses	**81,008**	**75,584**

Note 28 - Other Income

The following is a breakdown of other income during the six months ended at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Interest in investments, using the equity method (1)	$	583,471	753,517
Profit on fair value measurement of Credibanco		126,599	0
Recovery of loan and leasing write-offs		85,352	42,821
Others		31,692	44,387
Recovery of loan write-off fees		19,827	13,744
Prescription of liabilities declared as abandoned		7,726	1,419
Profit on sale of investments		6,009	56,072
Compensation for claims		5,841	6,065
Changes in fair value of investment property		3,614	340
Cash transportation service		3,447	3,166

(Continúa)

		December 31, 2016	June 30, 2016
Income from exchange activities		1,968	1,850
Gain on the sale of property and equipment		1,759	14
Real estate rentals		843	890
Gain on the disposal of non-current assets held for sale		101	1,853
Dividends and interest		5	1,517
Gain on exchange operations, net		0	40,685
Gain on sale of investment properties		0	27
Recovery of CREE 2013 tax allowance		0	22,906
Reclassification of OCI to earnings on loss of control with the Corficolombiana investment		0	8,164
Total other income, net	$	**878,254**	**999,437**

1) The following is a breakdown of income received, by subsidiary and based on the equity method:

		December 31, 2016	June 30, 2016
Subsidiaries and Associates			
Leasing Bogotá Panamá	$	435,639	516,504
Porvenir S.A.		60,835	65,278
Corporación Financiera Colombiana S.A.		22,637	94,737
Fiduciaria Bogotá S.A.		38,637	52,834
Banco de Bogotá Panamá S.A.		19,183	19,748
Almaviva S.A.		10,388	5,101
Megalinea S.A.		409	360
Aportes en Línea S.A.		150	132
Bogotá Finance Corporation		1	1
Casa de Bolsa S.A.		(102)	112
Pizano S.A.		(2,076)	(1,608)
A Toda Hora S.A.		(2,230)	318
Total income received based on the equity method	**$**	**583,471**	**753,517**

Note 29 - Other Expenses

The following are “other expenses” registered during the six months ended at December 31 and June 30, 2016 :

		December 31, 2016	June 30, 2016
Administration (1)	$	311,851	284,796
Taxes and rates		110,733	105,926
Insurance		56,423	59,521
Leases		44,845	45,492
Contributions, memberships and transfers		47,656	43,994
Maintenance and repairs		26,697	32,584
Fees		40,518	26,325
Adaptations and installations		8,373	5,304
Expenses for impairment in the value of other assets		5,105	479
Total	$	**652,201**	**604,421**

(1) Expenses at December 31 and June 30, 2016 for outsourcing services, incentive awards and promotion of financial products, building and personnel management, travel expenses, public utilities, surveillance and temporary services.

Note 30 - Commitments and Contingencies

30.1 Credit Commitments

The Bank grants guarantees and letters of credit to its customers as part of the normal course of its operations. In doing so, it irrevocably commits to make payments to third parties in the event the customer does not comply with its obligations to the same third parties. These guarantees and letters of credit have

(Continúa)

the same credit risk as the financial assets in the loan portfolio, and they are subject to the same authorization policies on loan disbursement in terms of the customer's credit rating. Collateral considered appropriate under the circumstances is obtained.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, credit card use, overdraft quotas and letters of credit. With respect to the credit risk involved in commitments to extend lines of credit, the Bank is potentially exposed to losses in an amount equal to the total amount of the unused commitment, if the total unused amount were to be withdrawn in full. However, the amount of the loss is less than the total amount of the unused commitment, since most commitments to extend credit are contingent on the customer maintaining specific credit-risk standards. The Bank monitors the maturities on lines of credit, since long-term commitments imply more credit risk than short-term commitments.

The unused balances on lines of credit and guarantees do not necessarily represent future cash requirements, because lines of credit can expire or not be used all or in part.

The table below provides details on unused guarantees, letters of credit and credit commitments in unused lines of credit at December 31 and June 30, 2016:

Commitments in Unused Lines of Credit

		December 31, 2016		June 30, 2016	
		Notional amount	Fair value	Notional amount	Fair value
Collateral	$	1,778,386	6,948	1,865,235	7,912
Unused letters of credit		102,190	957	186,791	1,044
Overdraft limits		117,592	117,592	159,240	159,240
Unused credit card limits		3,098,072	3,098,072	2,904,096	2,904,096
Opened lines of credit		2,382,756	2,382,756	2,338,424	2,338,424
Undisbursed approved loans		1,834,622	1,834,622	35,000	35,000
Others		94,100	94,100	199,032	199,032
Total	**$**	**9,407,718**	**7,535,047**	**7,687,818**	**5,644,748**

The outstanding balances on unused lines of credit and guarantees do not necessarily represent future cash requirements, because such quotas may expire and not be used entirely or in part.

The following is a breakdown of credit commitments, by type of currency:

		December 31, 2016	June 30, 2016
Credit commitments, by type of currency			
Colombian pesos	$	8,624,408	6,790,394
US dollars		767,804	875,785
Euros		14,938	17,085
Others		568	4,554
Total	**$**	**9,407,718**	**7,687,818**

30.2 Commitments to Disburse Funds for Capital Expense

At December 31 and June 30, 2016, the Bank disbursed $867 and $360, respectively for capital expenses pertaining to contracts for the purchase of property, plant and equipment (real estate). These contracts imply commitments for $4,677 and $4,038 in respective, in disbursements to be made during 2017.

30.3 Operating Lease Commitments

In developing its operations, the Bank signs agreements to receive property, plant and equipment and certain kinds of intangible assets under operating leases.

The following is a breakdown of the payment commitments in operating leases during the years ahead.

		December 31, 2016	June 30, 2016
Not more than one year	$	69,416	63,160
More than one year and less than five years		152,326	149,031
More than five years		74,257	76,703
Total	**$**	**295,999**	**288,894**

The Bank has several operating leases, mainly for the use of bank branches and offices. These contracts expire in seven (7) to ten (10) years, on average. They contain options for renewal, generally at the time agreed upon initially, and require the Bank to assume all execution costs, such as maintenance and insurance. The rental fees are adjusted as agreed in the lease and / or as required by law.

The minimum rental payments on operating leases are recognized during the term of the lease and according to the straight-line method. The rental expense recognized in profits and losses at December 31 and June 30, 2016 comes to $ 44,845 and $45,492, respectively.

30.4 Legal Contingencies

There were $120,554 in administrative and judicial claims pending against the Bank at December 31, 2016. These are valued based on the analysis and opinions of the lawyers in charge. Due to their nature, the contingencies have not been recognized as liabilities, since they are possible obligations that do not imply an outflow of resources.

The following is a breakdown of the contingencies over $ 5,000 against the Bank

Civil Suit Brought by Pedro Ramón Kerguelen and Luz Amparo Gaviria

This is a compensatory process in which it is requested the Bank be held responsible for compensating the product of a development loan against a previous debt on the part of the plaintiffs, which prevented the Finagro investment project from being carried out. The claims are valued at to $ 61,300 and judgement in the first instance is pending.

Civil Liability Suit Brought by Titan Intercontinental S.A. Alleging Undue Financial Transaction Tax Withholding

This is a non-contractual civil liability suit brought by Titan Intercontinental S.A. against Banco de Bogotá alleging undue withholding of financial transaction tax during the years 2001, 2002 and 2003 on operations Casa de Cambios charged to its current accounts for payment to end beneficiaries, transactions the claimant maintains were exempt from said tax. In the opinion of the Bank, the financial transaction tax was applied and withheld by Banco MEGABANCO S.A. according to law, since the plaintiff did not request, in due course, that the accounts be marked for the exemption. The claims amount to $ 7,000. The ruling in the first instance, issued on December 6, 2016, was in favor of Banco de Bogotá. The filings of an appeal by the plaintiff or a final judgement are pending.

Civil Liability Suit Brought by Casa de Cambios Unidas S.A. Alleging Undue Financial Transaction Tax Withholding

This is a non-contractual civil liability suit brought by Casa de Cambios Unidas S.A, against Banco de Bogotá alleging undue withholding of financial transaction tax during the years 2001, 2002 and 2003 on operations the plaintiff charged to its current accounts for payments to end beneficiaries, transactions the plaintiff claims were exempt from said tax. In the opinion of the Bank, the financial transaction tax was applied and withheld by Banco MEGABANCO S.A. according to law, since the plaintiff did not request, in due course, that the accounts be marked for the exemption. The claims amount to $ 5,900. Once the evidence was gathered, Court set a date and time to hear the arguments and rule on the case (May 2017).

People's Suit - Valle del Cauca Department

This is a people's suit requesting the Bank reimburse the uncollected portion of the foreclosed shares of EPSA and Sociedad Portuaria de Buenaventura and to pay damages to the Valle del Cauca Department. The claims amount to $ 18,000. The case is pending the trustee taking office.

The Group does not expect to obtain any type of reimbursement. Therefore it, it has not recognized assets for this purpose.

<u>Note 31 - Related Parties</u>

According to IAS 24, a related party is a person or entity that is related to the entity that prepares its financial statements; namely, the reporting entity. An entity is related to the reporting entity if it has control or joint control over the reporting entity, has significant influence over the reporting entity, or could be considered a member of the key management personnel of the reporting entity or a controller of the reporting entity. The definition of related parties includes: a) people and/or family members related to the entity, b) entities that are members of the same group (controller and subsidiary), c) associates or business combinations of the entity or of the entities in the group, and d) defined post-employment benefit plans for the benefit of employees of the reporting entity or an entity related to the reporting entity.

Accordingly, the following are deemed to be related parties.

a) An economically related party is a person or entity that is related to any entity in the Group, through transactions such as those involving a transfer of resources, services or obligations, regardless of whether a price is charged.

Transactions between economic associates are understood as any economic operation conducted with Grupo Aval shareholders or entities thereof.

b) Shareholders who individually own more than 10% of the Bank's capital stock (Grupo Aval Acciones y Valores).

c) Key management personnel: people with authority and responsibility for planning, ordering and controlling the activities of the entity, either directly or indirectly, including any manager or administrator (executive or otherwise) of the Bank, as well as its president, vice presidents and members of its Board of Directors.

d) Subordinate entities: Companies where the Bank exercises control, according to the definition of control outlined in the Commercial Code and in IFRS 10 – Consolidation.

e) Associate entities: Companies over which the Bank has significant influence. Generally, significant influence is considered to exist when the Bank owns between 20% and 50% of the capital stock in the company.

f) Other related parties: These include Banco de Occidente and subordinates, Banco AV Villas and subordinates, Banco Popular and subordinates, Seguro de Vida Alfa S.A, Seguros Alfa S.A and other related parties.

Transactions with Related Parties:

The Bank may enter into transactions, agreements or contracts with related parties. However, it is understood that such operations shall be conducted at fair value, with market conditions and rates being taken into account

During the periods ended at December 31 and June 30, 2016, the Bank and its related parties registered no:

- Loans involving an obligation to the borrower that does not coincide with the essence or nature of a loan agreement.
- Loans at interest rates other than those normally paid or charged under similar terms with respect to risk, maturity, etc.
- Operations of a different nature than those conducted with third parties

According to the Bank's manual on agreements, specifically Chapter VI- "Special Agreements with Subsidiaries on Using the Bank's Network," Banco de Bogotá S.A. has agreements that allow Fiduciaria Bogotá S.A. and Porvenir S.A. to use its network of offices.

The national government has authorized trust companies to use bank offices to carry out their operations. This being the case, Fiduciaria Bogotá S.A. entered into a contract with Banco de Bogotá S.A. to use its network of offices. The agreement outlines how the transactions of customers with mutual funds managed by Fiduciaria Bogotá S.A. will be handled from an operational standpoint.

In keeping with the provisions established in Law 50/ 1990 (Labor Reform Act) and Law100 /1993 (the General and Comprehensive System for Social Security System), the Bank entered into an agreement with Sociedad Administradora de Fondos de Pensiones y Cesantías - Porvenir S.A., whereby the latter uses the Bank's offices as a support network to provide services associated with the severance and mandatory pension funds it manages.

Fees paid to members of the Board of Directors during the six months ended at December 31 and June 30, 2016, for their attendance at Board and committee meetings, came to $458 and $392, respectively.

The following shows the Bank's balances for loans and deposits with related parties, directors and managers at December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Loan portfolio	$	1,053,634	672,128
Deposits and demand accounts	$	868,813	616,855

All transactions and disbursements were made at market prices. Credit card operations and overdrafts were conducted at the full rates for those products.

Balances and operations with related parties are shown in the following table, organized into groups, including details on transactions with key management personnel:

		December 31, 2016					
					Related entities		
		Economically related	Grupo Aval	Key management personnel (1)	Non-subordinates	Associates and Joint Ventures	Subordinates
Assets							
Cash and cash equivalents	$	0	0	0	78	0	3,495
Investments recorded by the equity method		0	0	0	0	3,347,614	11,514,343
Investment allowance		0	0	0	0	0	1,163
Loan portfolio and financial leasing operations		742,753	718,348	23,134	20,013	141,587	89
Other accounts receivable		1,127	0	0	14	12,260	31,185
Liabilities							
Financial liabilities at amortized cost		197,237	184,116	25,498	948	683,648	3,222,955
Accounts payable and other liabilities		2,030	170,783	0	3,964	71	2,039
Income							
Interest		29,711	35,495	714	16	7,923	0
Commissions and other services		0	129	0	14	153	3,568
Other income		620	39	0	1,589	0	182
Expenses							
Financial expenses		3,893	43,713	437	1	28,051	7,955
Expenses for commissions and other services		48	0	0	21	0	1,131
Other expenses	$	2,282	13,650	458	4,371	2,737	60,866

		June 30, 2016					
					Related entities		
		Economically related	Grupo Aval	Key management personnel (1)	Non-subordinates	Associates and Joint Ventures	Subordinates
Assets							
Cash and cash equivalents	$	0	0	0	20	0	4,300
Investments recorded by the equity method		0	0	0	0	3,347,814	10,897,691
Investment allowance		0	0	0	0	0	1,131
Loan portfolio and financial leasing operations		760,192	685,113	16,597	22,003	144,945	162
Other accounts receivable		0	0	0	168	17,570	7,582
Liabilities							
Financial liabilities at amortized cost		182,382	2,251,262	11,565	1,396	858,237	954,792
Accounts payable and other liabilities		1,874	157,120	0	3,574	94	2,046
Income							
Interest		24,127	23,162	742	42	7,605	0
Commissions and other services		0	129	0	25	146	2,299
Other income		0	38	0	1,065	0	173
Expenses							
Financial expenses		7,350	63,252	167	1	29,434	5,049
Expenses for commissions and other services		0	0	0	21	0	963
Other expenses	$	1,737	11,166	402	3,607	2,292	50,317

(1) Includes all transactions with key management personnel, except the employee benefits explained later.

The Bank enters into transactions with its subordinates in development of its commercial operations. These transactions include interest in those entities, loans and financial liabilities, which are detailed below.

	December 31, 2016							
Banco de Bogotá	Almaviva	Banco de Bogotá Panamá	Fidu-bogotá	Leasing Bogotá Panamá	Mega-linea	Porvenir	Bogotá Finance Corp.	Corp. Ficentro
Asset								
Cash and cash equivalents	$ 0	3,495	0	0	0	0	0	0
Investments recorded by the equity method	70,750	241,119	237,217	10,312,414	3,845	647,577	258	1,163
Investment allowance	0	0	0	0	0	0	0	1,163
Loan portfolio and financial leasing operations	11	0	0	0	1	77	0	0
Other accounts receivable	1,678	1	21,658	0	259	7,589	0	0
Liabilities								
Financial liabilities at amortized cost	6,520	2,998,039	33,692	10,851	5,311	168,542	0	0
Accounts payable and others	24	0	1	2	1,928	84	0	0
Income								
Commissions and other services	141	47	12	0	53	3,315	0	0
Other income	13	9	159	0	1	0	0	0
Expenses								
Financial expenses	85	3,254	1,920	8	30	2,658	0	0
Expenses for commissions and other services	0	0	370	0	0	761	0	0
Other expenses	$ 521	0	0	0	60,289	56	0	0

	June 30, 2016								
Banco de Bogotá	Almaviva	Banco de Bogotá Panamá	Casa de Bolsa	Fidu-bogotá	Leasing Bogotá Panamá	Mega-linea	Porvenir	Bogotá Finance Corp.	Corp. Ficentro
Assets									
Cash and cash equivalents	$ 0	4,300	0	0	0	0	0	0	0
Investments recorded by the equity method	65,088	217,887	6,631	327,674	9,668,511	3,435	607,084	250	1,131
Investment allowance	0	0	0	0	0	0	0	0	1,131
Loan portfolio and financial leasing operations	16	0	0	0	0	0	146	0	0
Other accounts receivable	0	0	0	67	0	173	7,342	0	0
Liabilities									
Financial liabilities at amortized cost	3,606	878,559	153	38,934	1,272	3,270	28,998	0	0
Accounts payable and others	90	0	0	8	586	1,331	31	0	0
Income									
Commissions and other services	108	0	0	7	0	52	2,132	0	0
Other income	8	9	0	155	0	1	0	0	0
Expenses									
Financial expenses	101	997	0	973	8	30	2,940	0	0
Expenses for commissions and other services	0	0	0	152	0	0	811	0	0
Other expenses	$ 334	0	0	0	0	49,929	54	0	0

The outstanding amounts are guaranteed and no expense in the current period or prior periods has been recognized for uncollectible or doubtful accounts concerning amounts owed by related parties.

(Continúa)

Benefits for Key Management Personnel

The benefits for key management personnel during the six months ended at December 31 and June 30, 2016 include the following.

		December 31, 2016	June 30, 2016
Short-term employee benefits	$	7,863	8,542
Compensation for key management personnel, other long-term employee benefits		183	52
	$	**8,046**	**8,594**

Note 32 - Adequate Capital Management

The Bank's objectives in terms of adequate capital management focus on: a) complying with the capital requirements defined for financial entities by the Colombian government; and b) maintaining an adequate equity structure that allows the Bank to generate value for its shareholders.

The capital adequacy ratio, which is defined as the ratio of the Bank's regulatory capital to its risk-weighted assets, may be no less than nine point zero percent (9.0%); while its basic capital adequacy ratio, defined as the ratio of basic ordinary capital to risk-weighted assets, may be no less than four point five percent (4.5%), as indicated respectively in Articles 2.1.1.1.2 and 2.1.1.1.3 of Decree 2555 / 2010, amended by Decree 1771 / 2012 and Decree 1648 / 2014 and Decree 2392/2015.

Individual compliance is verified monthly. Consolidated compliance is verified quarterly with the Bank's subordinates in Colombia, which are supervised by the Financial Superintendence of Colombia, and with its financial subsidiaries abroad.

For the purpose of capital management in Colombia, basic ordinary capital is comprised primarily of subscribed and paid ordinary shares of stock, the surplus from additional paid-in capital, and the legal reserve appropriated from profits. On the other hand, regulatory capital includes basic ordinary capital as well as unrealized gains on debt and equity securities, subordinated debentures, and a portion of income for the period, pursuant to the profit appropriation commitment that was approved at the shareholders' meeting.

In an effort to manage capital from an economic perspective and in a way that generates value for the Bank's shareholders, management keeps a close eye on the level of returns for each line of business and on capital requirements in line with the growth expectations for each line. Managing economic capital also involves analyzing how it can be affected by the credit risk, market and liquidity risks and the operational risks to which the Bank is exposed in the course of its operations.

The following is a breakdown of the minimum amount of regulatory capital the Bank is required to hold.

Consolidated Banco de Bogotá		December 31, 2016	June 30, 2016
Regulatory capital	$	14,972,841	13,557,655
Total risk-weighted assets		71,817,284	68,234,295
Total solvency risk rate > 9%		20.85%	19.87%
Basic solvency risk rate > 4.5%	$	13.65%	10.41%

Note 33 - Statutory Controls

The Bank complied with the requirements on reserves (see Note 7), proprietary position, the solvency ratio (see Note 32) and mandatory investments during the six months ended at December 31 and June 30, 2016.

Note 34 - Subsequent Events

Concessionaire Ruta del Sol SAS (the "Concessionaire") is the company that was awarded Concession Contract No. 001 on January 14, 2010 to build, operate and maintain Sector 2 of the Ruta del Sol Road Project, which extends from Puerto Salgar to San Roque (the "Contract").

Banco de Bogotá granted loans to the Concessionaire in connection with the Contract. The outstanding balances on those loans came to $ 721,145 and $ 690,367 at December 31 and June 30, 2016, in that order, and represent 0.90% and 0.90% of the total assets at the end of each period.

Moreover, Estudios y Proyectos del Sol S.A.S ("Episol"), a company 100% owned by Corporación Financiera Colombiana S.A (Corficolombiana), an associate of Banco de Bogotá, owns 33% of the capital stock of the Concessionaire.

Given the investigations and suits brought by criminal, judicial and administrative authorities as a result of acts of corruption in twelve countries, including Colombia, that have been confessed in US courts by the Brazilian firm Odebrecht S.A., which has controlling interest in the Concessionaire (62.01%) through its subsidiaries Constructora Norberto Odebrecht S.A. and Odebrecht Latinvest S.A.S., the Contract has been subject to recent measures and pronouncements issued by Colombian supervisory organism and judges.

In view of the foregoing and to allow the Ruta del Sol Sector 2 Project to continue promptly and in compliance with orders issued on this matter, the Concessionaire and the National Infrastructure Agency (ANI) signed an agreement on February 22, 2017 ordering early termination of the contract and a formula for its settlement (the "Agreement").

Based on the formula to settle the Contract, and preliminary values thereof, Banco de Bogotá estimates:

a. All capital owed by the Concessionaire will be recovered, as well as the interest accrued up to the date when the Concession reverted to ANI. The Agreement provides for these resources, adjusted at the rate of inflation, to be delivered to the banks between 2017 and 2021, chargeable to future periods.

b. The basis for settling the Contract will allow Episol to recover part of its investment in the Concessionaire, which is why Episol's financial statements for the second half of 2016 (ended at December 31) and, consequently, those of Corficolombiana include $ 102,274 in provisions with respect to that investment. This affects Banco de Bogotá's profits in the amount of $ 39,219.

Note 38 - Approval for Presentation of the Financial Statements

The Board of Directors of Banco Bogota, at a meeting held on February 28, 2017, gave its approval for the separate financial statements at December 31, 2016 and the notes accompanying those financial statements to be presented to the General Assembly Shareholders of the Bank for consideration. The General Assembly of Shareholders may approve or amend those statements.

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