Financial Planning and Strategy Management Team

# Chapter 3

## Our Financial Results

We prioritize our strategic efforts to generate economic and social value for our clients, partners, shareholders and investors.

*Let's* ***Grow***

Banco de Bogotá

# 3. Our Financial Results

## Stand-alone (Non-consolidated) Statements of Income

The added Stand-alone Financial Statements have been prepared in accordance with the Financial Reporting Accounting Standards accepted in Colombia (NCIF, for the Spanish original), including: International Financial Reporting Standards (IFRS) at December 31, 2013, compiled in Decree 2420 / 2015 issued by the Colombian Government, except in the treatment of the classification and valuation of investments in IAS 39 and IFRS 9, the loan portfolio and its impairment, and recognition of 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 apply, and the option of incurred wealth tax on an annual basis, charged to equity reserves or results, in accordance with Law 1739 / December 2014. Likewise, Decree 2496 / 2015 includes an exception for the actuarial calculation of retirement pensions, which are to be measured in line with the provisions of Decree 2783 / 2001. In turn, the partial implementation of the International Financial Reporting Standards for entities of public interest, such as banks, was required in Decree 2784 issued by the Colombian Government in December 2012, and it is mandatory for accounting management and preparation of financial statements of entities of public interest as of January 1, 2015. These stand-alone financial statements were prepared in compliance with the legal provisions to which the Bank is subject as a legally independent entity; some accounting principles may differ in relation to those applied in the consolidated financial statements and, additionally, do not include the adjustments or the eliminations necessary for the presentation of consolidated financial information established with the consolidated statement of comprehensive income of the Bank and its subsidiaries. For legal purposes in Colombia, the primary financial statements are the stand-alone financial statements.

During the first half of 2016, Banco de Bogotá's Colombian operations recorded COP 3,281 billion in net income, COP 78,037 billion in assets, COP 62,553 billion in liabilities and COP 15,485 billion in shareholder's equity.

| Banco de Bogotá Stand-alone – Balance Sheet | | | |
|---|---|---|---|
| **Partial IFRS Figures (Billions of COP)** | **Jun-15** | **Dec-15** | **Jun-16** |
| **Assets** | **69,005** | **73,444** | **78,037** |
| Loans and Leases, Net (1) | 45,498 | 47,006 | 49,534 |
| Net Investments in Debt Securities | 5,733 | 4,847 | 4,699 |
| Net Investments in Equity Securities | 9,871 | 12,114 | 14,271 |
| **Liabilities** | **57,206** | **60,445** | **62,553** |
| Deposits | 44,959 | 44,806 | 47,455 |
| **Equity** | **11,799** | **12,999** | **15,485** |

In the first half of 2016, a retrospective restatement of the Financial Statements as at July 1 and December 31, 2015 was made, according to Note 2 of the Financial Statements; therefore, the Financial Statements for those dates differ from those published previously.

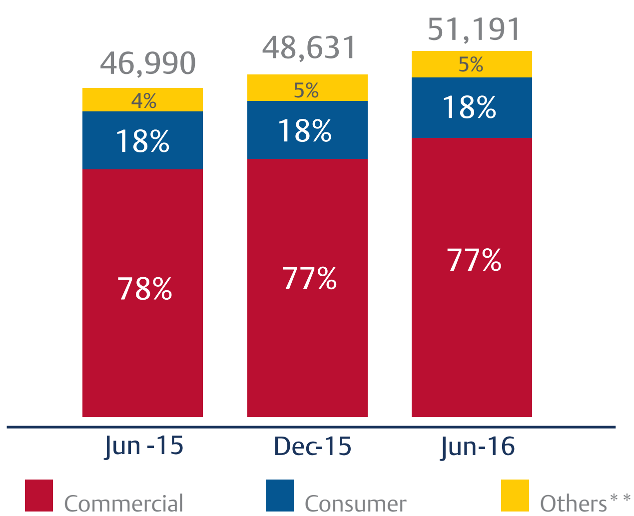
(1) Net Loans include accounts receivable associated with the loan portfolio and accounts receivable from customers.

## Assets

The Bank's **Assets** as at June 2016 totaled COP 78,037 billion and rose by 13.1% (COP 9,032 billion) compared with the same period in 2015; 45% of this increase was attributed to the growth of the net loans and leases, 37% to net investment and 18% to other assets. The **Financial Loans and Leases** (COP 51,191 billion) increased by COP 4,201 billion in relation to June 2015. This was primarily due to the commercial leases and loans, which accounted for 68%, or COP 2,863 billion, of the increase. The gross leases and loans portfolio are 77% comprised of commercial leases and loans, 18% of consumer leases and loans, and 5% of the mortgage, residential lease and microcredit loans.

### Evolution of Loans and Financial Leases*

Billions of COP and % share




*Gross Loans and Leases
** Others include mortgages, residential lease and microcredit loan portfolios.

The **Debt Securities** portfolio rose to COP 4,699 billion, accounting for 6.0% of the Bank's assets, and fell by 18.0% compared with the first half of 2015, mainly due to the decrease in the bank's investments at fair value through profit or loss (tradable) and in investments at fair value through ORI (available for sale) in legal currency.

As to the classification of these investments, 66.7% of the portfolio was classified at fair value through ORI (available for sale), 22.9% was at amortized cost (through to maturity) and the remaining 10.4% was classified at fair value through profit or loss (tradable). Additionally, COP 4,364 billion (92.9%) are represented by securities of operations in Colombia, COP 168 billion (3.5%) correspond to the New York agency, COP 125 billion (2.7%) to the Miami agency and COP 42 billion (0.9%) to the Panama branch.

Meanwhile, the **Variable-Income Securities Investment** (Net[4]) portfolio totals COP 14,271 billion, of which COP 10,897 billion correspond to investments in controlled entities and COP 3,346 billion to investments in associates, while COP 28 billion was recorded in other equity investments.

The Bank has adopted the early application of IAS 27 "Separate Financial Statements," and IAS 28, "Investments in Associates and Joint Ventures," which entails a change in the Bank's accounting policies[5]. As a consequence of this application, as of the first half of 2016, the Bank's Financial Statements recognize investments in associates and joint ventures through the equity method rather than through dividends, and reappraisals related to these investments are eliminated from financial statements. Moreover, the equity method is retroactively applied to investments in subsidiaries.

Investments in subsidiaries totaled COP 10,897 billion, primarily comprised of Leasing Bogotá Panamá, accounting for 88.7% of the total with an investment value of COP 9,669 billion, and Porvenir, at 5.6% and COP 606 billion. As at June 2016, an annual growth of 10.9% was recorded for investment in subsidiaries, mainly due to the Bank's investment in Leasing Bogotá Panamá, which increased from COP 7,886 billion to COP 9,669 billion in June 2016, as a result of this investment being restated in U.S. dollars and the equity activity recorded through the equity method.

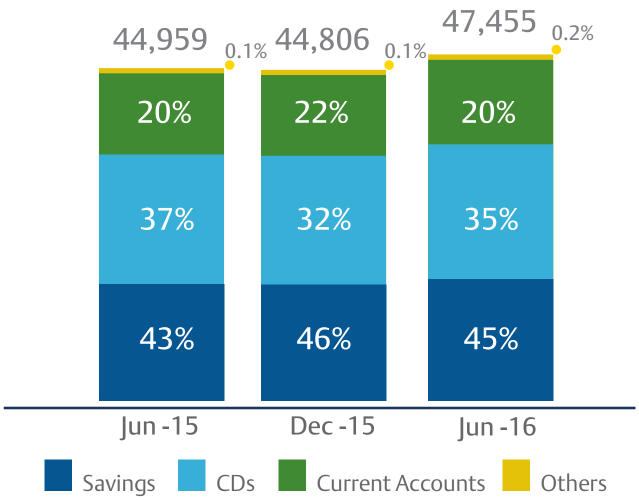
4 Corresponds to investments in subsidiaries, associates, and joint ventures, and to equity investments included in Financial Investment Assets.
5 For more information on these standards, see notes 2 and 4.8 of the Bank's Stand-alone Financial Statements.

## Liabilities

**Liabilities**, COP 62,553 billion, increased by 9.3% in relation to June 2015 and are 76% composed of client deposits, 21% of borrowings and 3% of other liabilities.

### Evolution of Deposits

Billions of COP and % share




**Deposits** totaled COP 47,455 billion, an increase of COP 2,497 billion (5.6%) that came as a result of the COP 2,180 billion rise in savings deposits, COP 475 billion in checking account deposits and the COP 158 billion fall in CDs and other deposits.

**Borrowings** amount to COP 13,009 billion, and are composed of COP 6,087 billion in long-term debt with other banking institutions and in rediscounting, primarily COP 5,234 billion in bonds and COP 1,688 billion in debt in short-term interbank funds and simultaneous operations. The primary annual variations present themselves in long-term debt, as a result of the generation of the subordinated note at a value of USD 500 million (COP 1,578 billion) in December 2015, and in outstanding investment securities or bonds, due to the issuance of subordinated debt at a nominal value of USD 600 million (COP 1,761 billion) in May 2016.

## Equity

The Bank's **Equity** (COP 15,485 billion) increased by COP 3,686 billion compared with June 2015, chiefly on account of income during the period.

Santa Marta Collaborators

| Banco de Bogotá Stand-alone – Statement of Income | | | |
|---|---|---|---|
| **Partial IFRS Figures (Billions of COP)** | **Jan-Jun 15** | **Jul-Dec 15** | **Jan-Jun 16** |
| Interest income | 2,195 | 2,331 | 2,705 |
| Loans and Financial Leases | 2,036 | 2,221 | 2,600 |
| Investments | 159 | 110 | 105 |
| Interest Expenses | 844 | 977 | 1,343 |
| Deposits | 670 | 770 | 1,054 |
| Financial Liabilities | 175 | 207 | 289 |
| **Loan and Investments Portfolio Interest income, Net** | **1,351** | **1,354** | **1,362** |
| Financial Assets Allowance | 409 | 407 | 540 |
| Income from Net Commissions | 340 | 354 | 354 |
| Other Income | 1,144 | 979 | 3,300 |
| Equity Method | 648 | 639 | 754 |
| Dividends and Shares | 217 | 0 | 2 |
| Others(1) | 279 | 339 | 2,545 |
| Other Expenses | 901 | 1,097 | 993 |
| **Net Profit Before Tax** | **1,525** | **1,182** | **3,482** |
| Income Tax | 243 | 173 | 201 |
| **Net Income** | **1,282** | **1,009** | **3,281** |

(1) Others include Income from Sale of Investments, Net; income from Currency Transactions, Net; Income on Derivative Trading Financial Instruments, Net; Income on Investments Held for Trade, Net; Gains from Fair-Value Measurement of Holdings in Corficolombiana (Jan-Jun16), and Other Income.

## Net Income

During the first half of 2016, the Banco de Bogotá independently accrued COP 3,281 billion in **Net Income**; this includes Net Loan and Investment Portfolio Income of COP 1,362 billion (COP 2,705 billion from Interest Income, 96% of which comes from the financial lease and loan portfolio; and COP 1,343 billion in Interest Expenditure, 78% used for the payment of deposits).

In turn, in the first half of 2016, **Financial Asset Allowances** amounted to COP 540 billion, its behavior having been influenced by the downturn in the hydrocarbon sector. **Income from Net Commissions** accounted for COP 354 billion, 4.1% up in relation to June 2015.

During the first half of 2016, **Equity Method** income stood at COP 754 billion, with annual growth of 16.3%; this is primarily attributable to Leasing Bogotá Panamá, which increased by COP 98 billion in relation to June 2015.

**Other Income** increased following acceptance of the DIAN correction project, given the higher taxes paid in the CREE tax declaration corresponding to 2013, which enabled the recovery of COP 28 billion in income tax allowance as well as COP 23 billion in other recoveries. In addition, the loss of control of Corficolombiana meant a change in the classification of investment from Subsidiary to Associate, as well as the recording of a gain of COP 2,200 billion resulting from the fair value measurement of shares in that entity (COP 3,319 billion) and its comparison with book value prior to the loss of control (COP 1,119 billion)[6].

**Other Expenses** rose by 10.2% to reach COP 993 billion, while **Income Tax** stood at COP 201 billion.

6. See notes 4.7, 5.1 and 15 of the Bank's Stand-alone Financial Statements.

| Banco de Bogotá Stand-alone – Statement of Income - Equity Method | | | | |
|---|---|---|---|---|
| **Partial IFRS Figures (Billions of COP)** | **% Part.** | **Jan-Jun 15** | **Jul-Dec 15** | **Jan-Jun 16** |
| **Subsidiaries** | | **650** | **640** | **660** |
| Leasing Bogotá Panamá (BAC) | 100.0 | 419 | 481 | 517 |
| Banco de Bogotá Panamá | 100.0 | 8 | 10 | 20 |
| Corficolombiana(1) | 38.3 | 124 | 58 | 0 |
| Porvenir | 36.5 | 58 | 45 | 65 |
| Fidubogotá(2) | 95.0 | 31 | 45 | 53 |
| Almaviva | 94.9 | 9 | 0 | 5 |
| Casa de Bolsa | 22.8 | 0 | 0 | 0 |
| Megalínea | 94.9 | 1 | 0 | 0 |
| Aportes en Línea | 2.0 | 0 | 0 | 0 |
| Finance | 100.0 | 0 | 0 | 0 |
| **Associate** | | **-2** | **-1** | **93** |
| Corficolombiana | 38.3 | 0 | 0 | 95 |
| ATH | 20.0 | 0 | 0 | 0 |
| Pizano | 18.5 | -2 | -1 | -2 |
| **Total** | | **648** | **639** | **754** |

(1) For the second half of 2015, indirect holdings in Casa de Bolsa through Corficolombiana are included.

(2) Indirect holdings in Porvenir through Fidubogotá are included.

## Main Management Indicators

| Banco de Bogotá Stand-alone – Main Indicators | | | |
|---|---|---|---|
| | **Jun-15** | **Dec-15** | **Jun-16** |
| **Profitability Ratios** | | | |
| ROAA (1) | 3.8% | 2.8% | 2.8%(8) |
| ROAE (2) | 22.2% | 16.3% | 15.1% (8) |
| **Administrative Efficiency (3)** | **31.1%** | **40.2%** | **34.5%** |
| **Total Solvency Ratio(4)** | **18.4%** | **19.4%** | **19.9%** |
| **Basic Solvency Ratio(5)** | **13.6%** | **12.8%** | **10.4%** |
| **Portfolio Indicators** | | | |
| Non-performing Loans/Gross Loan Portfolio (6) | 1.8% | 1.8% | 1.9% |
| Past Due Loans/Gross Loan Portfolio(7) | 2.4% | 2.3% | 2.6% |
| Loan Provision / Past Due Loans | 129.4% | 139.2% | 120.2% |
| Loan Provision / Gross Loans | 3.1% | 3.2% | 3.2% |

(1) Semi-annual Net Income / Average of Assets at the end of the current period and the end of the previous period.

(2) Semi-annual Net Income / Average of Equity at the end of the current period and the end of the previous period.

(3) Personnel Expenses + Administrative Expenses / Total Operational Income.

(4) Technical Capital / Risk-weighted Assets.

(5) Basic Capital / Risk-weighted Assets.

(6) Non-performing Loan Portfolio: Microcredit overdue 31 days or more, mortgage and consumer loans overdue 61 days or more, Commercial Loans overdue 91 days or more.

(7) Past Due Loans: Loan portfolio overdue 31 days or more.

(8) Profitability ratios at Jun-16 do not take into account Income from the Deconsolidation of Corficolombiana (which includes COP 2,200 billion, as a result of the Fair Value measurement of the investment, primarily).

Loan portfolio indicators with figures included in CUIF 14 and 8.

The **Profitability Ratios** as at June 2016 are 2.8% for ROAA and 15.1% for ROAE, influenced by the above-mentioned results and without taking into account income from the deconsolidation of Corficolombiana. Because extraordinary income was recorded in the first half of 2015 from the receipt of dividends on 2014 profit, received under authorization of the Financial Superintendence of Colombia, of COP 217 billion and CREE and income tax recoveries worth COP 78 billion; profitability indicators, without taking into account the corresponding impacts for June 2015, are 3.0% for ROAA and 17.1% for ROAE.

The **Efficiency Indicator** at June 2016 stood at 34.5%, having increased by 337 basis points in relation to the same period the previous year as a result of lower operating income in 2016, mainly resulting from income on dividends in 2015; on the other hand, administrative costs increased by 1,039 basic points compared with the first half of 2015, mainly due to greater expenditure on personnel, taxes, technology, outsourcing, incentives and other contributions. With this result, the Bank retains its position as one of the top-ranking entities in the Colombian Banking System in terms of efficiency.

The Bank's **Total Solvency Ratio** at June 2016 was 19.9% while the **Basic Solvency Ratio** was 10.4%, above the minimum requirements of 9% and 4.5%, respectively.

The Bank's **Technical Capital** totaled COP 13,558 billion in June 2016, primarily composed of the legal reserve, the surplus from additional paid-in capital (COP 11,134 billion), and the subordinated debt (COP 4,791 billion) and utilities weighted to 50% (COP 1,641 billion).

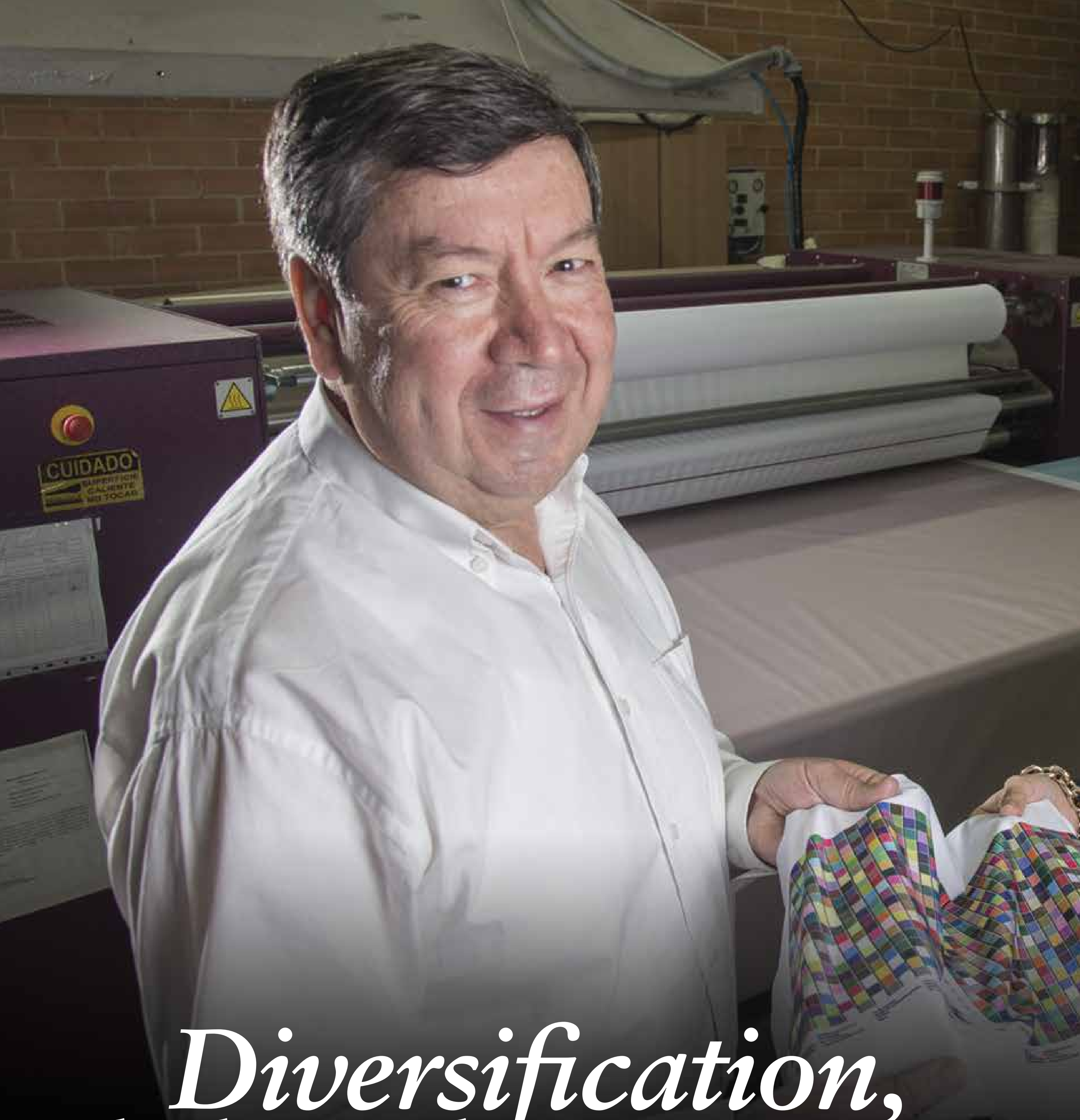
For the calculation of the stand-alone solvency ratio for June 2016, the Banco de Bogotá, following the transfer of control over Corficolombiana to Grupo Aval and in line with the provisions of Decree 2555 / 2010, deducts the cost of its investment in Corficolombiana from its basic equity (and is therefore not added to its risk-weighted assets). In additional equity, 50% of the unrealized gains contributed by this company when it was consolidated is no longer recorded, while 50% of the income from said loss of control is included. Given the above, a reduction of 372 basis points is generated in the solvency ratio.

The **Risk-weighted Assets** totaled COP 68,234 billion, primarily composed of credit risk-weighted assets (COP 65,090 billion), which in turn is primarily made up of the loan portfolio (net value of COP 46,895 billion) and market risk-weighted assets (COP 3,145 billion).

Compared with June 2015, an increase of 146 basis points in the Bank's solvency ratio was recorded; this was fundamentally due to the increase in technical reserves (variation of COP 908 billion), primarily arising out of the COP 1,659 billion increase in the Bank's legal reserve and the issuance of USD 1,100 million in foreign-currency subordinated debt during the last year.

The **Loan Portfolio Management Indicators** as at June 2016 show that 2.6% of gross loans corresponded to past due loans, reflecting the high Portfolio Quality; however, this ratio is lower than that of the Banking System, which is 3.0%. In addition, the **Loan Portfolio Coverage** ratio shows that past due loans are 120.2% covered by portfolio provisions established by the Bank.

SME Managers




# *Diversification,*
## *the key to business success*

Laureano Núñez. Pettaci Lingerie Manager, SME Client. Bogotá D.C. - Cundinamarca

*The entrepreneur found his financial ally in Banco de Bogotá, backing and supporting his operations outside the country.*

With a great work ethic and a tremendous commitment to service Laureano Núñez founded Pettaci Lingerie, and has been at the helm of the company for 31 years. In the beginning, his company was engaged in the manufacture and sale of clothing, but over time he detected a great opportunity in the market and decided to branch out into underwear production. The manufacture of such garments allowed him to project his brand within Colombia and to cross borders abroad.

“Thanks to the response to our garments, we were able to expand and successfully sell out products in Mexico, Peru, and Ecuador”, stated Núñez. And, to build on the company’s momentum in other markets, the entrepreneur found his financial ally in Banco de Bogotá, which backed and supported his operations outside the country.

“I’ve been a customer for 20 years. We have a fantastic relationship. With the Bank, we have built many of the things that we have achieved in our company. We especially use foreign currency loans, which has facilitated the export process,” he said.

Laureano Núñez is sure that to keep relevant and stay active on the market, diversification is the key, adding that “besides corsetry, we now sell sportswear, jeans and offer printing and embroidery services, since we have all of the infrastructure to do so. Moreover, we are launching fine lingerie, and the product is being very well received.”

However, the entrepreneur points out that the devaluation of the peso has affected business this past year, but remains upbeat and is convinced that effort and resolve will help him overcome the impact of this problematic situation. Now, his company is focusing its strategy on its current lines of business, as well as strengthening its brand in Puerto Rico, where it has been operating for two decades. It has already opened two sales points there, where it is strengthening its marketing strategy.

Núñez concludes by expressing his desire to keep on working with Banco de Bogotá in all of his projects, so as to continue to contribute to job creation in the country.

*Laureano Núñez. Pettaci Lingerie Manager*

*“With the Bank, we have built many of the things that we have achieved in our company. We use foreign currency loans, which has facilitated the export process.”*