US$500,000,000

# Banco Davivienda S.A.

5.875% Subordinated Notes due 2022

Banco Davivienda S.A. ("Davivienda"), a Colombian bank organized in accordance with the laws of the Republic of Colombia ("Colombia"), offered US$500,000,000 aggregate principal amount of its 5.875 % Subordinated Notes due 2022 (the "Notes"). The Notes will bear interest at 5.875% per annum and will pay interest on a semiannual basis on January 9 and July 9 of each year beginning on January 9, 2013, up to but excluding July 9, 2022 (the "Maturity Date"). See "Description of the Notes — Principal, Maturity and Interest." The Notes were issued only in registry book entry form in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

The Notes are denominated in U.S. dollars. They will be our unsecured, subordinated obligations and will rank junior in right of payment to all of our existing and future senior obligations, will rank *pari passu* in right of payment with all our other present or future Tier Two subordinated indebtedness, and will rank senior only to our capital stock and any other instrument that may qualify as Tier One Capital for purposes of Colombian banking laws, if any, and which is expressly or effectively subordinated to the Notes. The Notes are not guaranteed by our subsidiaries, or by any entity that is part of Grupo Bolívar (as defined below) and will not be entitled to any sinking fund, nor will they be insured or guaranteed by the *Fondo de Garantías de Instituciones Financieras* (the Colombian Deposit Insurance Fund, or "Fogafin") or any other Colombian governmental authority.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF Market. This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

**Investment in the Notes involves risks. See "Risk Factors" beginning on page 16 of this offering memorandum to read about certain risk factors you should consider before investing in the Notes.**

The Notes will mature and be payable in full on the Maturity Date. There will be no right to accelerate the Notes in the case of a default in the performance of any of our covenants, including the payment of interest in respect of the Notes, unless there has been a change, amendment or modification to the Colombian banking laws that would allow such right without disqualifying the Notes from Tier Two Capital status. See "Description of the Notes — Events of Default."

The Notes will not be subject to any redemption prior to the Maturity Date.

**Issue Price: 99.441% plus accrued interest, if any, from July 9, 2012.**

***THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED IN THE REGISTRO NACIONAL DE VALORES Y EMISORES (THE COLOMBIAN NATIONAL REGISTRY OF SECURITIES AND ISSUERS) MAINTAINED BY THE SUPERINTENDENCIA FINANCIERA DE COLOMBIA (THE COLOMBIAN SUPERINTENDENCY OF FINANCE, OR THE "SFC") AND MAY NOT BE OFFERED OR SOLD PUBLICLY OR OTHERWISE BE SUBJECT TO BROKERAGE ACTIVITIES IN COLOMBIA, EXCEPT AS PERMITTED BY COLOMBIAN LAW.***

**The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and in transactions outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes are not transferable except in accordance with the restrictions described under "Transfer Restrictions."**

Delivery of the Notes was made to purchasers in book-entry form through The Depository Trust Company ("DTC") for the benefit of its participants, including Euroclear Bank S.A./NV. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"), on July 9, 2012.

***Joint Bookrunners***

**Credit Suisse** **J.P. Morgan**

Offering Memorandum dated August 20, 2012

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We have prepared the information contained in this offering memorandum. We have not, and Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC (together, the "initial purchasers") have not, authorized anyone to provide you with any other information and we take no responsibility for other information others may give you. Neither we nor the initial purchasers are making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. This document may only be used where it is legal to offer and to sell the Notes. You should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, properties, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering memorandum. This offering memorandum may only be used for the purpose for which it has been published.

**The Notes are not deposits made with Davivienda and are not insured by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or by Fogafin or any other Colombian governmental agency, and are not guaranteed or secured, in any manner, by any entity that is part of Grupo Bolívar (including its holding company).**

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable securities laws of the states of the United States, pursuant to registration or an exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See "Transfer Restrictions".

The Notes or any interest therein may not be purchased or held by any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") or comparable provisions of any federal, state, local or foreign law, or by any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase and holding is covered by exemptive relief. For additional information on ERISA and Section 4975 of the Code, refer to "Certain ERISA Considerations." Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations."

The distribution of this offering memorandum and the offering and sale of the Notes in certain jurisdictions may be restricted by law. We and the initial purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer to sell, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. Accordingly, the Notes may not be offered or sold, directly or indirectly, and this offering memorandum may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof.

The initial purchasers are offering the Notes inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act. In addition, the initial purchasers are offering the Notes outside the United States in reliance on Regulation S under the Act.

**In making an investment decision, investors must rely on their own examination of us and the terms of this offering, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, the SFC or any other securities commission or other regulatory authority, nor have the foregoing authorities approved this offering memorandum or confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is unlawful.**

This offering memorandum has been delivered only to each offeree and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire Notes. Distribution of this offering memorandum to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each person receiving this offering memorandum acknowledges that:

- such person has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of the information contained therein or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the initial purchasers. Prospective purchasers are hereby notified that the seller of any Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

We and the initial purchasers reserve the right to reject any offer to purchase, in whole or in part, and for any reason, the Notes.

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## NOTICE TO PROSPECTIVE INVESTORS IN EUROPEAN ECONOMIC AREA

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for us or the initial purchasers to publish a prospectus for such offer. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

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**NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

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The Notes are available initially only in book-entry form. The Notes were issued in the form of one or more registered global notes. The global notes are deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in our name or in the name of Cede & Co., its nominee. Beneficial interests in the global notes will be shown on, and transfers of beneficial interests in the global notes will be effected through, records maintained by DTC and its participants. The Regulation S global notes were deposited with the trustee as custodian for DTC, and beneficial interests in them may be held through Euroclear System, Clearstream Banking S.A. or other participants. See "Description of the Notes – Book-Entry System; Delivery and Form."

## CERTAIN DEFINITIONS

In this offering memorandum, unless the context otherwise requires, references to “we,” “us,” “our,” “our company” and “Davivienda” refer to Banco Davivienda S.A. and its consolidated subsidiaries, taken as a whole; references to “Grupo Bolívar” refer to Grupo Empresarial Bolívar and its consolidated subsidiaries; and references to “Sociedades Bolívar” refer to Sociedades Bolívar S.A., one of the holding companies through which Grupo Bolívar holds its interest in Davivienda.

The following definitions are used in this offering memorandum:

- “ALM” means asset and liability management.
- “ANIF” means *Asociación Nacional de Instituciones Financieras*, or the National Association of Financial Institutions.
- “Bankruptcy Law” means the provisions of the Financial Statute concerning bankruptcy of financial institutions, the Parts 8 and 9 of Decree 2555 of 2010, as amended, and any other Colombian law or regulation regulating the insolvency of financial entities from time to time.
- “Central Bank” means the Central Bank of Colombia.
- “Colombia” means the Republic of Colombia.
- “Colombian Banking Law” or “Financial Statute” means Decree 663 of 1993 of Colombia, as may be amended from time to time or superseded.
- “Colombian Stock Exchange” or “BVC” means the *Bolsa de Valores de Colombia, S.A.*
- “DANE” means *Departamento Administrativo Nacional de Estadística*, or the Colombian National Department of Statistics.
- “DIAN” means *Dirección de Impuestos y Aduanas Nacionales*, or the Colombian Tax and Customs Directorate.
- “DTF” means *Depósito a Término Fijo*, and represents the average national interest rate on 90-day certificates of deposit.
- “Exchange Act” means the United States Securities Exchange Act of 1934, as amended.
- “Ministry of Finance” means the Ministry of Finance and Public Credit of the Republic of Colombia.
- “Fogafin” means the *Fondo de Garantías de Instituciones Financieras*, or the Colombian Deposit Insurance Fund.
- “National Registry of Securities and Issuers” or “RNVE” means the *Registro Nacional de Valores y Emisores*.
- “SEC” means the United States Securities and Exchange Commission.
- “Securities Act” means United States Securities Act of 1933, as amended.
- “Superintendency of Finance” or “SFC” means the *Superintendencia Financiera de Colombia*, the regulatory entity in charge of the inspection, supervision and control of persons involved in financial activities, securities markets, insurance and any other operations related to the management, use or investment of resources collected from the public.
- “UVR” means *Unidades de Valor Real*, a Colombian inflation-adjusted monetary index calculated by the board of directors of the Central Bank and generally used for pricing home-mortgage loans.

## AVAILABLE INFORMATION

Davivienda is a stock company (*sociedad anónima*) organized under the laws of Colombia. Our principal executive offices and registered offices are located at Avenida El Dorado No. 68 C-61, Piso 10, Bogotá D.C., Colombia, and our telephone number at that address is +57 1 330 0000. Our website is http://www.davivienda.com.

Davivienda is an issuer in Colombia of securities registered with the *Registro Nacional de Valores y Emisores* (Colombian National Registry of Securities and Issuers) and is subject to oversight by the SFC. Our preferred shares are traded in the *Bolsa de Valores de Colombia* (Colombian Stock Exchange, or "BVC") under the symbol "PFDAVVNDA." Accordingly, we are currently required to file monthly and semiannual reports in Spanish and issue *información relevante* (notices of material events) to the market, through the SFC and the Colombian Stock Exchange. All such reports and notices are available at http://www.superfinanciera.gov.co and http://www.bvc.com.co.

We are not subject to the information requirements of the Exchange Act. To preserve the exemption for resales and transfers under Rule 144A under the Exchange Act, we have agreed that we will promptly provide any holder or any prospective purchaser of the Notes who is designated by that holder and is a "qualified institutional buyer," as defined under Rule 144A, upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), unless we qualify for an exemption in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. For so long as the Notes are outstanding, such information will be available at our specified offices and (for so long as the Notes are listed on the Luxembourg Stock Exchange) the Luxembourg paying agent. Following completion of this offering, we are not otherwise obligated to furnish holders or others with any supplemental information, discussion or analysis of our business or financial reports other than as described below.

We will make available to the holders of the Notes, at the corporate trust office of the trustee at no cost, copies of the indenture relating to the Notes, as well as this offering memorandum, and our audited financial statements, as well as our interim unaudited financial statements, which are subject to limited review, prepared in conformity with Colombian Banking GAAP (as defined below under the caption "Presentation of Financial and Other Information"). Information is also available at the office of the Luxembourg Listing Agent (as defined in this offering memorandum).

## ENFORCEMENT OF CIVIL LIABILITIES

We are a Colombian company, nearly all of our directors and management are residents of Colombia, and substantially all of our and their assets are located in Colombia. We have been advised by our special Colombian legal counsel, Brigard & Urrutia Abogados S.A., that the Colombian Supreme Court of Justice determines whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as exequatur. Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 693 and 694 of Colombia's *Código de Procedimiento Civil* (Code of Civil Procedure), which provide that the foreign judgment will be enforced if:

- a treaty exists between Colombia and the country where the judgment was granted or there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;
- the foreign judgment does not relate to "*in rem* rights" vested in assets that were located in Colombia at the time the suit was filed and does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;
- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal and a duly certified and authenticated copy of the judgment has been presented to a competent court in Colombia;
- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter; and
- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designated to give the defendant an opportunity to defend against the action.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court has generally accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. However, such enforceability decisions are considered by Colombian courts on a case-by-case basis.

Proceedings for execution of a money judgment by attachment or execution against any assets or property located in Colombia would be within the exclusive jurisdiction of Colombian courts. In the course of the exequatur proceedings, both the plaintiff and the defendant are afforded the opportunity to request that evidence be collected in connection with the requirements listed above. In addition, before the judgment is rendered, each party may file final allegations in support of such party's position.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this offering memorandum, except as otherwise indicated, currency amounts are expressed in Colombian pesos: "pesos" and "COP," or in United States dollars: "dollars," "U.S. dollars" and "US$." Also, as used herein, the term "billion" means one thousand million, or 1,000,000,000, and the term "trillion" means one million million, or 1,000,000,000,000.

### Presentation of Financial Information

This offering memorandum includes our audited consolidated financial statements as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011, together with the notes thereto, and our unaudited interim consolidated financial statements as of March 31, 2012 and for the three months ended March 31, 2011 and 2012, together with the notes thereto. The consolidated financial statements and other financial data included herein have been prepared in accordance with the regulations of the SFC for financial institutions (Resolution 3600 of 1988 and External Circular 100 of 1995) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia ("Colombian GAAP," and, together with such regulations, "Colombian Banking GAAP").

### Accounting Principles

Colombian Banking GAAP differs in certain respects from accounting principles generally accepted in the United States of America ("U.S. GAAP") and from International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Such differences might be material to the financial information contained in this offering memorandum. In making an investment decision, investors must rely upon their own examination of Davivienda, the terms of this offering memorandum and the financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Colombian Banking GAAP with respect to U.S. GAAP and IFRS, and how those differences might affect the financial information contained herein.

On July 13, 2009, Law 1314 was signed by the President of Colombia. This law regulates the accounting, reporting and information assurance principles and standards that are generally accepted in Colombia and describes the procedure by which said principles and standards are to be issued by the oversight authorities. This law is generally expected to bring the currently generally accepted accounting principles in Colombia in line with IFRS, as opposed to the replacement of Colombian generally accepted accounting principles with IFRS; however, changes to current regulations will only become effective, at the earliest, in 2014, at which point in time we would apply Colombian GAAP as modified by the new regulations in instances where Colombian Banking GAAP is inapplicable.

### Presentation of Other Information

This offering memorandum contains translations of certain peso amounts into dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could, at this time, be converted into dollars at the rate indicated. The Federal Reserve Bank of New York does not report a rate for pesos. Unless otherwise indicated, such dollar amounts have been converted from peso amounts at an exchange rate of COP 1,792.07 per US$1.00, which corresponds to the *tasa representativa del mercado* ("representative market rate") for March 31, 2012. The conversion of amounts expressed in Colombian pesos as of the specified date at the then-prevailing exchange rate may result in presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date. The representative market rate is computed and certified by the SFC on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions (including us). The SFC also calculates and certifies the average representative market rate for each month for purposes of preparing financial statements, and converting amounts in foreign currency to pesos. You should not construe these convenience conversions as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at the representative market rate or any other rate. On August 9, 2012, the representative market rate was COP 1,788.08 per US$1.00. The representative market rate as of December 31, 2009 was COP 2,044.23 per US$1.00, as of December 31, 2010 was COP 1,913.98 per US$1.00 and as of December 31, 2011 was COP 1,942.70 per US$1.00.

Fluctuations in exchange rates significantly affect the comparability of amounts presented in U.S. dollars throughout this offering memorandum. The exchange rate between the Colombian peso and the U.S. dollar has had significant fluctuations between 2009 and 2012. See "Exchange Rates and Foreign Exchange Controls." Colombia experienced annual inflation rates of 2.0% for the year ended December 31, 2009; 3.2% for the year ended December 31, 2010; and 3.7% for the year ended December 31, 2011.

Currently, Colombian Banking GAAP does not require us to adjust our financial statements for inflation, and, therefore, inflation-adjusted financial statements have not been used throughout this offering memorandum.

Unless otherwise indicated, statistical information relating to Davivienda regarding market share, ranking, loan portfolio and other measures, as well as information on Colombian financial institutions and the Colombian financial system general, has been derived from reports and information published by the SFC, Titularizadora Colombiana, Asobancaria or the Central Bank or from other publicly available sources and industry publications. Industry publications generally state the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, information believed to be reliable has not been independently verified, and we do not make any representation as to the accuracy of such information.

Unless expressly indicated otherwise, the information contained in this offering memorandum does not include information relating to our anticipated acquisition of HSBC's Central American subsidiaries in Costa Rica, Honduras and El Salvador (the "HSBC Subsidiaries"). We present in this offering memorandum certain operating and financial information of the HSBC Subsidiaries for informational purposes only. You should not rely on this information as indicative of our future results of operations.

The information contained in this offering memorandum reflects the best of our knowledge and our management's expectations with respect to the operating and financial information of the HSBC Subsidiaries. This information has not been independently verified. You should not rely on this information as indicative of the operating and financial information of the HSBC Subsidiaries. The acquisition of the HSBC Subsidiaries has not yet been concluded and is still pending approval by regulatory authorities in several countries, which may prevent or delay the completion of the acquisition of the HSBC Subsidiaries. For further information on the risks involved in the acquisition of the HSBC Subsidiaries, see 'Risk Factors—Risk Factors Relating to Our Business and the Banking Industry."

Certain figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the numbers that precede them.

**Terms Relating to Our Loan Portfolio**

As used in this offering memorandum, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

"Performing loans" and "performing loan portfolio" refer to the total principal amount of loans outstanding as of the date presented and does not include accrued interest on such loans.

The term "net performing loans" refers to the performing loan portfolio, net of allowances.

Unless otherwise specified herein, the terms "performing loans" and "performing loan portfolio," as used in this offering memorandum, do not include "non-performing loans," as defined below.

The terms "non-performing loans" ("NPLs") and "non-performing loan portfolio" include past due principal. The term "net non-performing loans" refers to total non-performing loans less allowance for loan losses on these loans. Under SFC rules, loans are considered to be "non-performing," at different periods, depending upon the type of loan. Loans are considered "non-performing" after the following periods: for microcredit loans, 30 days; for mortgage and consumer loans, 60 days; and for commercial loans, 90 days.

References in this offering memorandum to "provisions" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income. References in this offering memorandum to "allowance" are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms "total loans" and "total loan portfolio" include total performing loans plus total non-performing loans, each as defined above. The terms "net total loans" and "net total loan portfolio" refer to net total performing loans plus net non-performing loans, as defined above, less allowances for loan losses.

The loan portfolio information provided in "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering memorandum as described above. See "Selected Statistical Information — Loan Portfolio" and the footnotes to the tables included therein.

**Terms Relating to Our Capital Adequacy**

In addition, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

- "Technical Capital" (*patrimonio técnico*) consists of Tier One capital and Tier Two capital, as set forth in the Colombian Capitalization Requirements.

- "Tier One Capital" refers to the basic capital (*patrimonio básico*), as such term is determined based on the Colombian Capitalization Requirements.

- "Tier Two Capital" refers to the secondary capital (*patrimonio adicional*), as such term is determined based on the Colombian Capitalization Requirements.

- "Solvency Ratio" refers to the ratio of an institution's Technical Capital to that institution's total risk-weighted assets, calculated in accordance with the methodology established or adopted from time to time by the SFC pursuant to the Colombian Capitalization Requirements. The following presents the standard fomula, as determined by the SFC, for performing the calculation of an institution's Solvency Ratio:

$$\text{Solvency Ratio} = \frac{(\text{Technical Capital} - \text{Deductions})}{(\text{Risk-weighted assets} + ((100/9) * \text{Value of market risk exposure})}$$

In the foregoing formula, Technical Capital is as described above. Deductions are taken from Technical Capital for certain assets, including securitized assets that are long-term obligations with a rating of DD, EE or E or that are not rated, and for certain short-term securities.Value of market risk exposure is calculated as set forth in Chapter XXI of the SFC's Basic Accounting Circular 100 of 1995.

- "Colombian Capitalization Requirements" means the capital adequacy requirements for Colombian credit institutions, as set forth in Decree 2555 of 2010, which is based on Basel Committee standards, as such regulations may be amended from time to time or superseded.

## FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are "forward-looking" statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to our financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, market risk and the impact of interest rate changes, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on our financial condition and results of operations. All statements contained in this offering memorandum that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions are generally intended to identify forward-looking statements.

These forward-looking statements involve certain risks, uncertainties, estimates and assumptions by management. Various factors, some of which are beyond our control, could cause actual results to differ materially from those contemplated by such forward-looking statements, including the following factors:

- changes in exchange rates, market interest rates or the rate of inflation;
- changes in the economic, business, fiscal, social and political conditions of Colombia or of other countries where we operate or may operate in the future;
- changes in capital markets or in markets in general that may affect policies or attitudes toward lending;
- unanticipated increases in our financing and other costs, or our ability to obtain additional debt or equity financing on attractive terms;
- increases in defaults by our borrowers and other loan delinquencies;
- lack of acceptances of new products or services by our targeted customers;
- competition in the banking financial services, credit card services and other industries in which we operate;
- changes in business strategy;
- adverse determinations of legal or regulatory disputes or proceedings;
- changes in the corporate income tax or other current or future taxes applicable to us;
- credit and other lending risks;
- changes in the asset quality of our loan portfolios;
- risks associated with the mortgage loan market and mortgage-backed securities.
- trends in prices and availability of raw materials, which may affect the income and financial position of our clients;
- the effects of weather patterns, climate changes and natural disasters;
- changes in regulations and governmental banking policy in the jurisdictions in which we do business as they relate to the services and products we offer;
- regulatory issues related to acquisitions;
- other factors that may affect our financial condition, liquidity and results of operations;
- our ability to successfully acquire the HSBC Subsidiaries in Central America, including satisfying all closing conditions and receiving the requisite regulatory approvals, and our ability to successfully integrate those businesses with ours; and
- other risk factors discussed under "Risk Factors."

All forward-looking statements included in this offering memorandum are based upon information available to us as of the date of this offering memorandum and we assume no obligation to update or revise any of those forward-looking statements.

The risks of an investment in our Notes are more specifically described under the heading “Risk Factors.” If one or more of these risks or uncertainties should occur, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected.

## SUMMARY

*This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this offering memorandum. In particular, prospective investors in the Notes should carefully consider the factors set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."*

### Our Company

We are an integrated full-service universal bank and one of the leading financial institutions in Colombia. According to SFC statistics, as of March 31, 2012, we are the:

- third largest lender in terms of total assets, with a 10.8% market share;
- largest lender of consumer loans, with a 14.0% market share;
- largest lender of credit card loans, with an 18.4% market share;
- second largest lender of mortgage loans (including securitized mortgage loans), with a 24.7% market share
- second largest lender by total loans (including securitized loans), with a 12.9% market share; and
- third largest lender of commercial loans, with a 10.0% market share.

We provide banking and credit services to individuals, families, businesses, corporations, small- and medium-sized enterprises ("SMEs") and governmental entities. Our services include savings and current accounts, commercial, consumer and mortgage loans, credit and debit cards, mobile banking, fixed-term deposits and other services, such as money market services, structured trusts, pension fund management and brokerage services.

Our name "Davivienda" and logo, "*La Casita Roja*," are among the most widely-recognized and respected brands in Colombia. We distinguish ourselves from our competitors through our continuous innovation, exclusive offerings and straightforward products in each of the markets we target, as well as our upbeat and familiar marketing campaign. We are the largest company within Grupo Bolívar, a leading business conglomerate with over 70 years of experience in the financial, insurance and construction sectors in Latin America.

Our company has grown significantly since its incorporation in 1972 both through organic expansion and strategic acquisitions. As of March 31, 2012, we had, on a consolidated basis, COP 37.4 trillion (US$20.9 billion) in total assets, COP 25.9 trillion (US$14.4 billion) in net loans, COP 24.1 trillion (US$13.4 billion) in deposits and COP 4.9 trillion (US$2.7 billion) in stockholders' equity. We had an annualized return on average equity ("ROAE") of 20.1% as of March 31, 2012 (average based on March 2011 and March 2012 balances) and a Solvency Ratio of 14.26%, which is higher than the established regulatory requirement of 9.0% set forth under Colombian Capitalization Requirements.

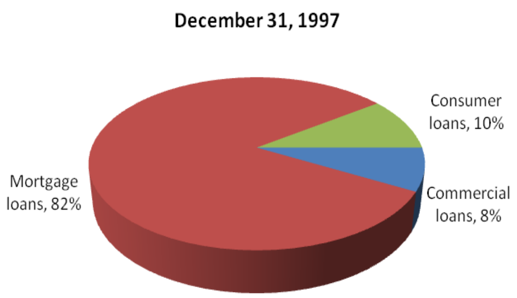
In January 2012, we announced an agreement to purchase from HSBC Bank (Panamá) S.A. ("HSBC"), a subsidiary of HSBC Holdings PLC, its banking operations in Costa Rica, El Salvador and Honduras for US$801 million. According to HSBC, as of March 31, 2012, these operations had 137 branches. Through this expansion, we plan to deepen our presence throughout Central America and build on our previous success with acquisitions, as we did with Confinanciera S.A. ("Confinanciera"), Banco Superior and Granbanco S.A. – Bancafé ("Bancafé"), which strengthened our penetration in Colombia and provided us with an international presence in Panama and Miami.

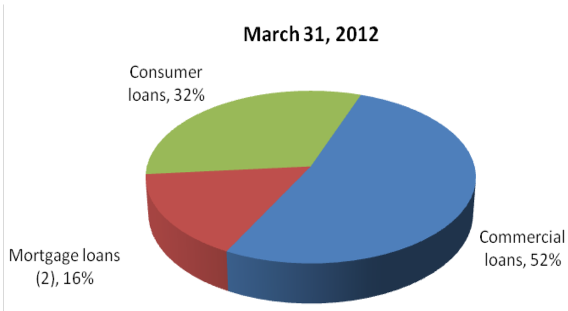
### Our History

We were incorporated on October 16, 1972 as a savings and mortgage corporation, and became a licensed commercial bank in 1997. We further strengthened our position as a leader in the Colombian retail banking sector when we merged with Banco Superior in 2005, which expanded our credit card and consumer financing businesses in Colombia. We entered into freight and commercial vehicle leasing with our acquisition of Confinanciera in 2006. We significantly broadened our corporate banking business when we acquired Bancafé in 2007, which expanded our presence in the corporate banking sector and our portfolio of business with SMEs, particularly in the agricultural sector. This acquisition also gave us an international presence in Panamá and in Miami through the acquisition of Bancafé Panamá S.A. ("Bancafé Panamá") and Banco Cafetero International Corporation, which has since been converted to our Davivienda International branch in Miami. Our anticipated acquisition of HSBC's banking operations in Costa Rica, El Salvador and Honduras will further expand our reach into Central America.

In October 2010, we completed the initial public offering on the Colombian Stock Exchange of 26,000,000 of our preferred shares, under the ticker symbol PFDAVVNDA, raising proceeds of COP 416 billion (US$232 million). This offering was followed by an additional offering of our preferred shares in November 2011, pursuant to which we sold 35,809,649 preferred shares of our capital stock for COP 716 billion (US$400 million).

The following charts illustrate the historical evolution of our loan portfolio since our conversion to a commercial bank in 1997:[(1)]

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(1) Derived from the unconsolidated financial statements of Banco Davivienda.
(2) Mortgage loans include housing leasing and exclude securitized loans of COP 2,159.5 million.

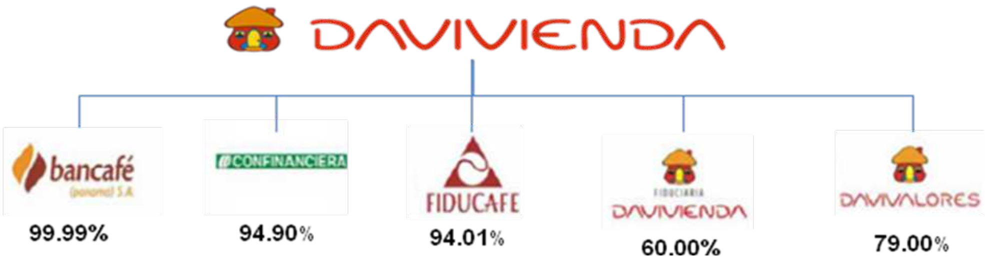
## Our Operations

Retail and corporate banking represent the most significant parts of our business operations. Our retail banking clients are primarily middle-income individuals and families, and our main retail products include consumer loans, mortgages, credit cards and automotive loans. As of March 31, 2012, our market share of Colombian consumer loans and mortgage loans was 14.0%, and 24.7%, respectively, making us the largest provider of consumer loans and second largest mortgage lender in Colombia. We are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012, representing 18.4% of Colombian credit card loans outstanding. In February 2011, we introduced our Daviplata service, the first mobile phone banking service in Colombia, which allows users to access our mobile payment and money transfer platforms.

Our corporate banking clients are corporations, financial institutions, SMEs, agricultural businesses, state-owned enterprises and governmental entities. We have been steadily growing our commercial banking business and are currently the third largest bank in this segment with a 10.0% market share as of March 31, 2012. We also provide services related to the capital markets, money markets and foreign exchange markets, and brokerage services in connection with fixed-income securities through our subsidiary, Davivalores S.A. ("Davivalores"). Internationally, we provide banking services in Panama through our subsidiary, Bancafé Panamá, and in Miami through our branch, Davivienda International. We plan to expand our presence in Central America with the acquisition of HSBC's banking operations in Costa Rica, El Salvador and Honduras before the end of 2012. We are also engaged in leasing activity through our subsidiary, Confinanciera, and trust services through our subsidiaries, Fiducaria Davivienda S.A. ("Fiduciaria Davivienda") and Fiduciara Cafetera S.A. ("Fiduciaria Cafetera").

As of March 31, 2012, we had a growing retail network consisting of 563 branches in 178 cities and towns in Colombia and 1,468 Davivienda-branded ATMs. As of March 31, 2012, we provided financial services and products to approximately 3,934,900 individuals, 98,220 corporations and 3,970 governmental institutions and entities in Colombia.

The following chart sets forth our ownership in each of our subsidiaries as of the date of this offering memorandum:




[(1)] In terms of our corporate structure, Davivienda International, our Miami branch, is formally considered a part of Davivienda due to the fact that for Colombian legal purposes the branch is part of the same legal entity. On September 13, 2011, our board of directors approved the merger of Confinanciera into Davivienda. We anticipate that this merger will be completed before the end of the third quarter of 2012.

The following table provides a breakdown of key financial metrics for our principal subsidiaries as of March 31, 2012:

| | Banco Davivienda | Bancafé Panamá | Confinanciera | Fiducafe | Fiduciaria Davivienda | Davivalores |
|---|---|---|---|---|---|---|
| | (expressed in millions of COP, except percentages) | | | | | |
| Assets | 35,856.9 | 1,384.9 | 493.0 | 83.7 | 65.6 | 16.1 |
| Contribution | 94.6% | 3.7% | 1.3% | 0.2% | 0.2% | 0.0% |
| Liabilities | 30,943.7 | 1,208.0 | 415.0 | 15.2 | 18.6 | 1.5 |
| Equity | 4,913.2 | 176.8 | 78.0 | 68.6 | 47.0 | 14.6 |
| Net Income | 225.8 | 8.5 | 6.6 | 2.3 | 3.8 | 2.4 |
| Contribution | 90.6% | 3.4% | 2.7% | 0.9% | 1.5% | 0.9% |

**Bancafé Panamá**: Bancafé Panamá offers general banking services in Panama, and has two branches in Panama City and the Colón Free Trade area.

**Confinanciera:** Confinanciera engages in financing and financial leasing operations to facilitate the purchase and sale of services and goods. Confinanciera also provides vehicle loans, vehicle leasing facilities, car rentals and term deposits.

**Fiducafé:** Fiduciaria Cafetera offers financial solutions, primarily structured trusts, as a complement to our corporate banking business. Its operations focus on money management, real estate management, real estate development projects, receivable collection, payments to third parties, suppliers, contractors, payroll, management of encumbered assets, securitizations, treasury, estate management and other activities.

**Fiduciaria Davivienda:** Fiduciaria Davivienda manages collective funds, voluntary pension funds and trusts.

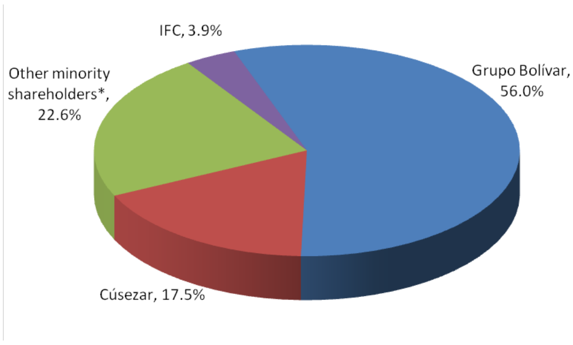
**Davivalores:** Davivalores engages in the brokerage of fixed and variable income securities and it is registered as a securities brokerage firm with the BVC and is authorized by the Colombian Stock Exchange to broker securitites. Davivalores acts as securities manager and custodian in its trading and placement operations, as well as an investment advisor.

**Organizational Structure**

Grupo Bolívar is our major shareholder through its holding company, Sociedades Bolívar S.A., and holds 56.0% of our capital stock as of the date of this offering memorandum. 17.5% of our capital stock is held by Cúsezar, 3.9% is held by the IFC, 20.6% is held by other public holders of our preferred shares and 2.0% is held by other common shareholders (together with the other public holders of our preferred shares, the "other minority shareholders"). In October 2010, we completed the initial public offering in Colombia of 26 million of our preferred shares, under the ticker symbol PFDAVVNDA, raising proceeds of COP 416 billion (US$232 million). In November 2011, we completed an additional primary offering in Colombia of 35.8 million preferred shares, raising proceeds of COP 716 billion (US$400 million), equivalent to 8.8% of our capital stock as of the date of this offering memorandum. In the third quarter of 2011, our Shareholder's Assembly approved the conversion of up to 50% of the common shares held by minority shareholders into preferred shares, of which 7,956,340 shares were converted. Subsequent to this conversion, our capital stock is comprised of 443,866,625 total shares issued and outstanding, of which 100,537,305, or 22.7%, are preferred shares, an increase from

8.6% preferred shares outstanding after the second offering in November 2011 and the conversion from common shares into preferred shares that took place in the first quarter of 2012, and was effective as of April 1, 2012.

The following chart sets forth our shareholders structure as of the date of this offering memorandum:




(*) Includes other minority preferred and common shareholders.

## The Colombian Economy

During the last five years, Colombia's gross domestic product ("GDP") grew at an annual average rate of 4.8%, one of the highest growth rates in Latin America. According to the *Departamento Administrativo Nacional de Estadística* (Colombian National Department of Statistics, or "DANE"), Colombia's GDP grew 5.9% during the year ended December 31, 2011. Colombia's GDP growth was attributable, in large part, to a significant increase in the oil and mining sectors, which supported growth in other sectors, including the financial services sector. According to forecasts by the International Monetary Fund (the "IMF"), the Colombian economy is expected to grow by 4.7% in 2012.

The following table shows the historical and projected evolution of Colombia's principal macroeconomic indicators:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| GDP growth | 6.9% | 3.5% | 1.7% | 4.0% | 5.9% | 4.7% |
| Inflation(1) | 5.7% | 7.7% | 2.0% | 3.2% | 3.7% | 3.5% |
| Average Unemployment rate | 11.2% | 11.3% | 12.0% | 11.8% | 10.8% | 11.0% |

Sources: Historical data for 2007 through 2011 provided by the DANE; forecasts for 2012 provided by the IMF.
(1) Based upon the Colombian Consumer Price Index ("IPC"), as calculated by DANE.

In recent years, Colombia has been one of the more stable and dynamic economies in Latin America. In particular, from 2000 to 2011, Colombia's GDP per capita has more than doubled. In addition, during 2011 Colombia's credit rating was raised to investment grade by Standard & Poor's, Moody's and Fitch (BBB-, Baa3, BBB-). We believe that these favorable economic conditions provide a strong foundation with attractive growth prospects and a positive outlook for the financial services sector in which we operate.

## Corporate Information

Our principal executive offices are located at Torre Central Davivienda, Av. El Dorado No. 68 C – 61, Bogotá D.C., Colombia. Our telephone number is +57-1-330-0000.

## Competitive Strengths

We believe that our primary business strengths, which have helped us achieve positive results in a competitive environment, include the following:

***A leading, integrated full service bank with the strongest consumer banking franchise in Colombia.***

We are one of the largest financial institutions in Colombia and have developed a strategic and leading presence in the principal segments of the market for banking services with a market share by total assets of 10.8% as of March 31, 2012. We are the market leader in consumer loans with a 14.0% market share in terms of loans outstanding as of March 31, 2012. We are the largest issuer of credit cards in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012 (representing 18.4% of all Colombian credit card loans outstanding), and the second largest mortgage lender in Colombia, with 168,245 customers as of March 31, 2012 (representing 24.7% of all Colombian mortgage loans outstanding). We are also the third largest commercial lender in Colombia and have been steadily growing the business, achieving a 10.0% market share as of March 31, 2012.

Our leading universal bank franchise is supported by our extensive national network of 563 branches in 178 municipalities and 1,468 Davivienda-branded ATMs. This sizeable national footprint, along with our innovative and creative marketing campaigns, has allowed us to create unique and strong brand awareness that delivers on customer appeal and loyalty.

***Strong and consistent financial and operating performance with controlled risk exposure.***

Our business combines healthy profitability with tight control of risk exposure by assembling a high quality portfolio of assets that produces strong and consistent returns and mitigates risk. Our ROAE for the three months ended March 31, 2012 was 20.07% and our ROAE for 2009, 2010 and 2011 were 22.31%, 19.56% and 15.15%, respectively. For the three months ended March 31, 2012, we achieved a ROAA of 2.47% and our ROAA for 2009, 2010 and 2011 were 1.90%, 2.06% and 1.89%, respectively. As of March 31, 2012, our net interest margin was 8.3% and our efficiency ratio was 46.3% before allowances.

In addition, our client portfolio is well diversified, with clients in a variety of economic sectors, including individuals, SMEs, large corporations and governmental entities. As of March 31, 2012, we provided financial services and products to approximately 3,934,900 individuals, 98,220 corporations and 3,970 governmental institutions and entities in Colombia.

We believe our risk management policies are in line with best practices. We focus these policies on credit, market, liquidity and operational risks. Risk managment is embedded in our operations, internal controls and strategic planning. As of March 31, 2012, we had total ratios of non-performing loans to total loan portfolio of 2.28%, an allowance for loan losses to total loan portfolio of 4.99%, and an allowance for loan losses to non-performing loans of 218.7%.

We also have access to stable and low-cost sources of funding, such as term deposits, savings accounts and checking accounts. In particular, deposits are our principal source of funding, representing approximately 93.0% of our net loans and leases as of March 31, 2012. Our average cost of funds rate at March 31, 2012 was 4.6%. Nonetheless, we have diversified our funding sources through borrowing from foreign financial institutions and national development banks (such as Findeter, Bancoldex and Finagro), and by issuing long-term bonds in Colombia and, through this offering, abroad.

***Industry leader in innovation and technology.***

Our history of innovation in the Colombian retail banking market differentiates us from our competitors and increases the attractiveness of our services and products as we expand our operations in other market segments and geographies. In 2002, together with the IFC, and other Colombian financial institutions, we created Titularizadora Colombiana S.A. ("Titularizadora Colombiana"), the largest mortgage securitization agency in Colombia. We were also the first to offer financial leases for houses as an alternative to traditional mortgages and remain leaders in this market. More recently, we introduced our Daviplata service, the first mobile phone banking service in Colombia. This free service has already attracted 520,800 users since February 2011, and allows our customers to access our mobile payment and money transfer platforms and the option of speaking with a skilled customer service representative or using automated options. Through Daviplata, we expect to expand our penetration of banking services into underserved segments of the Colombian market.

We believe these innovations increase the attractiveness of our services and products among consumer and commercial customers and will be important in this respect as we expand our operations in other market segments and geographies.

***Track record of growth through strategic acquisitions and organic expansion has led to growing market positions in new business lines.***

Since our incorporation in 1972, we have achieved our growth objectives and gained competitive advantages through organic expansion and strategic acquisitions. In 1994, we entered the credit card business, and with the acquisition of Banco Superior in 2005, we further strengthened our leadership position, and today we are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation.

Our expansion into freight and commercial vehicle leasing came through our acquisition of Confinanciera in 2006. With the acquisition of Granbanco S.A. – Bancafé, or Bancafé, in 2007 we significantly broadened our presence in the corporate banking sector and our portfolio of business with SMEs, particularly in the agricultural sector. This acquisition also gave us an international presence in Panama and in Miami. We further plan to increase our presence in Central America through the acquisition of the HSBC Subsidiaries, which we expect to be completed by the end of 2012. Our growth throughout the years has allowed us to complete our transformation into a full service universal bank.

Our consistent growth strategy has allowed us to become a leader in the various market segments in which we operate without compromising client service. Moreover, we have successfully integrated acquired companies while maintaining our cohesive corporate culture.

***Key member of Grupo Bolívar, one of the largest business conglomerates in Colombia.***

Grupo Bolívar, our ultimate controlling shareholder, is the third largest financial conglomerate in Colombia in terms of assets with more than 70 years of experience across a diversified spectrum of industries, including insurance, banking and construction. Access to Grupo Bolívar's breadth of experience and exposure to multiple sectors in Colombia allows us to benefit from best practices and technologies. Management and risk planning for all of Grupo Bolívar's subsidiaries, for example, is performed on a consolidated basis by a centralized risk unit controlled by Grupo Bolívar.

We also capitalize on our relationship with other entities within Grupo Bolívar to capture synergies. For example, we leverage Seguros Bolívar's position as one of the leading insurance companies in Colombia to offer bank insurance products and services through our network, for which we earn commissions. We also obtain synergies from Constructora Bolívar, a leading construction company in Colombia, which arise from mortgage loans we extend to purchasers of property developed by Constructora Bolívar. Colombian Banking Laws set forth restrictions and limitations on transactions carried out with these related parties; for a description of these laws and our policies, see "Related Party Transactions."

***Highly experienced and talented management team with an average tenure of 14 years working for Davivienda.***

We have a highly experienced senior management team that has been working together for many years. This continuity has helped establish long-standing relationships and loyalty with customers. Our management team has substantial industry experience and has a proven track record of successfully steering the bank through different economic cycles and of acquiring and integrating related businesses and assets. For a more detailed description of our management team, see "Management."

## Strategy

***Capitalize on our leading position in the Colombian financial services markets and expand our international presence, particularly in Central America.***

We intend to continue to capitalize on our strong brand name recognition and leading market position in Colombia to grow our business. We plan to expand our client base along with our product lines in profitable growth sectors, while at the same time adhering to our controlled risk environment in order to optimize the distribution of risk and ensure long-term stable growth across all segments of our business. We believe that particularly in our corporate banking business we have ample opportunity in which to grow organically and through future strategic acquisitions. We also plan to increase our presence in Colombia by increasing the number of Davivienda branches and ATMs and by selectively expanding into new regions of Colombia.

In addition, we plan to increase our presence abroad through the acquisition of HSBC's banking operations in Costa Rica, El Salvador and Honduras, which, according to HSBC, as of March 31, 2012, have 137 branches. Through this expansion, we plan to deepen our presence throughout Central America and build on our previous success with acquisitions, as we did with our prior acquisitions of Confinanciera, Banco Superior and Bancafé, which strengthened our penetration in Colombia and provided us with an international presence in Panama and Miami.

***Deepen customer relationships through cross-selling opportunities.***

Our strategy is to increase penetration among our client base and promote greater client loyalty through the cross-selling of products and services offered by us, our subsidiaries and other entities within Grupo Bolívar. We plan to continue offering bundled products, including a broad variety of banking, insurance and other products and services across our business lines, subsidiaries and Grupo Bolívar, particularly to individuals and families. In particular, we intend to continue taking advantage of the classification of our retail banking customers into five categories (inclusion, classic, premium, premium plus and private banking), based on their income and degree of access to financial services, to create targeted products for each customer category and relationship-oriented services geared towards these target markets. We plan to continue to leverage this cross-selling potential through a variety of means, such as strengthening our offering of cash management, capital market products and foreign exchange and brokerage services to our existing client base. Likewise, we intend to promote our ability to offer a bundle of services through our affiliates in the United States and Panama to meet our clients' banking needs. We also intend to continue to leverage on strategies such as our Transmilenio debit card frequent customer reward program (Transmilenio is the mass public transport system in Bogotá) and our annual Expofamilia promotional event, which attracted more than 150,000 visitors in 2011 and resulted in the extension of more than 8,000 loans, representing a 53% increase in comparison to the prior year's event, among others.

***Expand our customer base by promoting financial inclusion***

We plan to expand our client base by promoting financial inclusion and bringing in new clients that have not previously been users of banking services through a variety of means, such as Daviplata's mobile banking platform.

In commercial banking, we plan to become the bank of choice for SMEs, a segment that still has a low usage rate for banking services. By complementing our offerings with products for these clients and addressing their specific needs, we seek to broaden our client base and profitably participate in this segment that has one of the highest growth potentials in the market.

***Leverage our market presence in key sectors of the Colombian economy to take advantage of increased levels of investment and development.***

We will seek to be a key participant in the increased levels of investment and development anticipated in Colombia in the following five key sectors of the economy: infrastructure, mining, energy, housing and agriculture. These five sectors are ones in which we have a strong market presence and where we believe we are well-situated to provide financial services to participants in these sectors as well as to their service providers. We plan on continuing to align our own growth strategy with the sectors of the economy with the greatest potential for growth and investment.

***Continuing to improve our operating efficiency and profitability by effectively deploying our assets while maintaining solid risk management practices.***

To maintain the efficiency of our operational activities, we intend to maintain close control over our operating costs by investing in technological improvements, specialized training of our personnel and strictly monitoring our internal controls. In addition, by promoting the use of our ATMs, website and mobile banking services to reduce branch traffic, we seek to provide banking services at a competitive cost. We also intend to improve operating efficiency and increase profitability by seeking to reduce our funding costs through maintaining a low-cost deposit base, selective market and bank financings and concentrating our efforts on higher margin products and services. At the same time, we will remain committed to prudent risk management and strict internal controls to minimize the extent and impact of any potential losses.

## Recent Developments

***Bond Offering Under Local Bond Program***

On May 3, 2012 we completed a local offering of subordinated bonds for COP 400 billion (US$223.2 million) under our COP 3,000 billion local bond program, which increased the balance of our outstanding bonds to COP 3.9 trillion (US$2.2 billion) as of May 3, 2012, with maturities ranging from 2012 to 2027 and representing 12% of our liabilities.

***Acquisition of HSBC Central American Operations***

On January 24, 2012, we and our subsidiary Bancafé Panamá entered into a Master Share Purchase Agreement (the "HSBC Purchase Agreement") with HSBC Bank (Panama) S.A. ("HSBC") pursuant to which we conditionally agreed to acquire from HSBC the outstanding capital stock HSBC holds of Grupo del Istmo (Costa Rica) S.A. ("HSBC Costa Rica"), Inversiones Financieras HSBC S.A. ("HSBC El Salvador"); and certain Honduran entities, Banco HSBC Honduras S.A. ("Banco HSBC Honduras") and Seguros HSBC Honduras S.A. ("Seguros HSBC Honduras," together with Banco HSBC Honduras, "HSBC Honduras" and both together with HSBC Costa Rica and HSBC El Salvador, the "HSBC Subsidiaries"), for a purchase price of US$801 million. The HSBC Purchase Agreement was subsequently amended on March 8, 2012, to replace Bancafé Panamá with Davivienda as the purchaser thereunder. As a result, Bancafé Panamá was removed as a party to the HSBC Purchase Agreement and from that date forward, had no obligations or liabilities of any nature under the HSBC Purchase Agreement.

We anticipate that the purchase price will be funded partially with the proceeds from the sale of the Notes, as well as from other cash and cash equivalents. The purchase price is subject to a post-closing adjustment equal to the amount by which the shareholders' equity of each of the four HSBC Subsidiaries, as of the relevant closing date, is greater than or less than, as the case may be, certain agreed upon amounts.

Under the HSBC Purchase Agreement we would acquire:

- the outstanding shares of HSBC Costa Rica, representing 100% of its capital stock;
- the outstanding shares of HSBC El Salvador, representing 95.955% of its capital stock;
- the outstanding shares of Banco HSBC Honduras S.A., representing 94.216% of its capital stock; and
- the outstanding shares of Seguros HSBC Honduras S.A., representing 88.642% of its capital stock.

HSBC Costa Rica is a holding company with several subsidiaries, including Corporación HSBC (Costa Rica) S.A., Banco HSBC (Costa Rica) S.A., HSBC Puesto de Bolsa (Costa Rica) S.A., HSBC Sociedad Agencia de Seguros (Costa Rica) S.A. and HSBC Arrendamientos (Costa Rica) S.A., in Costa Rica, dedicated to commercial and consumer banking, as well as insurance and securities brokerage services. HSBC Costa Rica has approximately 187,000 customers, who are served through a network of 30 branches and 117 ATMs. According to information filed with the Costa Rican Financial Entities General Superintendency (*Superintendencia General de Entidades Financieras*), as of March 31, 2012, approximately 52% of HSBC Costa Rica's loan portfolio consists of commercial loans, with mortgage loans and consumer loans (including credit card loans) representing approximately 35% and 14%, respectively, of its overall loan portfolio.

HSBC El Salvador is a holding company with several subsidiaries, including Banco HSBC Salvadoreño S.A., HSBC Seguros S.A., HSBC Vida S.A., Factoraje HSBC Salvadoreño S.A. de C.V., Almacenadora HSBC Salvadoreña S.A and HSBC Valores Salvadoreño S.A. de C.V. HSBC El Salvador has approximately 385,000 customers in El Salvador, who are served through a network of 57 branches and 205 ATMs. The bank has a significant commercial and consumer banking presence as well as a strong insurance business focused primarily on insurance products that are packaged with mortgage loans (such us debtor's life insurance, fire insurance and earthquake insurance). According to information filed with the El Salvadorian Superintendency of the Financial System (*Superintendencia del Sistema Financiero*), as of March 31, 2012, approximately 51% of HSBC El Salvador's outstanding loans are commercial loans, with the second largest pool consisting of consumer loans, representing 32% of the loan portfolio, followed by mortgage loans representing 17% of the loan portfolio.

Banco HSBC Honduras has approximately 259,000 customers in Honduras who are served through a network of 50 branches and 76 ATMs. Its focus lies in commercial and consumer banking, mortgage loans and credit cards, as well as insurance products. According to information filed with the Honduran National Commission of Banks and Insurance (*Comisión Nacional de Bancos y Seguros*), as of March 31, 2012, approximately 41% of Banco HSBC Honduras' outstanding loans are commercial loans, followed by mortgage loans with 35%, and by consumer loans with 24%. As of March 31, 2012, Seguros HSBC Honduras's insurance operations are the third largest in the country according to information filed with the Honduran National Commission of Banks and Insurance and are focused on personal injury liability, employee and health insurance products.

As of March 31, 2012, HSBC reported it estimates that on an aggregate basis the HSBC Subsidiaries serve approximately 830,735 customers and have a network of approximately 137 branch offices, 398 ATMs, and 3,800 employees.

We anticipate that the acquisition of these operations will significantly expand our reach outside Colombia and in Central America.

The acquisitions are subject to customary closing conditions, including regulatory approval in Costa Rica, Honduras, El Salvador, Panama and Colombia (although the HSBC Subsidiaries can be acquired individually as the required approvals are obtained), as well as the delivery and execution of a transitional services agreement to be effective immediately upon closing. As of the date hereof, the process to obtain regulatory approvals in each of the jurisdictions has been initiated but is subject to completion. However, in all cases, approvals from the Colombian and Panamanian regulatory authorities are required. We expect that the purchases will be completed by the end of 2012, although we cannot assure you that they will be completed. Upon completion of the acquisitions, we will own all the assets and assume all the liabilities of each of the HSBC Subsidiaries.

The HSBC Purchase Agreement may be terminated by mutual written consent of Davivienda and HSBC. In addition, either we or HSBC may terminate the HSBC Purchase Agreement in respect of any specific acquisition if:

- that acquisition has failed to occur on or within 18 months from January 24, 2012, unless such failure is the result of either Davivienda or HSBC failing to perform certain of their respective obligations under the HSBC Purchase Agreement; or

- if a court of competent jurisdiction issues an order, decree or ruling enjoining or otherwise prohibiting such acquisition, and such order, decree or ruling is final and non-appealable.

In the event that the HSBC Purchase Agreement is terminated by HSBC because of our failure to obtain regulatory approval from the Colombian regulator or pay the purchase price (in either case because of an issue with our financial strength or liquidity) we will be liable to HSBC for a break-up fee of US$24 million.

***Financial Information of the HSBC Central American Operations***

Since the acquisition of the HSBC Subsidiaries has not yet been concluded, we have not been authorized by HSBC to include the audited or unaudited financial information of the HSBC Subsidiaries as of and for the year ended December 31, 2011 or for the three months ended March 31, 2012 in this offering memorandum.

In addition, we have not prepared any consolidated pro forma financial statements that would reflect our financial condition or results of operations taking into account the acquisition of the HSBC Subsidiaries. We do not have complete information on the results of operations or financial condition of the HSBC Subsidiaries to allow us to estimate the effects the acquisition of the HSBC Subsidiaries will have on our results of operations and financial condition.

***Operating Information of the HSBC Subsidiaries***

This offering memorandum uses publicly available information regarding the HSBC Subsidiaries, such as its number of ATMs, customers and branches and lines of business. The operating information of the HSBC Subsidiaries should not be relied upon for any purpose related to an investment in the Notes. In addition, we describe in this offering memorandum the main terms of the acquisition of the HSBC Subsidiaries, including the contractual provision for purchase price adjustments to reflect changes in their working capital. Investors should also bear in mind, before making an investment decision to buy the Notes, the risk factors related to the acquisition of the HSBC Subsidiaries, such as the likelihood of undisclosed liabilities, the fact that the audited and unaudited financial information of the HSBC Subsidiaries was not subject to our review and the risk that we may incur a substantial increase in our indebtedness, which could cause us to breach certain financial covenants. For further information on the risks involved in the acquisition of the HSBC Subsidiaries, see “Risk Factors–Risk Factors Relating to Our Business and the Banking Industry–We may not be able to manage our growth successfully,” “–We have limited knowledge of the liabilities of the HSBC Subsidiaries.” “–The operating information related to the HSBC Subsidiaries in this offering memorandum may be imprecise and incomplete” and “–The acquisition of the HSBC Subsidiaries is subject to the approval of regulatory authorities in Colombia, Panama, Costa Rica, Honduras and El Salvador.”

## THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see "Description of the Notes."

### The Notes

| | |
|---|---|
| Issuer | Banco Davivienda S.A. |
| Securities Offered | US$500,000,000 in aggregate principal amount of 5.875% Subordinated Notes due 2022. |
| Issue Price | 99.441% of the principal amount of the Notes, plus accrued interest, if any from July 9, 2012. |
| Issue Date | July 9, 2012. |
| Maturity | The Notes will mature on July 9, 2022. |
| Interest | 5.875% payable semiannually on January 9 and July 9 of each year, beginning on January 9, 2013. |
| Form and Denomination | The Notes were issued only in fully registered form, without coupons, in the form of securities entitlements in respect of one or more global securities in denominations of US$200,000 and integral multiples of US$1,000 thereof. Securities entitlements in respect of the global securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its participants and indirect participants, including Euroclear and Clearstream. The Notes will not be issued in definitive form except under certain limited circumstances described herein. See "Description of the Notes—Book-Entry System; Delivery and Form." |
| Payment Currency | All amounts due in respect of principal, interest or the additional amounts, if any, will be paid in U.S. dollars. |
| Ranking | The Notes are our unsecured subordinated obligations. In the event of our liquidation under Colombian law, the Notes will rank:<br><br>• junior in right of payment to the payment of all our Senior External Liabilities (as defined in "Description of the Notes") with or without legal preference, secured or unsecured, including, without limitation, senior indebtedness. As of March 31, 2012, we had COP 30,900.3 million, of Senior External Liabilities;<br><br>• *pari passu* with all our other present or future Tier Two subordinated indebtedness, including, without limitation, any subordinated bonds subscribed by Fogafin. As of March 31, 2012, we had COP 873.3 million of outstanding Tier Two subordinated indebtedness; and<br><br>• senior in right of payment only to our capital stock and to any other instruments that may qualify as Tier One Capital for purposes of Colombian banking laws if any, and which |

is expressly or effectively subordinated to the Notes.

| | |
|---|---|
| Optional Redemption | None. |
| Merger and Sales of Assets | The indenture governing the Notes contains a covenant that limits our ability to merge or consolidate with another entity or sell, lease or transfer substantially all of our properties or assets to another entity. See "Description of the Notes—Certain Covenants—Mergers, Consolidations, Etc." |
| No Acceleration of Notes | If we fail to make payment of principal, interest or additional amounts, if any, on the Notes (and, in the case of payment of principal, such failure to pay continues for seven days or, in the case of payment of interest or additional amounts, such failure to pay continues for 30 days), each holder of the Notes has the right to demand and collect under the indenture, and we will pay to the holders of the Notes the applicable amount of such due and payable principal, accrued interest and any additional amounts on the Notes; provided, however, that to the extent that the SFC has taken either Preventive or Intervention Measures (in each case as defined in the "Description of the Notes") against the bank in order to administer or liquidate us, under the Bankruptcy Law, the holders of the Notes would not be able to commence independent collection proceedings to recover amounts owed. There is no right of acceleration in the case of a default in any payment on the Notes (whether when due or otherwise) or the performance of any of our other obligations under the indenture or the Notes. Notwithstanding the immediately preceding sentence, the holders of the Notes have the right to accelerate the payments due under the Notes during the occurrence of an Event of a Default (as defined herein), provided that there shall have been a change, amendment or modification to the Colombian Banking Laws that would permit such right without disqualifying the Notes from Tier Two Capital status and the holders exercise such right in accordance with applicable Colombian Banking Law. Subject to the subordination provisions of the Notes, if any Event of Default occurs and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided herein) to collect the payment of principal and interest on the Notes or to enforce the performance of any provision under the indenture. See "Supervision and Regulation — Intervention Powers of the Superintendency of Finance — Bankruptcy Considerations". |
| Payment of Additional Amounts | We will make all payments in respect of the Notes free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any Relevant Taxing Jurisdiction (as defined herein), unless we are required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If we are required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction, from any payment made under or with respect to the Notes, we will pay Additional Amounts (as defined herein) as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction will equal the amount the Holder would have received if such Taxes had not been withheld or deducted; provided, however, that no Additional Amounts will be payable under certain circumstances |

| | |
|---|---|
| | described in "Description of the Notes—Additional Amounts." |
| Listing | Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and for the Notes to be traded on the Euro MTF Market. |
| Transfer Restrictions | The Notes have not been and will not be registered under the Securities Act and are subject to restrictions on transfer and resale. See "Transfer Restrictions" and "Plan of Distribution."<br><br>The Notes have not been and will not be registered in the Colombian National Registry of Securities and Issuers maintained by the SFC and may not be offered or sold publicly or otherwise be subject to brokerage activities in Colombia, except as permitted by Colombian law. |
| Use of Proceeds | We intend to use the net proceeds of the issuance of the Notes (together with existing cash and cash equivalents) to pay the purchase price for our acquisition of the HSBC Subsidiaries, and to the extent not used for such purchase, such proceeds will be available for general corporate purposes or any other use approved by Davivienda's bylaws and permitted by applicable banking and foreign exchange regulations. |
| Trustee, Registrar, Paying Agent and Transfer Agent | The Bank of New York Mellon. |
| Luxembourg Paying Agent, Transfer Agent and Listing Agent | The Bank of New York Mellon (Luxembourg) S.A. |
| Governing Law | New York. |
| Risk Factors | See "Risk Factors" beginning on page 16 of this offering memorandum for a discussion of certain factors you should consider carefully before deciding to invest in the Notes. |

## SUMMARY FINANCIAL INFORMATION

The following tables summarize our consolidated income statement and balance sheet data as of December 31, 2009, 2010 and 2011and for the years ended December 31, 2009, 2010 and 2011, as derived from our audited consolidated financial statements for such periods, and as of March 31, 2012 and for the three month periods ended March 31, 2011 and 2012, as derived from our unaudited condensed consolidated financial statements for such periods. You should read this information in conjunction with the sections "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as our financial statements and the related notes included elsewhere in this offering memorandum.

The financial data included in this offering memorandum is presented in accordance with Colombian Banking GAAP, which differs in certain important respects from U.S. GAAP and IFRS. See "Presentation of Financial and Other Information."

| | For the Year Ended December 31, | | | | For the Three-Month Period Ended March 31, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2011 | 2012 | 2012 |
| | (in millions of COP) | | | (in thousands of US$)[1] | (in millions of COP) | | (in thousands of US$)[1] |
| **Income Statement Data:** | | | | | | | |
| Interest income | 2,793,915 | 2,660,895 | 3,190,615 | 1,780,408 | 707,175 | 936,594 | 522,633 |
| Interest expense | (974,122) | (721,427) | (901,897) | (503,271) | (184,825) | (298,839) | (166,755) |
| Net interest income | 1,819,793 | 1,939,467 | 2,288,719 | 1,277,137 | 522,349 | 637,755 | 355,877 |
| Allowance, net of recoveries | (711,727) | (367,223) | (619,845) | (345,882) | (119,242) | (202,926) | (113,234) |
| Net interest income after allowance | 1,108,065 | 1,572,245 | 1,668,874 | 931,255 | 403,107 | 434,829 | 242,643 |
| Fees and commissions, net of expenses | 618,592 | 636,016 | 672,911 | 375,494 | 162,997 | 178,003 | 99,328 |
| Non-interest income (loss), net[2] | (169,692) | (295,762) | (298,908) | (166,795) | (83,608) | (50,397) | (28,122) |
| Dividend income | 13,574 | 16,394 | 16,687 | 9,311 | 17,420 | 15,603 | 8,707 |
| Total non-interest income and dividend income | 462,474 | 356,648 | 390,690 | 218,010 | 96,809 | 143,208 | 79,913 |
| Operating expenses | (1,008,560) | (1,182,304) | (1,239,690) | (691,764) | (283,531) | (301,702) | (168,354) |
| Income before income tax and non-controlling interest | 561,980 | 746,588 | 819,875 | 457,502 | 216,385 | 276,336 | 154,199 |
| Income tax expense | (92,215) | (161,163) | (181,845) | (101,472) | (43,013) | (58,513) | (32,651) |
| Non-controlling interest | (8,648) | (6,142) | (7,691) | (4,291) | (1,821) | (2,493) | (1,391) |
| **Net income** | 461,117 | 579,282 | 630,339 | 351,738 | 171,551 | 215,330 | 120,157 |

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate. See "Exchange Rates and Foreign Exchange Controls—Exchange Rates" for additional information on the exchange rate.

(2) Amounts include Other expenses, Non-operating expenses and Non-interest expense, for more information See "Management's Discussion and Analysis of Financial Condition and Results of Operations"—"Fees and commissions, non-interest and dividend income" and "Operating and other expenses."

| | At December 31, | | | | At March 31, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| **Balance Sheet Data:** | | | | | | |
| | (in millions of COP) | | | (in thousands of US$)[1] | (in millions of COP) | (in thousands of US$)[1] |
| **Assets** | | | | | | |
| Cash and cash equivalents | 1,603,933 | 1,683,709 | 3,335,116 | 1,861,041 | 3,115,254 | 1,738,355 |
| Investment securities, net | 4,575,677 | 4,391,689 | 4,745,827 | 2,648,237 | 5,412,876 | 3,020,460 |
| Loans and financial leases | 18,195,098 | 21,935,171 | 26,838,968 | 14,976,518 | 27,230,691 | 15,195,104 |
| Allowance for loans and financial lease losses | (1,120,266) | (1,167,115) | (1,291,883) | (720,889) | (1,359,483) | (758,610) |
| Total loans and financial leases, net | 17,074,832 | 20,768,056 | 25,547,085 | 14,255,629 | 25,871,208 | 14,436,495 |
| Goodwill | 1,375,044 | 1,267,943 | 1,181,627 | 659,364 | 1,170,063 | 652,912 |
| Other assets | 1,529,383 | 1,498,554 | 1,848,295 | 1,031,374 | 1,876,070 | 1,046,873 |
| **Total assets** | 26,158,870 | 29,609,951 | 36,657,950 | 20,455,646 | 37,445,473 | 20,895,095 |
| **Liabilities** | | | | | | |
| Deposits | | | | | | |
| Non-interest bearing deposits | 2,613,493 | 3,170,682 | 3,279,468 | 1,829,989 | 2,952,660 | 1,647,625 |
| Interest bearing deposits | 15,728,635 | 16,177,550 | 19,744,795 | 11,017,870 | 21,100,527 | 11,774,388 |
| Total deposits | 18,342,128 | 19,348,232 | 23,024,263 | 12,847,859 | 24,053,187 | 13,422,013 |
| Interbank, overnight and other short-term borrowings | 1,915,983 | 2,458,234 | 3,630,630 | 2,025,942 | 3,395,593 | 1,894,788 |
| Long-term debt | 2,182,681 | 3,082,595 | 3,700,988 | 2,065,203 | 3,503,448 | 1,954,973 |
| Other liabilities | 1,020,360 | 1,151,924 | 1,506, 741 | 840,783 | 1,593,579 | 889,239 |
| Total liabilities | 23,461,152 | 26,040,985 | 31,862,622 | 17,779,786 | 32,545,807 | 18,161,013 |
| Total Shareholders' equity | 2,697,718 | 3,568,965 | 4,795,328 | 2,675,860 | 4,899,666 | 2,734,082 |
| **Total Liabilities and Shareholders' Equity** | 26,158,870 | 29,609,951 | 36,657,950 | 20,455,646 | 37,445,473 | 20,895,095 |

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate. See "Exchange Rates and Foreign Exchange Controls—Exchange Rates" for additional information on the exchange rate.

The following table summarizes certain performance data:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012[7] |
| | (in percentages) | | | |
| **SELECTED RATIOS[1]:** | | | | |
| **Profitability ratios:** | | | | |
| Net interest margin[2] | 8.8 | 8.0 | 7.9 | 8.3 |
| Return on average total assets[3] | 1.90 | 2.06 | 1.89 | 2.47 |
| Return on average shareholders' equity[4] | 22.31 | 19.56 | 15.15 | 20.07 |
| **Efficiency ratios:** | | | | |
| Efficiency ratio before provision[5] | 48.8 | 57.7 | 53.3 | 46.3 |
| **Capital ratios:** | | | | |
| Period end shareholders' equity as a percentage of period-end total assets | 8.5 | 10.5 | 12.5 | 12.3 |
| Period-end technical capital as a percentage of period-end risk-weighted assets | 12.03 | 13.06 | 14.40 | 14.26 |
| **Credit quality data:** | | | | |
| Non-performing loans as a percentage of total loans[6] | 2.55 | 2.04 | 2.12 | 2.28 |
| "C", "D" and "E" loans as a percentage of total loans | 4.22 | 3.52 | 3.40 | 3.52 |
| Allowance for loan and accrued interest losses as a percentage of non-performing loans | 241.7 | 260.5 | 226.6 | 218.7 |
| Allowance for loan and accrued interest losses as a percentage of "C," "D" and "E" loans | 146.0 | 151.4 | 141.5 | 141.7 |
| Allowance for loan and accrued interest losses as a percentage of total loans | 6.16 | 5.32 | 4.81 | 4.99 |

(1) Ratios were calculated on the basis of monthly averages.
(2) Net interest income divided by average interest-earning assets.

(3) Net income divided by average total assets.

(4) Net income divided by average shareholders' equity.

(5) Non-interest expenses less goodwill amortization, divided by the sum of net interest income and total non-interest income.

(6) Loans are considered "non-performing" after the following periods: for microcredit loans, 30 days; for mortgage and consumer loans, 60 days; and for commercial loans, 90 days.

(7) Calculated on an annualized basis.

The following table summarizes certain non-financial information:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| **Operating data:** | | | | |
| Branches | 533 | 545 | 559 | 563 |
| ATMs | 1,360 | 1,403 | 1,445 | 1,468 |

## RISK FACTORS

*You should carefully consider each of the risks described below and all of the other information in this offering memorandum before deciding to invest in the Notes. The following risk factors are not the only risks we face and if any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be adversely affected. Additional risks that are presently unknown to us or that we currently deem immaterial may also have an impact on our business.*

### Risk Factors Relating to Colombia

***Exchange rate volatility may adversely affect the Colombian economy and our ability to make interest and principal payments on the Notes.***

Pursuant to Colombian law, the Central Bank maintains the power to intervene in the exchange market in order to consolidate or dispose of international reserves, as well as to control any volatility in the exchange rate, acting through a variety of mechanisms, including discretionary ones. During recent years, the Central Bank has employed a floating exchange rate system with periodic interventions. From time to time, there have been significant fluctuations in the exchange rate between the Colombian peso and the U.S. dollar. For example, the peso depreciated 11% against the U.S. dollar in 2008, appreciated 9% against the U.S. dollar in 2009, appreciated 6% against the U.S. dollar in 2010 and depreciated 1.5% against the U.S. dollar in 2011. As observed during 2011, unforeseen events in international markets, fluctuations in interest rates, changes in capital flows, political developments or inflation rates may cause exchange rate instability that could, in turn, depress the value of the Colombian peso against the U.S. dollar, which could adversely affect our ability to make principal or interest payments on the Notes, as these obligations are denominated in U.S. dollars, while our operations are primarily conducted in Colombian pesos. Given that a portion of our assets and liabilities are denominated in, or indexed to, foreign currencies, especially the U.S. dollar, sharp movements in exchange rates may negatively impact the our results. We cannot assure you that the Colombian peso will not depreciate or appreciate relative to other currencies in the future.

***Changes in economic and political conditions in Colombia may adversely affect our financial condition and results of operations.***

Substantially all of our operations, assets and customers are located in Colombia. As a result, our financial condition, results of operations and asset quality are dependent on the macroeconomic and political conditions prevailing in Colombia. Decreases in the GDP growth rate, periods of negative GDP growth, increases in inflation, changes in policy, or future judicial interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia may affect the overall business environment and may in turn impact our financial condition and results of operations. Colombia's fiscal deficit and growing public debt could adversely affect the Colombian economy. The Colombian fiscal deficit was 2.7% of GDP in 2009; 3.2% of GDP in 2010; and 2.2% of GDP in 2011. Despite the growth of Colombia's economy over the past several years, we cannot assure you as to whether current growth and relative stability will be sustained. If the condition of the Colombian economy were to deteriorate, we would likely be adversely affected.

The government of Colombia has historically exercised substantial influence on the local economy, and governmental policies are likely to continue to have an important effect on Colombian entities (including us), market conditions and the prices of the securities of local issuers, including the Notes. For example, the Central Bank could sharply raise or lower interest rates, which could negatively affect our net interest income and asset quality and also restrict our growth. As a result of the presidential elections in Colombia held in June 2010, a new administration, led by President Juan Manuel Santos, assumed power in Colombia on August 7, 2010. The president of Colombia has considerable power to determine governmental policies and actions relating to the economy, and may adopt policies that are inconsistent with those of the prior government or that negatively affect us. Our business and results of operations or financial condition may be adversely affected by changes in government or fiscal policies, and other political diplomatic, social and economic developments that may affect Colombia. We cannot predict what policies will be adopted by the Colombian government and whether those policies would have a negative impact on the Colombian economy or our business and financial performance or the market value for the Notes.

***New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia could adversely affect our results of operations and financial condition.***

New tax laws and regulations, and uncertainties with respect to future tax policies, pose risks to us. In recent years, Colombian tax authorities have imposed additional taxes in a variety of areas, such as taxes on financial transactions and taxes to fund Colombia's war against terrorism. Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation, associated costs and penalties. In order to avoid double taxation, our subsidiaries usually distribute dividends from profits that have already been subject to income tax. These dividends are usually not taxable for Davivienda in Colombia, likewise dividends covered by paragraph 1 of article 49 of the Colombian Tax Code paid by Davivienda to its shareholders in Colombia from these sources of income are usually not taxable, in each case provided that such profits have been taxed at the subsidiary level. This tax treatment may not be maintained in the future, and any change could have a material adverse effect on our results of operations and financial condition.

In addition, we are subject to an equity tax enacted in December of 2009 by Law 1370. This tax is imposed on the liquid assets and is calculated based on our taxable net worth as defined by law at January 1, 2011. Given that our taxable net worth exceeded COP 5,000 million, the rate applicable to us was 4.8% of our taxable net worth. The accrued tax is to be paid in eight equal semiannual installments during years 2011 through 2014. Additionally, the Colombian government created, through Decree 4825 of 2010, a surcharge to the equity tax equivalent to 25% of the applicable equity tax rate, meaning that the effective equity tax rate applicable to us was 6%.

***The Colombian economy remains vulnerable to external shocks.***

The Colombian economy is vulnerable to external shocks, including prices for exports, trade with foreign nations and broader worldwide economic trends. Exports in the Colombian economy have recently become more dependent upon raw materials, particularly oil and coal, which has exposed the local economy to fluctuations in the prices for these commodities. This vulnerability can be observed in the volatility of export earnings, as well as in government revenues derived from interests in the Colombian oil company, Ecopetrol, and in royalties paid to local government authorities. Fluctuations in the prices of these commodities, among others, can indirectly affect our results by adversely affecting the income and financial position of our clients. Despite official projections of Colombia's ability to increase oil production over the next few years, which may provide a buffer against otherwise difficult economic conditions, we cannot assure you that oil output will increase or that global demand for Colombian raw material exports will not fall.

As a result of protectionist policies in Venezuela during the last few years, Colombian exports to Venezuela currently are approximately a quarter of what they were in 2007. Furthermore, political and social instability in Venezuela could reduce that country's purchasing power, which would exacerbate the pressure on Colombian exporters. At the same time, relations with the administration of Venezuelan President Hugo Chávez have seen a marked improvement since the election of Colombian President Juan Manuel Santos Calderón in August 2010. Political and commercial relations with Ecuador have also significantly improved since their low point a few years ago, as evidenced by the removal of restrictions on Colombian imports. Despite the improvement in relations with Venezuela and Ecuador, new developments may lead to further trade restrictions or renew tensions between Colombia and these countries once again, and we have no reason to believe that trade may return to levels experienced several years ago.

Although during most of 2010 and 2011 there were signs of recovery in the global economy, this recovery may be fragile and may only reflect temporary benefits from government stimulus programs that may not be sustained. The subsequent slowdown in the United States and Europe, as well as concerns over the sovereign debt obligations of several European countries and the consequent impact on the solvency of European banks has increased the possibility of another worldwide recession. Under these circumstances, the Colombian economy could be adversely affected in various ways, including: a decline in commodity prices, lower demand for export products, lower remittances from Colombian workers overseas and reduced capital flows in the form of foreign direct investment, which in turn could lead to a lack of liquidity, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower commercial activity.

In addition, a "contagion" effect, under which an entire region or class of investments becomes less attractive to, or subject to outflows of funds by international investors, could negatively affect Colombia. Lower economic growth may result in asset quality deterioration and a decrease in market prices and liquidity for the Notes.

We cannot assure you that the growth achieved over the past decade by the Colombian economy will continue in future periods. A slower growth rate could reduce our lines of credit and affect our liquidity. The effect on consumer confidence of any actual or perceived deterioration in the Colombian economy may have a material adverse effect on our results of operations through decreased consumer spending, which could increase credit losses in our commercial loan portfolio.

***Colombia has experienced several periods of violence and instability, and such instability could affect the economy and us.***

Colombia has experienced several periods of criminal violence over the past four decades, primarily due to the activities of guerilla groups and drug cartels. In response, the Colombian government has implemented various security measures and has strengthened its military and police forces by creating specialized units. Despite these efforts, drug-related crime, guerilla and paramilitary activity continue to exist in Colombia. These activities, their possible escalation and the violence associated with them may have a negative impact on the Colombian economy or on our business and results of operations in the future. Our business or financial condition and the market value of the Notes could be adversely affected by rapidly changing economic and social conditions in Colombia and by the Colombian government's response to such conditions.

***Natural disasters in Colombia could disrupt our businesses and impact our results of operations and financial condition.***

We are exposed to natural disasters in Colombia, such as earthquakes, volcanic eruptions, tornadoes, tropical storms and hurricanes. In particular, Colombia is exposed to recurring flooding and mudslides as a result of heavy rains attributable to the La Niña and El Niño weather patterns. In the event of a natural disaster, our disaster recovery plans may prove to be ineffective, which could have a material adverse impact on our ability to conduct our businesses, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised. Natural disasters or similar events could also result in substantial volatility in our results of operations for any fiscal quarter or year. Furthermore, natural disasters and severe weather patterns may negatively impact our customers and their ability to meet their financial obligations to us, including the repayment of loans, particularly those customers who are involved in agriculture. Such events may also result in an impairment of the value of property or other collateral used to secure the loans that we extend. Any of the foregoing factors may have a material adverse effect on our results. After the El Niño phenomena in 2010 we restructured 5% of our portfolio related to agricultural activities. Similarly, other natural disasters, such as the Armenia earthquake in 1999, which struck the Quindío department and had a significant adverse impact on the region, particularly coffee growers, have proven to significatively affect our client's business activities, regardless of whether those clients are covered by insurance policies.

***U.S. investors in our Notes may find it difficult or impossible to enforce service of process and enforcement of judgments against us and our officers and directors.***

We are incorporated under the laws of Colombia, and all of our subsidiaries other than our Miami branch, incorporated under the laws of the State of Florida, are incorporated in jurisdictions outside the United States. In addition, our executive offices are located outside of the United States. All of our directors and officers, except for our Miami branch executives, reside outside of the United States, and all or a substantial portion of our assets and the assets of most of our officers and directors are, and will most likely continue to be, located outside of the United States. As a result, it may be difficult or impossible for U.S. investors to serve legal process within the United States upon us or any of these persons or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our or our subsidiaries' assets are located would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws or that they would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

There is also substantial doubt that the courts of Colombia would enter judgment in original actions brought in those courts predicated on U.S. federal or state securities laws. We have been advised by our Colombian counsel that there is no legal basis for original actions to be brought against us or our directors and executive officers in a Colombian court predicated solely upon the provisions of the U.S. securities laws. In addition, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts.

***The Central Bank may impose requirements on the ability of Colombian residents (including us) to obtain loans in foreign currency.***

Under Colombian exchange control operations, the Central Bank is allowed to require a mandatory deposit in connection with loans denominated in a foreign currency obtained by Colombian residents, including us. Although there is not currently a mandatory deposit in effect for amounts to be disbursed under credit facilities denominated in a foreign currency, when the Colombian peso appreciated against foreign currencies in 2008, the mandatory deposit was set at 40 percent. Although there are exceptions for currency exchange intermediaries (e.g., Colombian banks) from posting such deposits when acting as borrowers, we cannot predict or control future actions by the Central Bank, which may involve the establishment of a different mandatory deposit percentage. In the event, the Central Bank exercises this right, there may be a disincentive for us and our clients to obtain loans in foreign currency.

***Guidelines for loan classification and allowances in Colombia are different and may not be comparable to those in other countries.***

Colombian banking regulations require us to classify each loan or type of loan according to a risk assessment that is based on specified criteria, to establish corresponding reserves and, in the case of some non-performing assets, to certain charge-off loans. The criteria to establish reserves include both qualitative and quantitative factors. Colombian regulations relating to loan classification and determination of loan loss reserves are generally different than those applicable to banks in other countries, including the United States. If the rules applicable in the United States were applicable in Colombia today, the level of our loan loss reserves may be different than our current reserve levels. New regulations relating to loan loss reserves will take effect and require greater reserves for loan losses, beginning in January 2012, although the more conservative criteria imposed by these new regulations are already reflected in our provisions policies we do not currently anticipate any significant impact. We also may deem it necessary to increase our loan loss reserves in the future, or future regulations may require such additional reserves. Increasing loan loss reserves could materially and adversely affect our results of operations and financial position and our ability to service the Notes.

***Banking regulations, accounting standards and corporate disclosure applicable to us differ from those in the United States and other countries.***

While many of the policies underlying Colombian banking regulations are similar to those underlying regulations applicable to banks in other countries, Colombian banking regulations may differ in material respects from regulations applicable to banks in other countries, including those in the United States. For example, capital adequacy requirements for banks under Colombian regulations differ from those under U.S. regulations and may differ from those of other countries.

We are required to prepare our financial statements in accordance with Colombian Banking GAAP, which differs in significant respects from U.S. GAAP and IFRS. As a result, our financial statements may differ from those of banks in other countries. Some of the main differences affecting earnings and shareholders' equity include, but are not limited to, the accounting treatment for restructuring, loan provisions, loan origination fees and costs, asset and investment valuation, deferred income taxes and business combinations. Moreover, under Colombian Banking GAAP, allowances and provisions for non-performing loans are computed by establishing the inherent risk in each non-performing loan, using criteria established by the SFC that differ from criteria used, for example, under U.S. GAAP. We have made no attempt to quantify the impact of those differences by a reconciliation of our financial statements or other financial information in this offering memorandum to U.S. GAAP. We cannot be certain that a reconciliation would not identify material quantitative or qualitative differences between our financial statements or other financial information as prepared on the basis of Colombian Banking GAAP if such information were to be prepared on the basis of U.S. GAAP.

Although the Colombian government has undertaken a review of accounting, audit and information disclosure regulations and the Colombian Congress passed Law 1314 of 2009, purporting to provide for convergence with IFRS, current regulations continue to differ in certain respects from those in other countries, and it is unclear when

IFRS will be adopted in Colombia. We anticipate that the adoption of IFRS will occur in 2013, and may be applicable to publicly traded companies, including us, as early as 2014, at which point in time we would apply Colombian GAAP as modified by the new regulations in instances where Colombian Banking GAAP is inapplicable. Also, the SFC may modify the Colombian Banking GAAP to converge towards IFRS accounting standards. The adoption of IFRS may have an adverse affect on our results of operations and it may also result in the imposition of more onerous capital adequacy calculations.

There may be less publicly available information about us than is regularly published by or about U.S. issuers or issuers in other countries. Corporate governance and shareholder accountability protections applicable to Colombian companies may be less stringent than those applicable to public companies in the United States. We do not intend to register the Notes under the U.S. securities laws or list the Notes on any United States or Colombian exchange or other market, other than the Euro MTF Market. Accordingly, we will not be subject to the corporate disclosure, governance and accounting standards applicable to companies whose securities are registered under United States securities laws or listed on United States exchanges.

***Our assets may be subject to seizure through eminent domain by the Colombian government.***

The Colombian government could seize or expropriate our assets under certain circumstances. Pursuant to Article 58 of the Colombian constitution, the Colombian government can exercise its eminent domain powers in respect of our assets in the event such action is deemed by the Colombian government to be required in order to protect public interests. Eminent domain powers may be exercised through an ordinary expropriation proceeding (*expropiación ordinaria*), an administrative expropriation (*expropriación administrativa*) or an expropriation for reasons of war (*expropiación en caso de guerra*). In all cases we would be entitled to a fair compensation (*indemnización previa*) for the expropriated assets. Also, as a general rule (with the exception of expropriations for reasons of war, in which case compensation may be quantified and paid later), compensation must be paid before the asset is effectively expropriated. However, the compensation may be lower than the price for which the expropriated asset could be sold in a free-market sale or the value of the asset as part of an ongoing business.

**Risk Factors Relating to Our Business and the Banking Industry**

***We are subject to credit risk; estimating exposure to credit risk involves subjective and complex judgments and requires continuous upgrades to our credit management system.***

A number of our products expose us to credit risk, including loans, financial leases, lending commitments and derivatives. We estimate and establish reserves for credit risk and potential credit losses. An important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a client. This process involves subjective and complex judgments, and takes into account both quantitative and qualitative factors, including projections of economic conditions and assumptions on the ability of our borrowers to repay their loans. This process is subject to human error as our employees may not always be able to assign an accurate credit rating to a client, which may result in our exposure to higher credit risks than indicated by our risk rating system. Additionally, we may not be able to upgrade our credit risk management system on a timely basis or detect risks before they occur. Furthermore, our employees may not be able to effectively implement the resources or tools available to them, which may increase our credit risk. As a result, failure to implement effectively, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect our results of operations and financial position.

In addition, the amount of our non-performing loans may increase in the future, including loan portfolios that we may acquire through auctions or otherwise, as a result of factors beyond our control, such as, changes in the income levels of our borrowers, increases in the inflation rate or an increase in interest rates, the impact of macroeconomic trends and political events affecting Colombia, or events affecting specific industries. Any of these developments could have a negative effect on the quality of our loan portfolio, causing us to increase provisions for loan losses and resulting in reduced profits or in losses, adversely affecting our financial condition and results of operations.

***We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our results of operations and financial condition.***

We are directly and indirectly affected by changes in market conditions. Market risk, or the risk that values of assets and liabilities or revenues will be adversely affected by variation in market conditions, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt, short-term borrowings, proprietary trading in assets and liabilities and derivatives. Changes in market conditions that may affect our financial condition and results of operations include fluctuations in inflation, interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

We hold a substantial portfolio of loans and debt securities that have both fixed and floating interest rates. Therefore, changes in interest rates could adversely affect our net interest margins as well as the prices of these securities. Increases in interest rates and inflation may reduce gains as well as the market value of our debt securities. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. On the other hand, decreases in interest rates and inflation may cause margin compression and lower net interest income as we usually maintain assets and liabilities at variable rates. Decreasing interest rates also may trigger loan prepayments which could negatively affect our net interest income. Generally, in a declining interest rate environment, prepayment activity increases which reduces the weighted average maturity of our interest earning assets and adversely affects our operating results. Prepayment risk also has a significant adverse impact on our earnings from our credit card and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields. In addition, as we implement strategies to reduce future interest rate exposure, we may incur costs related to fluctuations in interest rates which, in turn, may impact its results.

Although we have recently increased our reliance on borrowings from local and foreign financial institutions, our funding is highly dependent on short-term deposits. If we are unable to maintain our base of low cost deposits, our overall cost of funds could increase which could have an adverse effect on our results of operation and prospects.

***A decline in asset quality, including our loan portfolios, may have an adverse impact on our results of operations and financial condition.***

Changes in the financial condition or credit profiles of our customers and increases in inflation or interest rates could have a negative effect on the quality of our loan portfolios, causing them to increase loan loss provisions and resulting in reduced profitability. In particular, the level of non-performing loans may increase in the future as a result of factors beyond our control, such as economic conditions and political events affecting Colombia generally or specific sectors of the economy.

A substantial number of our customers are individuals and small-sized and medium-sized enterprises, or SMEs, and these customers are more likely to be adversely affected by downturns in the Colombian economy than large corporations and high-income individuals. For example, unemployment directly affects the ability of individuals to obtain and repay consumer and residential mortgage loans. Consequently, we may experience higher levels of non-performing loans, which could result in increased loan loss provisions due to defaults by, or deterioration in the credit profiles of, individual borrowers. Non-performing loans and resulting loan losses may increase materially in the future and adversely affect our results of operations and financial condition.

Existing loan loss allowances may not be adequate to cover any increases in non-performing loans or deterioration in the credit quality of loan portfolios due to materially adverse changes. As a result, we may be required to increase loan loss provisions, which may adversely affect our results of operations and financial condition.

In addition, there is no precise method for predicting loan and credit losses, such that loan loss allowances may not be sufficient to cover actual losses. If we are unable to manage the level of non-performing or other poor credit quality loans, our results of operations and financial condition would be materially and adversely affected.

Our loan portfolios have grown substantially in recent years. As default rates generally increase with the age of loans, the level of non-performing loans may lag behind the rate of growth in loans but may increase when growth slows or the loan portfolios become more mature. As a result, historic loan loss experience may not necessarily be indicative of future loan loss experience.

***We are exposed to risks associated with the mortgage loan market and mortgage-backed securities.***

We are one of the largest lenders in the Colombian mortgage loan market. Colombia's mortgage loan market is highly regulated and has historically been affected by various macroeconomic factors such as periods of sustained high interest rates which have historically discouraged customers from borrowing and have resulted in increased defaults in outstanding loans and deterioration in the quality of assets. The Colombian national government has implemented policies designed to expand the supply of affordable entry-level and low middle-income housing through social interest housing programs and other subsidies, including tax benefits. We cannot assure you that the subsidies provided by government or government-sponsored entities will be maintained at current levels, or that the Colombian national government will not otherwise limit their availability. Any decrease in the availability of these programs or subsidies may have a material adverse effect on our results of operations, financial condition and prospects.

As one of the largest lenders in the Colombian mortgage market, we are also subject to a significant number of legal proceedings in connection with such loans. Additionally, given the public interest in the mortgage loan market, there are frequent legislative proposals that generally include mandatory conditions highly favorable to consumers that could result in increased oversight and regulations. Although these legislative proposals have not been enacted, we can provide no assurance that such proposals will not be enacted in the future, or that such proposals will not have a material adverse effect on our results of operations.

We are also exposed to risks associated with the securitization of mortgage loans, through our portfolio of mortgage-backed securities. The value of the mortgage-backed securities we hold in our portfolio may change due to shifts in the market's perception of the securitized mortgages, the creditworthiness of borrowers or regulatory or tax changes adversely affecting the mortgage-backed securities market and social housing program mortgage credits as a whole. Mortgage-backed securities are also subject to several risks created through the securitization process. For example, the value of the collateral underlying mortgage-backed securities may decline and be insufficient to cover the cost of outstanding mortgage loans. Any deterioration in the market for mortgage-backed securities may also have a material adverse effect on our results of operations.

***Our loan and investment portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.***

Our loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. For mortgage loans, our borrowers may prepay their mortgage loans at any time without incurring any prepayment penalty or fee. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and adversely affects our operating results. We would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has an adverse impact on our loan portfolios, since prepayments could shorten their weighted average life, which may result in a mismatch in funding or reinvestment at lower yields.

***We are subject to market and operational risks associated with derivative transactions.***

We enter into derivative transactions primarily for trading and fair value hedging purposes and on behalf of customers. We are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of a counterparty to perform its obligations to us).

Market practices and documentation for derivative transactions in Colombia may differ from those in other countries. In addition, the execution and performance of these transactions depend on our ability to develop adequate control and administration systems, and to hire and retain qualified personnel. Moreover, our ability to adequately monitor and analyze these transactions depends on our information technology systems. These factors may further increase risks associated with derivative transactions and could materially and adversely affect our results of operations and financial condition.

***Downgrades in our credit ratings would increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.***

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our total loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. A downgrade in our credit ratings would increase our cost of raising funds in the capital markets or of borrowing funds. For example, a number of Colombian institutional investors are only permitted, due to internal policies, to purchase debt securities that are rated "AAA" by Colombian credit rating agencies, and any decline in our local credit rating would restrict our ability to sell our debt securities to these investors. Additionally, our ability to renew maturing debt may be more difficult and expensive if our credit rating were to decline. Our lenders and counterparties in derivative transactions are sensitive to the risk of a credit rating downgrade. Furthermore, our ability to compete successfully in the marketplace for deposits and loans depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit rating may adversely affect perception of our financial stability and our ability to raise deposits.

***We are subject to liquidity risk, which may result in increases to funding costs.***

The principal sources of funding for our banking business are met through savings accounts, term deposits and checking accounts. As of March 31, 2012, approximately 41.9% of these liabilities had current maturities of one year or less or were payable on demand. In the past, a substantial portion of our term deposits has been rolled over upon maturity, and these deposits have been a stable source of funding for our banking business. We cannot assure you, however, that this practice will continue and that we will be able to maintain the stability and consistency of our deposit base. A sudden or unexpected shortage of funds in the banking systems in which we operate and money markets may prevent us from meeting our obligations or obtaining necessary funding without incurring higher costs or selling certain assets at prices below prevailing market values, which could materially and adversely affect our results of operations and financial condition. Also, our financing costs increase due to a heightened concentration of our funding in short-term deposits, which could also materially and adversely affect our results of operations and financial condition.

***We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.***

In order for us to grow, remain competitive, participate in new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in our total loan portfolio that result in a reduction of our shareholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- any necessary corporate or government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Colombia and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all.

***We are subject to Colombian regulatory inspections, examinations, inquiries or audits, and future sanctions, fines and other penalties resulting from such inspections and audits could materially and adversely affect our business, financial condition, results of operations and our reputation.***

We are primarily subject to regulation and supervision by the SFC, but we are also subject to regulation by other Colombian authorities, including the Central Bank, the Ministry of Finance, the Superintendency of Industry and Commerce and the Securities Market Self-Regulatory Organization. These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of capitalization, organization and operations, including the imposition of anti-money laundering measures and the authority to regulate the terms and conditions of credit that can be applied by Colombian banks. In the event of non-compliance with applicable regulations, we could be subject to fines, sanctions or the revocation of licenses or permits to operate our business. In Colombia, for instance, if we encounter significant financial problems or become insolvent or in danger of becoming insolvent, banking authorities would have broad powers to intervene in our management and operations, including suspending or removing management and, in extreme circumstances, putting us into conservatorship or receivership or taking control of our operations. See "— Risks Relating to the Notes — It may be difficult to enforce your rights if we enter into a bankruptcy, liquidation or similar proceeding in Colombia." Any sanctions, fines and other penalties resulting from non-compliance with regulations in Colombia could materially and adversely affect our business, financial condition, results of operations and reputation.

***Changes in banking laws and regulations in Colombia could adversely affect our consolidated results.***

Banking and financial services laws and regulations are subject to ongoing review and revision, including changes in response to global regulatory trends and, more recently, the global economic and financial crisis. In the wake of this crisis, governments have been actively considering new banking laws and regulations, and reviewing and revising existing laws and regulations, particularly in relation to capital adequacy and accounting standards. Although we currently comply with capital requirements, there can be no assurance that future regulation will not change or require us or our subsidiaries to seek additional capital. The adoption of new laws or regulations, or changes in the interpretations or enforcement of existing laws or regulations, may have an adverse impact on our results of operations and financial condition.

In September 2010, the Basel Committee on Banking Supervision (the "Basel Committee") proposed comprehensive changes to the capital adequacy framework, known as Basel III. The implementation of Basel III is expected to result in changes to Colombian regulations, which are likely to result in new requirements in respect of regulatory capital, liquidity/funding and leverage ratios that will be applicable to Colombian banks such as us. If Colombian governmental authorities require Colombian banks to increase their reserve requirements for loan losses or change the manner in which such loan reserves are calculated or change capitalization requirements, it may adversely affect our results of operations and our financial position.

***Our businesses may face constitutional actions, class actions and other legal actions involving claims for significant monetary awards against financial institutions, which may affect our businesses.***

Under the Colombian Constitution, individuals may initiate constitutional actions (*acciones populares*), or class actions (*acciones de grupo*), to protect their collective or class rights, respectively. Until 2010, Colombian financial institutions, including us, experienced a substantial increase in the aggregate number of these actions. The great majority of such actions have been related to fees, financial services, interest rates, and mortgage loans, and their outcome is uncertain. Pursuant to law 1425 of 2010, the monetary awards for plaintiffs in constitutional actions were eliminated as of January 1, 2011. Nevertheless, individuals continue to have the right to initiate constitutional or class actions against us. Colombian financial institutions, including us, have been, and continue to be, subject to these actions with regard to fees, financial services, mortgage lending and interest rates, the outcomes of which are uncertain. In addition the number of such actions could increase in the future and could significantly affect our businesses.

***We may be unable to realize the collateral or guarantees securing our loans to cover the outstanding principal and interest balance of those loans, which may adversely affect our results of operations and financial condition.***

As of March 31, 2012, 26.6% of our total loans were secured by collateral or guarantees, including real estate, assets pledged in financial leasing transactions and other assets that are located primarily in Colombia. The value of collateral may significantly fluctuate or decline due to factors beyond our control, including, for example, economic and political conditions in the country. An economic slowdown may lead to a downturn in the Colombian real estate market, which may, in turn, result in declines in the value of real estate securing loans to levels below the principal balances of those loans. Any decline in the value of the collateral securing loans may result in reduced recoveries from collateral realization and have an adverse impact on our results of operations and financial condition.

We also make loans on the basis of guarantees from relatives, affiliates or associated persons of borrowers. To the extent that guarantors encounter financial difficulties due to economic conditions, personal or business circumstances, or otherwise, our ability to enforce such guarantees may be impaired.

In addition, we may face difficulties in enforcing our rights as secured creditors against borrowers, collateral or guarantees. In particular, timing delays and procedural problems in realizing against collateral, as well as judicial interpretations of the law that are protective of debtors, may make it difficult to foreclose on collateral, realize against guarantees or enforce judgments in our favor, which could materially and adversely affect our results of operations and financial condition.

***A new insolvency law in Colombia may limit our ability to collect monetary obligations and enforce rights against collateral or under guarantees.***

Law 1380 of 2010 which provided insolvency protection for individuals and merchants was declared unconstitutional on September 19, 2011, by the Colombian Constitutional Court because of mistakes made in the Colombian Congress during the lawmaking process. However, on September 20, 2011, Simon Gaviria, a Colombian congressman presented a bill on the same terms of Law 1380 of 2010. If the law is passed, increased difficulties in enforcing debt and other monetary obligations due to the insolvency law could have an adverse impact on our results of operations and financial condition.

***We face uncertainty regarding new consumer protection laws.***

Law 1328 of 2009, also referred to as the "financial reform law," creates a new customer protection regime with respect to financial institutions. The financial reform law provides a bill of rights for consumers of financial services and products, including the right to receive clear, complete and reliable information about the services and products offered by financial institutions. The law also contains specific new obligations for financial institutions, including a duty to maintain a financial ombudsman in charge of consumer protection, a duty to create a financial consumer attention center pursuant to terms set by the SFC, an obligation to provide services and products under the same conditions offered to the general public, and a prohibition on the inclusion of predatory or abusive clauses in contracts with consumers. In September 2011, under the framework provided by Law 1328 of 2009, the SFC issued regulations related to:

- financial information that banking institutions have to disclose and provide to clients (banks had to demonstrate compliance with this new regulation to the SFC as of January 1, 2012), and

- prohibitions on banking practices and abusive clauses in financial services agreements, including loan agreements (the ombudsman has four months from the enactment of the regulations to provide the SFC a report listing all abusive clauses found in any financial services agreements).

In addition, in October 2011, the Colombian Congress passed Law 1480 of 2011 ("Law 1480"), which regulates the general consumer protection regime and is applicable to general matters relating to particular sectors or markets absent a specific rule or regulation by the competent regulatory authority of such sector or market. For purposes of the financial sector, Law 1480 would be applicable solely in respect of the matters not specifically regulated by 1328 of 2009. Additionally, Law 1480 grants additional powers to the SFC for resolving disputes over contractual matters between providers and consumers of financial services.

Any violation of these laws by us could result in monetary or administrative sanctions or restrictions on our operations.

***Future Colombian government restrictions on interest rates or fees could negatively affect our profitability.***

The Colombian Commercial Code limits the amount of interest that may be charged in commercial transactions, including transactions in our banking business. In the future, regulations in Colombia could impose increased limitations regarding interest rates or fees. Law 1430 enacted in late December 2010 authorizes the Colombian National Government to impose or place limits on rates and fees charged by banks and other financial institutions where the government has determined that there is insufficient competition in a relevant market. Additionally, the law requires the SFC to implement a monitoring scheme of the rates and fees charged by the financial institutions in their relevant markets and to report the results of this evaluation semiannually to the Colombian National Government. These results are also provided to the general public by the SFC. Recently, the Colombian Government issued Decree 4809 of 2011, which (i) requires banks to present their clients with a statement of all fees charged on an annual basis, (ii) sets a limit on the fees banks may charge for withdrawals in their ATMs made by individuals who are not their clients and (iii) establishes that operations through the Internet cannot cost more than those made through other channels. A significant portion of our revenues and operating cash flow is generated by credit services and any increased limitations on the fees charged for such services could materially and adversely affect our results of operations and financial condition.

***We may face legal and other challenges to maximizing revenue from credit card fees and other fees from customers.***

As part of our credit card business we face risks relating to the pricing of merchant fees. There has been an ongoing dispute in Colombia between retailers and banks regarding merchant fees. The Superintendency of Industry and Commerce has issued resolutions related to Asociación Gremial de Instituciones Financieras Credibanco (Visa franchisee in Colombia) and Redeban Multicolor S.A. (MasterCard franchisee in Colombia), the entities relied on by most Colombian banks to manage the credit card system in Colombia, related to an alleged agreement on the pricing of merchant and acquiring fees among the banks. As a result of these resolutions, the fees collected from customers and income from all of our credit card fees, including Diners Club cards, could decrease, which could also lead to changes in commercial strategies that could impact our results of operations and financial condition. In addition, fees charged for other banking services may be reduced in the future as a result of regulatory measures and/or pressure from retailers and interest groups.

***We are subject to counterparty risk in our banking business.***

We are exposed to counterparty risks in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to us, or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any significant increases in exposure to any of these non-traditional risks, or a significant decline in credit risk or bankruptcy of any of the counterparties, could materially and adversely affect our results of operations and financial position.

***Default by one or more of our largest borrowers could adversely affect our results of operations and financial condition.***

The aggregate outstanding loans to our banks' ten largest borrowers represented 8.4% of our consolidated total loan portfolio at March 31, 2012. Default on loans by one or more of these borrowers may adversely affect our results of operations and financial condition, and a default by a number of these borrowers could adversely affect our liquidity. Additionally, a significant withdrawal of deposits by a large number of our largest depositors could also adversely affect our liquidity.

***Competition and consolidation in the Colombian banking and financial industry could adversely affect our market position.***

We operate in a highly competitive market. Since the 1990s, when the Colombian financial system was deregulated, there has been an ongoing process of consolidation that has included foreign bank participants entering the market. We expect that consolidation to continue and to lead to the creation of larger local financial institutions, including additional foreign banks, presenting the risk that we could lose a portion of our market share in the industry, affecting our results of operations.

In recent years a number of banking institutions have been incorporated in Colombia targeting microcredit and SMEs. These institutions include Banco de las Microfinanzas-Bancamía S.A., Banco WWB S.A, Banco Coomeva S.A. and Banco Procredit S.A. Additionally, two new financial corporations, JP Morgan Corporación Financiera S.A. and BNP Paribas Colombia Corporación Financiera S.A., local subsidiaries of international financial institutions, have been recently incorporated. The presence of these new players may affect our market position in certain of our segments, such as consumer and credit card loans, SMEs, and our corporate banking operations.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to maintain products and services from third parties. However, we cannot guarantee that our new products and services will be successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete or outdated and we may not be able to develop new products that meet our clients' changing needs. Our efforts to offer new services and products may also not succeed if product or market opportunities develop more slowly than expected or if the profitability of these opportunities is undermined by competitive pressures. Our business will be materially and adversely affected if we cannot respond in a timely fashion to the changing needs of our clients. Furthermore, our competitors may lower their fees or the interest rates on the loans they extend, or increase incentives to attract additional deposits in an effort to gain additional market share, which may put additional pressure on the rates we are able to charge or the incentives that we have to provide to retain existing customers or attract new ones.

***Failure to comply with Colombian usury laws could subject us to civil and criminal penalties, and compliance with such usury laws may limit the range of services and products we are able to offer.***

Loans made by us are subject to Colombian usury laws. These laws impose ceilings on interest charges and possible penalties for violation of those ceilings, including restitution of excess interest, forfeiture of any interest accrued and criminal charges. The maximum rate of interest that we may charge on commercial loans under Colombian law is limited to 1.5 times the *Interés Bancario Corriente* ("IBC"), which is certified by the SFC and calculated as the average of the interest ordinarily charged by banks within a set period of time. The IBC is calculated and certified separately for consumer loans, commercial loans and microcredit (as defined under Colombian law), using data received from regulated banking institutions in Colombia, who must report on a weekly basis all loans disbursed and their respective prices for each of these two categories of credit. The SFC announces a new rate for consumer loans every three months and a new rate annually for microcredit. We do not intend to make loans at or in excess of the maximum rates determined by the SFC. However, uncertainties in determining the legality of interest rates under Colombian usury laws could result in inadvertent violations, in which case we could incur the penalties mentioned above.

In addition, legislative or regulatory changes in existing usury laws or the methodology for calculating the IBC may lead to a lowering of the maximum rates of interest we may charge or the imposition of other lending restrictions, which could negatively affect our results of operation and financial condition. In addition, our ability to offer an expanded range of products or services to underserved market segments may be limited by our need to comply with Colombian usury laws, as we may not be able to offer such services profitably and in compliance with such laws.

***Declines in the value of our sovereign debt securities portfolio could have an adverse effect on our results of operations.***

Our debt securities portfolio consists of a substantial amount of sovereign debt securities, mainly securities issued or guaranteed by the Colombian government. We are exposed to significant credit, market and liquidity risks associated with sovereign debt. At March 31, 2012, debt securities represented 14.5% of our consolidated total assets, and approximately 52.6% of these securities were issued or backed by the Colombian government. A significant decline in the value of these government securities could materially and adversely affect the debt securities portfolios of our banks and, consequently, our results of operations and financial condition.

***We are subject to trading risks with respect to our trading activities.***

We engage in proprietary trading, and derive a portion of our profits from such trading activities. As a result, any reduction in trading income could adversely affect our results of operations and financial condition. Our trading income is volatile and dependent on numerous factors beyond our control, including, among others, market trading activity, interest rates, exchange rates and general market volatility. A significant decline in our trading income, or large trading losses, could adversely affect our results of operations and financial condition. Any significant increases in exposure to any of these non-traditional risks, or a significant increase in credit risk or bankruptcy of any of the counterparties, could materially and adversely affect our results of operations and financial condition.

***We may not be able to manage our growth successfully.***

We have been expanding the scope of our operations over the past few years, and we expect that this expansion will continue. As we continue to grow, we must improve our operational, technical and managerial knowledge and compliance systems in order to effectively manage our operations across the expanded group. Failure to integrate, monitor and manage expanded operations could have a material and adverse effect on our reputation and financial results. Our future growth will also depend on our access to internal and external financing sources. We may be unable to access such financing on commercially acceptable terms or at all.

***Acquisitions and strategic partnerships may not perform in accordance with expectations, may fail to receive required regulatory approvals or may disrupt our operations and adversely affect our profitability.***

A component of our strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, we have acquired interests in various financial institutions in recent years and are in the process of acquiring additional interests through our purchase of HSBC's banking operations in Costa Rica, El Salvador and Honduras, which we expect to complete during 2012. We will continue to consider additional strategic acquisitions and alliances from time to time, in and outside of Colombia. Strategic acquisitions and alliances, including the purchase of the HSBC Subsidiaries, could expose us to risks with which we have limited or no experience. In addition, this acquisition is subject to regulatory approval abroad and in Colombia, and we may not be successful in obtaining such approval. Future acquisitions in Colombia and elsewhere may also be subject to regulatory approval, which we may not receive, particularly in view of our significant market share in the Colombian banking industry.

We must necessarily base any assessment of potential acquisitions and alliances on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. Future acquisitions and alliances, including the purchase of the HSBC Subsidiaries and other investments, may not produce anticipated synergies or perform in accordance with our expectations and could adversely affect our operations and profitability. In addition, new demands on our existing organization, management and employees resulting from the integration of new acquisitions could disrupt our operations and adversely affect our operations and profitability.

***We have limited knowledge of the liabilities of the HSBC Subsidiaries.***

As part of our acquisition of the HSBC Subsidiaries, we have carried out, and are in the process of carrying out, legal and accounting due diligence on the HSBC Subsidiaries. However, this due diligence may not produce all of the economic and financial information that may be material to our decision to acquire the HSBC Subsidiaries. The purchase agreement that we have entered into with HSBC allows us to recover only for certain breaches of representations and warranties, and we may not be able to recover from HSBC for liabilities that we may discover following the closing of the acquisition. We may incur significant losses in connection with liabilities of the HSBC Subsidiaries, which may have a material adverse effect on us and on our ability to meet our obligations under the Notes.

***The operating information related to the HSBC Subsidiaries in this offering memorandum may be imprecise and incomplete.***

We describe in this offering memorandum for informational purposes only certain operating information of the HSBC Subsidiaries, which we have obtained from HSBC and other publicly-available sources and which represents our best understanding and our management's expectations regarding this information. However, not all of this information has been independently verified. Therefore, you should not rely on this information as an indication of the HSBC Subsidiaries' businesses and results of operations or of our future business and results of operations once the acquisition is completed. The operating information of the HSBC Subsidiaries included in this offering memorandum may significantly differ from the actual operating information of the HSBC Subsidiaries.

***The acquisition of the HSBC Subsidiaries is subject to the approval of regulatory authorities in Colombia, Panama, Costa Rica, Honduras and El Salvador.***

The acquisition of the HSBC Subsidiaries is subject to the approval of regulatory and banking authorities in Colombia, Panama, Costa Rica, Honduras and El Salvador, any of which may reject or impose significant and burdensome conditions to the approval of the acquisition, including mandatory disposal of certain business lines currently operated by the HSBC Subsidiaries. We can provide you with no assurance that all of these approvals will be received, or that the cost of complying with any conditions to the approval of the acquisition will not be significant. In addition, the purchase agreement governing the acquisition may be terminated by us or by HSBC in respect of any specific acquisition if the acquisition has not occurred within 18 months of January 24, 2012, or if a court of competent jurisdiction issues an order, decree or ruling enjoining or otherwise prohibiting such acquisition, and such order, decree or ruling is final and non-appealable.

***We are subject to significant litigation claims related to our acquisition of Bancafé and its subsidiaries.***

We are subject to numerous litigation claims relating to the operations of Bancafé and its subsidiaries as a result of our acquisition of these companies in 2007. Although Fogafin agreed to indemnify us for up to 85% of the losses suffered for certain civil claims, and up to 90% of the losses suffered for certain labor claims following the acquisition, provided such claims were filed by February 17, 2010, we remain liable for any losses in excess of these indemnity caps, and for claims that are not subject to our agreement with Fogafin. As of March 31, 2012 there were 448 claims that were subject to our agreement with Fogafin, and the total claimed pursuant to these actions amounted to approximately COP 62,463 million (US$34.8 million), for which we have reserved COP 14,223 million (US$7.9 million) as a contingency for losses. An additional 1,086 claims have been filed as of March 31, 2012, that are not subject to our agreement with Fogafin, and the total claimed pursuant to these actions amounts to approximately COP 178,104 million (US$99.4 million), for which we have reserved COP 73,152 million (US$40.8 million) as a contingency for losses.

***We are subject to operational risks.***

Our business depends on our ability to process large numbers of transactions efficiently and accurately. Operational risks and losses can result from fraud, employee error, failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters or the failure of external systems, among others. Our currently adopted procedures may not be effective in controlling each of the operational risks faced by us.

***Failure to protect personal information could adversely affect us.***

We manage and hold confidential personal information of customers in the conduct of our banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages.

***Our businesses rely heavily on data collection, processing and storage systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control system as well as our reputation, financial condition and results of operations.***

All of our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process, our risk management and internal control systems, the quality of our service, as well as our ability to respond on a timely basis to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, reputation, financial condition and results of operations could be materially and adversely affected.

We are also dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, denial of service attacks, viruses, computer hackers or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our results of operations and financial position.

***Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect our competitiveness, financial condition and results of operations.***

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. Any expansion of our operations will require us to improve our information technology infrastructure, including maintaining and upgrading our software and hardware systems and back-office operations. See "Business — Information Technology." The information available to and received by our management through our existing information systems may not be timely and sufficient to manage risks as well as to plan for and respond to changes in market conditions and other developments in our operations. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial condition and results of operations.

***We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and harm our business.***

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in Colombia. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we may fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including revoking our license to engage in commercial banking activities and, in some cases, willful failure to comply with these procedures may lead to criminal liability by the responsible officer. In addition, our business and reputation could suffer if we fail to detect and prevent customers who engage in money laundering or illegal or improper purposes. See "Risk Management — Anti-Money Laundering."

***Our success depends on our retention of certain key personnel, our ability to hire additional key personnel, and the maintenance of good labor relations.***

We are highly dependent on members of our senior management team, including our Chief Executive Officer, Mr. Efrain Forero. Our senior management has significant experience in banking and the financial services industry, and the loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing operations and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract or retain these necessary personnel, or if the cost of providing benefits to our employees were to significantly increase. In addition, although none of our employees are members of a union, we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

***Our success in our credit card business depends on our ability to retain relationships with third parties.***

We have positioned ourselves as the market leader in the credit card business segment, and a significant part of our success is due to our exclusivity over the Diners Club franchise. Our agreement with Diners Club International is due to expire in September 2013, and our partial or complete failure to reach a satisfactory renewal of the agreement may impair our growth objectives in this segment, thereby adversely affecting our results of operations, financial condition or prospects. Although we have taken action to renew the Diners Club agreement, we cannot assure you that any such new agreement will either be entered into or be on the same terms as the current agreement with the current franchise owner, Discovery Financial Services.

In addition, the failure of third party collaborators to perform their obligations could impose on us additional financial and performance obligations that could result in reduced profits or, in some cases, significant losses for us.

***We engage in transactions with our parent holding company, Sociedades Bolívar, Grupo Bolívar, and their subsidiaries, affiliates and other related parties, and these transactions may create the potential for, or result in, conflicts of interest.***

We engage in a variety of transactions with companies owned or controlled by our parent holding company, Sociedades Bolívar, certain of our shareholders, entities in which we are a significant shareholder, and other companies that are affiliated with Grupo Bolívar, any one of which may create the potential for, or result in, a conflict of interest between those entities and us. Our policies require that we conduct such transactions on reasonable terms that reflect the market rates within the industry for such services.

While we believe we have complied with these policies, future commercial and financial transactions between us and related parties may not be carried out on market terms. To the extent that the price we pay for any assets or services acquired from companies owned or controlled by Grupo Bolívar, Sociedades Bolívar, entities affiliated with our shareholders, or other related parties exceeds the market value of such assets or services, or is not as productive a use of our cash as other uses, our results of operations could be adversely affected. See "Related Party Transactions."

***Davivienda is subject to reputational risk.***

Damage to our reputation may limit our ability to attract customers, employees and investors. Harm to our reputation can arise from employee misconduct, non-compliance with legal and regulatory requirements, ethical issues, money laundering, and failing to deliver minimum standards of service and quality, among others. Failure to adequately address these issues may affect our business and financial performance.

## Risks Relating to the Notes

***The Notes are not redeemable by holders at their option at any time.***

The Notes are not redeemable by holders. As a result, holders of the Notes will not be entitled to receive a return of the principal amount of their investment unless we elect to redeem the Notes (to the extent permissible under Colombian Banking Laws) or in the event of the Notes being due and payable as a result of the declaration of our bankruptcy, liquidation or dissolution, exclusively. Therefore, holders of the Notes should be aware that they may be required to bear the risk of an investment in the Notes until the Maturity Date, including in the event of our failure to pay interest, which would not give rise to the right to accelerate.

***Holders of Notes will not have the right to accelerate the Notes.***

The holders will have no right to accelerate any payment due under the Notes during an Event of Default unless there has been a change, amendment or modification to the Colombian Banking Laws that would allow such right without disqualifying the Notes from Tier Two Capital status. If any Event of Default occurs and is continuing, the Trustee may pursue any available remedies, excluding acceleration, to collect the payment of principal and interest on the Notes or to enforce the performance of any provision under the indenture. Except as described above, the holders of the Notes have no right of acceleration in the case of our failure to perform our obligations under the indenture governing the Notes.

Even if the payment of principal of the Notes is accelerated and claimed as contemplated by the foregoing, our assets will be available to pay those amounts only after all of our Senior External Liabilities (*pasivo externo*) have been paid in full. See "Description of the Notes — Events of Default."

***The Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness.***

The Notes constitute our unsecured, subordinated indebtedness, and will be subordinated and junior in right of payment and in liquidation to all of our Senior External Liabilities and will rank *pari passu* without preference among themselves and with all of our other unsecured subordinated indebtedness.

By reason of the subordination of the Notes, in the case of certain events involving bankruptcy, liquidation or dissolution (including an Intervention Measure or a Preventive Measure), although the Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our Senior External Liabilities has been paid in full and upon conclusion of the applicable procedures. As of March 31, 2012, we had an aggregate of COP 30,900.3 million of Senior External Liabilities outstanding, which includes total deposits, bank and other entities loans and our senior notes outstanding. We expect to incur additional Senior External Liabilities from time to time, and the indenture does not prohibit or limit the incurrence of other indebtedness, including additional Senior External Liabilities. See "Description of the Notes — Subordination."

***Judgments of Colombian courts with respect to the Notes will be payable only in Colombian pesos which may expose you to exchange rates.***

If proceedings are brought in the courts of Colombia seeking to enforce our obligations or the rights of holders of the Notes, we will not be required to discharge our obligations in a currency other than Colombian pesos. Under Colombian laws, an obligation in Colombia to pay amounts denominated in a currency other than pesos may only be satisfied in Colombian currency at the exchange rate, as determined by the Central Bank and published by the SFC, also known as *Tasa Representativa del Mercado*, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then-prevailing exchange rate may not afford non-Colombian investors with full compensation for any claim arising out of or related to our obligations under the Notes. As a result, investors may be exposed to exchange rate risks.

***It may be difficult to enforce your rights if we enter into a bankruptcy, liquidation or similar proceeding in Colombia.***

The insolvency laws of Colombia, particularly as they relate to the priority of creditors (secured or unsecured), the ability to obtain post-petition interest and the duration of insolvency proceedings, may be less favorable to your interests than the bankruptcy laws of the United States. Your ability to recover payments due on the Notes may be more limited than would be the case under U.S. bankruptcy laws. The following is a brief description of certain aspects of insolvency laws in Colombia.

Your ability to enforce your rights under the Notes may be limited if we become subject to the proceedings set forth in the Financial Statute and Decree 2555 of 2010, each as amended from time to time, which proceedings establish the events under which the SFC may initiate an Intervention Measure proceeding either to administer our bank or to liquidate it.

Under Colombian banking laws, financial institutions are subject to a special administrative takeover by the SFC in the event that the financial institution becomes insolvent. The SFC can take control of financial institutions under certain circumstances. The following grounds for take over are considered to be "automatic" in the sense that, if the SFC discovers their existence the SFC is obligated to intervene and takeover the administration of the financial institution if:

- the financial institution's Technical Capital falls below 40% of the legal minimum; or
- the term of any recovery plan expires or the goals set forth in such plans are not fulfilled.

Additionally, the SFC periodically visits financial institutions and, as a consequence of such visits, the SFC can impose additional capital or solvency obligations without taking control of the financial institution.

Subject to the approval of the Ministry of Finance, the SFC may, at its discretion, intervene and take over the administration of the applicable financial institution under the following circumstances:

- suspension of payments;
- failure to pay deposits;
- refusal to submit files, accounts and supporting documentation to the SFC for inspection;
- repeated failure to comply with the SFC's orders and instructions;

- repeated violations of applicable laws and regulations or of the bank's bylaws;
- unauthorized or fraudulent management of the bank's business;
- reduction of the bank's Technical Capital below 50% of its subscribed capital;
- failure to comply with the minimum capital requirements set forth in the Financial Statute;
- failure to comply with recovery plans that were adopted by the institution;
- failure to comply with the order of exclusion of certain assets and liabilities as instructed by the SFC to another institution designated by the SFC; and
- failure to comply with the order of progressive unwinding (*desmonte progresivo*) of the operations of the bank applicable to financial institutions.

A takeover by the SFC may have one of two different purposes:

- to manage the financial institution, in which case the financial institution will be allowed to continue its activities subject to the administration of the SFC, or
- to liquidate the financial institution.

The SFC must decide if it will either manage or liquidate the financial institution within two months following a takeover in the event of a bankruptcy, liquidation or similar proceeding.

In view of the broad discretionary powers of the SFC it is impossible to predict how long payments under the Notes could be delayed and whether or to what extent you would be compensated for any delay if any of the actions described above were to be taken with respect to us.

***There is no existing market for the Notes and one may not develop in the future; thus it may be difficult to resell your Notes.***

Currently there is no market for the Notes. Application has been made to have the Notes listed on the Euro MTF Market, and, even if the notes become listed on this exchange, we may delist the Notes if the provisions of the European Transparency Obligations Directive (2003/2004/COD) or of the Luxembourg Stock Exchange become unduly onerous or burdensome or for other reasons. No assurance can be given as to:

- the liquidity of any markets that may develop for the Notes,
- whether an active public market for the Notes will develop,
- your ability to sell your Notes (or beneficial interests therein), or
- the price at which you will be able to sell your Notes, as the case may be.

Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, general economic conditions, our operating results, and the market for similar securities. Historically, the markets for debt such as the Notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions, which may have an adverse effect on the holders of the Notes.

The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Exchange Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See "Plan of Distribution." In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Colombian issuers generally.

***Because we are located in an emerging market country, any market for the Notes may be adversely affected by economic and market conditions in other emerging market economies.***

Colombia is generally considered by investors to be an "emerging market country," and securities of Colombian issuers have been, to varying degrees, influenced by economic and market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may materially affect the prices of securities of issuers in other countries, including Colombia. We cannot assure you that events elsewhere that are unrelated to our financial performance, especially in other emerging market countries, will not adversely affect any market for the Notes that may develop.

***The Notes are subject to certain transfer restrictions.***

The Notes have not been registered with the SEC and are being offered and sold only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and in offshore transactions pursuant to Regulation S under the Securities Act. Therefore, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. We do not intend to provide registration rights to holders of Notes and do not intend to file any registration statement with the SEC in respect of the Notes. See "Transfer Restrictions."

***Our obligations under the Notes will be subordinated to statutory preferences.***

Under Colombian law, upon liquidation, our obligations under the Notes and the indenture are subordinated to specified statutory preferences, including claims for salaries, wages, social security, taxes and court fees and expenses. In the event of our liquidation, these statutory preferences will have preference over any other claims, including claims by any holder in respect of any Notes, and as a result, holders of Notes may be unable to recover amounts due under the Notes, in whole or in part.

***There are no restrictive covenants in the indenture governing the Notes limiting our ability to incur future indebtedness or complete other transactions.***

The indenture governing the Notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, change of control, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries. We therefore may incur additional indebtedness, and engage in other transactions that may not be in the interests of the holders of the Notes.

***The ratings of the Notes may be lowered or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Colombian sovereign risk.***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings address the timely payment of interest on each payment date. The ratings of the Notes are not a recommendation to purchase, hold or sell the Notes, and the ratings do not comment on market price or suitability for a particular investor. The ratings of the Notes are subject to change and may be lowered or withdrawn. A downgrade in or withdrawal of the ratings of the Notes will not be an event of default under the indenture governing the Notes. The assigned ratings may be raised or lowered depending, among other things, on the rating agency's assessment of our financial strength, as well as its assessment of Colombian sovereign risk generally.

***Trading prices for the Notes may be highly volatile.***

The prices at which the Notes may trade will depend on many factors, including, among others, prevailing interest rates, general economic conditions, our performance and financial results and markets for similar securities. Historically, the markets for debt such as the Notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions, which may have an adverse effect on the holders of the Notes.

## USE OF PROCEEDS

We estimate that our net proceeds from the sale of the Notes in this offering after discounts, commissions and estimated offering expenses payable by us, will be approximately US$493.5 million. We anticipate that the net proceeds from the offering (together with existing cash and cash equivalents) will be used to pay the purchase price of our acquisition of the HSBC Subsidiaries, and to the extent not used for such purchase, will be available for general corporate purposes or any other use approved by Davivienda's bylaws and permitted by applicable banking and foreign exchange regulations.

## EXCHANGE RATES AND FOREIGN EXCHANGE CONTROLS

### Exchange Rates

This offering memorandum converts certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The Federal Reserve Bank of New York does not report a rate for Colombian pesos. Unless otherwise indicated, such Colombian peso amounts have been converted at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. The representative market rate is computed and certified by the SFC on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions (including us). The SFC also calculates and certifies the average representative market rate for each month for purposes of preparing financial statements, and converting amounts in foreign currency to pesos. You should not construe these convenience conversions as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at the representative market rate or any other rate.

***Recent exchange rates of peso per U.S. dollars.***

The following table sets forth the high and low Colombian peso per U.S. dollar exchange rates and the Colombian Peso per U.S. dollar representative market rate on the last day of the month, since December 2011:

| Month | Low | High | Period end |
|---|---|---|---|
| August 2012[(1)] | 1,785.29 | 1,790.97 | 1,788.08 |
| July 2012 | 1,771.53 | 1,799.48 | 1,790.74 |
| June 2012 | 1,766.91 | 1,834.71 | 1,784.60 |
| May 2012 | 1,754.89 | 1,845.17 | 1,833.80 |
| April 2012 | 1,761.20 | 1,793.30 | 1,764.00 |
| March 2012 | 1,758.38 | 1,792.07 | 1,792.07 |
| February 2012 | 1,767.83 | 1,805.98 | 1,766.85 |
| January 2012 | 1,801.88 | 1,942.70 | 1,805.98 |
| December 2011 | 1,920.16 | 1,949.56 | 1,942.70 |

Source: SFC.
(1) Through August 9, 2012.

***Colombian peso per U.S. dollar representative market rate***

The following table sets forth the Colombian peso per U.S. dollar representative market rate calculated on the last day of the year and the average Colombian peso per U.S. dollar representative market rate (calculated by using the average of the representative market rates calculated on the last day of each month during the year) for each of the five most recent years.

| Period | Period end | Average |
|---|---|---|
| 2011 | 1,942.70 | 1,846.97 |
| 2010 | 1,913.98 | 1,901.67 |
| 2009 | 2,044.23 | 2,179.64 |
| 2008 | 2,243.59 | 1,993.80 |
| 2007 | 2,014.76 | 2,069.21 |

Source: SFC.

### Foreign Exchange Controls

In 1990, the Colombian government initiated a policy of gradual currency liberalization. Foreign currency holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Central Bank to the spot foreign exchange market conducted by certain authorized financial institutions.

The general legal principles of Colombia's foreign exchange and international investments regulations, or FX Regulations, were established by Law 9 of 1991. Pursuant to this law, the Board of Directors of the Central Bank enacted Resolution 8 of 2000, or Resolution 8, as amended which is considered the main legal framework governing Colombia's FX Regulations.

Resolution 8 establishes two types of markets for foreign currency exchange: (i) the free market and (ii) the controlled market, or the FX market. The free market consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX Market (as defined below), or the Free Market. The Free Market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September 1, 1990. The FX Market consists of: (a) all foreign currencies originated in operations considered to be controlled operations and therefore which may only be transacted through foreign exchange intermediaries, or through registered compensation accounts, or (b) foreign currencies originated in operations, which although not required to be transacted through the FX Market, are voluntarily channeled through such market. This market is made up of all the following foreign exchange operations which must be channeled through the FX market (i) import and export of goods, (ii) foreign investments in Colombia, (iii) foreign indebtedness agreements entered into by Colombian residents, as well as the financial costs associated with such indebtedness, (iv) direct investments abroad by Colombian residents, (v) derivatives transactions, (vi) granting of guaranties in foreign currency, and (vii) financial investments in foreign securities or assets abroad and their yield, unless such investments are made in foreign currency originated in operations of the Free Market.

Under Colombian FX Regulations, foreign exchange intermediaries, or FX Intermediaries, are authorized to enter into foreign exchange transactions, or FX Transactions, to convert Colombian pesos into foreign currencies or foreign currencies into Colombian pesos. According to Article 58 of Resolution 8, the following institutions are considered FX Intermediaries: commercial banks, mortgage banks, financial corporations, commercial finance companies, *Financiera Energética Nacional*, or FEN, *Banco de Comercio Exterior* - BANCOLDEX, financial cooperatives and local stock broker firms. All these institutions are considered authorized intermediaries and, therefore, are allowed to buy and sell foreign currency originated in foreign exchange operations. In addition, exchange intermediation companies are also considered authorized intermediaries; however, exchange intermediation companies have a limited regime and are not authorized to buy and sell foreign currency for controlled operations.

On the other hand, compensation accounts are accounts opened abroad by Colombian residents (individuals and legal entities), which are registered with the Central Bank in order to channel foreign currency originated in controlled operations in the FX Market. Colombian law allows the Central Bank to intervene in the foreign exchange market if the value of the Colombian peso is subject to significant volatility. The Central Bank may also limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. See "Risk Factors—Risks relating to Colombia—*Changes in economic and political conditions in Colombia may adversely affect our financial condition and results of operation*."

In addition to its past interventions in the FX market, the Central Bank regulations establish a deposit requirement on all foreign loans granted to Colombian residents, as an instrument to control the fluctuation of the peso against the U.S. dollar. To this end, the Central Bank has on some occasions required that a certain percentage of the debt incurred (depending on the maturity of the debt) to be deposited in Colombian pesos or foreign currency with the Central Bank in a non-interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). A debtor of foreign loans can early prepay or redeem the certificate given by the Central Bank evidencing the deposit, but said prepayment or early redemption will imply a discount. The discount is reduced as the term for maturity is reduced. Even though the deposit requirement is currently equal to zero of the disbursements made under the loan, which means that there is currently no deposit that has to be made with the Central Bank by the debtor of foreign loans, the same may be modified by the Central Bank at any time. In addition to the deposit requirements, the Central Bank has allowed Colombian financial institutions to obtain loans in foreign currency, either directly or by issuing securities, and to lend in such foreign currency so long as the term of payment of the loans provided by the Colombian financial entity is equal or shorter to the term of the loan received by the Colombian financial entity. The Central Bank has also set limits on a financial intermediary's net foreign currency position, which is defined as foreign currency denominated assets (including any off-balance sheet items, made or contingent, including those that may be sold in Colombian legal currency) minus foreign currency denominated liabilities.

## DIVIDENDS

Under the Colombian Commerce Code, after payment of income taxes and appropriation of legal and other reserves, and after setting off losses from prior fiscal years, we must distribute to our shareholders at least 50% of our annual net income or 70% of our annual net income if the total amount of reserves exceeds our outstanding capital. Such dividend distribution must be made to all shareholders, in cash or in issued stock of Davivienda, as may be determined by the shareholders, and within a year from the date of the ordinary annual shareholders' meeting in which the dividend was declared. Under Colombian law, the minimum dividend per share may be waived by an affirmative vote of the holders of 78% of the shares present at the shareholders' meeting.

The semiannual net profits of Davivienda must be applied as follows: (i) first, an amount equal to 10% of Davivienda's net profits to a legal reserve until such reserve is equal to at least 50% of our paid-in capital; (ii) second, to the payment of the minimum dividend on the preferred shares; and (iii) third, as may be determined in the ordinary annual shareholders' meeting by the vote of the holders of a majority of the shares entitled to vote. Davivienda has historically paid out approximately 30% of its net profits as a dividend to shareholders.

Dividend payments to shareholders for fiscal years 2009, 2010 and 2011 were COP 124,981 million (US$69.7 million), COP 146,901 million (US$82.0 million) and COP 187,424 million (US$104.6 million) respectively. A preferred dividend equal to COP 80.65 per preferred share is also paid semiannually to holders of our preferred shares in March and September of each year. As of March 31, 2012, we had 100,537,305 million preferred shares outstanding.

We will be subject to preventive measures if the capitalization ratio is below the minimum ratio required by law.

## CAPITALIZATION

The following table sets forth, as of March 31, 2012, our actual capitalization and our capitalization on an as adjusted basis to reflect the issuance, on a pro forma basis, of subordinated bonds in the local market in May 2012, and the pro forma, as adjusted issuance of the Notes offered hereby and the application of the net proceeds of this offering as described herein under “Use of Proceeds.”

The historical results presented below are not necessarily indicative of the results to be expected for any future period. This information should be read in conjunction with “Risk Factors,” “Use of Proceeds,” “Selected Consolidated Financial and Other Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and the related notes included elsewhere in this offering memorandum.

| | As of March 31, 2012[(1)] | | | | | |
|---|---|---|---|---|---|---|
| | **Actual** | **Pro Forma[(2)]** | **Pro Forma as Adjusted [(3)]** | **Actual** | **Pro Forma[(2)]** | **Pro Forma as Adjusted [(3)]** |
| | **(millions of COP)** | | | **(thousands of US$)[(4)]** | | |
| **Debt:** | | | | | | |
| Short-term debt[(5)] | 2,225,608 | 2,225,608 | 2,225,608 | 1,241,920 | 1,241,920 | 1,241,920 |
| Long-term debt[(6)] | 4,509,566 | 4,909,566 | 5,805,601 | 2,516,400 | 2,739,606 | 3,239,606 |
| Total debt[(7)] | 6,735,174 | 7,135,174 | 8,031,209 | 3,758,321 | 3,981,526 | 4,481,526 |
| **Capital:** | | | | | | |
| Tier One Capital | 4,044,162 | 4,044,162 | 4,044,162 | 2,256,699 | 2,256,699 | 2,256,699 |
| Tier Two Capital | 873,333 | 1,273,333 | 2,169,368 | 487,332 | 710,538 | 1,210,538 |
| Total Technical Capital | 4,917,495 | 5,317,495 | 6,213,530 | 2,744,031 | 2,967,236 | 3,467,236 |
| **Risk-weighted assets including market risk [(8)]** | 34,482,181 | 34,482,181 | 34,482,181 | 19,241,537 | 19,241,537 | 19,241,537 |
| **Capital ratios:** | | | | | | |
| Tier One Ratio [(9)] | 11.73% | 11.73% | 11.73% | 11.73% | 11.73% | 11.73% |
| Tier Two Ratio [(10)] | 2.53% | 3.69% | 6.29% | 2.53% | 3.69% | 6.29% |
| Technical Capital Ratio [(11)] | 14.26% | 15.42% | 18.02% | 14.26% | 15.42% | 18.02% |

(1) Except as disclosed in this offering memorandum, and as reflected in the “Pro Forma” columns of this capitalization table there has been no material change in our total capitalization since March 31, 2012.

(2) The “Pro Forma” column reflects the local offering on May 3, 2012 of COP 400 billion of subordinated bonds under our local bond program.

(3) The “Pro Forma, As Adjusted” columns reflect the issuance of US$500,000,000 of Notes offered hereby.

(4) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. See “Exchange Rates and Foreign Exchange Controls—Exchange Rates” for additional information on the exchange rate.

(5) Short-term debt includes those debts that are included within “Long-term debt” on our financial statements, as well as debt that is included under “Borrowings from financial institutions” on our financial statements with a maturity of less than one year from the date of such financial statements.

(6) Long-term debt includes those debts that are included within “Long-term debt” on our financial statements, as well as debt that is included under “Borrowings from financial institutions” on our financial statements with a maturity of more than one year from the date of such financial statements.

(7) Total debt is the sum of those debts that are included as “Long-term debt” on our financial statements and debt that is included under “Borrowings from financial institutions” on our financial statements.

(8) Risk weighted assets + (market risk * (100 / 9))

(9) Tier One Capital / (Risk weighted assets + (market risk * (100 / 9)))

(10) Tier Two Capital / (Risk weighted assets + (market risk * (100 / 9)))

(11) Total Technical Capital / (Risk weighted assets + (market risk * (100 / 9)))

* Formulas as defined by the SFC.

## SELECTED FINANCIAL INFORMATION

The following tables summarize our consolidated income statement and balance sheet data as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011, and as of March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012. Our audited financial statements as of December 31, 2010 and 2011 and for the three fiscal years ended December 31, 2009, 2010 and 2011, and our unaudited financial statements as of March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012, are included in this offering memorandum. You should read this information in conjunction with the sections "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as our financial statements and the related notes included elsewhere in this offering memorandum.

The financial data included in this offering memorandum is presented in accordance with Colombian Banking GAAP, which differs in certain important respects from U.S. GAAP and IFRS. See "Presentation of Financial and Other Information."

| | For the Year Ended December 31, | | | | For the Three-Month Period Ended March 31, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2011 | 2012 | 2012 |
| | (in millions of COP) | | | (in thousands of US$)[(1)] | (in millions of COP) | | (in thousands of US$)[(1)] |
| **Income Statement Data:** | | | | | | | |
| Interest income | | | | | | | |
| Interest on loans | 2,363,634 | 2,274,617 | 2,752,935 | 1,536,176 | 608,660 | 786,868 | 439,083 |
| Interest on investment securities | 314,497 | 243,025 | 253,949 | 141,707 | 55,522 | 95,803 | 53,459 |
| Interbank and overnight funds | 6,937 | 2,046 | 4,927 | 2,749 | 927 | 2,330 | 1,300 |
| Financial leases | 108,846 | 141,207 | 178,805 | 99,776 | 42,066 | 51,593 | 28,790 |
| Total interest income | 2,793,915 | 2,660,895 | 3,190,615 | 1,780,408 | 707,175 | 936,594 | 522,633 |
| Interest expense | | | | | | | |
| Checking accounts | (23,738) | (18,095) | (20,068) | (11,198) | (4,385) | (5,553) | (3,099) |
| Term deposits | (499,042) | (313,596) | (303,777) | (169,512) | (73,083) | (90,977) | (50,766) |
| Savings deposits | (222,536) | (141,520) | (230,292) | (128,506) | (32,510) | (96,566) | (53,885) |
| Total interest expense on deposits | (745,316) | (473,211) | (554,137) | (309,216) | (109,978) | (193,096) | (107,750) |
| Borrowings from banks and others | (75,152) | (63,576) | (97,366) | (54,332) | (18,044) | (34,817) | (19,428) |
| Interbank and overnight funds | (2,215) | (1,182) | (1,597) | ( 891) | (703) | (332) | (185) |
| Repo transaction | (7,284) | (8,812) | (8,662) | (4,834) | (1,978) | (210) | (117) |
| Long term debt | (144,155) | (174,647) | (240,134) | (133,998) | (54,123) | (70,384) | (39,275) |
| Total interest expense | (974,122) | (721,427) | (901,897) | (503,271) | (184,825) | (298,839) | (166,755) |
| Net interest income | 1,819,793 | 1,939,467 | 2,288,719 | 1,277,137 | 522,349 | 637,755 | 355,877 |
| Allowance for loan, accrued interest losses and other receivables, net | (1,668,850) | (1,520,534) | (1,739,044) | (970,375) | (426,567) | (541,443) | (302,132) |
| Recovery of non-performing loans | 981,329 | 1,160,392 | 1,124,302 | 627,376 | 320,498 | 334,656 | 186,743 |
| Allowance for investment and foreclosed assets | (26,645) | (16,876) | (11,017) | (6,148) | (4,306) | (3,791) | (2,115) |
| Recovery of allowance for foreclosed assets and investment | 16,654 | 14,184 | 20,874 | 11,648 | 1,697 | 9,892 | 5,520 |
| Allowance for other assets | (14,215) | (4,388) | (14,959) | (8,383) | (10,563) | (2,240) | (1,250) |
| Allowance, net | (711,727) | (367,223) | (619,845) | (345,882) | (119,242) | (202,926) | (113,235) |
| Net interest income after allowance | 1,108,065 | 1,572,245 | 1,668,874 | 931,255 | 403,107 | 434,829 | 242,641 |
| Fees, commission and services income | 695,213 | 717,522 | 776,156 | 433,106 | 184,256 | 198,912 | 110,995 |

| | For the Year Ended December 31, | | | | For the Three-Month Period Ended March 31, | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2011 | 2012 | 2012 |
| | (in millions of COP) | | | (in thousands of US$)[(1)] | (in millions of COP) | | (in thousands of US$)[(1)] |
| Fees and commission expenses | (76,621) | (81,506) | (103,245) | (57,612) | (21,259) | (20,909) | (11,667) |
| Non-interest income | 990,503 | 1,369,233 | 1,773,079 | 989,403 | 232,817 | 482,733 | 269,372 |
| Non-interest expense[(2)] | (1,160,195) | (1,664,995) | (2,071,987) | (1,156,198) | (316,425) | (533,131) | (297,494) |
| Non-interest income (loss), net | (169,692) | (295,762) | (298,908) | (166,795) | (83,608) | (50,397) | (28,122) |
| Dividend income | 13,574 | 16,394 | 16,687 | 9,312 | 17,420 | 15,603 | 8,707 |
| Total fees and commissions, net, non-interest income, net and dividend income | 462,474 | 356,648 | 390,690 | 218,010 | 96,808 | 143,209 | 79,913 |
| Administrative expenses | (828,504) | (984,328) | (1,036,636) | (578,457) | (237,293) | (252,127) | (140,690) |
| Operating expenses | (180,056) | (197,976) | (203,054) | (113,307) | (46,237) | (49,576) | (27,664) |
| Total administrative and operating expenses | (1,008,560) | (1,182,305) | (1,239,690) | (691,764) | (283,531) | (301,702) | (168,354) |
| Income before income tax and non-controlling interest | 561,980 | 746,588 | 819,875 | 457,502 | 216,385 | 276,336 | 154,199 |
| Income tax expense | (92,215) | (161,163) | (181,845) | (101,472) | (43,013) | (58,513) | (32,651) |
| Non-controlling interest | (8,648) | (6,142) | (7,691) | (4,291) | (1,821) | (2,493) | (1,391) |
| **Net income** | 461,117 | 579,282 | 630,339 | 351,738 | 171,551 | 215,330 | 120,157 |

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate. See "Exchange Rates and Foreign Exchange Controls—Exchange Rates" for additional information on the exchange rate.

(2) Amounts include Other expenses, Non-operating expenses and Non-interest expense, for more information See "Management's Discussion and Analysis of Financial Condition and Results of Operations"—"Fees and commissions, non-interest and dividend income" and "Operating and other expenses."

| | At December 31, | | | | At March 31, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| **Balance Sheet Data:** | (in millions of COP) | | | (in thousands of US$)[(1)] | (in millions of COP) | (in thousands of US$)[(1)] |
| **Assets** | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash and due from banks | 1,548,688 | 1,492,046 | 1,406,486 | 784,839 | 2,063,260 | 1,151,328 |
| Interbank and overnight funds | 55,245 | 191,663 | 1,928,630 | 1,076,202 | 1,051,994 | 587,027 |
| Total cash and cash equivalents | 1,603,933 | 1,683,709 | 3,335,116 | 1,861,041 | 3,115,254 | 1,738,355 |
| Investment securities: | | | | | | |
| Debt securities: | | | | | | |
| Trading | 3,574,439 | 2,507,643 | 3,240,514 | 1,808,252 | 3,888,979 | 2,170,104 |
| Available for sale | 478,243 | 1,427,758 | 1,085,924 | 605,961 | 995,063 | 555,259 |
| Held to maturity | 452,671 | 385,306 | 332,114 | 185,324 | 434,280 | 242,334 |
| Total debt securities | 4,505,354 | 4,320,707 | 4,658,552 | 2,599,537 | 5,318,322 | 2,967,698 |
| Equity securities: | | | | | | |
| Trading | 1,661 | 771 | 1,007 | 562 | 2,901 | 1,619 |
| Available for sale | 109,084 | 111,165 | 117,605 | 62,625 | 117,530 | 65,584 |
| Total equity securities | 110,745 | 111,936 | 118,612 | 66,187 | 120,431 | 67,202 |
| Allowance for impairment | (40,420) | (40,954) | (31,337) | (17,487) | (25,877) | (14,440) |

| | At December 31, | | | | At March 31, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| **Balance Sheet Data:** | | | | | | |
| | (in millions of COP) | | | (in thousands of US$)(1) | (in millions of COP) | (in thousands of US$)(1) |
| Total investment securities, net | 4,575,678 | 4,391,689 | 4,745,827 | 2,648,237 | 5,412,876 | 3,020,460 |
| Loans and financial leases: | | | | | | |
| Commercial loans | 10,152,151 | 12,488,801 | 15,680,998 | 8,750,215 | 15,901,724 | 8,873,383 |
| Consumer loans | 6,010,758 | 7,605,826 | 8,605,747 | 4,802,127 | 8,699,645 | 4,854,523 |
| Microcredit loans | 49,259 | 68,222 | 92,050 | 51,365 | 91,780 | 51,214 |
| Mortgage loans | 1,982,930 | 1,772,322 | 2,460,173 | 1,372,811 | 2,537,542 | 1,414,984 |
| Total loans and financial leases | 18,195,098 | 21,935,171 | 26,838,968 | 14,976,518 | 27,230,691 | 15,195,105 |
| Allowance for loans and financial lease losses | (1,120,266) | (1,167,115) | (1,291,883) | (720,889) | (1,359,483) | (758,610) |
| Total loans and financial leases, net | 17,074,832 | 20,768,056 | 25,547,085 | 14,225,629 | 25,871,208 | 14,436,495 |
| Accrued interest receivable on loans and financial leases, net | 358,255 | 337,053 | 384,395 | 214,498 | 449,238 | 250,681 |
| Bankers' acceptances and derivatives | (18,156) | 74,479 | 125,791 | 70,193 | 112,489 | 62,770 |
| Foreclosed assets, net | 56,269 | 52,474 | 38,837 | 21,672 | 44,820 | 25,010 |
| Premises and equipment under operating leases, net | 8,684 | 7,561 | 5,851 | 3,265 | 5,719 | 3,191 |
| Premises and equipment, net | 367,245 | 370,484 | 393,793 | 219,742 | 389,882 | 489,092 |
| Reappraisal of assets | 426,881 | 436,996 | 520,815 | 290,622 | 510,037 | 284,608 |
| Prepaid expenses and deferred charges | 62,641 | 86,241 | 226,627 | 126,461 | 211,569 | 118,059 |
| Goodwill, net | 1,375,044 | 1,267,943 | 1,181,627 | 659,364 | 1,170,063 | 652,912 |
| Other assets, net | 267,565 | 133,266 | 152,186 | 84,922 | 152,316 | 84,995 |
| Total assets | 26,158,870 | 29,609,951 | 36,657,950 | 20,455,646 | 37,445,473 | 20,895,095 |
| **Liabilities** | | | | | | |
| Deposits | | | | | | |
| Non-interest bearing: | | | | | | |
| Checking accounts | 2,022,266 | 2,688,889 | 2,799,865 | 1,562,364 | 2,560,198 | 1,428,626 |
| Savings deposits | 301,226 | 231,757 | 237,924 | 132,765 | 238,580 | 133,131 |
| Other | 290,002 | 250,036 | 241,679 | 134,860 | 153,882 | 85,868 |
| Total non-interest bearing deposits | 2,613,494 | 3,170,683 | 3,279,468 | 1,829,989 | 2,952,660 | 1,647,625 |
| Interest bearing: | | | | | | |
| Checking accounts | 721,233 | 571,975 | 796,564 | 444,494 | 690,666 | 385,401 |
| Term deposits | 6,807,085 | 7,001,149 | 6,688,751 | 3,732,416 | 7,346,079 | 4,099,215 |
| Savings deposits | 8,200,317 | 8,604,427 | 12,259,480 | 6,840,961 | 13,063,782 | 7,289,772 |
| Total interest bearing deposits | 15,728,635 | 16,177,550 | 19,744,795 | 11,017,870 | 21,100,528 | 11,774,388 |
| Total deposits | 18,342,128 | 19,348,233 | 23,024,263 | 12,847,859 | 24,053,187 | 13,422,013 |
| Interbank and overnight borrowing | 516,226 | 58,012 | 73,535 | 41,034 | 163,867 | 91,440 |
| Borrowings from banks and other | 1,399,757 | 2,400,221 | 3,557,095 | 1,984,909 | 3,231,726 | 1,803,348 |
| Long-term debt | 2,182,681 | 3,082,595 | 3,700,988 | 2,065,203 | 3,503,448 | 1,954,973 |
| Accrued interest payable | 160,152 | 131,504 | 146,874 | 81,958 | 152,126 | 84,888 |
| Bankers' acceptances and derivatives instruments | 2,179 | 82,401 | 97,055 | 54,158 | 111,964 | 62,477 |
| Accounts payable | 458,157 | 540,366 | 779,864 | 435,175 | 775,543 | 432,764 |
| Other liabilities | 267,414 | 281,330 | 328,856 | 183,506 | 326,152 | 181,997 |
| Accrued expenses | 104,921 | 90,328 | 120,839 | 67,430 | 197,822 | 110,388 |
| Non-controlling interest | 27,538 | 25,995 | 33,252 | 18,555 | 29,972 | 16,725 |
| Total liabilities | 23,461,152 | 26,040,985 | 31,862,622 | 17,779,786 | 32,545,807 | 18,161,013 |

| | At December 31, | | | | At March 31, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| **Balance Sheet Data:** | | | | | | |
| | (in millions of COP) | | | (in thousands of US$)(1) | (in millions of COP) | (in thousands of US$)(1) |
| **Shareholders' Equity** | | | | | | |
| Subscribed and paid-in capital | | | | | | |
| Non-voting preferred shares | - | 6,448 | 11,569 | 6,456 | 12,567 | 7,013 |
| Common shares | 47,757 | 46,783 | 43,911 | 24,503 | 42,916 | 23,948 |
| Additional paid-in capital | 1,130,096 | 1,561,632 | 2,246,030 | 1,253,316 | 2,255,220 | 1,258,444 |
| Retained earnings | | | | | | |
| Appropriated | 841,218 | 1,207,846 | 1,601,087 | 893,429 | 1,825,994 | 1,018,930 |
| Unappropriated | 248,180 | 306,699 | 377,699 | 210,762 | 252,709 | 141,015 |
| Cumulative translation adjustment | (2,983) | (6,722) | - | - | - | - |
| Reappraisal of assets | 423,387 | 433,604 | 517,119 | 288,560 | 506,450 | 282,606 |
| Equity inflation adjustments | 545 | (1,802) | - | - | 414 | 231 |
| Unrealized net gains (losses) on investments available for sale | 9,518 | 14,477 | (2,088) | (1,165) | 3,395 | 1,894 |
| Total Shareholders' equity | 2,697,718 | 3,568,965 | 4,795,328 | 2,675,860 | 4,899,666 | 2,734,082 |
| **Total liabilities and Shareholders' Equity** | 26,158,870 | 29,609,951 | 36,657,950 | 20,455,646 | 37,445,473 | 20,895,095 |

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.01 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate. See "Exchange Rates and Foreign Exchange Controls—Exchange Rates" for additional information on the exchange rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with our financial statements contained elsewhere in this offering circular. We prepare our financial statements according to Colombian Banking GAAP, which differ in certain aspects from U.S. GAAP, IFRS and SEC guidelines applicable to financial institutions in the United States. See "Presentation of Financial and Other Information." The following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors." See "Forward-Looking Statements."*

### Overview

We are a Colombian bank, incorporated under the laws of Colombia as a stock company (*sociedad anónima*), and licensed to operate as a commercial bank (*banco comercial*). Retail and corporate banking represent the majority of our business operations. Our retail banking clients are primarily middle-income individuals and families. Our corporate banking clients are corporations, financial institutions, small- and medium-sized enterprises, or SMEs, agricultural businesses, state-owned enterprises and governmental entities. We have a growing retail network that as of March 31, 2012 consisted of 563 branches in Colombia, 1,468 Davivienda-branded automated teller machines ("ATMs"), as well as one branch office in Miami and a subsidiary with two offices in Panama that primarily provide financial services and products to overseas corporate clients.

Our interest income is primarily derived from consumer, mortgage and commercial loans. Within our consumer lending portfolio, we also provide payroll loans, credit cards, automotive loans and personal revolving loans. We also derive interest income from investments in securities. Non-interest income primarily is derived from providing certain fee-based services to our customers, such as commissions on credit cards, cash management services, checking accounts, investment funds, voluntary pension funds management and insurance commissions. To a lesser extent, we also derive income from proprietary trading, including trading in capital markets, money markets and foreign exchange markets, brokerage services in connection with fixed-income securities and derivatives, leasing and trust services.

Our largest expenses are generally incurred in connection with interest paid to our depositors, including interest paid on savings accounts, interest-bearing checking accounts, time and term deposits. We also have significant interest obligations on debt that we issue in the form of bonds, in addition to interest obligations on loans from foreign and local institutions. Our non-interest expense primarily consists of administrative and operating expenses, personnel expenses, taxes and amortization of goodwill.

Important drivers of our overall business performance include growth in our client base, increasing loan diversification, expanding the mix of our funding sources, and the overall performance and credit quality of our loan portfolio.

Our client base has evolved successfully over the past years. As of March 31, 2012, Davivienda had approximately 4,037,090 clients across its retail and corporate banking operations. This represents an increase of more than 485,590 new clients compared to December 30, 2008, when we had approximately 3,551,500 clients.

### Critical Accounting Policies and Estimates

We have identified certain key accounting policies on which our financial position and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions that affect the reported amounts of the financial statements. In the opinion of our management, our most critical accounting policies under Colombian Banking GAAP are those related to the recognition and measurement of financial instruments at fair value and establishment of allowance for loan losses, impairment of goodwill, valuations of assets and provision for legal contingencies. For a further description of our significant accounting policies, see the notes to our audited consolidated financial statements, which are included elsewhere in this offering memorandum. These key accounting policies are submitted to our Audit Committee for their review.

Management bases its estimates and judgments on historical experience and on economic factors, including market trends, and our past performance that are believed to be reasonable under current circumstances. Evaluations of contingencies are also based on assessments by our legal counsel, and we consult with outside financial consultants in determining estimates of impairments and goodwill. Results may differ from these estimates if our actual experience differs from our assumptions or our assumptions change. Judgments or changes in assumptions are submitted to our different risk committees and our board of directors for review.

***Allowance for Loan Losses***

We perform qualitative and quantitative analyses to assign a risk category to individual assets, under the rules issued by the SFC. The qualitative loan analysis involves an evaluation of specific factors to determine potential deficiencies that may affect the borrower's payment capacity. For the quantitative evaluation, we first determine whether the loan has become due and then classify the loan according to the number of days past due. The SFC requires us to maintain minimum allowance levels for each category of credit risk and each type of loan and segment.

Commercial loans are provisioned according to models developed by the SFC, which take into consideration the size of the borrower in terms of its assets, as well as the number of days the loans are past due. The allowance for these loans is determined considering the "expected loss" model. The expected loss for these loans is determined by multiplying the exposure at default of the loan by its "probability of default" (likelihood that a borrower will default on an obligation within the next 12 months) and its "loss given default" (an estimate of the amount Davivienda would expect to lose in the event a borrower defaults). Both the probability of default and the loss given default values are established by the SFC depending on each category of credit risk and the size of the company. Provisions in our consumer loan portfolio are made in accordance with models developed by the SFC, based on the following three different categories of assessment: (i) automotive loans, (ii) consumer loans and (iii) credit card loans. Provisions for each of these loan categories are made based on annual performance and delinquencies, and payment history over the prior 36 months. These reference models are designed to take into effect and identify pro-cyclical and counter-cyclical risk periods associated with periods of economic growth or contraction, such that greater provisions are made for loans during periods of economic growth to minimize the effect of a possible decline in the quality of our loan portfolio during future periods of economic contraction.

For mortgage and microcredit loans the analysis is performed only on the basis of the past due days of the loans. Furthermore, portfolios for which the SFC does not provide a standard model, specifically mortgage and microcredit loans, have a general allowance equal to 1.0% of the gross loan portfolio value in addition to specific provisions mandated according to the individual loans' risk category.

We consider the accounting estimates used in the allowance for loan losses methodology to be "critical accounting estimates" because: (a) by its nature, the allowance requires us to make judgments and assumptions regarding our loan portfolio, (b) the methodology used in its determination is based on the existence and magnitude of determined factors that are not necessarily an indication of future losses and (c) the amount of the provision that is based on reference models for commercial and consumer portfolio and a percentage based on the risk category for microcredit and mortgage portfolio, although it is impossible to ensure that these models or percentage will exactly reflect the expected losses.

***Contingent Liabilities***

We are subject to contingent liabilities, including judicial, regulatory and arbitration proceedings and tax and other claims arising from the conduct of our business activities. Under Colombian Banking GAAP, allowances are established for legal and other claims by assessing the likelihood of the loss actually occurring as probable, possible or remote. Contingencies are partially provisioned and are recorded when all the information available indicates that it is probable that we will be required to make disbursements in the future for events that happened before the balance sheet date and the amounts may be reasonably estimated. We engage internal and external experts (lawyers and actuaries) in assessing probability and in estimating any amounts involved.

Throughout the life of a contingency, we may learn of additional information that can affect assessments regarding probability or the estimates of amounts involved. Changes in these assessments can lead to changes in recorded allowances.

We consider the estimates used to determine the allowance for contingent liabilities to be "critical accounting estimates" because the probability of their occurrence and the amounts that we may be required to pay are based on our judgment, which will not necessarily coincide with the future outcome of the proceedings. Our judgment in these estimates is complemented by that of outside counsel representing us in each case.

***Recognition and Measurement of Financial Instruments at Fair Value***

Under Colombian Banking GAAP, the fair value of a financial instrument is defined as the estimated amount at which the instrument could be exchanged in a current transaction between willing and independent parties. Some of our assets are carried at fair value for Colombian Banking GAAP purposes, including equity and debt securities with quotations available or quoted prices for similar assets. The majority of our assets reported at fair value are based on quoted market prices, which provide the best indication of fair value, or quoted market prices for similar assets.

For our remaining assets, if quoted market prices for similar assets are not available, we calculate their fair value by discounting the expected cash flows using market interest rates which take into account the credit quality and maturity of the investment or by utilizing models stipulated by the SFC. In particular, management estimates future cash flows and defines the applicable interest rate to discount those cash flows, based on variable terms of the instruments and the inherent credit risk.

We consider the determination of fair value for such assets to be part of our critical accounting policies because of the high degree of judgment and assumptions involved in developing and applying valuation methodologies.

***Impairment of Investment Securities***

Under Colombian Banking GAAP, the prices of trading and available for sale debt and equity securities that do not have fair exchange prices, those classified as held to maturity debt securities with low or minimum liquidity, or those that are unquoted must be adjusted on each valuation date, based on their credit risk classification.

Securities that are rated by a rating firm recognized by the SFC or securities issued by entities that are rated by international rating firms cannot be carried at an amount that exceeds the following percentages of their nominal net amortization value as of the valuation date:

| Long Term Ranking | Short Term Ranking | Max. Amount % |
|---|---|---|
| BB+, BB, BB- | 3 | Ninety (90) |
| B+, B, B- | 4 | Seventy (70) |
| CCC | 5 and 6 | Fifty (50) |
| DD, EE | 5 and 6 | Zero (0) |

For securities without a rating from an external rating agency or those issued by entities that do not have a rating, the amount of the allowance must be established through an internal methodology we develop, which must be approved in advance by the SFC.

We consider the accounting estimates used in the impairment evaluation of investment securities to be part of our critical accounting policies because of the high degree of judgment and assumptions involved in the establishment of the impairment methodology.

***Impairment Test of Goodwill***

We test goodwill recognized upon business combinations for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, for purchases made since 2007, the requirement to test goodwill for impairment annually can be satisfied without a re-measurement of the fair value of a reporting unit.

Fair value is determined by reference to market value, if available, or by pricing models or with the assistance of a qualified evaluator. Determination of fair value by a qualified evaluator or pricing model requires management to make assumptions and use estimates. Our most significant amounts of goodwill and intangibles relate to our acquisition of Bancafé in 2007, for which we have COP 1,170 billion of goodwill as of March 31, 2012. See Note 14 to our audited annual financial statements and unaudited interim financial statements.

The valuation models used to determine the fair value of these companies and the intangibles are sensitive to changes in assumptions. Adverse changes in any of these factors could lead us to record a goodwill or intangible impairment charge. Management believes that the assumptions and estimates used are reasonable and supportable in the existing market environment and commensurate with the risk profile of the assets valued. However, different assumptions and estimates could be used which would lead to different results.

Under Colombian Banking GAAP, financial entities have to record amortization of goodwill. According to the guidelines issued by the SFC, the most significant goodwill should be amortized using the exponential method, however, other methods which provide a better association between revenues and expenses are permitted. Under Colombian Banking GAAP, we perform impairment tests using the discounted cash flow technique.

We consider amortization and impairment tests to be "critical accounting estimates" because of the importance of assumptions used in the testing and the sensitivity of the results to the assumptions used.

***Equity Tax***

We are subject to an equity tax (*impuesto al patrimonio*) enacted in December of 2009 by Law 1370. This tax is imposed on liquid assets and is calculated based on our taxable net worth as defined by law at January 1, 2011. Given that our taxable net worth exceeded COP 5,000 million, the rate applicable to us was 4.8% of our taxable net worth. The accrued tax is to be paid in eight equal semiannual installments during years 2011 through 2014. Additionally, the Colombian government created, through Decree 4825 of 2010, a surcharge to the equity tax equivalent to 25% of the applicable equity tax rate, meaning that the effective equity tax rate applicable to us was 6%. We accrued the tax in compliance with the law, and timely paid our first installment in May 2011.

In January 2010, the Colombian government issued Decree 514, which stated that the equity tax can be amortized against the equity reappraisal account (*cuenta de revalorización del patrimonio*) from 2011 through 2014, or if such account is insufficient, the corresponding installments could be annually accrued in the obligor's results (profits and losses statement), as they become due. Based on the relevant regulations, the accrued equity tax is accounted for as a deferred asset to be amortized in 48 months, starting on January 1, 2011.

**Macroeconomic Trends Affecting Our Results**

Our operations are affected by external factors such as: economic activity, interest rates, inflation and exchange rates. The following discussion summarizes the recent behavior of such variables.

***General Colombian Economic Conditions***

Our results are directly related to economic trends in the Colombian economy. The following table shows the historical and projected evolution of Colombia's principal macroeconomic indicators:

| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|
| GDP growth | 6.9% | 3.5% | 1.7% | 4.0% | 5.9% | 4.7% |
| Inflation[(1)] | 5.7% | 7.7% | 2.0% | 3.2% | 3.7% | 3.5% |
| Average Unemployment rate | 11.2% | 11.3% | 12.0% | 11.8% | 10.8% | 11.0% |

Sources: Historical data for 2007 through 2011 provided by DANE; forecasts for 2012 provided by the IMF.
(1) Based upon the Colombian Consumer Price Index ("IPC"), as calculated by DANE.

**Colombian GDP Growth**

As the revenues generated by Colombian banks are largely correlated with GDP growth, the Colombian financial sector has grown, and is expected to continue to grow, in line with Colombian GDP growth. In spite of the international financial crisis of the past three years, the Colombian economy has remained stable. In 2009, Colombian GDP grew by 1.7%; in 2010, GDP growth reached 4.0%, and in 2011, GDP grew by 5.9%. The principal causes of this growth were: (i) improvements in domestic security and public safety, which encouraged higher levels of foreign investment; (ii) capable management of fiscal and monetary policies, (iii) growth in exports, and (iv) a new institutional framework aimed at promoting investments in oil exploration and extraction, which has led to an increase in oil production from 588 million barrels per day in 2008 to 930 million barrels per day as of December 31, 2011. During 2011, Colombia was rated as investment grade by three internationally-recognized credit rating agencies.

The economic sectors that experienced the greatest growth during 2011 were mining, transport, storage, communications, trade, restaurants and hotels. The mining sector, which has been the fastest growing sector in recent years, increased by 14.3%. Transport, storage and communications grew by 6.9% during the same period and trade, restaurants and hotels grew by 5.9%. The financial services sector in Colombia, which includes insurance, real estate and other business services, experienced growth of 5.8% in 2011.

Other indicators of economic strength in the Colombian economy include overall demand, which in 2011 grew by 8.8%. In addition, average household consumption grew by 6.5% in 2011, compared to an increase of 5.0% in 2010, and gross capital formation also accelerated, increasing by 17.2% in 2011, compared to 7.4% in 2010. Government consumption slowed by comparison, growing by only 2.6% in 2011. In terms of the trade balance, there was a 21.5% growth in imports in 2011, while exports rose by 11.4%.

On October 12, 2011 the United States Senate approved the Free-Trade Agreement between the United States and Colombia. This agreement will allow preferential access of Colombian products to the United States, such as flowers, sugar, bananas, oil and meat, and will boost investment from foreign companies who want access to the US market through Colombia. We expect this agreement to have a positive impact on Colombian economic growth by expanding the market for Colombian exports and lowering the cost of imports.

Another factor that is likely to induce economic growth is the governmental investment plan set forth by President Juan Manuel Santos. The plan, called "*Prosperidad para Todos*" ("Prosperity for All"), sets forth plans for substantial investments in five key areas of the economy: infrastructure, mining, energy, housing and agriculture. The plan calls for governmental investments in the amount of COP 29.7 billion during the four-year period between 2010 and 2014, which would be complemented by COP 189.7 billion from the private sector (together representing almost 40% of Colombian annual GDP). We expect that expansion of these sectors will benefit the financial sector in general, and us in particular given our positioning and experience providing credit to these industries.

**Intervention Interest Rate**

Intervention interest rates have a direct impact on our lending and deposit rates. An increase in the intervention interest rate generally has the effect of increasing the rates we pay on deposits, which in turn impacts our financing costs for this source of funding. An increase or decrease in the intervention interest rate also has a corresponding effect on interest rates that are indexed to market rates, such as the DTF (the average national rate paid on Colombian 90-day certificates of deposit), which has the effect of automatically maintaining the spread between indexed deposit and loan rates.

In response to the international financial crisis that began in the latter half of 2008, the Central Bank gradually reduced the intervention interest rate from 10% in December 2008 to 3% in June 2010. However, due to robust domestic economic growth and the high expansion rate for domestic credit, the Central Bank steadily increased the intervention interest rate by 25 basis points every month during the first half of 2011, from 3% in February 2011 to 4.5% in August 2011. In August 2011, the Central Bank decided to hold the intervention interest rate at 4.5%, despite concerns that a failure to increase domestic interest rates would lead to increased inflation. The intervention interest rate was subsequently increased by the Central Bank to 4.75% in November 2011, to 5.00% in January 2012 and 5.25% in February 2012. During the months of March, April and May 2012, the Central Bank held the intervention interest rate steady at 5.25%.

**Inflation**

In terms of inflation, the primary effects of inflation on the Colombian financial sector are labor costs and property values. Inflation increased in each of 2011 and 2010 as compared to the prior year. The acceleration of inflation was the result of both internal factors (a rise in food prices due to extreme weather in the last quarter of 2010) and external factors (a rise in the price of commodities). Unlike 2009, inflation rates for 2010 and 2011 were within the goals set by the Central Bank. Inflation rates have been uneven in Colombia during the last five years, but the IMF projects that inflation will remain at or under 3.5% during 2012.

**Unemployment Rate**

As a developing economy, Colombian banks are highly dependent on Colombia's employment rate. For example, savings accounts and insurance and pension plans are products that are principally used, or generate fees, when the customer has a steady stream of income. Even though Colombia's unemployment rate has been and is expected to remain high, total employment in Colombia is increasing and is expected to remain on an upward trend through 2012 according to the ANIF.

**Exchange Rate**

We receive most of our income in Colombian pesos. Some of the debt held by us is denominated in currencies other than the peso, principally U.S. dollars. We enter into hedging arrangements to protect against this foreign currency exposure. Nonetheless, a devaluation of the Colombian peso in respect to the dollar could negatively affect our financial condition.

The Colombian peso has experienced marked currency fluctuations in the last two years. In line with the behavior of other Latin American currencies, the Colombian peso appreciated against the U.S. dollar, rising from a buying rate of COP 1,913.98 per US$1.00 at the beginning of 2011 to a low of COP 1,748.41 on July 15, 2011. This appreciation was primarily due to the weakening of the dollar in the aftermath of a second round of quantitative easing in the United States. The Colombian peso subsequently fell to COP 1,942.70 per US$1.00 as of December 31, 2011, primarily due to uncertainties associated with the European debt crisis, but has strengthened once again to COP 1,792.07 per US$1.00 as of March 31, 2012.

**Key Trends Affecting our Future Results of Operations**

Growth in our loan portfolio is directly correlated with growth in the Colombian economy. Colombia is currently experiencing a period of economic growth, and low interest rates have encouraged individuals and businesses to increase their applications for bank loans and credit. Growth in our loan portfolio was not as high as the rest of the Colombian financial sector (especially in our consumer loan portfolio) through the first quarter of 2012, due to our tightening of lending standards for certain segments where we have observed a degree of overleverage, and we expect this trend to continue through the second quarter of 2012. However, we expect to see greater growth in our loan portfolio beginning in the third quarter of 2012. In particular over the next few quarters, we expect to see significant growth for consumer loans, given higher levels of household indebtedness and the expansion of our retail banking operations. We also anticipate that the introduction of our Daviplata mobile banking service will assist us in reaching new retail banking customers.

We also expect to see significant growth in our commercial loan portfolio, and on a more moderate scale in our mortgage loan portfolios. We anticipate that part of this growth, particularly for commercial loans, will be as a result of announced government spending initiatives aimed at agriculture, housing and infrastructure and in increased lending to companies involved in these sectors. We also continue to expand our reach to SMEs and corporate clients, particularly through specialized products for the agricultural industry.

Our ratio of non-performing loans has generally continued to improve over the last few years, particularly for commercial and mortgage loans, although we have witnessed a slight deterioration in the quality of revolving loans within our consumer loan portfolio over the last few quarters. We have recently taken steps to cease issuing these types of consumer loans and to tighten credit policies to address this decline. We believe that despite an anticipated increase in our loan portfolio over the next few quarters, the ratio of our non-performing loans will continue to decline.

The Central Bank intervenes from time to time to manage interest rates. Central Bank policies vary over time as well. Variations in interest rates have a significant impact on our margins on financial profitability. Increases in rates allow for higher rates on the loans we extend, offset by an increase in the interest rate that we pay on deposits. We cannot predict Central Bank policy in this respect in the future.

With regard to our funding sources, we expect deposits to be our main funding source, although we expect to complement it by continuing to issue bonds in local markets and discounting loans. We also expect to continue with our securitization activities, although in smaller amounts than in prior years.

**Results of Operations**

**Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011**

***Financial Margin***

Financial margin, or net interest income, increased by 22.0% to COP 637.8 billion for the three months ended March 31, 2012 compared to COP 522.3 billion for the corresponding period in 2011. This increase was largely attributable to an increase in interest earned on our loans outstanding of COP 178.2 billion, or 29.3%, especially within our commercial loan portfolio. This growth was partially offset by an increase in interest we paid to depositors on savings accounts, from an average of 1.5% as of March 31, 2011 to 3.3% as of March 31, 2012, following an increase in the intervention interest rate by the Central Bank from 3.25% as of March 31, 2011 to 5.25% as of March 31, 2012.

The increase in our financial margin was also partially offset by a slight decrease in the yield spread on our loan portfolio. Our average interest rate earned on interest-earning assets for the three months ended March 31, 2012 was 12.3% and the average interest rate paid on interest-bearing liabilities was 4.6%, resulting in a yield spread of approximately 7.7%. In the corresponding period in 2011, our average interest rate earned on interest-earning assets was 11.2% and the average interest rate paid on interest-bearing liabilities was 3.4%, resulting in a yield spread of 7.8%. The slight decrease in the spread between these periods was due to an increase in interest we paid to depositors on savings accounts, as described above. The average interest rate earned on investment securities also increased by 312 basis points between March 31, 2011 and March 31, 2012, due to an increase in market rates, while interest rates paid on interbank loans declined by 324 basis points over the same period, which had a particular impact on our repo transactions.

The following table sets forth the components of our financial margin, or net interest income, for the periods indicated:

| | For the Three Months Ended March 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 / 2012 | % |
| *Interest income* | (millions of COP) | | | |
| **Loans** | | | | |
| Commercial and microcredit loans | 203,581 | 296,226 | 92,645 | 45.5 |
| Consumer loans | 338,039 | 406,327 | 68,288 | 20.2 |
| Mortgages | 67,039 | 84,315 | 17,275 | 25.8 |
| Subtotal | 608,660 | 786,868 | 178,208 | 29.3 |
| **Interest on investment securities** | | | | |
| Fixed income | 55,510 | 94,117 | 38,607 | 69.6 |
| Equities | 12 | 1,686 | 1,674 | 14,294 |
| Subtotal | 55,522 | 95,803 | 40,281 | 72.6 |
| **Interbank and overnight funds** | | | | |
| Subtotal | 927 | 2,330 | 1,403 | 151.5 |
| **Financial leases** | | | | |
| Subtotal | 42,066 | 51,593 | 9,527 | 22.6 |
| Total interest income | 707,175 | 936,594 | 229,419 | 32.4 |
| *Interest expense* | | | | |
| **Deposits** | | | | |
| Checking accounts | 4,385 | 5,553 | 1,168 | 26.6 |
| Term deposits | 73,083 | 90,977 | 17,894 | 24.5 |
| Saving deposits | 32,510 | 96,566 | 64,056 | 197.0 |
| Subtotal | 109,978 | 193,096 | 83,119 | 75.6 |
| **Borrowings from banks and others** | | | | |
| Subtotal | 18,044 | 34,817 | 16,773 | 93.0 |
| **Interbank and overnight funds** | | | | |
| Subtotal | 703 | 332 | (371) | (52.7) |
| **Repo transaction** | | | | |
| Subtotal | 1,978 | 210 | (1,768) | (89.4) |
| **Long-term debt** | | | | |
| Subtotal | 54,123 | 70,384 | 16,261 | 30.0 |
| Total interest expense | 184,825 | 298,839 | 114,013 | 61.7 |
| **Net interest income** | 522,349 | 637,755 | 115,406 | 22.1 |

*Interest Income*

For the three months ended March 31, 2012, there was an increase of 108 basis points in the average interest rate earned on interest-earning assets compared with the three months ended March 31, 2011 due to an increase of COP 40,281 million in interest earned on investment securities. The increase in market interest rates also had a positive impact on our overall loan portfolio and commercial leasing operations.

Our total interest income growth was also due to an increase in our average investment balance of 7.3% and our loan portfolio of 21.8%. The growth in our loan portfolio was primarily due to increased volumes and interest rates on our commercial loans. Increasing interest rates were the result of an increase in the Central Bank's intervention interest rates in January and February 2012, which is discussed in detail above.

*Interest Expense*

For the three months ended March 31, 2011 and 2012, the average interest rate paid on interest-bearing liabilities was 3.4% and 4.6%, respectively. The increase in our average expense is largely a result of a 181 basis point increase in interest paid on savings deposits, a 128 basis point increase in interest paid on time deposits and an 87 basis point increase in interest paid on borrowings from banks and others. These increases were partially offset by a 324 basis point decrease in the interest rate paid on interbank borrowings.

Total interest expense increased for the three months ended March 31, 2012 compared with the corresponding period in the prior year, primarily as a result of the increase in the average balance of and interest paid on saving deposits and an increase in the interest paid on bonds during this period, as discussed in more detail below.

Interest expense on deposits (which includes checking and savings accounts and term deposits) increased significantly for the three months ended March 31, 2012, compared to 2011, primarily as a result of an increase in the interest rate paid on savings deposits, from an average of 1.49% for the three-month period ended March 31, 2011 to an average of 3.29% for the three-month period ended March 31, 2012. As noted above, the increase in interest rates is attributable to the increase in the Central Bank's intervention rate increase over the course of 2011, which had the effect of increasing the amount that we had to pay to our depositors, especially those with savings accounts and those with term deposits indexed to the DTF.

Interest expense on borrowings from local and foreign financial institutions increased for the three months ended March 31, 2012, compared to the corresponding period in the prior year, primarily due to an increase of 56.0% in the average balance on borrowings from these institutions, partially offset by a decrease of 324 basis points in the average interest rate on interbank borrowings between March 31, 2011 and March 31, 2012.

Interest expense on long-term debt increased for the three-month period ended March 31, 2012 compared to the corresponding period in 2011, primarily as a result of an increase of 32 basis points in the average interest rate paid on long-term debt, as well as our issuing COP 1,100 billion in publicly listed local bonds during 2011 under our COP 3,000 billion local bond program, which increased the average balance of outstanding bonds by 24.7% for the three-month period ended March 31, 2012 as compared to the three month-period ended March 31, 2011.

***Allowances***

The following table sets forth the components of our allowances for the periods indicated:

| | For the Three Months Ended March 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | **2011** | **2012** | **2011 / 2012** | **%** |
| | (millions of COP) | | | |
| Allowances for loan losses and accounts receivable | 101,022 | 204,725 | 103,703 | 102.7 |
| Allowances for leasing | 5,048 | 2,062 | (2,986) | (59.1) |
| Allowances for investments and foreclosed assets | 2,609 | (6,102) | (8,711) | (333.8) |
| Allowances for other assets and plant and equipment | 10,563 | 2,240 | (8,323) | (78.8) |
| **Allowances, net** | 119,242 | 202,926 | 83,684 | 70.2 |

Allowances for loan losses and accounts receivable charged against earnings, which consist of allowances for loans, accrued interest losses and other receivables, net, less recoveries of non-performing loans (other than allowances for leasing), increased for the three months ended March 31, 2012 compared to the corresponding period of the prior year, mainly as the result of an increase in allowances in our consumer portfolio, which grew due to a 9.4% increase in our outstanding balance for the period, as well as a 46.8% increase in our provision for fixed loans and a 52.0% increase in our provision for credit card loans, due to the deterioration in the quality of our fixed loan and credit card portfolios resulting from the extension of credit to borrowers that posed a higher credit risk. In addition, even though in April 2010 the SFC implemented policies to include procyclical and countercyclical components, the allowance for loan losses as a percentage of non-performing loans decreased to 218.7% as of March 31, 2012 compared to 246.0% as of March 31, 2011. The decrease in the ratio of allowance for loan losses to non-performing loans primarily reflects the 6.4% increase in non-performing loans, which in turn is a result of a decline in the quality of our fixed loan and credit card portfolios.

Allowances for leases charged against earnings decreased by 59.1% as of March 31, 2012 in comparison to the corresponding period in the prior year due to a 33.8% decrease in allowances for lease financings, largely as a result of changes in reference models mandated by the SFC.

Allowances for investments and foreclosed assets decreased for the three months ended March 31, 2012 compared with the corresponding period of the prior year due to higher recoveries of foreclosed assets and other assets received as payment in kind resulting from a positive change in the credit ratings of our fixed income investments and the sale of investments for which we had previously made allowances. The most significant recoveries in 2012 corresponded to goods received as payment that we were able to sell, allowing us to reverse the provision that had been recorded in prior periods. Recoveries of allowances that we previously made for our investments are explained by the change in the credit ratings of our fixed income investments and the sale of investments for which we had previously made allowances.

Allowances for other assets and plant and equipment charged against earnings decreased for the three months ended March 31, 2012 compared to the corresponding period in 2011 as the result one-time allowance take in March 2011 related to our properties for COP 9,614 million that was not repeated again in 2012.

***Fees and Commissions, Non-Interest and Dividend Income***

The following table sets forth the components of our income and expense from fees and commissions, non-interest income and dividends, for the periods indicated:

| | For the Three Months Ended March 31, | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2011 | 2012 | 2011 / 2012 | % |
| | (millions of COP) | | | |
| Fees, commissions income and services income | | | | |
| Credit card fees | 59,013 | 67,448 | 8,435 | 14.3 |
| Corporate banking services | 10,002 | 10,440 | 439 | 4.4 |
| Transaction services | 49,004 | 48,096 | (908) | (1.9) |
| Debit and credit card commissions | 33,705 | 36,226 | 2,522 | 7.5 |
| Insurance commissions | 13,567 | 15,988 | 2,421 | 17.8 |
| Brokerage and trust commissions and other | 14,419 | 16,252 | 1,833 | 12.7 |
| Collaboration agreements | 4,547 | 4,462 | (85) | (1.9) |
| Total fees, commissions income and services income. | 184,256 | 198,912 | 14,656 | 8.0 |
| Fees and commissions expenses | 21,259 | 20,909 | (351) | (1.6) |
| Net, fees, commissions income and services income | 162,997 | 178,003 | 15,006 | 9.2 |
| Non-interest income | | | | |
| Exchange gain and derivatives | 212,493 | 466,891 | 254,398 | 119.7 |
| Other income | 20,323 | 15,842 | (4,481) | (22.0) |
| Total non-interest income | 232,817 | 482,733 | 249,917 | 107.3 |
| Non-interest expense | | | | |
| Exchange loss and derivatives | 197,485 | 426,695 | 229,211 | 116.1 |
| Other expenses | | | | |
| Amortization and depreciation without goodwill | 25,198 | 19,864 | (5,333) | (21.2) |
| Amortization of goodwill | 27,310 | 11,564 | (15,746) | (57.7) |
| Taxes other than income taxes | 32,498 | 31,931 | (568) | (1.7) |
| Insurance department | 13,665 | 17,300 | 3,635 | 26.6 |
| Subtotal, other expenses | 98,671 | 80,659 | (18,013) | (18.3) |
| Non-operating expenses | 20,269 | 25,777 | 5,508 | 27.2 |
| Total Non-interest expenses | 316,425 | 533,131 | 216,706 | 68.5 |
| Non-interest income (expense), net | 83,608 | 50,397 | 33,211 | 39.7 |
| Dividend income | 17,420 | 15,603 | (1,816) | (10.4) |
| **Total fees and commissions, non-interest income, net and dividend income** | **96,808** | **143,209** | **46,401** | **47.9** |

Total fees and commissions, non-interest income, net, and dividend income increased for the three months ended March 31, 2012, compared to the corresponding period of the prior year, largely as a result of an increase in income attributable to fees and commissions, and to an increase in non-interest income within exchange gain (loss) and derivatives, as explained further below.

Net commission and fees income for the three months ended March 31, 2012 increased compared to the corresponding period of the prior year primarily due to an increase in credit and debit card administration fees, resulting from an increase in the annual fee charged on these cards, as well as an increase in the number of cards in circulation and an increase in our insurance commissions due to the success of a new marketing initiative for certain insurance products. Additionally, income from brokerage and trust commissions increased due to income from our affiliates, Davivalores, Fiducafé and Fidudavivienda.

The 107.3% increase in our overall non-interest income was primarily due to the 119.7% increase in non-interest income within exchange gain and derivatives, which were attributable to an increase in gains from our derivatives valuations of 229.8%, which in turn, increased due to changes in exchange rates and market rates for the derivatives. However, this increase in non-interest income was largely offset by an increase in non-interest expense, which increased primarily due to the loss in the valuation of derivatives, as calculated in accordance with Colombian Banking GAAP. These derivatives are held to cover our exposure to foreign exchange risk.

Our non-interest expenses also increased due to the increase in expenses associated with our insurance department due to increases in our balance of savings account and time deposits during the period.

This increase in non-interest expenses was partially offset by the 57.7% decrease in goodwill amortization, primarily due to changes in goodwill attributable to our acquisition of Banco Superior, and was further offset by a slight decrease in taxes other than income taxes, which consist primarily of the tax on financial transactions (*Gravamen de Movimientos Financieros*) and the equity tax (*impuesto al patrimonio*).

***Administrative and Operating Expense***

The following table sets forth the components of our administrative and operating expense for the periods indicated:

| | For the Three Months Ended March 31, | | Increase / (Decrease) | |
|---|---|---|---|---|
| | **2011** | **2012** | **2011 / 2012** | **%** |
| | (millions of COP, except for percentages) | | | |
| **Administrative expenses** | | | | |
| Personnel expenses | | | | |
| Salary expenses | 52,906 | 58,663 | 5,757 | 10.9 |
| Incentives and compensation | 30,503 | 19,871 | (10,632) | (34.9) |
| Other employee benefits | 62,868 | 76,173 | 13,304 | 21.2 |
| Subtotal, personnel expenses | 146,277 | 154,707 | 8,430 | 5.8 |
| Service fees | 21,746 | 19,152 | (2,594) | (11.9) |
| Contributions and subscriptions | 11,602 | 12,505 | 903 | 7.8 |
| Facilities and office operation and maintenance | 15,026 | 17,712 | 2,685 | 17.9 |
| Utilities | 13,560 | 15,000 | 1,440 | 10.6 |
| Stationery, supplies and materials | 3,588 | 3,411 | (177) | (4.9) |
| Advertising and public relations | 12,470 | 13,466 | 995 | 8.0 |
| Insurance | 11,917 | 15,008 | 3,091 | 25.9 |
| Other | 1,106 | 1,166 | 59 | 5.3 |
| Subtotal, non-personnel administrative expenses | 91,016 | 97,420 | 6,404 | 7.0 |
| **Operating expenses** | | | | |
| Leases | 13,827 | 15,698 | 1,870 | 13.5 |
| Electronic data processing | 13,111 | 11,854 | (1,257) | (9.6) |
| Travel and transportation expenses | 13,891 | 17,474 | 3,583 | 25.8 |
| Other | 5,408 | 4,550 | (858) | (15.9) |
| Subtotal, operating expenses | 46,237 | 49,575 | 3,339 | 7.2 |
| **Total administrative and operating expenses** | **283,531** | **301,702** | **18,172** | **6.4** |

Total administrative and operating expenses increased for the three months ended March 31, 2012 compared to the corresponding period of the prior year, primarily as the result of an increase in expenses related to personnel, which increased primarily due to increases in benefits expenses paid to employees at the beginning of 2012 and annual increases in personnel salaries.

Expenses relating to service fees decreased due to the improvement of our quality management system and the implementation of budgeting software in 2011. Expenses relating to office installations and improvements increased primarily due to increases in security and cleaning expenditures of 22%. Insurance expenses increased primarily due to our having acquired a new internet fraud insurance policy.

Advertising expenses increased for the three months ended March 31, 2012, due principally to ongoing advertising campaigns related to our Diners Club and Daviplata programs, and the marketing of family bundles.

Operating expenses increased for the three month ended March 31, 2012 compared to the prior year, as the result of an increase in leasing expenses, resulting from our decision to lease, rather than own, our ATMs (expenses related to this line item increase on a monthly basis as the number of our ATMs increase). We also saw an increase in transportation expenditures due to higher international travel by our executives related to operations outside Colombia.

***Minority Interest***

Minority interest, which includes income attributable to minority interests, increased between the relevant periods primarily as a result of an increase in the equity of our subsidiaries—Fiduciaria Davivienda, Confinanciera, Fiduciaria Fiducafé, Davivalores and Bancafé Panamá—as a consequence of positive overall results of the Colombian financial system.

***Income Taxes***

Income tax expense increased for the three months ended March 31, 2012 compared to the comparable period in 2011 due to a higher taxable income. This increase was primarily due to an increase in reimbursement of allowances for fines of COP 1.3 billion and the effect of valuation of derivatives of COP 13.1 billion, largely for derivative swaps and was partially compensated by an increase of non-taxable income of COP 49 billion, which is explained by an increase in non-taxable dividend income in the amount of COP 6.2 billion. With respect to tax benefits, there was an increase in exempt income of COP 3.9 billion corresponding primarily to housing leasing and social housing programs.

***Net Income***

We recorded a net gain of COP 215.3 billion for the three months ended March 31, 2012, an increase of 25.5% compared to the net income of COP 171.6 billion for the three months ended March 31, 2011, for the reasons discussed above.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

***Financial Margin***

Financial margin, or net interest income, increased by 18.0% to COP 2,288.7 billion for 2011 compared to COP 1,939.5 billion for 2010. This increase was mainly the result of a significant increase in interest income on loans of COP 478.3 billion, or 21.0%, particularly in the area of consumer loans. This growth in consumer loans was largely attributable to an increasing placement of credit card loans, where the effective interest rate increased from 21.27% at the end of 2010 to 28.63% as of December 31, 2011. The increase in our financial margin is also attributable to our income generated from investments, which totaled COP 254 billion, 4.5% higher than COP 243 billion in 2010, due primarily to an increase in the value of available for sale investments, due to an increase in our purchase of these investments. Growth in this period was partially offset by an increase in non-performing loans by COP 136.4 billion, or 30.4%, which increased as a result of the extension of loans to a broader pool of borrowers. These results were also offset by an increase of COP 180.5 billion in 2011, or 25.0% in total interest expense, mainly due to an increase in expense on saving deposits, which represented an additional COP 88.8 billion or 62.7%, and an increase in interest payments on bonds of COP 65.5 billion in 2011, due primarily to our COP 1,100 billion bond offerings during 2011, in addition to the COP 1,250 billion in local bonds we issued in 2010.

The increase in our financial margin was also partially offset by interest rate decreases. Our average interest rate earned on interest-earning assets for the year ended December 31, 2011 was 11.0 % and the average interest rate paid on interest-bearing liabilities was 3.7%, resulting in a yield spread of approximately 7.3%. In the prior year, our average interest rate earned on interest-earning assets for the year ended December 31, 2010 was 10.9% and the average interest rate paid on interest-bearing liabilities was 3.4%, resulting in a yield spread of 7.5%. This decrease in the spread between 2011 and 2010 was due to a decrease on the average interest rate on performing loans and financial leases of 12 basis points, despite an increase in the maximum permissible interest rate of 778 basis points to 29.09% for the year ended December 31, 2011 from 21.32% for the year ended December 31, 2010, which was offset by the increase on the average interest rate on investment securities of 7 basis points. In addition, we experienced an increase in the average interest rate on long-term debt of 55 basis points, on interbank borrowings of 331 basis points, on savings deposits of 51 basis points and on checking deposits of 32 basis points.

The following table sets forth the components of our financial margin, or net interest income, for the periods indicated:

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2010 | 2011 | 2010 / 2011 | % |
| *Interest income* | (millions of COP) | | | |
| **Loans** | | | | |
| Commercial and microcredit loans | 796,083 | 945,948 | 149,865 | 18.8 |
| Consumer loans | 1,187,717 | 1,502,193 | 314,476 | 26.5 |
| Mortgages | 290,818 | 304,793 | 13,975 | 4.8 |
| Subtotal | 2,274,617 | 2,752,935 | 478,318 | 21.0 |
| **Interest on investment securities** | | | | |
| Fixed income | 242,973 | 253,894 | 10,921 | 4.5 |
| Equities | 52 | 55 | 3 | 5.8 |
| Subtotal | 243,025 | 253,949 | 10,924 | 4.5 |
| **Interbank and overnight funds** | | | | |
| Subtotal | 2,046 | 4,927 | 2,881 | 140.8 |
| **Financial leases** | | | | |
| Subtotal | 141,207 | 178,805 | 37,598 | 26.6 |
| Total interest income | 2,660,895 | 3,190,615 | 529,720 | 19.9 |
| *Interest expense* | | | | |
| **Deposits** | | | | |
| Checking accounts | 18,095 | 20,068 | 1,973 | 10.9 |
| Term deposits | 313,596 | 303,777 | (9,819) | (3.1) |
| Saving deposits | 141,520 | 230,292 | 88,772 | 62.7 |
| Subtotal | 473,211 | 554,137 | 80,926 | 17.1 |
| **Borrowings from banks and others** | | | | |
| Subtotal | 63,576 | 97,366 | 33,790 | 53.1 |
| **Interbank and overnight funds** | | | | |
| Subtotal | 1,182 | 1,597 | 415 | 35.1 |
| **Repo transaction** | | | | |
| Subtotal | 8,812 | 8,662 | (150) | (1.7) |
| **Long-term debt** | | | | |
| Subtotal | 174,647 | 240,134 | 65,487 | 37.5 |
| Total interest expense | 721,427 | 901,897 | 180,470 | 25.0 |
| **Net interest income** | 1,939,467 | 2,288,719 | 349,252 | 18.0 |

***Interest Income***

For the year ended December 31, 2011, there was an increase of 3 basis points in the average interest rate earned on interest-earning assets compared with the year ended December 31, 2010, due to an increase of 40 basis points in the average interest rate on investment securities and overnight funds, substantially offset by a decrease on the average interest rates on performing loans and financial leases of 12 basis points.

Despite this slight decline in average interest rates, our total interest income grew as a result of higher outstanding loan balances, especially in our consumer loan portfolio, during the year ended December 31, 2011, as compared to the corresponding period in 2010. This growth was attributable to an increase in loans outstanding, particularly for credit cards loans, with a balance outstanding on all consumer loans of COP 8,606 billion during the year ended December 31, 2011, and an increase in the maximum permissible interest rate of 778 basis points, which led to higher interest payments by our customers on credit cards loans and revolving loans, due to the fact that interest rates for these loans are typically tied to variable interest rates. Within our consumer loan portfolio, our outstanding credit card loan and personal loan balances grew by COP 446.6 billion, or 23.7%, and COP 422.6 billion, or 8.7%, respectively.

Interest earned on investment securities for the year ended December 31, 2011 increased compared with the corresponding period in 2010 due to an increase in valuations from such investments.

***Interest Expense***

For the years ended December 31, 2010 and 2011, the average interest rate paid on interest-bearing liabilities was 3.4% and 3.7%, respectively, as the 331 basis point increase in interbank loan rates and savings deposit of 51 basis points in 2011 was partially offset by a 19 basis point decrease in borrowings from banks and others.

Total interest expense increased for the year ended December 31, 2011 compared with the corresponding period in the prior year, primarily as a result of the increase of the average balance of saving deposits and an increase in our issuance of bonds during 2011, as discussed in more detail below.

Interest expense on deposits (which includes checking and savings accounts and term deposits) increased for the year ended December 31, 2011, compared to 2010, primarily as a result of an increase in the interest rate paid on savings deposits, from an average of 1.63% in 2010 to an average of 2.14% for the year ended December 31, 2011. The increase in interest rates is attributable to the increase in the Central Bank's intervention rate increase during 2011, which had the effect of increasing the amount that we had to pay to our depositors, especially those with savings accounts and those with term deposits indexed to the DTF.

Interest expense on borrowings from local and foreign financial institutions increased for the year ended December 31, 2011, compared to the corresponding period in the prior year, primarily due to an increase of 61.7% in the average balance on borrowings from these institutions, partially offset by a decrease of 19 basis points in the average interest rate on borrowings from local and foreign financial institutions between December 31, 2010 and December 31, 2011.

Interest expense on long-term debt increased for the year ended December 31, 2011 compared to the corresponding period in 2010, primarily as a result of the increase of 55 basis points in the average interest rate paid on long-term debt, as well as our issuing COP 1,100 billion in publicly listed local debt securities during 2011 under our COP 3,000 billion local bond program, increasing the average balance of outstanding bonds by 26.6% for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

***Allowances***

The following table sets forth the components of our allowances for the periods indicated:

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2010 | 2011 | 2010 / 2011 | % |
| | (millions of COP) | | | |
| Allowances for loan losses and accounts receivable ........ | 340,048 | 621,035 | 280,987 | 82.6 |
| Allowances for leasing .................................................... | 20,094 | (6,293) | (26,387) | (131.3) |
| Allowances for investments and foreclosed assets ........... | 2,692 | (9,856) | (12,548) | (466.1) |
| Allowances for other assets and plant and equipment ...... | 4,388 | 14,959 | 10,570 | 240.9 |
| Allowances, net.............................................................. | 367,222 | 619,845 | 252,622 | 68.8 |

Allowances for loan losses and accounts receivable charged against earnings, which consist of allowances for loans, accrued interest losses and other receivables, net, less recoveries of non-performing loans (other than allowances for leasing), increased for the year ended December 31, 2011 compared to the prior year, mainly as the result of an increase in allowances in our consumer portfolio, which grew due to a 13.1% outstanding balance increase for the period, as well as a larger provision taken for revolving loans of 68.2% due to deterioration in the quality of our revolving loan portfolio resulting from the extension of credit to borrowers that posed a higher credit risk. In addition, even though in April 2010 the SFC implemented policies to include procyclical and countercyclical components, the allowance for loan losses as a percentage of non-performing loans decreased to 221.1% as of December 31, 2011 compared to 260.5% as of December 31, 2010. The decrease in the ratio of allowance for loan losses to non-performing loans reflects the increase in non-performing loans of 30.44%, which in turn increased as a result of a decline in the quality of our consumer loan portfolio, specifically our revolving loan portfolio. Pursuant to instructions from the SFC that were issued in November 2011, the value of allowances taken also increased from 65% in 2010 to 75%, and we were required to recognize allowances after 30 days, rather than the 180 days that had previously been required.

Allowances for leases charged against earnings decreased by 131.3% by December 31, 2011 in comparison to the prior year due to higher recoveries during 2011. Additionally, since November 2011, pursuant to SFC's regulations guarantees on our housing leasing portfolio are admissible in our calculation of allowances, which resulted in a decrease in our allowances for leasing.

Allowances for investments and foreclosed assets decreased for the year ended December 31, 2011 compared with the prior year due to higher recoveries of foreclosed assets and other assets received as payment in kind resulting from a positive change in the credit ratings of our fixed income investments and the sale of investments for which we had previously taken allowances. The most important recoveries in 2011 corresponded to goods received as payment that we were able to sell, allowing us to reverse the provision that had been recorded in prior periods. Recoveries of allowances that we previously made for our investments are explained by the change in the credit ratings of our fixed income investments and the sale of investments for which we had previously made allowances.

Allowances for other assets and plant and equipment charged against earnings increased for the year ended December 31, 2011 compared to the corresponding period in 2010 as the result of adjustments to the values of fixed assets.

*Fees and Commissions, Non-Interest and Dividend Income*

The following table sets forth the components of our income and expense from fees and commissions, non-interest income and dividends, for the periods indicated:

| | For the Year Ended December 31 | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2010 | 2011 | 2010 / 2011 | % |
| | (millions of COP) | | | |
| Fees, commissions income and services income | | | | |
| Credit card fees | 225,459 | 243,440 | 17,981 | 8.0 |
| Corporate banking services | 38,446 | 36,173 | (2,272) | (5.9) |
| Transaction services | 195,034 | 204,535 | 9,500 | 4.9 |
| Debit and credit card commissions | 141,153 | 149,471 | 8,318 | 5.9 |
| Insurance commissions | 40,244 | 59,785 | 19,542 | 48.6 |
| Brokerage and trust commissions and other | 59,434 | 64,683 | 5,248 | 8.8 |
| Collaboration agreements | 17,751 | 18,069 | 318 | 1.8 |
| Total fees, commissions income and services income | 717,522 | 776,156 | 58,634 | 8.2 |
| Fees and commissions expenses | (81,506) | (103,245) | (21,739) | 26.7 |
| Net, fees, commissions income and services income | 636,015 | 672,911 | 36,896 | 5.8 |
| Non-interest income | | | | |
| Exchange gain and derivatives | 1,275,195 | 1,681,561 | 406,366 | 31.9 |
| Other income | 94,038 | 91,518 | (2,520) | (2.7) |
| Total Non-interest income | 1,369,233 | 1,773,079 | 403,846 | 29.5 |
| Non-interest expense | | | | |
| Exchange loss and derivatives | (1,227,270) | (1,609,407) | (382,138) | 31.1 |
| Other expenses | | | | |
| Amortization and depreciation without goodwill | (83,960) | (114,632) | (30,671) | 36.5 |
| Amortization of goodwill | (107,101) | (86,316) | 20,786 | (19.4) |
| Taxes other than income taxes | (90,818) | (129,498) | (38,680) | 42.6 |
| Insurance department | (54,255) | (59,646) | (5,391) | 9.9 |
| Subtotal, other expenses | (336,134) | (390,091) | (53,957) | 16.1 |
| Non-operating expenses | (101,590) | (72,489) | 29,101 | (28.6) |
| Total Non-interest expenses | (1,664,995) | (2,071,987) | (406,993) | 24.4 |
| Non-interest income (expense), net | (295,761) | (298,909) | (3,148) | 1.1 |
| Dividend income | 16,394 | 16,687 | 293 | 1.8 |
| **Total fees and commissions, non-interest income, net and dividend income** | **356,648** | **390,689** | **34,041** | **9.5** |

Total fees and commissions, non-interest income and dividend income, net, increased for the year ended December 31, 2011, compared to the prior year, largely as a result of an increase in income attributable to fees and commissions, and to a lesser extent, due to increases in non-interest income within exchange gain (loss) and derivatives, as explained further below.

Net commission and fees income for the year ended December 31, 2011 increased compared to the prior year primarily due to an increase in credit and debit card administration fees, resulting from an increase in the annual fee charged on these cards, as well as an increase in the number of cards in circulation. Insurance commissions increased due to the success of a new marketing initiative for certain insurance products. Income from transaction services increased due to income from branch and ATM services, which increased due to new card issuances, and due to income from loan administration fees, consisting of fees charged for administering securitized loans, which increased due to increased volume of loan securitizations.

Increases in non-interest income within exchange gain (loss) and derivatives were attributable to an increase in gains from our derivatives valuations by 79.4%, which in turn, increased due to changes in exchange rates and market rates for the derivatives. This increase in value was largely offset by non-interest expense, which increased due to the loss in the valuation of derivatives, as calculated in accordance with Colombian Banking GAAP. These derivatives are held to cover our exposure to foreign exchange risk.

Goodwill amortization decreased for the year ended December 31, 2011 compared to the corresponding period of the prior year, primarily due to changes in goodwill attributable to our acquisition of Banco Superior.

Taxes other than income taxes increased for the year ended December 31, 2011 compared to the prior year, in part due to the fact that during 2011 we experienced an increase in the industry and commerce tax in connection with the increase in operating income, and an increase in the tax on financial transactions (*Gravamen de Movimientos Financieros*). In addition, we recognized a significant increase in other expense due to expenses attributable to the equity tax (*impuesto al patrimonio*) and the new surcharge on the equity base of COP 1.4 trillion in the amount of COP 181 billion, which is recognized under taxes other than income taxes. The equity tax was levied by the Colombian government to compensate for declining tax revenues, to fund certain government investments and to compensate for potential budget shortfalls. We made our first payment under the equity tax and related surcharge in May 2011, and anticipate that we will continue to pay this tax through 2014 in semi-annual installments.

***Administrative and Operating Expense***

The following table sets forth the components of our administrative and operating expense for the periods indicated:

| | For the Year Ended December 31, | | Increase / (Decrease) | |
|---|---|---|---|---|
| | **2010** | **2011** | **2010 / 2011** | **%** |
| | (millions of COP, except for percentages) | | | |
| **Administrative expenses** | | | | |
| Personnel expenses | | | | |
| Salary expenses | 191,266 | 219,803 | 28,537 | 14.9 |
| Incentives and compensation | 115,378 | 99,221 | (16,157) | (14.0) |
| Other employee benefits | 243,946 | 265,433 | 21,486 | 8.8 |
| Subtotal, personnel expenses | 550,590 | 584,457 | 33,866 | 6.2 |
| Service fees | 106,980 | 103,165 | (3,816) | (3.6) |
| Contributions and subscriptions | 44,540 | 52,008 | 7,468 | 16.8 |
| Facilities and office operation and maintenance | 76,959 | 74,626 | (2,333) | (3.0) |
| Utilities | 58,926 | 58,307 | (619) | (1.1) |
| Stationery, supplies and materials | 15,178 | 15,635 | 457 | 3.0 |
| Advertising and public relations | 88,475 | 90,042 | 1,566 | 1.8 |
| Insurance | 35,491 | 53,372 | 17,881 | 50.4 |
| Other | 7,188 | 5,025 | (2,164) | (30.1) |
| Subtotal, non-personnel administrative expenses | 433,737 | 452,180 | 18,442 | 4.3 |
| **Operating expenses** | | | | |
| Leases | 55,389 | 58,996 | 3,607 | 6.5 |
| Electronic data processing | 54,773 | 57,433 | 2,660 | 4.9 |
| Travel and transportation expenses | 64,597 | 62,765 | (1,832) | (2.8) |
| Other | 23,217 | 23,860 | 643 | 2.8 |
| Subtotal, operating expenses | 197,976 | 203,054 | 5,078 | 2.6 |
| **Total administrative and operating expenses** | **1,182,305** | **1,239,690** | **57,385** | **4.9** |

Total administrative and operating expenses increased for the year ended December 31, 2011 compared to the prior year, primarily as the result of an increase in expenses related to personnel. Personnel expenses increased for 2011 compared to the prior year, primarily due to the addition of approximately 388 employees, including temporary workers, to serve new business lines, including our SME business line, and overall increases of 14.9% and 8.8% in salaries and employee benefits, respectively.

Expenses relating to service fees decreased due to the improvement of our quality management system and the implementation of budgeting software in 2010. Expenses relating to office installations and improvements decreased primarily due to the reduction in our maintenance and repair expenses of 11.3%. Insurance expenses increased primarily due to our having acquired a new internet fraud insurance policy in the third quarter of 2011.

Advertising expenses increased slightly in 2011 as compared to 2010. In each of 2011 and 2010, we had significant one-time advertising expenses, including expenditures related to our Diners Club program and Daviplata in 2011, and expenses related to the marketing of family bundles, car shows and our initial public offering in 2010.

Operating expenses increased in 2011 compared to the prior year, as the result of an increase in electronic data processing technologies, which was due to software leases and the acquisition of Oracle and Microsoft licenses, which we amortize in accordance with our accounting policies. The increase was also attributable to increased leasing expenses, resulting from our decision to lease, rather than own, our ATMs. Expenses related to this item increase on a monthly basis as the number of our ATMs increase. Amortization and depreciation expenses without goodwill increased for 2011 compared to the prior year, primarily due to amortization related to certain infrastructure investments, including office remodeling, investments in IT hardware and depreciation and other expenditures for fixed assets.

***Minority Interest***

Minority interest, which includes income attributable to minority interests, increased between the relevant periods primarily as a result of an increase in the equity of our subsidiaries—Fiduciaria Davivienda, Confinanciera, Fiduciaria Fiducafé, Davivalores and Bancafé Panamá—as a consequence of positive overall results of the Colombian financial system.

***Income Taxes***

Income tax expense increased year over year due to a higher taxable income for the year ended December 31, 2011 compared to 2010. This increase was primarily due to an increase in non-taxable expenses of COP 34.5 billion, which is explained by an increase in the equity tax in the amount of COP 31.6 billion, a larger non-deductible expense due to accrual differences in our fiscal and accounting investment and derivatives portfolio with an increase of COP 90 billion. The increase was offset by an increase in exempt income in the amount of COP 33.8 billion from social-interest housing mortgages, Treasury Inflation Protected Securities (“TIPS”) and house leasing transactions.

***Net Income***

We recorded a net gain of COP 630.3 billion for the year ended December 31, 2011, an increase of 8.8% compared to the net income of COP 579.3 billion for the year ended December 31, 2010, for the reasons discussed above.

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

***Financial Margin***

Financial margin, or net interest income, increased in 2010 compared to 2009, mainly as the result of a decrease in total interest expense, which in turn was mainly due to a significant decrease in total interest paid on deposits. This decrease in interest paid on deposits was largely attributable to a decline in interest paid on term deposits as a result of declining DTF rates, which fell from an annual average of 6.24% in 2009 to 3.67% in 2010.

Our decrease in total interest expense was partially offset by a decrease in total interest income from 2009 to 2010, due mainly to decreases in interest earned on loans and investment securities. Our average interest rate earned on interest-earning assets in 2010 was 10.9% and the average interest rate paid on interest-bearing liabilities was 3.4% resulting in a yield spread of 7.6%. By contrast, our average interest rate earned on interest-earning assets for 2009 was 13.6% and the average interest rate paid on interest-bearing liabilities was 5.1%, resulting in a yield spread of 8.5%. The yield spread decreased in 2010 as a result of the reduction of the average nominal interest rate of performing loans and financial leases from 15.1% to 12.3% and the average nominal interest rate of investments securities from 8.3% to 5.6%.

The following table sets forth the components of our financial margin, or net interest income, for the years indicated.

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 / 2010 | % |
| ***Interest income*** | (millions of COP) | | | |
| **Loans** | | | | |
| Commercial and microcredit loans | 969,819 | 796,083 | (173,736) | (17.9)% |
| Consumer loans | 1,136,374 | 1,187,717 | 51,343 | 4.5% |
| Mortgages | 257,442 | 290,818 | 33,376 | 13.0% |
| Subtotal | 2,363,634 | 2,274,618 | (89,016) | (3.8)% |
| **Interest on investment securities** | | | | |
| Fixed income | 314,145 | 242,973 | (71,173) | (22.7)% |
| Equities | 352 | 52 | (300) | (85.2)% |
| Subtotal | 314,497 | 243,025 | (71,470) | (22.7)% |
| **Interbank and overnight funds** | | | | |
| Subtotal | 6,937 | 2,046 | (4,891) | (70.5)% |
| **Financial leases** | | | | |
| Subtotal | 108,846 | 141,207 | 32,361 | 29.7% |
| Total interest income | 2,793,915 | 2,660,895 | (133,020) | (4.8)% |
| ***Interest expense*** | | | | |
| **Deposits** | | | | |
| Checking accounts | (23,738) | (18,095) | 5,643 | (23.8)% |
| Term deposits | (499,042) | (313,596) | 185,445 | (37.2)% |
| Saving deposits | (222,536) | (141,520) | 81,016 | (36.4)% |
| Subtotal | (745,316) | (473,211) | 272,104 | (36.5)% |
| **Borrowings from banks and others** | | | | |
| Subtotal | (75,152) | (63,576) | 11,576 | (15.4)% |
| **Interbank and overnight funds** | | | | |
| Subtotal | (2,215) | (1,182) | 1,033 | (46.6)% |
| **Repo transaction** | | | | |
| Subtotal | (7,284) | (8,812) | (1,528) | (21.0)% |
| **Long-term debt** | | | | |
| Subtotal | (144,155) | (174,647) | (30,492) | 21.2% |
| Total interest expense | (974,122) | (721,427) | 252,693 | (25.9)% |
| **Net interest income** | 1,819,793 | 1,939,467 | 119,675 | 6.6% |

*Interest Income*

For 2010, there was a decrease of 263 basis points in the average interest rate earned on interest-earning assets. The decrease in the average rate earned reflected the lower level of average interest rates in 2010 compared to 2009. The Central Bank's reference rate averaged 3.21% during 2010, which was 288 basis points lower than the 6.08% average rate during 2009. This decline was the result of the government's expansive monetary policy adopted in 2010, developed in light of the country's slow inflation growth. In addition, the maximum permissible interest rate for 2009 and 2010 decreased by 603 basis points, causing us to recognize less interest income from our commercial loan portfolio, while recognizing more interest income from our consumer loan portfolio. The decrease in interest income resulting from lower interest rates was partially offset by a 21.6% increase in our loan portfolio.

Our overall interest income decreased in 2010 compared to the prior year, primarily as the result of decreases in interest earned on loans and decreases in interest earned on investment securities. The decrease in interest earned on loans was the result of lower interest rates as a consequence of the expansive governmental monetary policy, despite the higher growth rate of our commercial loan portfolio, which also experienced lower interest rates.

Interest earned on loans increased for mortgage loans and consumer loans in 2010 compared to 2009, although it declined overall for commercial and microcredit loans. The decrease in interest earned on commercial and microcredit loans was partially as a result of the decrease in the DTF, from a 6.24% average in 2009 to a 3.67%

average in 2010, which had an adverse impact on our income from commercial loans that are tied to this index. Our interest income from mortgages increased, mainly as a result of the increase in interest income from UVR-denominated loans, which in turn, increased as a result of the 117 basis point increase in observed inflation. Interest income from our consumer loan portfolio increased due to an increase in consumer loan balances disbursed during 2010, partially offset by a decrease of 603 basis points on average in the interest rates for these loans. The decrease in interest income from our loan portfolio was partially offset by 19.6% growth in our total loan portfolio average balance.

Interest on investment securities decreased in 2010 compared to 2009 as a result of declining interest rates, and a total decrease equivalent to 4.11% in our debt investment securities. The investment rate decreased 275 basis points in 2010 and the average balance increased by COP 585 billion, or 15.5%. Had the real rate of 2009 remained constant at 8.31% in 2010, our 2010 average balance would have generated an additional COP 120.1 billion more in interest income. Our fixed income investments represent 99.98% of our interest income from investment securities.

Interest income from financial leasing increased in 2010 compared to 2009 as a result of governmental incentives to this business line, corresponding to tax benefits as well as interest rate subsidies to customers.

***Interest Expense***

For 2010, there was a decrease in the average interest rate paid on interest-bearing liabilities of 175 basis points, from 5.2% in 2009 to 3.4% in 2010. The decrease in the average rate paid on interest-bearing liabilities was related to a reduction on the interest-bearing liabilities of term deposits and saving deposits of 2.84% and 1.26%, respectively.

Interest expense decreased in 2010 compared 2009, primarily as the result of a decrease in interest paid on term deposits and on savings deposits. This decrease in interest expense was the result of a decline in nominal rates as a consequence of the Central Bank's monetary policy, which drove the DTF down from 9.69% as of January 31, 2009 to 3.50% as of December 31, 2010. This decrease was partially offset by the increase in the average balance of long-term debt of 43.7% and borrowings from banks and others of 15.9% for 2010 compared to 2009.

Interest expense on deposits decreased, primarily as the result of a reduction in the interest rate on term deposits and savings deposits, partially offset by an increase in balances.

Interest on borrowings from banks and others decreased in 2010 compared to 2009, primarily due to a reduction in the average rate paid by 134 basis points, which was partially offset by an increase in the average balance of our loans outstanding of COP 239.1 billion, or 15.9%.

Interest on long-term debt increased in 2010, due to our strategy of altering our mix of funding sources by relying more on local bond issuances, as opposed to 2009. During 2010 we undertook three local bond offerings in a total aggregate amount of COP 1,250 billion, which represented an increase on the average balance of long-term deposits of 43.7%, compared to two local bond offerings in a total aggregate principal amount of COP 1 billion in 2009.

Interest on interbank and overnight funds decreased as a result of our reduced reliance on this funding source, which represented only 0.17% of total interest expense during 2010.

*Allowances*

The following table sets forth the components of our allowances for the periods indicated:

| | For the Year Ended December 31, | | Increase / Decrease | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 / 2010 | % |
| | (millions of COP) | | | |
| Allowances for loan losses and accounts receivables ... | 666,566 | 340,048 | (326,519) | (49.0)% |
| Allowances for leasing................................................ | 20,954 | 20,094 | (860) | (4.1)% |
| Allowances for investments and foreclosed assets........ | 9,992 | 2,692 | (7,299) | (73.1)% |
| Allowances for other assets and plant and equipment .. | 14,215 | 4,388 | (9,827) | (69.1)% |
| Allowances, net ....................................................... | 711,727 | 367,222 | (344,505) | (48.4)% |

Allowances for loan losses and accounts receivables charged against earnings decreased in 2010 compared to 2009, mainly as the result of an improvement in the quality of our loan portfolios, in particular of our consumer loan portfolio, as a result of a change in our risk management policies. In particular, we tightened our credit rating scores to improve our customer profiles, which translated to better portfolio quality. These efforts are reflected in our non-performing loan ratios, which improved from 2.55% of loans outstanding to 2.04% between 2009 and 2010, as well as our lower absolute level of allowances. All our consumer credit lines showed this improvement in quality, except for revolving loans, for which our allowances experienced an increase during the period and led us to further restrict approval standards for disbursements of this type, which remain in place as of the date of this offering memorandum.

In addition, changes to the SFC's reference models, which required us to take into account individual contracyclical components, resulted in a small provision recovery of COP 110 million in 2010. Likewise, during 2010 the loss given default was adjusted to comply with the applicable regulations with an effect on recoveries in the amount of COP 350,630 million, increasing our coverage.

Allowances for leases charged against earnings declined slightly, mainly as the result of a change in the reference models of the SFC, which resulted in lower allowances. The changes in the SFC reference models caused us to update our portfolio behavior with regard to prepayments, payments, defaults and allowances. See "Risk Management – Risk Management Policies – Credit Risk – Overview."

Allowances for investments and foreclosed assets charged against earnings declined in 2010 compared to 2009, mainly as a result of (i) allowances taken in 2009 for our foreign subsidiaries' portfolio allowances in an amount totaling COP 2.2 billion and an adjustment to the provision taken for series B and MZ TIPS securitized mortgage loans according to the change in their valuation, neither of which were repeated in 2010, and (ii) improved ratings for our investment securities. The investment allowances show an improvement due to credit rating changes of some issuers.

Allowances for other assets and plant and equipment charged against earnings represented a provision reversal for 2010 compared to 2009. This decline was due to the fact that during 2010 allowances for other assets were reduced due to sales executed during the period and recoveries due to an improvement in the fixed asset valuations.

*Fees and Commissions, Non-Interest and Dividend Income*

The following table sets forth the components of our income from fees and commissions, non-interest income and dividends, for the periods indicated:

| | For the Year Ended December 31, | | Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009/2010 | % |
| | (millions of COP) | | | |
| Fees, commissions and services income | | | | |
| Credit card fees | 182,494 | 225,459 | 42,965 | 23.5% |
| Corporate banking services | 12,915 | 38,446 | 25,531 | 197.7% |
| Transaction services | 221,164 | 195,034 | (26,130) | (11.8)% |
| Debit and credit card commissions | 173,610 | 141,153 | (32,457) | (18.7)% |
| Insurance commissions | 28,634 | 40,244 | 11,610 | 40.5% |
| Brokerage and trust commissions and other | 62,084 | 59,434 | (2,649) | (4.3)% |
| Collaboration agreement | 14,312 | 17,751 | 3,439 | 24.0% |
| Total fees, commissions income and services income | 695,213 | 717,522 | 22,309 | 3.2% |
| Fees and commissions expenses | (76,621) | (81,506) | 4,886 | 6.4% |
| Fees and commissions, net | 618,593 | 636,016 | 17,423 | 2.8% |
| Non-interest income | | | | |
| Exchange gain and derivatives | 864,672 | 1,275,195 | 410,523 | 47.5% |
| Other income | 125,831 | 94,038 | (31,793) | (25.3)% |
| Total Non-interest income | 990,503 | 1,369,233 | 378,730 | 38.2% |
| Non-interest expense | | | | |
| Exchange loss and derivatives | (810,675) | (1,227,270) | (416,595) | (51.4)% |
| Other expenses | | | | |
| Amortization and depreciation without goodwill | (75,682) | (83,960) | (8,278) | 10.9% |
| Amortization of goodwill | (104,276) | (107,101) | (2,825) | 2.7% |
| Taxes other than income taxes | (41,461) | (90,818) | (49,357) | 119.0% |
| Insurance department | (47,852) | (54,255) | (6,403) | 13.4% |
| Subtotal, other expenses | (269,272) | (336,134) | (66,863) | 24.8% |
| Non-operating expenses | (80,248) | (101,590) | (21,342) | 26.6% |
| Total Non-interest expenses | (1,160,194) | (1,664,994) | (504,800) | 43.5% |
| Non-interest income, net | (169,691) | (295,761) | (126,070) | (74.3)% |
| Dividend income | 13,574 | 16,394 | 2,820 | 20.8% |
| **Total fees and commissions, non-interest income, net and dividends** | **462,475** | **356,648** | **(105,827)** | **(22.9)%** |

Total fees and commissions, net increased in 2010 compared to 2009, primarily due to an increase in credit card fees and corporate banking service fees. The increase in credit card fees was due to annual variations in fees and to the higher volume of cards in circulation. The increase in corporate banking services is attributable to collection commissions and payments from the SMEs business line, as a result of our efforts to increase our penetration of this market segment following our merger with Bancafé. Additionally, insurance commissions increased due largely to a new marketing initiative for certain insurance products.

These gains were partially offset by a decline in transaction service fees, due to the elimination of fees that were previously charged for telephone banking and national deposit services. We also witnessed a decline in debit and credit card commissions as a result of the reduction in exchange fees, despite the increased use of debit and credit cards by our customers.

Non-interest income increased in 2010 compared to 2009, mainly due to an increase in non-interest income from exchange gain and derivatives of COP 410.5 billion, or 47.5%, which resulted from an increase in the profit due to derivatives valuation which is largely attributable to fluctuations in Colombian government bonds (TES) during the period. This non-interest income was offset by an increase in 2010 compared to 2009 in expense attributable to exchange gain (loss) and deriviatives, which is explained by loss of COP 582 million in the valuation of derivatives, and an additional expense of COP 130.1 million attributable to changes in the valuation of assets denominated in foreign currencies. These derivatives are held to cover our exposure to foreign exchange risk.

Amortization and depreciation expense without goodwill expense increased in 2010 compared to 2009. The increase is explained by the expense associated with remodeling and improvement of facilities in connection with our merger with Bancafé.

Amortization of goodwill expense increased slightly in 2010 compared to 2009, as a result of the 20-year amortization of goodwill through the exponential or declining balances method.

Taxes other than income taxes increased in 2010 compared to 2009, primarily as a result of the expiration of our tax stability agreement, or "*Estabilidad tributaria*," which was transferred to us from Bancafé after our acquisition of the company and which guaranteed a moratorium on new taxes through 2009. As consideration for that agreement, Davivienda agreed to pay a higher tax rate of 200 basis points than otherwise would have been the case during its term.

Tax expenses other than income tax expense grew as a result of new taxes on financial transactions and the adoption of the equity tax in 2010, after the expiration of the tax stability agreement.

Dividend income increased in 2010 primarily as the result of the positive operating results of our non-consolidated subsidiaries—Titularizadora Colombiana, Deceval and Finagro—which led them to pay out higher dividends in 2010 than in 2009.

### *Administrative and Operating Expense*

The following table sets forth the components of our administrative and operating expense for the periods indicated:

| | For the Years Ended December 31, | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 / 2010 | % |
| | (millions of COP, except for percentages) | | | |
| **Administrative expenses** | | | | |
| Personnel expenses | | | | |
| Salary expenses | 175,064 | 191,266 | 16,202 | 9.3% |
| Incentives and compensation | 89,868 | 115,378 | 25,510 | 28.4% |
| Other employee benefits | 204,146 | 243,946 | 39,800 | 19.5% |
| Subtotal, personnel expenses | 469,078 | 550,590 | 81,512 | 17.4% |
| Service fees | 93,979 | 106,980 | 13,002 | 13.8% |
| Contributions and subscriptions | 43,708 | 44,540 | 832 | 1.9% |
| Facilities and office operation and maintenance | 73,376 | 76,959 | 3,583 | 4.88% |
| Utilities | 46,221 | 58,926 | 12,705 | 27.50% |
| Stationery, supplies and materials | 14,101 | 15,178 | 1,077 | 7.60% |
| Advertising and public relations | 61,089 | 88,475 | 27,386 | 44.8% |
| Insurance | 23,704 | 35,491 | 11,787 | 49.7% |
| Other | 3,248 | 7,188 | 3,940 | 121.3% |
| Subtotal, non-personnel administrative expenses. | 359,426 | 433,737 | 74,311 | 20.7% |
| **Operating expenses** | | | | |
| Leases | 46,484 | 55,389 | 8,905 | 19.2% |
| Electronic data processing | 47,067 | 54,773 | 7,706 | 16.4% |
| Travel and transportation expenses | 57,332 | 64,597 | 7,265 | 12.7% |
| Other | 29,173 | 23,217 | (5,956) | (20.4)% |
| Subtotal, operating expenses | 180,056 | 197,976 | 17,920 | 10.0% |
| **Total administrative and operating expenses** | **1,008,560** | **1,182,305** | **173,745** | **17.2%** |

Total administrative and operating expenses increased in 2010 compared to 2009, primarily as the result of increases in administrative expense, which was in turn primarily due to an increase in personnel expenses. This increase was primarily due to an increase of other employee benefits and incentives and compensation expenses, attributable to the hiring of approximately 1,000 new employees (for new branches, our human resources and technology departments and staffing of our SME business line), an increase of 9.3% in wages and an increase in performance-based compensation related to our positive operating results for the year. Employee benefits also increased due to an expansion of our variable compensation to all our administrative personnel, as well as our growth in product offerings. Lastly, between 2009 and 2010 we experienced an increase in advertising expenses related to promotional efforts aimed at enhancing our institutional image and marketing expenses related to our rewards point program and other incentives for credit and debit cards.

Operating expenses increased in 2010 compared to 2009, primarily due to increased leasing expenses, electronic data processing expenses and transportation expenses. These increases were partially offset by the decrease in our other operating expenses. Growth in operating expenses is also attributable to an increase in mobile communication expenses as a strategy to improve security in transactions performed by customers, in addition to an increase in technology expenses for the modernization of our information technology.

### *Non-Controlling Interest*

Non-controlling interest, which includes income attributable to minority interests, decreased in 2010 compared to 2009, due to a decline in dividend payments from our subsidiaries.

### *Income Taxes*

Income tax expense increased in 2010 compared to 2009, due primarily to lower non-taxable dividend payments of COP 18.8 billion in 2009 and to the difference between the tax accounting valuation of our portfolio, and the derivatives positions, which represent a lesser value than the taxable income.

Our income tax was also affected by non-deductible expenses due to the financial transactions tax and equity tax, in the amount of COP 26.6 billion and COP 13.1 billion, respectively (as a consequence of the expiration of our tax stability agreement), non-deductible expenses in the amount of COP 42.6 billion and lower taxable income in the amount of COP 54.9 billion resulting from our social housing mortgage loans, housing leasing loans, and TIPs, which are considered non-taxable income.

Additionally, we generated a deferred income tax as a consequence of our differences in the amortization of goodwill as we use a 20-year term for the amortization for accounting purposes, and a seven-year term for tax purposes.

### *Net Income*

For the year ended December 31, 2010, we reported a net income of COP 579.3 billion compared to net income of COP 461.1 billion for the year ended December 31, 2009, representing an increase of COP 118.2 billion, or 25.63%, for the reasons discussed above.

## Liquidity, Funding and Capital Expenditures

### *Liquidity and Funding*

#### Market Scenario

Macroeconomic policies established by Colombia's Central Bank directly impact the liquidity levels of the financial system. During 2010 the Central Bank continued with an expansive monetary policy and maintained its reference rate at a historically low level, 3.0%, until March 2011, when it increased the intervention interest rate 25 basis points, and continued to raise the intervention interest rate by 25 basis points each month until August 2011, when it reached 4.50%. The Central Bank increased the intervention interest rate by 25 basis points to 4.75% in November 2011, to 5.00% in January 2012 and to 5.25% in February 2012, where it has remained steady through the date of this offering memorandum. However, the liquidity levels of the system in 2011 and the first part of 2012 were lower as compared to 2010 due to the better performance of the economy and the increase in credit demand. Our liquidity levels were adequate and within both internal limits and regulatory limits set by the SFC.

#### Liquidity Management

The Assets and Liabilities Committee is responsible for defining the guidelines that control our liquidity levels and our funding strategies, taking into account our business strategy and market conditions.

The purpose of our liquidity management is to ensure that we have funds available to meet our present and future financial obligations under normal and exigent circumstances, and to respond to business opportunities. Liquidity needs may arise from the withdrawal of deposits, repayments upon maturity of borrowed funds, extensions of loans or other forms of credit and working capital needs.

Our policies require us to maintain a high level of liquidity. We have established several controls to determine if our liquidity levels are appropriate on a daily basis, by measuring our liquidity needs under normal and severe scenarios, and comparing it with the available liquidity that can be obtained through different mechanisms defined for each scenario, including market funding, the liquid assets in our balance sheet (cash and the different uses of our negotiable portfolio) and for the severe scenario, Central Bank assistance given through temporary liquidity support. In addition, the level of interbank and repurchase agreement transactions undertaken by Davivienda is usually relatively low, and the percentage of our portfolio that is negotiable is high in comparison with other banks in Colombia.

Our Assets and Liability Management Committee closely monitors our liquidity needs and the availability of funding sources. This committee also determines the cost of funding for various business lines, when growth incentives should be implemented, and whether or not to increase our reliance on deposits. Similarly, our Treasury Committee is responsible for our funding strategy by defining the kind of instruments that will be used and their terms and conditions (e.g., bonds, securitizations, etc.)

The SFC requires supervised entities to have a liquidity risk management system, and compliance with minimum liquidity levels measured through the Liquidity Risk Index, (*Indicador de Riesgo de Liquidez* or IRL). Our Assets and Liability Committee has established a more demanding limit in the IRL than established regulatory standards in order to guarantee the proper operation of banking activities.

As of March 31, 2012, our total liabilities reached COP 32.5 trillion, representing an increase of 2.14%, or COP 0.7 trillion compared to December 31, 2011. In addition to deposits, our sources of funding consist primarily of bonds and borrowing from correspondents and development banks. Another funding mechanism we use is mortgage securitization, which allows us to rotate our mortgage portfolio and cover market needs. During the first three months of 2012 and during 2011, we issued approximately COP 185,875 million and COP 443,510 million in mortgage-backed securities, respectively.

To maintain our desired liquidity levels at all times, we use mechanisms derived from the use of our investment portfolio, such as repos, or definitive sales, overnight operations with the Central Bank, and as a last resort, we retain the ability to access Transitory Liquidity Supports (*Apoyos Transitorios de Liquidez* or ATL), which are available based upon a percentage of our total average deposits.

**Total Assets**

Our primary assets consist of our loan portfolio and our investment securities. As of March 31, 2012, we had total assets of COP 37.4 trillion, an increase of 2.1% compared to total assets of COP 36.7 trillion as of December 31, 2011, which in turn represented an increase of 23.8% from COP 29.6 trillion as of December 31, 2010. From December 31, 2010 through December 31, 2011, Colombian banks as a whole experienced an increase of 26.0% in total loans, while GDP grew approximately 5.9% for the corresponding period. During the three months ended March 31, 2012, Colombian banks experienced an overall increase of 2.1% in total loans.

As of March 31, 2012, the total of our loan portfolio, net of allowances, was COP 25.9 trillion, which represented 69.1% of our total assets. As of December 31, 2011, our net loans were COP 25.5 trillion, which represented 69.7% of our total assets. Our total loans, before allowances, increased by 1.5% from December 31, 2011 to March 31, 2012, and net of loan loss allowance increased by 5.2% in the same period. Our total loans, before allowances, increased by 22.4% from December 31, 2010 to December 31, 2011, and net of loan loss allowance increased by 10.7% in the same period.

As of March 31, 2012, our investment securities, which include securities that are available for sale, held to maturity and trading, represented 14.2% of our total assets. The total of our investment securities, net, increased by 14.2% to COP 5.4 trillion as of March 31, 2012 from COP 4.8 trillion as of December 31, 2011.

**Total Liabilities**

During the first three months of 2012, we maintained a solid liquidity position. Our total deposits grew by 4.5%, reaching COP 24.1 trillion. The composition of our deposits is as follows: 55.3% savings accounts, which during this three-month period grew by 6.4%; 13.5% checking accounts, which during this three-month period decreased by 9.6%; 30.5% term deposits, which during this three-month period grew 9.8%; and 0.6% other deposits, which decreased 36.3%.

As of March 31, 2012, our total deposits reached COP 24.1 trillion, an increase of COP 2.9 billion as compared to March 31, 2011. As of December 31, 2011 our total deposits reached COP 23.0 trillion, an increase of COP 3.7 trillion as compared to December 31, 2010. These increases were due primarily to the significant increase in the money supply and the strength of Davivienda's branch network, which led to an overall increase in the number of our clients and, in turn, deposits. We experienced similar deposit growth during 2010, as total deposits reached COP 19.3 trillion as of December 31, 2010, an increase of COP 1.0 trillion as compared to December 31, 2009.

Deposits as a percentage of our total liabilities have grown in line with our overall deposit base over the quarter, with deposits equal to 73.9% of liabilities as of March 31, 2012. Deposits as a percentage of our total liabilities were 72.3% in 2011, 74.3% in 2010 and 78.2% in 2009. This general trend toward declining deposits as a percentage of liabilities over the past three calendar years is due primarily to our greater reliance on repurchase agreement transactions with local and foreign financial institutions and our issuance of long-term debt, which has increased our total liabilities. By contrast, in the first quarter of 2012, balances with other financial institutions decreased due to maturing obligations and decreased dependence on foreign financial institutions for funding, which resulted in deposits representing a slightly higher percentage of our total liabilities in the first quarter of 2012 compared to 2011.

Additional sources of funding include borrowings from local and foreign financial institutions and long-term bond issuances and, to a lesser extent, interbank borrowings and overnight funds.

In terms of local bond issuances, we currently have an Ordinary Bonds Issuing Program registered and authorized by the SFC, under which we are authorized to issue up to COP 3,000 billion. Under this program, we have COP 1,100 billion in local bonds currently outstanding. Our total balance of outstanding bonds as of March 31, 2012 was COP 3,503 billion, with maturities ranging from 2012 to 2021, and representing 11.4% of our funding sources. We intend to steadily increase the aggregate amount of our outstanding bonds. On May 3, 2012 we completed a local offering of subordinated bonds for COP 400 billion (US$223.2 million) under our COP 3,000 billion local bond program, which increased the balance of our outstanding bonds to COP 3.9 trillion (US$2.2 billion) as of May 3, 2012.

Our U.S. dollar-denominated funding is based on credit lines with approximately 24 banks which amount to COP 1.8 trillion. As of the date of this offering memorandum, we have drawn down approximately COP 0.4 trillion. As of March 31, 2012, total interest-bearing liabilities denominated in U.S. dollars amounted to COP 3.7 trillion, representing 11.9% of our total funding.

The breakdown of our funding mix as of March 31, 2012 was as follows: 43.2% savings accounts, 23.8% term deposits, 11.4% long-term debt, 10.5% checking accounts, 10.5% from borrowings from local and foreign financial institutions, 0.5% from interbank and overnight borrowings and 0.5% from others.

The following tables set forth the balances of our peso-denominated and dollar-denominated liabilities as of as of March 31, 2012 and December 31, 2011:

| | **As of March 31, 2012** | | | |
|---|---|---|---|---|
| | **Peso-Denominated** | **Dollar-Denominated** | **Total** | **% of Total Funding** |
| | **(millions of COP, except for percentages)** | | | |
| Deposits: | | | | |
| Checking accounts | 3,086,416 | 164,448 | 3,250,865 | 10.6% |
| Savings accounts | 13,022,550 | 279,812 | 13,302,362 | 43.2% |
| Term deposits | 6,274,510 | 1,034,789 | 7,309,299 | 23.8% |
| Borrowings from financial institutions | 1,457,754 | 1,773,971 | 3,231,726 | 10.5% |
| Interbank and overnight borrowing | 43,619 | 120,248 | 163,867 | 0.5% |
| Long-term debt | 3,206,985 | 296,463 | 3,503,448 | 11.4% |
| **Total** | 27,091,835 | 3,669,732 | 30,761,567 | 100.0% |

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | **Peso-Denominated** | **Dollar-Denominated** | **Total** | **% of Total Funding** |
| | **(millions of COP, except for percentages)** | | | |
| Deposits: | | | | |
| Checking accounts | 3,391,965 | 204,464 | 3,596,429 | 11.9% |
| Savings accounts | 12,185,450 | 311,955 | 12,497,404 | 41.5% |
| Term deposits | 5,879,780 | 808,971 | 6,688,751 | 22.2% |
| Borrowings from financial institutions | 1,496,949 | 2,060,146 | 3,557,095 | 11.8% |
| Interbank and overnight borrowing | 4,083 | 69,452 | 73,535 | 0.2% |
| Long-term debt | 3,379,795 | 321,194 | 3,700,988 | 12.3% |
| **Total** | 26,338,022 | 3,776,181 | 30,114,203 | 100.0% |

Our deposits increased 4.5% as of March 31, 2012 compared to December 31, 2011, and 19.0% from COP 19.3 trillion as of December 31, 2010 to COP 23.0 trillion as of December 31, 2011. Both of these period-over-period increases were attributable to an increase in the number of our clients, which grew in response to the expansion of our branch network, resulting in an increase in savings account balances of COP 0.8 trillion and of COP 0.7 trillion in term deposit balances when compared to December 31, 2011. Our savings accounts represented 55.3% of our deposits as of March 31, 2012 and 54.3% as of December 31, 2011.

Our borrowings from local and foreign financial institutions decreased 9.1% as of March 31, 2012 compared to December 31, 2011. This decrease was mainly the result of a decrease of 13.9% in borrowings from foreign financial institutions. Our borrowings from local and foreign financial institutions increased 48.2% as of December 30, 2011 compared to December 31, 2010. This increase was mainly the result of an increase in borrowings from foreign financial institutions in the amount of COP 759.7 billion during 2011.

Our long-term debt decreased 5.3% as of March 31, 2012 compared to December 31, 2011. This decrease was mainly the result of a COP 197.5 billion decrease in the aggregate principal amount of our outstanding local bonds. Our long-term debt increased 20.1% to COP 3.7 trillion as of December 31, 2011, from COP 3.1 trillion as of December 31, 2010, as a result of increases in bond issuances.

The following table presents a summary of our long-term debt as of March 31, 2012 and December 31, 2011:

| Type of Issuance [1] | Issuance Date | Principal Amount (millions of COP) | Series | Term (months) | Yield [2] | Maturity | Book Value (millions of COP) December 31, 2011 | March 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| *Mortgage bonds* | | | | | | | | |
| | Jun-2006 | 60,173 | G | 84 | UVR + 0.75 | Jun-2013 | 1,509 | - |
| Subtotal ......... | | 60,173 | | | | | 1,509 | - |
| *Subordinated bonds* | | | | | | | | |
| | Feb-2007 | 368,641 | G | 84 | LIBOR6 + 2.75 | Feb-2014 | 321,194 | 296,463 |
| | Feb-2008 | 147,777 | C | 84 | IPC + 6.65 | Feb-2015 | 147,777 | 147,777 |
| | Feb-2008 | 151,577 | D | 84 | UVR + 6.65 | Feb-2015 | 176,986 | 179,712 |
| | Feb-2010 | 138,497 | C7 | 84 | IPC + 5.25 | Feb-2017 | 138,497 | 138,497 |
| | Feb-2010 | 111,503 | U10 | 120 | UVR + 5.50 | Feb-2020 | 118,472 | 120,297 |
| Subtotal ......... | | 917,995 | | | | | 902,926 | 882,746 |
| *Common bonds* | Aug-2008 | 170,570 | G | 60 | IPC + 6.24 | Aug-2013 | 170,570 | 170,570 |
| | Feb-2009 | 89,800 | E3 | 36 | DTF + 1.35 | Feb-2012 | 89,800 | - |
| | Feb-2009 | 121,800 | F5 | 60 | TF 10.40% | Feb-2014 | 121,800 | 121,800 |
| | Feb-2009 | 123,433 | G | 84 | IPC + 5.50 | Feb-2016 | 123,433 | 123,433 |
| | Jul-2009 | 73,000 | E3 | 36 | TF 7.89% | Jul-2012 | 73,000 | 73,000 |
| | Jul-2009 | 215,000 | G5 | 60 | IPC + 4.79 | Jul-2014 | 215,000 | 215,000 |
| | Feb-2010 | 215,062 | C5 | 60 | IPC + 3.98 | Feb-2015 | 215,062 | 215,062 |
| | Feb-2010 | 86,051 | T2 | 24 | DTF + 0.95 | Feb-2012 | 86,051 | - |
| | Feb-2010 | 101,837 | B3 | 36 | IBR + 1.36 | Feb-2013 | 101,837 | 101,837 |
| | Oct-2010 | 120,150 | C5 | 60 | IPC + 3.14 | Oct-2015 | 120,150 | 120,150 |
| | Oct-2010 | 196,050 | C7 | 84 | IPC + 3.63 | Oct-2017 | 196,050 | 196,050 |
| | Oct-2010 | 91,550 | B2 | 24 | IBR + 1.10 | Oct-2012 | 91,550 | 91,550 |
| | Oct-2010 | 92,250 | B3 | 36 | IBR + 1.31 | Oct-2013 | 92,250 | 92,250 |
| | Mar-2011 | 244,211 | B30 | 30 | IBR + 1.35 | Sep-2013 | 244,211 | 244,211 |
| | Mar-2011 | 86,482 | C39 | 39 | IPC + 2.80 | Jun-2014 | 86,482 | 86,482 |
| | Mar-2011 | 76,055 | C84 | 84 | IPC + 3.88 | Mar-2018 | 76,055 | 76,055 |
| | Mar-2011 | 193,252 | C120 | 120 | IPC + 4.19 | Mar-2021 | 193,252 | 193,252 |
| | Aug-2011 | 90,000 | B27 | 27 | IBR + 1.68 | Jun-2013 | 90,000 | 90,000 |
| | Aug-2011 | 90,000 | C48 | 48 | IPC + 3.60 | Mar-2015 | 90,000 | 90,000 |
| | Aug-2011 | 159,230 | C90 | 90 | IPC + 3.99 | Sep-2018 | 159,230 | 159,230 |
| | Aug-2011 | 160,770 | C126 | 126 | IPC + 4.23 | Sep-2021 | 160,770 | 160,770 |
| Subtotal ......... | | 2,796,553 | | | | | 2,796,553 | 2,620,702 |

(1) Only our mortgage bonds issuances are collateralized, and are secured by the collateral underlying the mortgage obligations. Neither our subordinated bonds nor common bond issuances are collateralized.
(2) Yield is expressed in terms of basis points above or below a reference rate. The reference rates are as follows: (i) "UVR" refers to the *Unidad de Valor*, a Colombian inflation-adjusted monetary index calculated by the board of directors of the Central Bank and generally used for pricing home-mortgage loans; (ii) "LIBOR" refers to the London Interbank Offer Rate; (iii) "IPC" refers to the *Indice de Precios al Consumidor*, or Consumer Price Index of Colombia; (iv) "TF" refers to Fixed Rate; and (v) "IBR" refers to the *Indicador Bancario de Referencia*, which is the reference interest rate for overnight and 30-day interbank loans.

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| *Bonds by currency* | (millions of COP) | |
| Colombian pesos | 3,082,827 | 2,906,976 |
| Foreign currency | 321,194 | 296,463 |
| Denominated in Colombian pesos - UVR | 296,968 | 300,009 |
| Total | 3,700,988 | 3,503,448 |
| *Bonds by maturity* | | |
| Less than 1 year | 430,401 | 254,550 |
| Between 1 and 5 years | 2,228,261 | 2,204,747 |
| Between 5 and 10 years | 1,042,327 | 1,044,151 |
| Total | 3,700,988 | 3,503,448 |

There are no individual limits on funding to which we are subject in Colombia. The maximum concentration of funding we have had from any one client in recent years has been below 6% of total deposits. Due to anti money-laundering procedures, banks are required to notify the SFC about any transaction whose value exceeds COP 10 million, and we enforce strict know-your-customer policies.

In the future, we expect to continue using all our current funding sources according to their availability, their cost, and our asset and liability management needs. We are aware of the liquidity risk represented by the short-term nature of our funding sources; however, we closely monitor the volatility of resources to adjust the available liquidity to comply with our withdrawal and payment commitments, and we maintain significant amounts of liquid assets on-hand to properly manage that risk. We plan to diversify our funding base by taking advantage of our extensive branch and agency network and customer base to attract banking deposits, particularly long-term term deposits, and monitoring opportunities to borrow long-term funds on favorable terms. We anticipate that customers in Colombia will continue to demand short-term deposits in the near future, and we intend to maintain our leadership position in this product. Our management expects that our sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months.

***Consolidated Statement of Cash Flows***

Our cash flows include net cash used in operating activities, net cash used in investing activities and net cash provided by financing activities. The following table shows those flows for the years ended 2009, 2010 and 2011 and the three months ended March 31, 2011 and 2012:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | (millions of COP) | | |
| Operating Activities | (1,703,538) | (3,047,829) | (1,114,639) | (750,436) | (100,801) |
| Investing Activities | (40,891) | (40,547) | (47,688) | (11,169) | (6,125) |
| Financing Activities | 1,566,104 | 3,168,147 | 2,813,731 | 528,786 | (314,538) |
| Net increase (decrease) in cash and cash equivalents | (178,324) | 79,775 | 1,651,407 | 1,268,052 | (219,863) |

**Operating Activities**

The net cash used in operating activities for the years ended December 31, 2009, 2010 and 2011, and the three months ended March 31, 2012 is mainly explained by:

i) Net income adjusted for non-cash transactions of COP 1.7 trillion, COP 3.0 trillion, COP 1.1 trillion and COP 0.1 trillion during each of these periods, respectively.

ii) Net increases in deposits of COP 1.6 trillion, COP 1.0 trillion, COP 3.7 trillion and COP 1.0 trillion during each of these periods, respectively, mainly due to our successful strategy to expand our customer base and increase institutional deposits. These deposits were used to fund growth in our loan and lease portfolio.

iii) Net increases of our loan and financial lease portfolio of COP 2.9 trillion, COP 5.4 trillion, COP 5.8 trillion and COP 0.8 trillion for each of these periods, respectively, as a result of our strategy to increase our loan and lease portfolio and new government tax benefits for recipients of mortgage loans and leases which increased demand for these financial products.

iv) Net increases in our investment securities of COP 1.5 trillion in 2009 due to our significant growth and positive interest rate movements that made these investments attractive.

Cash used in operating activities for the years ended December 31, 2009, 2010 and 2011 was primarily used for growth in our loan portfolio. Our outstanding loan portfolio experienced growth of COP 1.8 trillion, COP 3.7 trillion and COP 4.8 trillion during each of these periods, respectively. For the three month period ended March 31, 2012 our outstanding loan portfolio increased by COP 0.3 trillion, primarily due to an increase in our mortgage loan and commercial loan portfolios.

For 2010, our growth rates were higher than for the corresponding period in 2009, mainly due to a 26.5% growth of our consumer loan portfolio, resulting from a 29.6% increase in the disbursement rates for individual credit lines given the low usury interest rates during 2010. Our commercial loan portfolio experienced an increase of 22.4%, mainly due to activity in connection with loans to governmental institutions, although our housing loan portfolio experienced a 10.6% decrease due to our securitization process during 2010 that amounted to COP 1,397 billion.

In 2011, our fastest growing portfolios were our mortgage loan and housing leasing portfolios, which grew 38.8% and 24.1%, respectively, as compared to the corresponding period in 2010 due to the fact that during 2010 we securitized a much larger proportion of our mortgage and housing leasing portfolio for tax purposes, but retained a greater percentage of these loans during 2011. Growth in these portfolios was followed by our commercial loan portfolio, which grew by 25.8%, driven by a higher rate of disbursements to corporate and government clients. Consumer loans were slower than previous years, although still significant in relation with the total portfolio. Between December 2010 and December 2011 consumer loans grew by 13.1%, mainly driven by a 23.7% increase in credit cards, after placing 7.1% more new credit cards.

In the three months ended March 31, 2012, our outstanding loan portfolio experienced growth of COP 0.3 trillion as compared to December 31, 2011. Our fastest growing loan portfolios during this period were our mortgage loan and housing leasing portfolios, which grew 3.1% and 4.7%, respectively, due to a preferential rate program implemented during the period, followed by our consumer loan portfolio, which grew by 1.1%, mainly driven by the placement of new credit cards which increased our credit card loan balance by 3.3%. Additionally, commercial loans grew by 1.0%, mainly due to disbursements for construction and foreign currency loans.

The primary source of cash for operating activities for the years ended December 31, 2009, 2010 and 2011 and during the three months ended March 31, 2012, were deposits, which increased by COP 1.6 trillion, COP 1.0 trillion, COP 3.7 trillion and COP 1.0 trillion during each of these periods in each case as compared to the same period of the previous year, respectively. In 2009 we did two bond offerings for an aggregate value of COP 1 trillion, which represented a significant part of our funding for that period. During 2010, our principal driver for deposits as a source of funding was checking accounts which grew 18.9% among corporate and SME clients. To a lesser extent, savings accounts and term deposits grew by 3.9% and 2.9%, respectively. In addition, during 2011 we did two bond offerings for an aggregate amount of COP 1.1 trillion. On April 26, 2012, we also completed an additional issuance of subordinated bonds in the Colombian market for COP 400 billion.

As of March 31, 2012, savings accounts became our most rapidly growing source of funding with a 24.5% annual growth rate, since March 31, 2011, mainly coming from governmental, corporate and institutional customers, followed by checking accounts, which grew by 5%.

**Investing Activities**

Cash used in investing activities for the years ended December 31, 2009, 2010 and 2011 and the three months ended March 31, 2012, was primarily used for the acquisition of premises and equipment in the amounts of COP 71.1 billion, COP 66.6 billion, COP 120.2 billion and COP 6.7 billion, respectively, offset by sales of premises and equipment and other assets during each of these periods, respectively.

For the year ended December 31, 2010, we made aggregate capital expenditures of approximately COP 40.5 billion relating to property, plant and equipment, a decrease of COP 0.3 billion, or 0.8%, from COP 40.9 billion for the year ended December 31, 2009. This decrease was primarily attributable to the sale of office space and equipment, which decreased 69.3% as a consequence of the combination of offices as a result of the merger of Davivienda and Bancafé. For the year ended December 31, 2011, our capital expenditures were COP 47.7 billion, attributable to purchase of property, equipment and other assets, an increase of 17.6% or COP 7.1 billion, in comparison with the year ended December 31, 2010. For the three months ended March 31, 2012, our capital expenditures totaled COP 6.1 billion, down significantly from the corresponding period in the prior year, due to reduced expenditures on property, plant and equipment.

**Financing Activities**

Financing activities provided cash during each of the years ended December 31, 2009, 2010 and 2011 and the three months ended March 31, 2012. The net cash provided by financing activities primarily consisted of:

i) Increases in overnight, interbank and bank borrowings of COP 0.2 trillion, COP 0.5 trillion, COP 1.2 trillion and COP 0.2 trillion, respectively. This amount significantly depends on the particular situation of the liquidity each day that impacts our overnight borrowings and does not represent a change in our long-term funding structure.

ii) Funds raised through the placement of long-term debt, in the form of local bond issuances of COP 1 trillion, COP 0.9 trillion, COP 0.6 trillion and a reduction of COP 0.2 trillion for 2009, 2010, 2011 and the three months ended March 31, 2012, respectively, reflecting our strategy of increasing funding from long-term sources.

iii) Non-voting preferred shares were issued during 2010 for COP 0.4 trillion and during 2011 for COP 0.7 trillion as a result of our strategy of increasing the size of our equity to support the expected growth of the bank.

iv) Proceeds from the sale of loans of COP 0.5 trillion, COP 1.4 trillion, COP 0.5 trillion and COP 0.2 trillion during each of the years ended December 31, 2009, 2010 and 2011 and the three months ended March 31, 2012, respectively, due to growth in the market rates at which loans are liquidated and growth in the disbursement of those loans.

Overnight and interbank borrowing for the years ended December 31, 2010 decreased by COP 0.46 trillion compared to the year ended December 31, 2009, mainly due to interbank borrowings that matured in January 2010. Such borrowing increased minimally by COP 0.02 trillion for the year ended December 31, 2011, as we increasingly relied on less expensive funding sources. Overnight and interbank borrowing for the three months ended March 31, 2012 increased by 0.1 trillion as compared to the corresponding period in the prior year, due to increased borrowing to cover foreign currency exchange operations.

Placement of long-term debt, which consisted of local bond issuances during each of the years ended December 31, 2009, 2010 and 2011 increased by COP 0.95 trillion, COP 0.90 trillion, and COP 0.6 trillion, respectively, as a result of the COP 1 trillion bond offering in 2009, the COP 1.25 trillion bond offering in 2010 and maturity of COP 0.4 trillion, and the COP 1.1 trillion bond offering in 2011 and maturity of COP 0.5 trillion.

We used cash during each of the years ended December 31, 2009, 2010 and 2011 to pay dividends to our shareholders (included a guaranteed dividend to holders of our preferred shares), in an amount of COP 120.0 billion, COP 128.3 billion and COP 171.4 billion, respectively.

**Capital Position**

Davivienda and its subsidiaries comply with the capital adequacy requirements of their respective countries of operations. Our stockholders' equity is comprised of capital stock, additional paid-in capital, legal reserves, unappropriated retained earnings and net unrealized losses on equity securities. As of March 31, 2012, stockholders' equity was COP 4.9 trillion, up from COP 4.8 trillion as of December 31, 2011. Our ratio of average stockholders' equity to total average assets was 12.3% as of March 31, 2012 and 12.5% as of December 31, 2011.

***GAP Analysis***

Through the Assets and Liabilities Committee, we manage risks related to the balance between our assets and liabilities, taking into consideration the sensitivity to different interest rates and currencies, and the term structure on both sides of the balance sheet.

Our principal assets are our loan portfolio and investment portfolio. The loan portfolio is composed of commercial loans, consumer loans and mortgage loans. In terms of interest rates, our portfolio is mainly in fixed rate and in variable rates such as DTF. In addition, there are significant amounts of loans related to the maximum interest rate defined by the SFC. The loan portfolio presents terms up to 15 years, showing an average duration for our performing loans of 2.8 years as of March 31, 2012.

Our principal sources of funding are demand deposits, which are also the least expensive, and term deposits. In terms of interest rates, we have a significant amount of deposits that pay interest rates tied to DTF, as well as fixed rate deposits.

***Risk-Weighted Capital***

Pursuant to the Colombian capital adequacy requirements, we are required to maintain a specified level of Technical Capital (*patrimonio técnico)* as a percentage of total risk-weighted assets, including market risk. Decree 2555 of 2010 sets forth the methodology to determine the Technical Capital required relative to market risk and risk-weighted assets. Those regulations establish four categories of assets, which are assigned different risk weights, and require that a credit institution's Technical Capital be at least 9% of that institution's total risk-weighted assets. See "Supervision and Regulation — Capital Adequacy Requirements."

The tables below present our risk-weighted assets and Technical Capital Ratio as of December 31, 2009, 2010 and 2011 and as of March 31, 2012.

| | As of December 31, | | | | As of March 31, | |
|---|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| | | **(in millions of COP, except percentages)** | | **(in thousands of US$, except percentages)[1]** | **(in millions of COP, except percentages)** | **(in thousands of US$, except percentages)[1]** |
| **Capital:** | | | | | | |
| Tier One | 1,919,096 | 2,696,081 | 3,818,807 | 2,130,947 | 4,044,162 | 2,256,699 |
| Tier Two | 836,162 | 953,352 | 1,004,007 | 560,250 | 873,333 | 487,332 |
| Deductions | 7,286 | - | - | 0 | - | - |
| Total Technical Capital | 2,747,972 | 3,649,433 | 4,822,814 | 2,691,197 | 4,917,495 | 2,744,031 |
| **Risk-Weighted Assets:** | | | | | | |
| Market risk | 157,719 | 215,776 | 250,871 | 139,990 | 267,587 | 149,317 |
| Total risk-weighted assets | 21,081,535 | 25,556,254 | 30,708,989 | 17,136,043 | 31,508,992 | 17,582,456 |
| **Risk-weighted assets including market risk:** | 22,833,965 | 27,953,768 | 33,496,443 | 18,691,481 | 34,482,181 | 19,241,537 |
| **Technical Capital Ratios:** | | | | | | |
| Tier One capital to risk-weighted assets[2] | 8.40% | 9.64% | 11.40% | 11.40% | 11.73% | 11.73% |
| Tier Two capital to risk-weighted assets [3] | 3.66% | 3.41% | 3.00% | 3.00% | 2.53% | 2.53% |
| Total Technical Capital to risk-weighted assets | 12.03% | 13.06% | 14.40% | 14.40% | 14.26% | 14.26% |

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of COP 1,792.07 per US$1.00, which corresponds to the representative market rate for March 31, 2012, as reported by the SFC. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate. See "Exchange Rates and Foreign Exchange Controls—Exchange Rates" for additional information on the exchange rate.

(2) Tier One Capital to risk weighted assets = Tier One Capital / (Risk Weighted Assets + (market risk * (100/9)))
(3) Tier Two Capital to risk weighted assets = Tier Two Capital / (Risk Weighted Assets + (market risk * (100/9)))

Our total loan portfolio is dependent in part on our capital. We expect a continued asset expansion as well as a trend toward higher capital requirements in the future.

### *Off Balance Sheet Arrangements*

The following are the off-balance sheet arrangements in which we are involved, which are mainly composed of unused credit card limits, approved non-disbursed loans and unused credit lines, and to a lesser extent by bank guarantees, letters of credit, litigation and others. As of December 31, 2009, 2010 and 2011, and as of March 31, 2012, off-balance sheet arrangements totaled COP 8.8 trillion, COP 12.3 trillion, COP 15.6 trillion and COP 14.9 trillion, respectively. This growth was mainly the result of higher overall banking activity, which resulted in higher credit card limits and credit lines approved.

Standby letters of credit and bank guarantees are conditional commitments issued by us to guarantee the performance of a customer to a third party. We typically have recourse to recover from the customer any amounts paid under these guarantees. In addition, we may hold cash or other highly liquid collateral to support these guarantees. The total amount outstanding represents maximum potential amount (notional amounts) that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts greatly exceed anticipated losses.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** |
| **Contingent Accounts** | | (millions of COP) | | |
| Amounts received in repurchase agreements and simultaneous operations | - | 188,375 | 1,712,318 | 771,316 |
| Bank guarantees | 516,733 | 845,870 | 1,071,650 | 1,699,022 |
| Letters of credit | 97,812 | 102,736 | 228,194 | 172,591 |
| Approved non-disbursed loans and unused lines of credit | 1,914,266 | 3,674,517 | 4,168,269 | 3,879,415 |
| Unused credit card limits | 5,786,558 | 7,101,359 | 7,834,746 | 7,879,162 |
| Options liabilities | 161,000 | 99,527 | 226,633 | 117,449 |
| Payable accounts to the Nation Law 546 of 1999 | 23,046 | 21,583 | 21,583 | - |
| Leasing Agreement for property on Calle 26 | 6,365 | - | - | - |
| Litigation | 242,310 | 252,743 | 246,924 | 240,598 |
| Received payment orders | 1,905 | - | - | - |
| Repos | - | - | - | 476 |
| Others (under 5%) | 6,198 | 11,262 | 117,388 | 123,196 |
| **Total** | **8,756,174** | **12,297,972** | **15,627,705** | **14,883,195** |

*Commitments and Contractual Obligations*

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our commitments and contractual obligations on a consolidated basis by remaining maturity as of March 31, 2012.

| | Payment due by period | | | |
|---|---|---|---|---|
| | **Total** | **Less than 1 year** | **1 to 5 years** | **More than 5 years** |
| | | **(millions of COP)** | | |
| Long-term debt obligations | 3,503,448 | 254,550 | 2,204,747 | 1,044,151 |
| Term deposits | 7,309,299 | 3,843,083 | 3,466,216 | - |
| Borrowings from banks | 3,231,726 | 1,791,058 | 970,296 | 470,372 |
| Total | 14,044,473 | 5,888,691 | 6,641,259 | 1,514,523 |

## SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our consolidated financial statements included in this offering memorandum as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information has been prepared based on our financial records, which are prepared in accordance with Colombian Banking GAAP. This information includes our selected financial information at and for the fiscal years ended December 31, 2009, 2010 and 2011 and the three-month periods ended March 31, 2012 and March 31, 2011, as applicable.

Except as otherwise indicated, balance sheet and income statement items in the following tables are presented in millions of Colombian pesos. Interest rate information as of and for the three months ended March 31, 2012 has been annualized by dividing the applicable rate of interest as of March 31, 2012 or March 31, 2011, as applicable, by three, and multiplying by twelve.

### I. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

The average balances of interest-earning assets and interest-bearing liabilities, including the related interest that is receivable and payable, are calculated on a daily basis for Davivienda. The average balances of interest-earning assets and interest bearing liabilities are calculated on a quarterly basis for our subsidiaries, Bancafé Panamá, Confinanciera, Davivalores, Fiducafé, Fiduciaria Davivienda and Bancafé Miami (which ceased to exist as a subsidiary as of January 1, 2011, and is now a branch, known as Davivienda International). The average yield/rate is the amount of interest earned or paid during the period divided by the related average balance. The aforementioned subsidiaries together represent approximately 5 percent of our total assets as of March 31, 2012.

We stop accruing interest on loans after they are past due by more than a certain number of days that depends on the type of loan. See "—Loan portfolio—Suspension of accruals." For purposes of the presentation in the following tables, non-performing loans have been included within "Non-interest-earning assets".

Under Colombian Banking GAAP, interest on investment securities includes accrued interest on debt instruments, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as "available for sale," gains (losses) on repurchase transactions (repos) , gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on our trading securities portfolio.

## Average Balance Sheet

The following tables show our consolidated average balances, accrued or paid interest and nominal interest rates for our interest earning assets and interest-bearing liabilities for the fiscal years ended December 31, 2009, 2010 and 2011 and the three-month periods ended March 31, 2011 and 2012:

| | For the Year Ended December 31, | | | | | | | | | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | | 2011 | | | 2012 | | |
| | Average Balance | Interest Earned | Average Nominal Interest Rate | Average Balance | Interest Earned | Average Nominal Interest Rate | Average Balance | Interest Earned | Average Nominal Interest Rate | Average Balance | Interest Earned | Average Nominal Interest Rate[(1)] | Average Balance | Interest Earned | Avera Nomir Intere Rate[( |
| | (millions of COP, except percentages) | | | | | | | | | | | | | | |
| **ssets** | | | | | | | | | | | | | | | |
| *terest-earning ssets* | | | | | | | | | | | | | | | |
| Overnight funds | 381,489 | 6,937 | 1.8% | 319,126 | 2,046 | 0.6% | 523,705 | 4,927 | 0.9% | 351,505 | 927 | 1.1% | 804,243 | 2,330 | 1. |
| Investment securities[(2) (3)] | 3,785,402 | 314,497 | 8.3% | 4,370,369 | 243,025 | 5.6% | 4,506,519 | 253,949 | 5.6% | 4,326,326 | 55,522 | 5.1% | 4,642,424 | 95,803 | 8. |
| Performing loans and financial leases[(2)] | 16,426,477 | 2,472,481 | 15.1% | 19,649,826 | 2,415,825 | 12.3% | 24,086,127 | 2,931,740 | 12.2% | 20,621,685 | 650,726 | 12.6% | 25,117,496 | 838,461 | 13. |
| Total interest-earning assets | 20,593,369 | 2,793,915 | 13.6% | 24,339,322 | 2,660,896 | 10.9% | 29,116,352 | 3,190,615 | 11.0% | 25,299,516 | 707,175 | 11.2% | 30,564,164 | 936,594 | 12. |
| *on-interest-arning assets* | | | | | | | | | | | | | | | |
| Non-performing loans and financial leases[(2)] | 429,383 | | | 409,676 | | | 536,078 | | | 452,199 | | | 586,773 | | |
| Other assets | 3,193,783 | | | 3,354,303 | | | 3,646,791 | | | 3,285,215 | | | 3,688,235 | | |
| Total non interest-earning assets | 3,623,166 | | | 3,763,979 | | | 4,182,869 | | | 3,737,414 | | | 4,275,008 | | |
| **otal assets** | 24,216,535 | | | 28,103,301 | | | 33,299,221 | | | 29,036,930 | | | 34,839,172 | | |

| | For the Year Ended December 31, | | | | | | | | | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | | 2011 | | | 2012 | | |
| | Average Balance | Interest Paid | Average Yield / Rate[1] | Average Balance | Interest Paid | Average Yield / Rate | Average Balance | Interest Paid | Average Yield / Rate | Average Balance | Interest Paid | Average Yield / Rate | Average Balance | Interest Paid | Average Yield / Rate |
| | (millions of COP, except for percentages) | | | | | | | | | | | | | | |
| **Liabilities and Stockholders' Equity** | | | | | | | | | | | | | | | |
| *Interest-bearing liabilities* | | | | | | | | | | | | | | | |
| Checking deposits | 676,027 | 23,738 | 3.5% | 633,507 | 18,095 | 2.9% | 632,641 | 20,068 | 3.2% | 589,016 | 4,385 | 3.0% | 703,150 | 5,553 | 3.2% |
| Savings deposits | 7,695,167 | 222,536 | 2.9% | 8,656,937 | 141,520 | 1.6% | 10,742,324 | 230,292 | 2.1% | 8,752,762 | 32,510 | 1.5% | 11,737,610 | 96,566 | 3.3% |
| Term deposits | 6,885,761 | 499,042 | 7.2% | 7,107,756 | 313,597 | 4.4% | 6,869,165 | 303,778 | 4.4% | 7,181,412 | 73,083 | 4.1% | 6,805,294 | 90,977 | 5.3% |
| Borrowings from development and other domestic banks | 1,507,910 | 75,152 | 5.0% | 1,746,966 | 63,576 | 3.6% | 2,825,243 | 97,366 | 3.4% | 1,964,846 | 18,044 | 3.7% | 3,065,466 | 34,817 | 4.5% |
| Interbank borrowings | 238,789 | 9,499 | 4.0% | 342,230 | 9,994 | 2.9% | 164,694 | 10,259 | 6.2% | 242,381 | 2,681 | 4.4% | 183,279 | 542 | 1.2% |
| Long-term debt | 1,899,602 | 144,155 | 7.6% | 2,729,785 | 174,647 | 6.4% | 3,455,986 | 240,134 | 6.9% | 2,877,467 | 54,123 | 7.5% | 3,588,095 | 70,384 | 7.8% |
| Total interest-bearing liabilities .... | 18,903,255 | 974,122 | 5.2% | 21,217,181 | 721,429 | 3.4% | 24,690,054 | 901,898 | 3.7% | 21,607,885 | 184,825 | 3.4% | 26,082,895 | 298,839 | 4.6% |
| *Non-interest-bearing liabilities* | | | | | | | | | | | | | | | |
| Non-interest-bearing liabilities .. | 1,164,601 | | | 1,392,102 | | | 1,643,230 | | | 1,434,969 | | | 1,705,772 | | |
| Non-interest-bearing checking deposits | 1,752,924 | | | 2,257,277 | | | 2,555,324 | | | 2,379,116 | | | 2,537,595 | | |
| Non-interest-bearing saving deposits | 328,821 | | | 275,384 | | | 248,762 | | | 202,689 | | | 221,074 | | |
| Total interest liabilities............ | 22,149,601 | | | 25,141,944 | | | 29,137,370 | | | 25,624,659 | | | 30,547,336 | | |
| Total interest and non-interest-bearing liabilities & stock holders' equity | 2,066,934 | | | 2,961,357 | | | 4,161,851 | | | 3,412,271 | | | 4,291,836 | | |
| **Total liabilities and stockholders' equity** | 24,216,535 | | | 28,103,301 | | | 33,299,221 | | | 29,036,930 | | | 34,839,172 | | |

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(1) Average yield rate: yield for the year ended December 31, 2009, 2010 and 2011. Average yield rate / yield for the three months ended March 31, 2011 and 2012 has been annualized for comparison purposes.

(2) Investment securities include average balances of non-taxable securities.

(3) For available for sale securities, yields are based on historical cost balances which do not give effect to changes in fair value that are reflected as a component of stockholders' equity.

### Changes in Interest Income and Interest Expense — Volume and Rate Analysis

The following table allocates changes in our consolidated interest income and interest expenses between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective average rates over the periods indicated. Volume and rate variances have been calculated based on variances in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

| | 2009 / 2010 Increase (Decrease) Due to Changes in | | | 2010/2011 Increase (Decrease) Due to Changes in | | | March 31, 2011/2012 Increase (Decrease) Due to Changes in | | |
|---|---|---|---|---|---|---|---|---|---|
| | Volume | Interest Rate | Net Change | Volume | Interest Rate | Net Change | Volume | Interest Rate | Net Change |
| | (millions of COP, except for interest rates) | | | | | | | | |
| **Interest-earning assets** | | | | | | | | | |
| Overnight funds | (1,134) | (3,757) | (4,891) | 1,311 | 1,569 | 2,881 | 1,194 | 210 | 1,403 |
| Investment securities | 48,600 | (120,072) | (71,472) | 7,571 | 3,353 | 10,924 | 4,057 | 36,224 | 40,281 |
| Performing loans and financial leases | 485,172 | (541,827) | (56,655) | 545,416 | (29,501) | 515,914 | 141,867 | 45,867 | 187,735 |
| Total interest-earning assets | 532,638 | (665,656) | (133,018) | 554,298 | (24,579) | 529,719 | 147,118 | 82,302 | 229,419 |
| **Interest-bearing liabilities** | | | | | | | | | |
| Checking deposits | (1,493) | (4,150) | (5,643) | (25) | 1,998 | 1,973 | 850 | 319 | 1,168 |
| Savings deposits | 25,192 | (106,207) | (81,016) | 34,091 | 54,681 | 88,772 | 11,087 | 52,969 | 64,056 |
| Term deposits | 16,089 | (201,534) | (185,445) | (10,527) | 708 | (9,819) | (3,828) | 21,722 | 17,894 |
| Borrowings from development and other domestic banks | 11,914 | (23,491) | (11,577) | 39,241 | (5,450) | 33,791 | 10,108 | 6,665 | 16,773 |
| Interbank borrowings | 4,115 | (3,620) | 495 | (5,185) | 5,450 | 265 | (654) | (1,485) | (2,139) |
| Long-term debt | 63,000 | (32,507) | 30,492 | 46,461 | 19,026 | 65,487 | 13,366 | 2,895 | 16,261 |
| Total interest-bearing liabilities | 118,817 | (371,510) | (252,693) | 104,057 | 76,412 | 180,469 | 30,929 | 83,085 | 114,013 |

### Interest-Earning Assets — Net Interest Margin and Spread

The following table shows the average balance of our interest-earning assets and net interest income, and compares the net interest margin and net interest spread for the periods indicated:

**Interest-Earning Assets – Yield**

| | For the Years Ended December 31, | | | For the Three Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (millions of COP, except for percentages) | | | | |
| Total average interest-earning assets | 20,593,369 | 24,339,322 | 29,116,352 | 25,299,516 | 30,564,164 |
| Net interest earned | 1,819,793 | 1,939,468 | 2,288,718 | 522,349 | 637,755 |
| Average yield on interest-earning assets | 13.6% | 10.9% | 11.0% | 11.2% | 12.3% |
| Net interest margin | 8.8% | 8.0% | 7.9% | 8.4% | 8.3% |
| Interest spread | 8.4% | 7.5% | 7.3% | 7.8% | 7.7% |

### II. Investment Portfolio

We acquire and hold investment securities, including fixed income debt and equity securities, for liquidity and other strategic purposes, or when we are required to by law.

The SFC requires investments to be classified as "trading," "available for sale" or "held to maturity." "Trading" investments are those acquired primarily to obtain profits from fluctuations in short-term prices and are recorded at market value. The difference between current and previous market value is added to or subtracted from the value of the investment and credited or charged to earnings. "Available for sale" investments are those held for at least one year and are recorded at market value with changes to the values of these securities recorded in a separate account in the equity section. "Held to maturity" investments are those acquired to be held until maturity and are valued at amortized cost.

In accordance with Chapter 1 of External Circular 100 of 1995 issued by the SFC, investments in debt securities are fully reviewed in June and December and partially reviewed every three months for impairment, by considering the related solvency risk, market exposure, currency exchange and country risk. Investments in securities with certain ratings by external agencies recognized by the SFC cannot be recorded on our balance sheet for an amount higher than certain percentages of the face value (as shown in the table below), net of the amortizations recorded as of the valuation date.

| Long–Term Classification | Maximum Face Value (%) |
|---|---|
| BB+, BB, BB- | Ninety (90) |
| B+, B, B- | Seventy (70) |
| CCC | Fifty (50) |
| DD, EE | Zero (0) |

| Short–Term Classification | Maximum Face Value (%) |
|---|---|
| 3 | Ninety (90) |
| 4 | Fifty (50) |
| 5 and 6 | Zero (0) |

Internal or external debt securities issued or guaranteed by the national government of Colombia, as well as those issued by the Central Bank and those issued or guaranteed by Fogafin, are not subject to this adjustment.

The following table shows our holdings of debt and equity securities by currency denomination at the balance sheet dates stated below, and the breakdown of our investment portfolio in accordance with the SFC classification system of the relevant securities, net of our allowance for impairment:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | (in millions of COP) | | | |
| Peso-denominated | 3,325,956 | 3,274,227 | 3,824,516 | 4,127,475 |
| U.S. Dollar-denominated | 619,823 | 495,580 | 387,085 | 403,775 |
| UVR-denominated[1] | 670,319 | 662,835 | 565,563 | 907,504 |
| Total | 4,616,098 | 4,432,642 | 4,777,164 | 5,438,753 |
| Allowance for impairment | (40,420) | (40,955) | (31,337) | (25,877) |
| Total Investment Portfolio Net | 4,575,678 | 4,391,687 | 4,745,827 | 5,412,876 |

(1) *Unidad de Valor Real* (Real Value Unit, or "UVR," is a Colombian inflation-adjusted monetary index calculated by the board of directors of the Central Bank and generally used for pricing home-mortgage loans.

The following table shows our holdings of debt and equity securities at the balance sheet dates stated below, and the breakdown of our investment portfolio in accordance with the SFC classification system of the relevant securities:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | (in millions of COP) | | | |
| **Debt securities classified as available for sale** | | | | |
| Colombian national government | 126,385 | 492,189 | 244,660 | 247,343 |
| Foreign governments | 57,291 | 121 | 101 | 93 |
| Financial entities | 44,794 | 828,726 | 762,281 | 704,314 |
| Institutions | 241,590 | 104,811 | 78,882 | 43,313 |
| Local authorities | 8,183 | 1,911 | - | - |
| Subtotal | 478,243 | 1,427,758 | 1,085,924 | 995,063 |
| **Equity securities classified as available for sale** | | | | |
| Financial entities | 108,753 | 110,797 | 49,078 | 49,192 |
| Institutions | 331 | 368 | 542 | 353 |
| Local authorities | - | - | 67,985 | 67,985 |
| Subtotal | 109,084 | 111,165 | 117,605 | 117,530 |
| **Debt securities classified as held to maturity** | | | | |
| Colombian national government | 329,203 | 316,376 | 291,245 | 294,185 |
| Financial entities | 119,151 | 68,571 | 36,556 | 81,748 |
| Foreign governments | 4 | - | - | - |
| Institutions | 4,313 | 358 | 4,313 | 58,348 |
| Subtotal | 452,671 | 385,306 | 332,114 | 434,280 |
| **Debt securities classified as trading** | | | | |
| Colombian national government | 1,971,645 | 1,042,470 | 1,751,968 | 2,316,699 |
| Financial entities | 1,487,893 | 1,216,838 | 1,249,510 | 1,400,904 |
| Foreign governments | - | 31 | 9,645 | 30 |
| Institutions | 105,450 | 240,438 | 224,521 | 166,985 |
| Local authorities | 9,451 | 7,865 | 4,870 | 4,361 |
| Subtotal | 3,574,439 | 2,507,643 | 3,240,514 | 3,888,979 |
| **Equity securities classified as trading** | | | | |
| Financial entities | 1,640 | 727 | 964 | 2,847 |
| Others | 21 | 42 | 43 | 54 |
| Subtotal | 1,661 | 770 | 1,007 | 2,901 |
| **Total investment portfolio** | 4,616,098 | 4,432,641 | 4,777,164 | 5,438,753 |

### Investment Securities Portfolio Maturity

The following table summarizes the maturities and weighted average nominal yields of our debt investment securities at March 31, 2012:

| | As of March 31, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Maturing in 1 year or less | | Maturing between 1 and 5 Years[2] | | Maturing between 5 and 10 Years | | Maturing after 10 Years | | Total | |
| | Balance | Yield[1] | Balance | Yield[1] | Balance | Yield[1] | Balance | Yield[1] | Balance | Yield[1] |
| | (millions of COP, except for yields) | | | | | | | | | |
| **Debt securities classified as available for sale** | | | | | | | | | | |
| Colombian national government | 3,411 | - | 243,932 | 5.9 | - | - | - | - | 247,343 | 5.8 |
| Financial entities | 6,813 | 4.3 | 35,009 | 3.7 | 427,888 | 6.2 | 234,603 | 13.5 | 704,314 | 8.5 |
| Foreign Governments | - | - | 93 | 0.0 | - | - | - | - | 93 | - |
| Others | 38,571 | - | 4,667 | 3.8 | 76 | 4.4 | - | - | 43,313 | 0.5 |
| Total debt securities available for sale | 48,795 | 0.6 | 283,700 | 5.6 | 427,964 | 6.2 | 234,603 | 13.5 | 995,063 | 7.5 |
| **Debt securities classified as held to maturity** | | | | | | | | | | |
| Colombian national government | 53,122 | 7.4 | 241,062 | 7.5 | - | - | - | - | 294,185 | 7.5 |
| Financial entities | - | - | 1,985 | 12.7 | 50,410 | 7.5 | 29,353 | 11.0 | 81,748 | 8.9 |
| Others | - | - | 4,015 | 10.0 | 54,333 | - | - | - | 58,348 | 0.7 |
| Total held to maturity securities | 53,122 | 7.4 | 247,062 | 7.6 | 104,743 | 3.6 | 29,353 | 11.0 | 434,280 | 6.8 |
| **Debt securities classified as trading** | | | | | | | | | | |
| Colombian national government | 277,152 | 9.5 | 1,047,743 | 6.0 | 219,767 | 8.3 | 772,036 | 7.7 | 2,316,699 | 7.2 |
| Financial entities | 532,157 | 6.3 | 300,327 | 5.4 | 200,418 | 8.9 | 368,001 | 9.6 | 1,400,904 | 7.4 |
| Foreign governments | - | - | 30 | 2.1 | - | - | - | - | 30 | 2.1 |
| Others | 30,959 | 7.5 | 76,708 | 5.7 | 59,319 | 5.4 | - | - | 166,985 | 5.9 |
| Total trading debt securities | 4,361 | 6.1 | - | - | - | - | - | - | 4,361 | 6.1 |
| | 844,629 | 7.4 | 1,424,808 | 5.9 | 479,504 | 8.2 | 1,140,038 | 8.3 | 3,888,979 | 7.2 |
| **Equity securities classified as available for sale** | | | | | | | | | | |
| Financial entities | - | - | - | - | - | - | 49,192 | - | 49,192 | - |
| Institutions | - | - | - | - | - | - | 353 | - | 353 | - |
| Local authorities | - | - | - | | - | - | 67,985 | - | 67,985 | - |
| Total equity securities available for sale | - | - | - | - | - | - | 117,530 | - | 117,530 | - |
| **Equity securities classified as trading** | - | - | - | - | - | - | 353 | - | 353 | - |
| Financial entities | 1,120 | - | - | - | - | - | 1,727 | - | 2,847 | - |
| Institutions | - | - | - | - | - | - | 54 | - | 54 | - |
| Total trading equity securities | 1,120 | - | - | - | - | - | 1,780 | - | 2,901 | - |
| **Total investment portfolio** | 947,667 | 7.1 | 1,955,570 | 6.0 | 1,012,212 | 6.9 | 1,523,304 | 8.5 | 5,438,753 | - |

(1) Yield was calculated using the internal return rate, or IRR, at March 31, 2012.
(2) The maturity of non-impaired investment portfolio was calculated in accordance with its contractual terms. For the impaired investment portfolio, the maturity was calculated considering its estimated cash flows.

As of March 31, 2012, we had the following investments in securities of issuers that exceeded 10% of our stockholders' equity:

| | Issuer | Book Value | Fair Value |
|---|---|---|---|
| | | (in millions of COP) | |
| **Securities issued or secured by:** | | | |
| Colombian national government | Ministry of Finance | 2,820,130 | 1,837,077 |
| Other financial entities | Titularizadora Colombiana | 17,574 | 28,342 |
| **Total** | | 2,837,705 | 1,865,419 |

### III. Loan Portfolio

### Type of Loans

We classify our loan portfolio into the following categories: (i) commercial loans, (ii) mortgage loans, (iii) consumer loans and (iv) microcredit loans, which we define as follows:

**Commercial Loans:** Commercial loans are loans and financial leases that are granted to companies or individuals in order to carry out organized economic activities and are not classified as microcredit loans.

**Mortgage Loans:** These are loans, regardless of value, granted to individuals for the purchase of new or used houses or to build a home, all in accordance with Law 546 of 1999. These loans include loans denominated in UVR or local currency that are guaranteed by a senior mortgage on the property and that are financed with a total repayment term of 5 to 30 years.

**Consumer Loans:** These are loans and financial leases, regardless of value, granted to individuals for the purchase of consumer goods or for the payment of non-commercial or business services.

**Microcredit Loans:** These are issued for the purpose of encouraging the activities of small businesses and are subject to the following requirements: (i) the maximum amount to be lent is equal to 25 times the effective legal minimum monthly wage in Colombia, (ii) at any time the balance of any single borrower may not exceed such amount (as stipulated in Article 39 of Law 590 of 2000, as amended from time to time) and (iii) the main source of payment for the corresponding obligation are the revenues obtained from activities of the borrower's business. In addition, at no time can the total outstanding indebtedness of the borrower exceed 120 times the effective legal monthly minimum wage.

The following table shows our loan portfolio classified into commercial, consumer, mortgage and microcredit loans, net of allowance for loan losses, as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | (in millions of COP) | | | |
| **Commercial loans**[1] | | | | |
| Corporate | 5,773,581 | 7,322,880 | 9,100,304 | 8,949,926 |
| Others | 2,708,554 | 3,224,466 | 4,248,873 | 4,371,436 |
| Credit cards | 227,183 | 244,659 | 268,358 | 291,505 |
| Vehicle loans | 280,080 | 237,600 | 263,198 | 268,037 |
| Overdrafts | 89,037 | 82,633 | 93,392 | 233,758 |
| Financial leases | 1,073,717 | 1,376,563 | 1,706,874 | 1,787,063 |
| Subtotal | 10,152,152 | 12,488,801 | 15,680,998 | 15,901,724 |
| **Consumer loans** | | | | |
| Credit cards | 1,553,680 | 1,884,593 | 2,331,193 | 2,407,349 |
| Others | 3,635,128 | 4,705,463 | 5,116,422 | 5,128,733 |
| Vehicle loans | 785,345 | 966,838 | 1,109,505 | 1,105,645 |
| Overdrafts | 36,605 | 48,932 | 48,627 | 57,918 |
| Subtotal | 6,010,758 | 7,605,826 | 8,605,747 | 8,699,646 |
| **Mortgage loans** | | | | |
| Subtotal | 1,982,930 | 1,772,322 | 2,460,173 | 2,537,542 |
| **Microcredit loans** | | | | |
| Subtotal | 49,259 | 68,222 | 92,050 | 91,780 |
| **Total loans** | 18,195,098 | 21,935,171 | 26,838,968 | 27,230,691 |
| Individual allowance for loan losses | (1,099,397) | (1,148,612) | (1,266,137) | (1,332,933) |
| Allowance for loan losses | (20,869) | (18,503) | (25,746) | (26,550) |
| **Total loans, net** | 17,074,832 | 20,768,056 | 25,547,085 | 25,871,208 |

(1) Our commercial loan portfolio includes real estate, construction loans and lease financing for the periods indicated.

As of March 31, 2012, our total loan portfolio, before allowances, amounted to COP 27,230.7 billion, up 1.46% as compared to the end of 2011, when our total loan portfolio, before allowances, amounted to COP 26,839.0 billion, representing a 22.4% increase as compared to the end of 2010, and a 47.5% increase as compared to the end of 2009. Loan volume performance during 2010, 2011 and the first three months of 2012 is primarily explained by the significantly increased economic activity in Colombia, which led individuals and corporations to demand more credit. For further discussion of some of these trends, see "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### Collateralized Loans

The following table sets forth as of the dates indicated an analysis of our total loan portfolio, divided into secured and unsecured loans at the dates indicated:

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | % of Total | 2010 | % of Total | 2011 | % of Total | 2012 | % of Total |
| | (in millions of COP, except percentages) | | | | | | | |
| **Secured** | | | | | | | | |
| Commercial loans | 3,032,758 | 17% | 2,406,101 | 11% | 3,385,195 | 13% | 3,566,808 | 13% |
| Consumer loans | 759,048 | 4% | 935,135 | 4% | 1,031,560 | 4% | 1,036,965 | 4% |
| Microcredit loans | 47,450 | 0% | 66,658 | 0% | 90,562 | 0% | 90,259 | 0% |
| Mortgage loans | 1,982,930 | 11% | 1,772,322 | 8% | 2,460,173 | 9% | 2,537,542 | 9% |
| Total secured | 5,822,186 | 32% | 5,180,215 | 24% | 6,967,490 | 26% | 7,231,575 | 27% |
| **Unsecured** | | | | | | | | |
| Commercial loans | 7,119,392 | 39% | 10,082,700 | 46% | 12,295,804 | 46% | 12,334,916 | 45% |
| Consumer loans | 5,251,710 | 29% | 6,670,691 | 30% | 7,574,187 | 28% | 7,662,680 | 28% |
| Microcredit loans | 1,810 | 0% | 1,565 | 0% | 1,488 | 0% | 1,521 | 0% |
| Mortgage loans | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Total unsecured | 12,372,912 | 68% | 16,754,956 | 76% | 19,871,478 | 74% | 19,999,117 | 73% |
| **Total loans** | 18,195,098 | 100% | 21,935,171 | 100% | 26,838,968 | 100% | 27,230,691 | 100% |

### Borrowing Relationships

As of March 31, 2012, the aggregate outstanding principal amount of our 25 largest borrowing relationships, on a consolidated basis, represented approximately 13.9% of the loan portfolio, and no single borrowing relationship represented more than 1.5% of the loan book. Also, 100% of those loans were commercial loans and 100% of these relationships were classified as "A."

## Loans by Economic Activity

The following table sets forth as of the dates indicated an analysis of our loan portfolio according to the borrower's main economic activity using the primary Standard Industrial Classification (SIC) codes.

| | As of December 31, [1] | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | % of Total | 2010 | % of Total | 2011 | % of Total | 2012 | % of Total |
| | (in millions of COP) | | | | | | | |
| Agricultural | 308,344 | 1.7% | 423,298 | 1.9% | 557,820 | 2.1% | 1,053,018 | 3.9% |
| Mining products and oil | 471,065 | 2.6% | 865,698 | 3.9% | 829,350 | 3.1% | 845,171 | 3.1% |
| Mining of metallic and non-metallic products | 50,575 | 0.3% | 66,063 | 0.3% | 151,345 | 0.6% | 267,855 | 1.0% |
| Food, beverage and tobacco | 471,737 | 2.6% | 489,670 | 2.2% | 816,305 | 3.0% | 844,544 | 3.1% |
| Other industrial and manufacturing products | 919,982 | 5.1% | 881,499 | 4.0% | 798,291 | 3.0% | 749,225 | 2.8% |
| Chemical production | 154,596 | 0.8% | 109,455 | 0.5% | 1,037,766 | 3.9% | 931,831 | 3.4% |
| Public services | 344,414 | 1.9% | 133,059 | 0.6% | 951,441 | 3.5% | 922,348 | 3.4% |
| Construction | 623,309 | 3.4% | 617,753 | 2.8% | 1,511,618 | 5.6% | 1,724,558 | 6.3% |
| Retail trading | 936,660 | 5.1% | 1,075,818 | 4.9% | 1,443,287 | 5.4% | 1,351,835 | 5.0% |
| Vehicle | 760,820 | 4.2% | 386,897 | 1.8% | 572,920 | 2.1% | 570,975 | 2.1% |
| Hotels and restaurants | 35,417 | 0.2% | 59,328 | 0.3% | 153,845 | 0.6% | 153,791 | 0.6% |
| Transportation and communications | 939,717 | 5.2% | 742,364 | 3.4% | 1,095,649 | 4.1% | 1,088,910 | 4.0% |
| Commercial services | 1,541,523 | 8.5% | 2,459,653 | 11.2% | 1,716,529 | 6.4% | 1,735,148 | 6.4% |
| Government | 287,113 | 1.6% | 419,321 | 1.9% | 473,231 | 1.8% | 512,301 | 1.9% |
| Health, education, entertainment and culture | 371,905 | 2.0% | 1,310,093 | 6.0% | 388,657 | 1.4% | 401,703 | 1.5% |
| Consumer loans | 5,901,648 | 32.4% | 7,523,974 | 34.3% | 8,511,754 | 31.7% | 8,589,295 | 31.5% |
| Housing loans and leasing[2] | 3,054,589 | 16.8% | 3,146,151 | 14.3% | 4,172,800 | 15.5% | 4,332,506 | 15.9% |
| Other | 1,021,685 | 5.6% | 1,225,080 | 5.6% | 1,656,362 | 6.2% | 1,155,679 | 4.2% |
| **Total Loans** | 18,195,099 | 100.0% | 21,935,171 | 100.0% | 26,838,968 | 100.00% | 27,230,691 | 100% |

(1) Figures include the aggregate outstanding principal and interest amounts due at the dates indicated.
(2) Housing loans and leasing includes mortgage loans and housing leases.

## Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of our loan portfolio as of March 31, 2012 included in the following categories (i) consumer loans, (ii) commercial loans, (iii) mortgage loans and (iv) microcredit loans.

| | As of March 31, 2012 | | | |
|---|---|---|---|---|
| | Due in 1 year or less | Due from 1 to 5 Years | Due After 5 Years | Total |
| | (in millions of COP) | | | |
| Commercial loans[1] | 4,565,362 | 5,573,145 | 5,763,218 | 15,901,724 |
| Consumer loans | 1,614,962 | 5,911,091 | 1,173,592 | 8,699,645 |
| Mortgage loans | 35,955 | 113,131 | 2,388,456 | 2,537,542 |
| Microcredit loans | 4,794 | 86,952 | 33 | 91,780 |
| **Total** | 6,221,074 | 11,684,319 | 9,325,299 | 27,230,691 |

(1) Our commercial loan portfolio includes real estate loans, construction loans and lease financings for the periods indicated.

The following table presents the interest rate sensitivity of our outstanding loans that mature after one year as of March 31, 2012.

| | As of March 31, 2012 |
|---|---|
| | (in millions of COP) |
| Fixed rate | 11,445,330 |
| Variable rate | 9,564,287 |
| **Total loans** | 21,009,618 |

The following table presents as of the dates indicated the interest rate sensitivity of our outstanding loans included in the following categories: (i) commercial loans, (ii) consumer loans and (iii) mortgage loans:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | (in millions of COP) | | | |
| **Fixed rate**[1] | | | | |
| Commercial loans[2] | 2,829,252 | 3,168,527 | 3,824,026 | 4,117,824 |
| Consumer loans | 5,169,888 | 6,576,788 | 7,409,091 | 7,512,375 |
| Mortgages | 1,058,267 | 1,139,379 | 1,746,881 | 1,789,680 |
| **Variable rate** | | | | |
| Commercial loans[2] | 7,372,058 | 9,388,500 | 11,956,020 | 11,892,680 |
| Consumer loans | 840,858 | 1,029,044 | 1,196,659 | 1,187,274 |
| Mortgages loans | 924,663 | 632,942 | 713,292 | 747,862 |
| **Total loans** | 18,194,986 | 21,935,181 | 26,845,969 | 27,247,695 |

(1) Amounts included in this table have been calculated by Davivienda based on non-accounting information.
(2) Our commercial loan portfolio includes real estate loans, construction loans and lease financings for the periods indicated.

***Rollover Policies***

We grant companies in our corporate banking operations short-term revolving lines of credit, which are used to provide immediate liquidity for their working capital needs. The maturities of our revolving loans are determined based on their respective remaining terms, and in all cases mature in less than five years. In general, the interest charged is calculated daily based on the outstanding balance due plus a tax on financial transactions, payable on the first business day of the month following the transaction.

### Credit Review Process

***Davivienda's Lending Policies***

We have adopted a Credit Risk Management System (*Sistema de Administración de Riesgo de Crédito*, or "SARC"), which implements our policies, processes, models and control mechanisms to identify, measure and mitigate credit risk. This system is used to determine whether to grant credit to applicants, and to monitor credit risk and ensure that we have made sufficient allowance for our outstanding loans.

Pursuant to this system, we evaluate and qualify the credit operations of customers regardless of the type of credit. In addition, we update our portfolio analysis of customer behavior on a monthly basis with respect to subscriptions, cancellations, penalties and high default operations.

The methodologies and techniques we use in our SARC are based on information related to the historical performance of our loan portfolios, the characteristics of our clients, credits and guarantees that support them, the debtor's credit behavior with respect to other entities that report on credit performance and the latest financial information or other information enabling the identification of alternatives to adequate its financial situation and the sector macroeconomic variables that affect the normal development.

Risk exposure limits and all risk management policies are approved by our board of directors. The Assistant Vice President of Operational Risk is responsible for ensuring the integrity of our business processes and for keeping services available to customers and partners, as well as improving the transparency in the management of our business.

***Classification Policies***

The Vice President of Personal Banking Credit is responsible for the evaluation, administration and collection of all lines of credit in our retail banking operations. Credit approval decisions are made using a coordinated, hierarchical decision-making process, with various credit committees assisting in the process by evaluating and making decisions relevant to risk exposure.

For retail banking loan products, a scoring system is used for determining whether to grant loans. The scoring system has been built using historical information relating to our clients, their behavior, similar loans in the financial sector and product warranties. We have also developed methods to separate our retail banking products into homogenous groups. The principal homogeneous groups for retail banking products are:

- Mortgages and financial leases
- Automotive loans
- Credit card loans
- Payroll deduction loans
- Other consumer loans

In our corporate banking operations, the Vice President of Enterprise Business develops our credit review strategy and the Vice President of Corporate Credit is responsible for credit risk assessment, including analyzing credit applications, following up on existing obligations, assigning risk categories and engaging in recovery efforts, when applicable.

The Vice President of Corporate Credit is also responsible for granting credit facilities, for which the target market includes national and international companies with annual revenues exceeding COP 30 billion (US$16.7 million). The credit approval process for a corporate borrower involves an analysis of its creditworthiness, an examination of the macroeconomic and microeconomic conditions in which it operates, its culture, strategy, policies, procedures and the various risks (both quantitative and qualitative), and the size and importance of the economic sector in which it operates.

Additionally, the Vice President of Financial Control Risk is responsible for evaluating the various alternatives for hedging financial risk to which we are exposed, reviewing policies for the granting of loans, assessing the credit risk of SMEs, corporate clients and large portfolios, maintaining a balanced risk-reward profile and consolidating our financial information (including balance sheet, income statement and budget information), as well as generating product management figures, transactions and income from services.

***Risk Categories***

The SFC provides the following minimum risk classifications, according to the financial situation of the debtor or the past due days of the obligation:

Category A, or “Normal Risk”: Loans and financial leases in this category are appropriately serviced. The client’s financial statements or its projected cash flows, as well as all other credit information available to us, reflect adequate paying capacity.

Category B, or “Acceptable Risk, Above Normal”: Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor’s paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.

Category C, or “Appreciable Risk”: Loans and financial leases in this category represent insufficiencies in the debtor’s paying capacity or in the project’s cash flow, which may compromise the normal collection of the obligations.

Category D, or “Significant Risk”: Loans and financial leases in this category have the same deficiencies as loans in category C, but to a larger extent; consequently, the probability of collection is highly doubtful.

Category E, or “Risk of Non-Recovery”: Loans and financial leases in this category are deemed uncollectible.

The following table analyzes our loan portfolio, before allowances, and provides a breakdown of our loans by type and according to the risk categories established by the SFC:

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | % | 2010 | % | 2011 | % | 2012 | % |
| | (in millions of COP, except percentages) | | | | | | | |
| **Commercial loans** | | | | | | | | |
| "A" Normal | 9,428,273 | 92.9% | 11,799,966 | 94.5% | 14,983,272 | 95.6% | 15,215,014 | 95.7% |
| "B" Acceptable | 463,812 | 4.6% | 439,253 | 3.5% | 473,935 | 3.0% | 449,952 | 2.8% |
| "C" Appreciable | 51,249 | 0.5% | 82,334 | 0.7% | 66,892 | 0.4% | 73,425 | 0.5% |
| "D" Significant | 183,862 | 1.8% | 117,466 | 0.9% | 105,454 | 0.7% | 113,155 | 0.7% |
| "E" Unrecoverable | 24,956 | 0.2% | 49,783 | 0.4% | 51,445 | 0.3% | 50,178 | 0.3% |
| Total commercial loans | 10,152,152 | 100.0% | 12,488,801 | 100.0% | 15,680,998 | 100.0% | 15,901,724 | 100.0% |
| Loans classified as "C," "D" and "E" as a percentage of total commercial loans | 2.6% | | 2.0% | | 1.4% | | 1.5% | |
| **Consumer loans** | | | | | | | | |
| "A" Normal | 5,295,998 | 88.1% | 6,845,640 | 90.0% | 7,560,621 | 87.9% | 7,579,213 | 87.1% |
| "B" Acceptable | 264,644 | 4.4% | 291,197 | 3.8% | 407,838 | 4.7% | 449,934 | 5.2% |
| "C" Appreciable | 161,165 | 2.7% | 159,358 | 2.1% | 232,511 | 2.7% | 209,852 | 2.4% |
| "D" Significant | 155,925 | 2.6% | 206,989 | 2.7% | 283,420 | 3.3% | 303,622 | 3.5% |
| "E" Unrecoverable | 133,027 | 2.2% | 102,642 | 1.3% | 121,358 | 1.4% | 157,024 | 1.8% |
| Total consumer loans | 6,010,758 | 100.0% | 7,605,826 | 100.0% | 8,605,747 | 100.0% | 8,699,646 | 100.0% |
| Loans classified as "C," "D" and "E" as a percentage of total consumer loans | 7.5 % | | 6.2% | | 7.4% | | 7.7% | |
| **Mortgages** | | | | | | | | |
| "A" Normal | 1,853,831 | 93.5% | 1,614,360 | 91.1% | 2,313,456 | 94.0% | 2,391,509 | 94.2% |
| "B" Acceptable | 74,147 | 3.7% | 106,989 | 6.0% | 97,427 | 4.0% | 96,631 | 3.8% |
| "C" Appreciable | 36,873 | 1.9% | 37,375 | 2.1% | 35,062 | 1.4% | 35,749 | 1.4% |
| "D" Significant | 13,653 | 0.7% | 10,947 | 0.6% | 12,526 | 0.5% | 12,366 | 0.5% |
| "E" Unrecoverable | 4,426 | 0.2% | 2,651 | 0.1% | 1,703 | 0.1% | 1,288 | 0.1% |
| Total mortgages | 1,982,930 | 100.0% | 1,772,322 | 100.0% | 2,460,173 | 100.0% | 2,537,542 | 100.0% |
| Loans classified as "C," "D" and "E" as a percentage of total mortgage loans | 2.8% | | 2.9% | | 2.0% | | 1.9% | |
| **Microcredit loans** | | | | | | | | |
| "A" Normal | 45,712 | 92.8% | 65,597 | 96.2% | 88,011 | 95.6% | 87,432 | 95.3% |
| "B" Acceptable | 1,427 | 2.9% | 1,094 | 1.6% | 1,573 | 1.7% | 1,689 | 1.8% |
| "C" Appreciable | 877 | 1.8% | 561 | 0.8% | 1,188 | 1.3% | 1,276 | 1.4% |
| "D" Significant | 789 | 1.6% | 252 | 0.4% | 371 | 0.4% | 323 | 0.4% |
| "E" Unrecoverable | 455 | 0.9% | 718 | 1.1% | 907 | 1.0% | 1,059 | 1.2% |
| Total microcredit loans | 49,259 | 100.0% | 68,222 | 100.0% | 92,050 | 100.0% | 91,780 | 100.0% |
| Loans classified as "C," "D" and "E" as a percentage of total microcredit loans | 4.3% | | 2.2% | | 2.7% | | 2.9% | |
| **Total loans** | | | | | | | | |
| "A" Normal | 16,623,814 | 91.4% | 20,325,562 | 92.7% | 24,945,359 | 92.9% | 25,273,168 | 92.8% |
| "B" Acceptable | 804,029 | 4.4% | 838,534 | 3.8% | 980,772 | 3.7% | 998,206 | 3.7% |
| "C" Appreciable | 250,163 | 1.4% | 279,627 | 1.3% | 335,653 | 1.3% | 320,301 | 1.2% |
| "D" Significant | 354,228 | 1.9% | 335,654 | 1.5% | 401,771 | 1.5% | 429,466 | 1.6% |
| "E" Unrecoverable | 162,864 | 0.9% | 155,794 | 0.7% | 175,413 | 0.7% | 209,550 | 0.8% |
| Total loans | 18,195,098 | 100.0% | 21,935,171 | 100.0% | 26,838,968 | 100.0% | 27,230,691 | 100.0% |
| Loans classified as "C," "D" and "E" as a percentage of total loans | 4.2% | | 3.5% | | 3.4% | | 3.5% | |

## Suspension of Accruals

The SFC established that interest, UVR, lease payments and other items of income cease to be accrued in the consolidated statements of income and begin to be recorded in memorandum accounts until effective payment is actually collected, after a loan is in arrears for more than the following periods of time:

| Loan type | Arrears in excess of |
|---|---|
| Commercial | 90 days |
| Consumer | 60 days |
| Mortgage | 60 days |
| Microcredit | 30 days |

For our subsidiary Bancafé Panamá, all loans are suspended after 90 days.

Loans can be restructured either through the capitalization of interest recorded in memoranda accounts or by writing-off balances (which may include capital, interest, and other items). The amounts capitalized are recorded as "deferred income" under the "other liabilities" line item, and are amortized in proportion to the amounts actually collected and the income that is recorded on a cash basis.

***Performing Past Due Loans and Non-Performing Past Due Loans***

The following table sets forth the breakdown of the past due loan portfolio by type of loan at the end of each period indicated:

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | **%** | **2010** | **%** | **2011** | **%** | **2012** | **%** |
| | (in millions of COP, except percentages) | | | | | | | |
| **Performing past due loans[1]:** | | | | | | | | |
| Consumer loans (30-60 days) | 160,091 | 49.0% | 177,323 | 51.2% | 234,402 | 53.9% | 259,624 | 54.8% |
| Commercial loan (30-90 days) | 52,095 | 15.9% | 46,221 | 13.4% | 40,559 | 9.3% | 43,989 | 9.3% |
| Mortgage loans (30-60 days) | 79,704 | 24.4% | 77,820 | 22.5% | 99,965 | 23.0% | 106,592 | 22.5% |
| Financial Leases (30-90 days) | 35,010 | 10.7% | 44,739 | 12.9% | 59,726 | 13.7% | 63,401 | 13.4% |
| Total performing PDL | 326,899 | 100.0% | 346,102 | 100.0% | 434,652 | 100.0% | 473,606 | 100.0% |
| **Non-performing PDLs** | | | | | | | | |
| Consumer loans (> 60 days) | 170,402 | 36.8% | 201,762 | 45.0% | 324,056 | 56.8% | 361,364 | 58.1% |
| Small loans (> 30 days) | 1,731 | 0.4% | 1,989 | 0.4% | 2,415 | 0.4% | 2,949 | 0.5% |
| Commercial loans (> 90 days) | 157,729 | 34.0% | 82,058 | 18.3% | 88,711 | 15.6% | 103,286 | 16.6% |
| Mortgage (> 60 days) | 120,849 | 26.1% | 145,248 | 32.4% | 136,415 | 23.9% | 132,741 | 21.4% |
| Financial Leases (> 90 days) | 12,788 | 2.8% | 16,926 | 3.78% | 18,519 | 3.2% | 21,277 | 3.4% |
| Total non-performing PDLs | 463,499 | 100.0% | 447,983 | 100.0% | 570,115 | 100.0% | 621,618 | 100.0% |
| **Total PDLs** | 790,398 | | 794,085 | | 1,004,767 | | 1,095,224 | |
| Total non-performing PDLs | 463,499 | | 447,983 | | 570,115 | | 621,618 | |
| Foreclosed assets | 75,007 | | 72,463 | | 58,063 | | 58,744 | |
| Other accounts receivable (overdue > 180 days) | 14,480 | | 16,494 | | 4,832 | | 6,301 | |
| **Total non-performing assets** | 571,551 | | 538,830 | | 633,011 | | 686,663 | |
| Allowance for loan losses | 1,120,266 | | 1,167,115 | | 1,291,883 | | 1,359,483 | |
| Allowance for estimated losses on foreclosed assets | 18,738 | | 19,989 | | 19,226 | | 13,924 | |
| Allowance for accounts receivable and accrued interest losses | 14,480 | | 16,494 | | 4,832 | | 6,301 | |
| PDLs/Total loans | | 4.3% | | 3.6% | | 3.7% | | 4.0% |
| Allowance for loan losses/PDLs | | 141.7% | | 147.0% | | 128.6% | | 124.1% |
| Allowance for loan losses/Loans classified as "C," "D" and "E" | | 146.0% | | 151.4% | | 141.5% | | 141.7% |
| Performing loans/Total loans | | 95.7% | | 96.4% | | 96.3% | | 96.0% |

(1) "Performing past due loans" are those loans that are in arrears but are still performing.

The following table presents the gross interest income that would have been recorded in the relevant period if the non-performing, restructured and charge-offs loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, and the amount of interest income on those loans that was included in net income for that period, including interest income earned on restructured loans. The performance ratio reflects the percentage of gross interest income that is in fact recorded in the net income:

| | As of and for the period ending | | | |
|---|---|---|---|---|
| | December 31, | | | March 31, |
| | **2009** | **2010** | **2011** | **2012** |
| | (in millions of COP, except percentages) | | | |
| Gross interest income | 199,513 | 172,432 | 203,994 | 66,135 |
| Interest income included in net income for the period | 97,035 | 79,006 | 84,548 | 31,843 |
| Performance ratio | 48.6% | 45.8% | 41.4% | 48.1% |

*Performing Troubled Restructured Loans*

We have entered into certain troubled debt restructuring agreements with customers. We have eliminated any differences between the principal and accrued interest due under the original loan and the new loan amount through a charge against the allowance for loan losses.

The following table presents a summary of our troubled debt restructuring loans accounted for on a performing basis in accordance with the criteria of the SFC in effect at the end of each period:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | | (in millions of COP) | | |
| Commercial loans | 111,150 | 134,489 | 194,282 | 196,354 |
| Consumer loans | 447,170 | 498,034 | 652,010 | 733,982 |
| Mortgage | 70,678 | 71,273 | 83,389 | 85,558 |
| Microcredit | 1,187 | 1,404 | 1,094 | 921 |
| **Total** | 630,185 | 705,200 | 930,775 | 1,016,815 |

## IV. Summary of Loan Loss Experience

### Allowance for Loan Losses

The following table presents an analysis of our allowance for loan losses as of the periods indicated. Certain loans are charged off directly to the income statement and are not reflected in the allowance.

| | As of the Year ended December 31, | | | As of the Three Months ended March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | | (in millions of COP) | | |
| Balance at beginning of period | 948,452 | 1,120,266 | 1,167,115 | 1,291,883 |
| Allowance for loan losses | 1,581,309 | 1,413,670 | 1,619,765 | 513,973 |
| Write-offs | (592,339) | (447,852) | (561,214) | (162,595) |
| Reclassification-Securitization | 1,428 | (750) | (1,097) | (1,610) |
| Recovery of allowances | (818,584) | (918,219) | (932,686) | (282,168) |
| **Balance at end of period** | 1,120,266 | 1,167,115 | 1,291,883 | 1,359,483 |

The following table presents the allocation of our allowance for loan losses by type of loan.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | % | 2010 | % | 2011 | % | 2012 | % |
| | | | | (in millions of COP) | | | | |
| Commercial | 470,595 | 42% | 460,634 | 39% | 452,904 | 35% | 478,344 | 35% |
| Consumer | 513,668 | 46% | 556,143 | 48% | 685,353 | 53% | 744,697 | 55% |
| Mortgage | 133,098 | 12% | 140,449 | 12% | 148,032 | 11% | 130,740 | 10% |
| Microcredit | 2,906 | 0% | 9,890 | 1% | 5,594 | 0% | 5,702 | 0% |
| **Total allowance for loan losses** | 1,120,266 | 100% | 1,167,115 | 100% | 1,291,883 | 100% | 1,359,483 | 100% |

The following table presents the ratio of loan allowances over non-performing loans, as of December 31, 2009, 2010 and 2011 and March 31, 2012:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| Commercial | 311% | 541% | 484% | 438% |
| Consumer | 301% | 276% | 211% | 206% |
| Mortgage | 61% | 45% | 60% | 48% |
| Microcredit | 168% | 497% | 232% | 193% |
| **Total loan allowances / NPL** | 242% | 261% | 227% | 219% |

For further information regarding asset quality and provision charges see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Charge-Offs**

Loans are subject to charge-offs when all possible collection mechanisms have been exhausted and when they are one hundred percent provisioned. All charge-offs must be approved by our board of directors (or, in the case of loans made by our subsidiaries, their respective boards of directors), taking into account the SFC's guidance set forth in External Circular Number 100 of 1995. Once approved, one hundred percent of charged-off loans are provisioned in principal and interest. Charge-offs do not, however, release us from our continuing obligation to pursue recovery as appropriate. The recovery of charged-off loans is accounted for in our consolidated statement of income.

The table below shows the number of days a loan must be overdue before a charge-off is made.

| Loan type | Days Past Due |
|---|---|
| Commercial | 570 |
| Retail | 180 (1) |
| Mortgage | 540 |
| Leasing | 540 (2) |
| Commercial Automotive | 360 |
| Retail Automotive | 360 |
| Microcredit | 180 |

(1) Other than automotive loans subject to a guarantee.
(2) Within the commercial loan portfolio.

Notwithstanding the foregoing, for the low-income segment, private label credit cards and Visa credit cards, our practice is to charge off the portion of indebtedness that is past due 120 days.

The following table sets forth the allocation of our charge-offs by loan type during the years ended December 31, 2009, 2010 and 2011 and the three-month periods ended March 31, 2011 and 2012.

| | For the Year ended December 31, | | | For the Three Months ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in millions of COP) | | | | |
| Commercial | 126,600 | 99,807 | 61,926 | 5,063 | 6,912 |
| Consumer | 449,801 | 328,766 | 486,134 | 86,542 | 151,906 |
| Mortgage | 11,058 | 16,552 | 12,552 | 2,686 | 3,561 |
| Microcredit | 3,552 | 1,119 | 601 | 129 | 216 |
| **Total charge-offs** | 591,011 | 446,245 | 561,214 | 94,420 | 162,595 |

The ratio of charge-offs to average outstanding loans for the years ended December 31, 2009, 2010 and 2011 and for the three months ended March 31, 2011 and 2012 was as follows:

| | For the Year ended December 31, | | | For the Three Months ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in millions of COP) | | | | |
| Total charge-offs | 591,011 | 446,245 | 561,214 | 94,420 | 162,595 |
| Total average outstanding loans | 16,855,860 | 20,059,502 | 24,622,205 | 21,073,884 | 25,704,269 |
| Ratio of charge-offs to average outstanding loans[(1)] | 3.5% | 2.2% | 2.3% | 1.8% | 2.5% |

[(1)] Percentages for the three months ended March 31, 2011 and 2012 have been annualized for presentation purposes.

As noted in the table above, the ratio of total charge-offs to total average outstanding loans has decreased since 2009, reflecting improving risk management, even though it slightly increased from 2010 to 2011 and when comparing March 2011 to March 2012.

### Potential Problem Loans

In order to carefully monitor the credit risk associated with clients, we have established a committee that meets monthly to identify potential problem loans, which are then included on a watch list. In general, these are loans issued to clients that could face difficulties in the future repayment of their obligations, but who have had a good payment record with us in the past. These potential difficulties could be related to factors such as a decline in economic activity, financial weakness or any other event that could affect the client's business. Our banks also monitor the credit risk associated with these clients.

### Credit Risk Corporate Management

The following provides a breakdown of our individual client risk categories:

- R1: Exceptional/minimum risk – Clients with large balances; market leaders.
- R2: Excellent risk – Clients dominant in their markets; solid financial condition; proven capacity to overcome difficulties.
- R3: Good risk – Clients well-positioned in their market or niche; good financial condition.
- R4: Average risk/satisfactory – Clients recognized in their market; average financial condition.
- R5: Weakened position – Clients with weakened competitive position.
- R6: Significant risk – Clients with potential weaknesses that could affect their ability to repay their loans.
- R7: Significant risk – Clients with paying deficiencies or losses.
- R8: Significant risk – Clients with accentuated deficiencies and higher contingency.

<table>
<tr><th rowspan="2">Risk exposure</th><th colspan="2">Directors</th><th colspan="2">Committee VCP</th><th colspan="2">Board</th></tr>
<tr><th>Actual*</th><th>Budget*</th><th colspan="2">Actual*</th><th>Actual*</th><th>Budget*</th></tr>
<tr><td>R1, R2, R3, and R4 clients</td><td rowspan="2"><=5</td><td>10</td><td rowspan="2">25</td><td>80</td><td rowspan="2">>25</td><td>>81</td></tr>
<tr><td>R5, R6, R7, and R8 clients</td><td>5</td><td>40</td><td>>41</td></tr>
<tr><td>Specific events</td><td colspan="6">V.B of 2 out of 5 members of the board, prior recommendation of the executive VP and VP of Corporate Credit</td></tr>
</table>

*Actual and Budget are in billions of COP

At March 31, 2012, our loans were allocated among the following individual risk categories:

- 6.6% in R1 (exceptional/minimum risk)
- 21.7% in R2 (excellent risk)
- 44.8% in R3 (good risk)
- 21.6% in R4 (average risk/satisfactory)
- 5.1% in R5 (weakened position)
- 0.2% in R6 (significant risk)

### Cross-Border Outstanding Loans and Investments

The following table presents information with respect to our cross-border outstanding loans and investments as of December 31, 2009, 2010, 2011 and the three months ended March 31, 2011 and 2012.

| | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in millions of COP) | | | | |
| Panama | | | | | |
| Investments | 213,456 | 225,943 | 206,297 | 248,033 | 241,927 |
| Loans | 378,384 | 354,298 | 404,431 | 378,805 | 323,400 |
| Subtotal | 591,840 | 580,241 | 610,728 | 626,838 | 565,327 |
| Miami, United States | | | | | |
| Investments | 89,023 | 34,367 | 70,301 | 23,854 | 65,375 |
| Loans | 12,504 | 11,020 | 44,484 | 18,573 | 75,179 |
| Subtotal | 101,527 | 45,388 | 114,785 | 42,427 | 140,555 |
| **Total cross-border outstanding loans and investments** | 693,368 | 625,628 | 725,513 | 669,265 | 705,882 |

### V. Deposits

The principal components of our deposits are savings deposits and term deposits. Our retail banking customers are the principal source of our demand and term deposits. The following table presents the amount of our deposits and the average rate paid, by type, for the years ended December 31, 2009, 2010, 2011 and the three months ended March 31, 2011 and 2012:

| | For the Year ended December 31, | | | | | | For the Three Months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | 2011 | | 2012 | |
| | (in millions of COP, except average interest rates paid) | | | | | | | | | |
| | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate |
| **Non-interest-bearing deposits** | | | | | | | | | | |
| Checking accounts | 1,752,924 | 0.0% | 2,257,277 | 0.0% | 2,555,324 | 0.0% | 2,379,116 | 0.0% | 2,537,595 | 0.0% |
| Savings deposits | 328,821 | 0.0% | 275,384 | 0.0% | 248,762 | 0.0% | 202,689 | 0.0% | 221,074 | 0.0% |
| Other deposits | 143,790 | 0.0% | 144,596 | 0.0% | 172,152 | 0.0% | 149,066 | 0.0% | 169,384 | 0.0% |
| Total | 2,225,534 | 0.0% | 2,677,256 | 0.0% | 2,976,238 | 0.0% | 2,730,871 | 0.0% | 2,928,053 | 0.0% |
| **Interest-bearing deposits** | | | | | | | | | | |
| Checking accounts | 676,027 | 3.5% | 633,507 | 2.9% | 632,641 | 3.2% | 589,016 | 3.0% | 703,150 | 3.2% |
| Term deposits | 6,885,761 | 7.2% | 7,107,756 | 4.4% | 6,869,165 | 4.4% | 7,181,412 | 4.1% | 6,805,294 | 5.3% |
| Savings deposits | 7,695,167 | 2.9% | 8,656,937 | 1.6% | 10,742,324 | 2.1% | 8,752,762 | 1.5% | 11,737,610 | 3.3% |
| Total | 15,256,955 | 4.9% | 16,398,200 | 2.9% | 18,244,130 | 3.0% | 16,523,190 | 2.7% | 19,246,055 | 4.0% |
| **Total deposits** | 17,482,489 | 4.3% | 19,075,456 | 2.5% | 21,220,368 | 2.6% | 19,254,061 | 2.3% | 22,174,108 | 3.5% |

The following table provides information about the maturity of our outstanding term deposits, according to whether those deposits are greater or less than US$100,000, as of March 31, 2012.

| | As of March 31, 2012 | | |
|---|---|---|---|
| | Peso-Denominated | U.S. dollar-Denominated | Total |
| | (in millions of COP) | | |
| Term deposits higher than US$100,000[1] | 17,433,564 | 453,677 | 17,887,241 |
| 3 months or less | 774,171 | 453,677 | 1,227,848 |
| From 3 to 6 months | 301,572 | 0 | 301,572 |
| From 6 to 12 months | 0 | 0 | 0 |
| More than 12 months | 16,357,821 | 0 | 16,357,821 |
| Term deposits less than US$100,000[1] | 4,997,598 | 1,029,641 | 6,027,239 |
| **Total** | 22,431,163 | 1,483,318 | 23,914,480 |

(1) For the purpose of this presentation, the Colombian peso equivalent of US$100,000 was calculated as approximately COP 179.2 million, and was converted at the rate of COP 1,792.07 per US$1.00, which is the representative market rate calculated on March 31, 2012, the last business day of the quarter, as reported by the SFC.

## VI. Return on Equity and Assets

The following table presents certain selected financial information and ratios for the periods indicated:

| | For the Year ended December 31, | | | For the Three Months ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| **Net income as a percentage of:** | | | | | |
| Average total assets | 1.9% | 2.1 % | 1.9 % | 2.4% | 2.5% |
| Average stockholders' equity | 22.3% | 19.6% | 15.1% | 20.1% | 20.1% |
| Dividends declared per share as a percentage of consolidated net income per share(1) | 64.1% | 15.8% | 29.6% | 47.6% | 45.4% |
| Average Stockholders' equity as a percentage of average total assets | 8.5% | 10.5% | 12.5% | 11.8% | 12.3% |

(1) Dividends are paid based on unconsolidated earnings. Net income per share is calculated using the average number of common and preferred shares outstanding during the year.

## VII. Short-term Borrowings

Our short-term borrowings include all of our borrowings with a contractual maturity of less than one year, owed to foreign or domestic financial institutions or holders of negotiable obligations.

The following table shows our significant short-term borrowings as of December 31, 2009, 2010 and 2011 and as of March 30, 2012:

| | As of December 31, | | | As of March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | (millions of COP) | | |
| **U.S.-dollar-denominated** | | | | | |
| Bancoldex | 38,221 | 80,536 | 82,483 | 65,767 | 88,893 |
| Overdrafts | 2,866 | 5,373 | 3,192 | 2,938 | 380 |
| International Banks | 481,847 | 1,180,309 | 1,614,124 | 1,185,693 | 1,383,840 |
| Total U.S.-dollar denominated | 522,934 | 1,266,218 | 1,699,798 | 1,254,398 | 1,473,113 |
| **Peso-denominated** | | | | | |
| Bancoldex | 8,033 | 5,765 | 5,972 | 14,437 | 715 |
| Finagro | 21,172 | 7,369 | 7,789 | 5,724 | 137,829 |
| Findeter | 27,891 | 21,659 | 31,813 | 9,884 | 149,105 |
| Overdrafts | 0 | 46 | 0 | 2,732 | 3 |
| Other Banks and Financial Entities | 0 | 0 | 50,506 | 0 | 30,292 |
| Total peso-denominated | 57,095 | 34,839 | 96,080 | 32,777 | 317,945 |
| **Total short term debt** | 580,028 | 1,301,057 | 1,795,878 | 1,287,174 | 1,791,058 |

The following table sets forth certain information regarding our foreign interbank borrowings for the periods indicated:

| | For the Year ended December 31, | | | | | | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | | 2011 | | 2012 | |
| | **Amount** | **Rate [(1)]** | **Amount** | **Rate [(1)]** | **Amount** | **Rate [(1)]** | **Amount** | **Rate [(1)]** | **Amount** | **Rate [(1)]** |
| End of period | 1,399,757 | 5.4% | 2,400,221 | 2.6% | 3,557,095 | 1.6% | 2,562,529 | 0.7% | 3,231,726 | 1.1% |
| Weighted average during period | 1,475,513 | 5.0% | 1,884,499 | 3.6% | 3,030,407 | 0.8% | 2,359,051 | 0.5% | 3,237,656 | 0.7% |
| Maximum amount of borrowing at any month-end | 1,728,756 | 4.3% | 2,400,221 | 2.6% | 3,557,095 | 0.9% | 2,562,529 | 0.3% | 3,267,183 | 0.4% |
| Interest paid during the period | 75,152 | | 63,576 | | 97,366 | | 18,044 | | 34,817 | |

(1) Corresponds to the ratio of interest paid to foreign interbank borrowings.

## COLOMBIAN FINANCIAL SECTOR

### Financial System Overview

The financial system in Colombia has undergone significant changes since the liberalization of the Colombian banking regime in the early 1990s. The most significant of these changes has been the increased consolidation of the Colombian banking industry, which has witnessed significant growth in the size of Colombian financial institutions and commercial banks, and a decrease in the number of market participants as a result of numerous mergers and acquisitions.

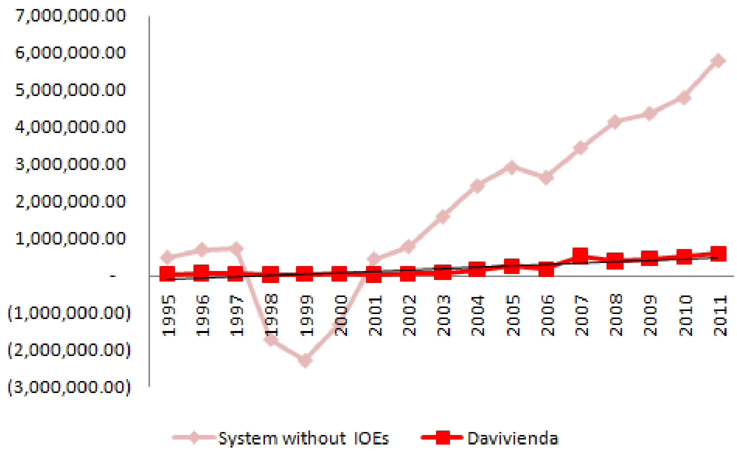
During the late 1990s, Colombia experienced a severe financial crisis, as a result of which much of the country's current regulatory framework was adopted. These regulations laid the foundation for the country's current robust standards related to solvency, net worth, liquidity and risk management. Following the Colombian financial crisis, the country experienced periods of strong economic growth, particularly between 2003 and 2007, and during this period the country's financial institutions were further strengthened and capitalized. In 2008, worldwide economic growth declined, and by 2009, many countries experienced severe recessions as a result of the worldwide financial crisis. Although Colombia was also affected by the financial crisis, the effect was less severe than in many countries, in large part due to the macroeconomic management of the Central Bank and the Colombian government, and the strength of the financial and regulatory regime that was implemented in response to the Colombian financial crisis of the late 1990s.

The Colombian financial system has also been engaged in the adoption of international principles of corporate and social responsibility. Currently there are systems in place within Colombia that provide incentives and credits for participants in the financial sector to undertake projects that promote the protection of the environment and support economic development. Additionally, financial institutions contribute to foundations and participate in sectors with high social impact, such as SMEs and microfinance, creating employment and growth and demonstrating their commitment to emerging businesses.

### Financial System Evolution

The structure of the Colombian financial system has experienced significant changes over the past decade. During the 1990s, Colombia's financial system consisted of a large number of specialized entities, which focused on specific areas of finance, such as mortgage lending, and the majority of which were separately regulated. The financial crisis at the end of the 1990s drastically changed the structure of the industry. Banking penetration, as measured by domestic credit to the private sector as a percentage of GDP diminished from a maximum of 33.9% in 1997, before the crisis, to 23.2% in 2000. Most of the leading banks suffered serious financial losses during the crisis and needed the assistance of Fogafin (Colombian Deposit Insurance Fund).

The chart below compares the banking sector's net profit evolution with that of Davivienda, on an unconsolidated basis for the period 1995 – 2011 (in millions of COP).




Source: SFC.
Note: Unconsolidated figures for Davivienda only.

Several measures were taken by Colombian authorities in order to strengthen the financial system and recover from the crisis. The list below describes some of the most relevant measures taken by regulators:

- set maximum loan-to-value levels for mortgage loans;
- restrict the ability of municipalities to assume debt above certain levels;
- prohibit capitalization of interest on mortgages;
- conversion of savings and mortgage companies into banks;
- introduction of risk management models and provision requirements for commercial and consumer loans based on the probability of default and expected losses in case of default;
- development of risk management practices that covered operational and market risk; value at risk ("VaR") was incorporated into the calculation of risk weighted assets and new guidelines were developed for capital requirements and solvency margins; and
- require accounting changes on mark-to-market valuations for investment portfolios and amortization schedules.

As a consequence of the severe losses that some institutions incurred and stricter regulation, a process of consolidation took place during the 2000s from which the healthiest institutions benefited most. The number of banks declined from a total of 116 in 1995 to 45 in 2005, and stood at 23 institutions as of December 31, 2011.

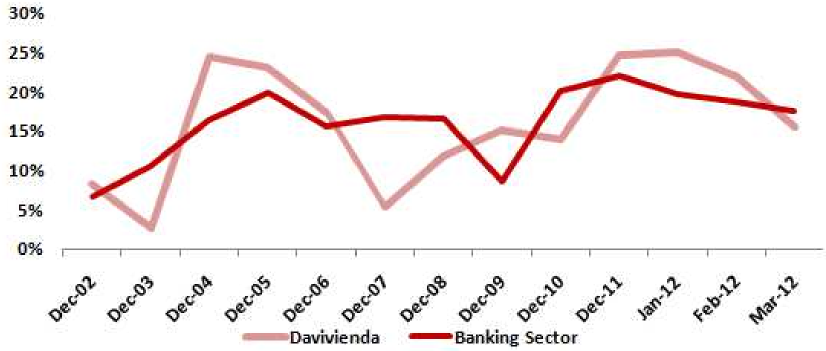
The financial system's fundamentals improved throughout the last decade. These fundamental improvements from the crisis of the late 1990s were put to the test in the global financial crisis of 2008, in which Colombia's financial system was comparatively less vulnerable to the effects of the global economic and financial crisis due to a combination of factors, including high capitalization ratios, high credit underwriting standards and a lack of exposure to complex financial products such as credit default swaps and collateralized debt obligations. Overall, the Colombian banking system benefited from these factors and from the Central Bank's ability to adopt a countercyclical monetary policy. In the aftermath of the global crisis the system's asset quality, solvency and profitability measures remained stable.

**Recent growth of financial sector**

Colombia's financial industry has been one of the country's primary engines of macroeconomic growth in recent years. According to data from DANE, the financial industry comprising financial intermediation, insurance, and other related services, grew at a compound annual growth rate ("CAGR") of 8.6% in the five-year period from 2007 to 2011 in real terms after adjusting for inflation, 4.1% above that of annual growth of total GDP during the same period. Economic stability, improvements in homeland security conditions, increased employment rates, and enhanced purchasing power on the part of the Colombian population, have contributed to an increase in the penetration of financial services. DANE's information shows that Colombian real GDP per capita grew by 16.8% in the five-year period ending December 31, 2011. At the same time, deposits in the banking system grew an aggregate 46.0% in real terms (68.3% in nominal terms) during the four-year period between March 31, 2008 and March 31, 2012, as adjusted, to include deposit growth of the five financial companies that merged with commercial banks during 2010: BBVA Leasing, Leasing Popular, Leasing de Occidente, Leasing Bogotá, and Helm Leasing. During 2011, the following commercial financing companies converted into banks: Falabella, Finandina, Pichincha and Coomeva credit cooperative.

The chart below presents the banking sector's annual growth measured by assets and Davivienda's growth on a consolidated basis for the period from the end of 2002 through the first quarter of 2012.

***Annual growth by assets***




Source: SFC.

(1) Adjusted for Bansuperior and Bancafe's acquisitions.

The following are relevant indicators relating to banking institutions in the Colombian financial industry as of March 31, 2012:

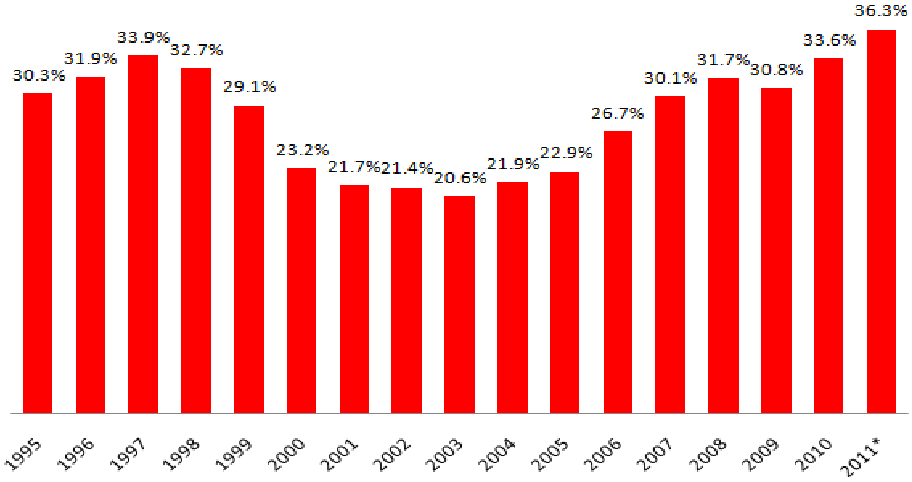
| | |
|---|---|
| Loans as a % of assets | 64.43% |
| Past due loans as a % of gross loans | 2.80% |
| Investment portfolio as a % of assets | 19.11% |
| Solvency Ratio | 15.27% |

Loan portfolios across the Colombian financial industry as of March 31, 2012 grew 15.0% in real terms in comparison with March 31, 2011. Past due loans decreased from COP 5,708.0 billion in March 31, 2011 to COP 4,916.2 billion in March 31, 2012. As of December 31, 2011 the industry-wide solvency ratio was 15.27%, higher than the prior 10-year average and well above 9%, the regulatory minimum required.

*Credit volume*

Domestic credit to the private sector as a percentage of GDP, as defined by the World Bank development indicators, refers to financial funds provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. This definition encompasses a broad range of entities that provide credit, and is not limited to banking institutions. It is widely used for comparison purposes across countries due to its reliability and homogeneity. The World Bank development indicators cover 209 countries from 1960 to 2009.

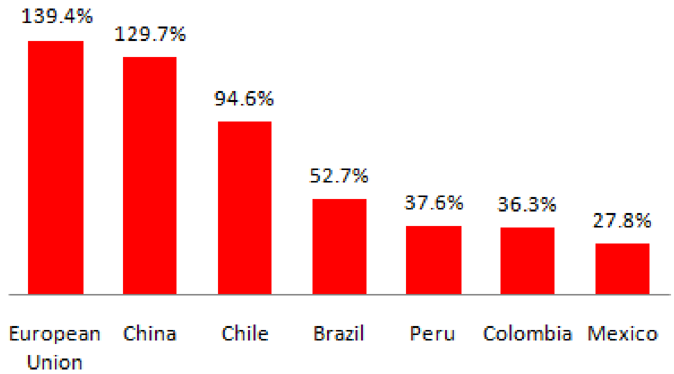
Colombia's credit volume has grown progressively since 2004 after it recovered from the financial crisis in the late 1990s. The chart below presents the evolution of Colombia's historical domestic credit to the private sector as a percentage of GDP from 1995 to 2011.




Source: Bloomberg
(*) Projection based on nominal GDP of COP 614 trillion.

Despite this increase in lending, the Colombian financial industry continues to have significant room for growth, as banking services are utilized at far lower rates in Colombia than in other Latin American countries. These low penetration rates are evidenced by the fact that as of 2011, total domestic credit to the private sector as a percentage of GDP was only 36.3% in Colombia, compared with 52.7% in Brazil and 94.6% in Chile. The opportunity for greater penetration by the financial sector is further supported by the fact that as of September 30, 2011, only 63.1% of the Colombian adult population, or 19.1 million people, had access to financial products offered by banks.

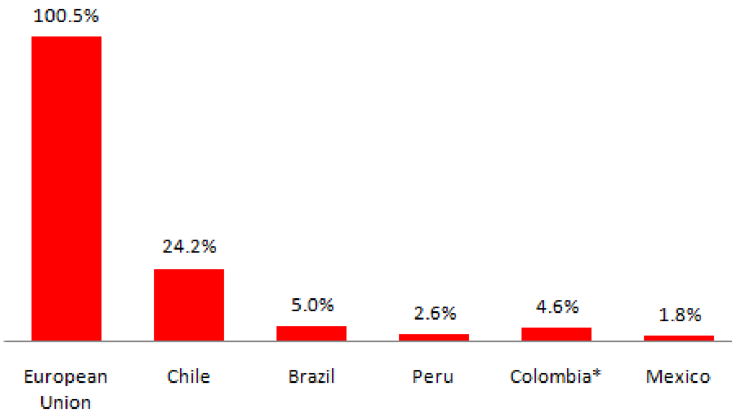
The following chart presents domestic credit to the private sector as a percentage of GDP of specified countries as of December 31, 2011.




Source: Bloomberg

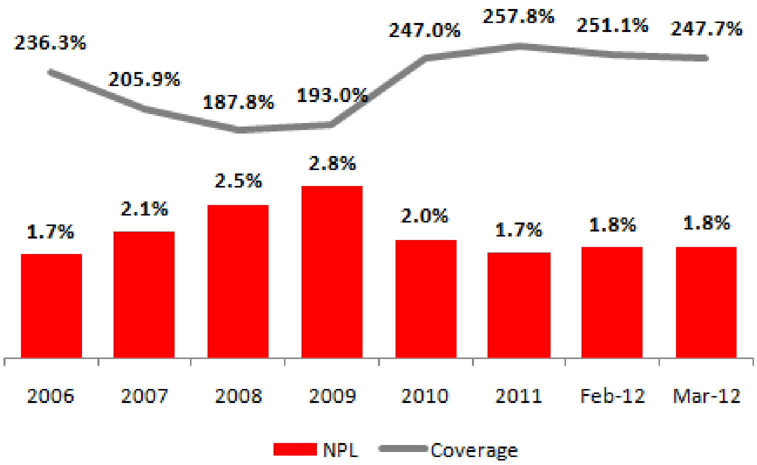
In addition, the housing market in Colombia is currently underdeveloped. According to the most recent census conducted by the Ministry of Housing of Colombia in 2005, 36.2% of Colombian households lived in deficient housing conditions. For this reason, in June 2011 the Colombian government announced its plans to build one million homes over the next four years and has announced financing subsidies for project developers and first time home buyers. The deficit in investment in housing is also evidenced by the ratio of mortgage loans outstanding as a percentage of GDP, which in Colombia falls below some Latin American countries and other selected economies.

The following chart illustrates the mortgage loans outstanding as a percentage of GDP in Colombia and specified countries as of December 31, 2011.



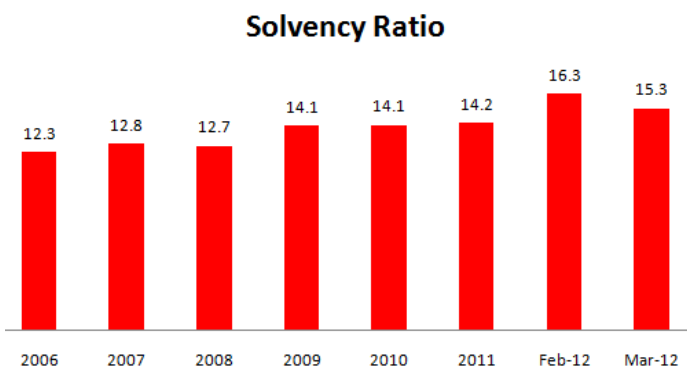

Source: Bloomberg
(*) Projection based on nominal GDP of COP 614 trillion.

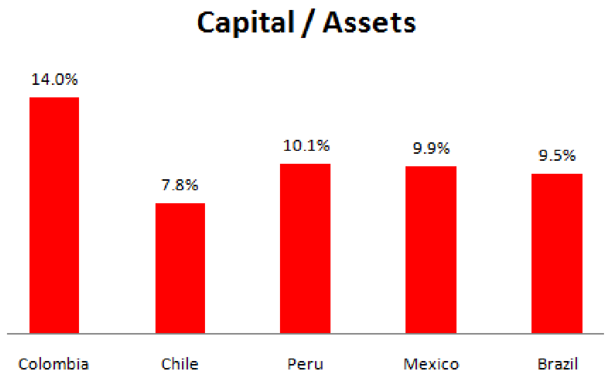
Asset quality levels in Colombia have strengthened significantly throughout the last decade and saw only marginal deterioration between 2007 and mid-2009 as a result of the economic slowdown. Since 2009, the Colombian financial system's asset quality levels have improved from 2.8% non-performing loans as percentage of total loans to 1.7% in December 31, 2011. Coverage ratios have also strengthened from 193.0% as of 2009 to 251.1% as of March 31, 2012. The following charts illustrate this trend and presents non-performing loans as a percentage of total loans and the loan loss coverage ratio from 2006 to March 31, 2012.




Source: SFC.

Colombia's banking system minimum capitalization requirement, based on the Solvency Ratio, as defined by the SFC, is 9%. Historically, the system-wide Solvency Ratio has remained significantly above the minimum requirement and has consistently increased on a year-over-year basis since 2006. Currently, Colombia's banking system remains well-capitalized, with a system-wide Solvency Ratio of 15.27% as of December 31, 2011. The following charts present the historical Solvency Ratio for Colombia and a comparison of capital as a percentage of total assets as of December 31, 2011 for the banking sectors in Brazil, Colombia, Chile, Peru and Mexico.

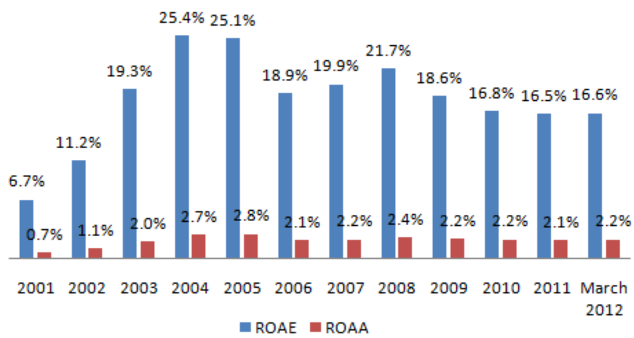


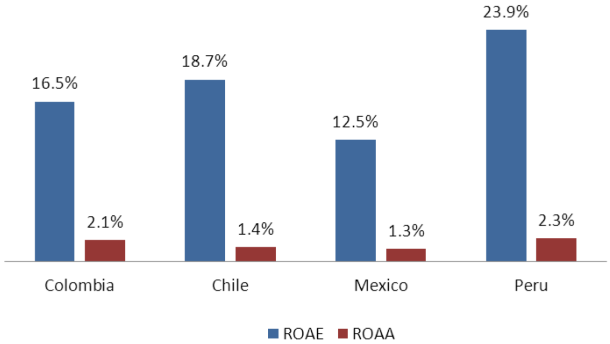




Source: SFC.
Note: Information as of December 31, 2011.

Source: SFC and local regulators.
Note: Information as of December 31, 2011.

In spite of having strong historical levels of capitalization for the banking system in Colombia, the profitability of the financial sector has not been compromised and has improved significantly since the Colombian financial crisis in late 1990s. Profitability remained strong throughout the 2008 financial crisis and afterwards. Furthermore, Colombia's asset profitability compares very favorably with other Latin American peers despite having higher levels of capitalization. The following charts present the returns on average of assets ("ROAA") and the returns on average equity ("ROAE"), for the Colombian financial industry from December 2001 to March 2012 and the ROAA and the ROAE as of December 31, 2011 for the financial sectors in Brazil, Colombia, Chile, Peru and Mexico.



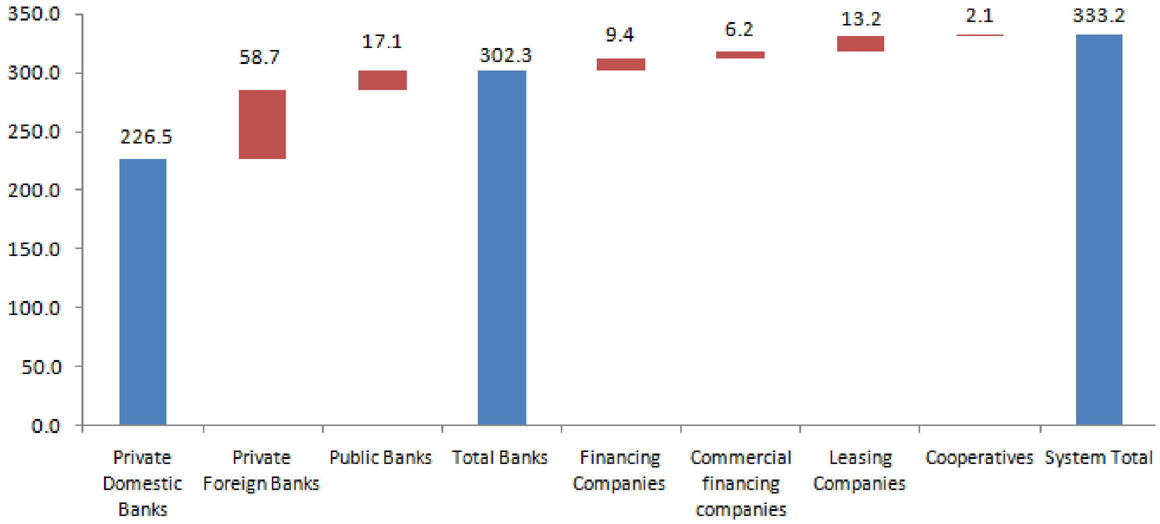




Source: SFC and local regulators.

**Main market participants**

As of March 31, 2012, the Colombian financial system was composed of 13 domestic privately owned banks, 9 foreign privately owned banks, 1 government owned bank, 4 financing companies, 15 commercial financing companies, 6 leasing companies and 6 cooperatives for a total of 54 financial institutions. The following chart illustrates the composition of the financial system by institution and its corresponding contribution in terms of assets as of March 31, 2012.

**Assets**
(in trillions of COP)




| | Private banks – domestic | Private banks – foreign | Public banks | Total banks | Financing Companies | Commercial financing companies | Leasing companies | Coop-eratives | Total system |
|---|---|---|---|---|---|---|---|---|---|
| % of financial system | 68.0% | 17.6% | 5.1% | 90.7% | 2.8% | 1.9% | 4.0% | 0.6% | 100.0% |
| Number of institutions | 13 | 9 | 1 | 23 | 4 | 15 | 6 | 6 | 54 |

Source: SFC.
Note: Information as of March 31, 2012.

Bancolombia, Banco de Bogota and Davivienda are the three leading Colombian banks by assets. Other significant players in the Colombian banking sector include: BBVA Colombia, Red Multibanca Colpatria, Helm Bank and GNB Sudameris. International players with a significant presence in the Colombian market include: Banco Santander, Citibank, HSBC, and Scotiabank. The competitive environment has shifted significantly among the top 10 players in the industry when comparing pre-Colombian financial crisis in late the 1990s to December 31, 2011. Market consolidation has shifted in terms of assets for the top 10 players since 1997 from 53.5% to 85.1% in March 31, 2012. The following graphs compare the market share evolution for the top 10 players in 1997 and March 31, 2012, in terms of total assets.

**Pre-financial crisis 1997**

| Rank | Company | Market share |
|---|---|---|
| 1 | BBVA Banco Ganadero | 7.6% |
| 2 | Banco Industrial Colombiano | 6.2% |
| 3 | Banco de Bogota | 6.0% |
| 4 | Banco Central Hipotecario | 5.7% |
| 5 | Bancafe | 5.3% |
| 6 | Davivienda | 5.1% |
| 7 | Bancolombia | 5.0% |
| 8 | Conavi | 4.5% |
| 10 | Caja de Credito Agrario | 4.3% |
| 11 | Banco Granahorrar | 3.8% |
| Top 10 | | 53.5% |

**March 31, 2012**

| Rank | Company | Market share |
|---|---|---|
| 1 | Bancolombia | 20.3% |
| 2 | Banco de Bogota | 14.8% |
| 3 | Davivienda | 11.9% |
| 4 | BBVA | 8.7% |
| 5 | Banco de Occidente | 7.0% |
| 6 | Banagrario | 5.7% |
| 7 | Popular | 5.0% |
| 8 | Colpatria | 4.5% |
| 9 | Helm Bank | 4.0% |
| 10 | GNB Sudameris | 3.3% |
| Top 10 | | 85.1% |

Source: SFC; for banking subsidiaries only.

More specifically, several mergers and acquisitions took place in 2005, including the Conavi/Corfinsura merger, the acquisition of Banco Aliadas by Banco de Occidente, the merger of Banco Tequendama and Banco Sudameris, as well as the merger of the Colmena and the Banco Caja Social. The trend towards mergers and acquisitions continued throughout 2006, with the completion of certain transactions first announced during 2005. These include our acquisition of Banco Superior, of Banco Granahorrar by BBVA Colombia and of Banco Unión by Banco de Occidente. Also during 2006, Banco de Bogota acquired Megabanco and we announced our acquisition of Bancafé. In 2007, HSBC acquired Banitsmo. Also in 2007, Bancolombia acquired Banagricola, which has operations in several countries in Central America. In 2008, the Royal Bank of Scotland (RBS) purchased the Colombian arm of ABN Amro Bank and General Electric (GE) Money acquired a 49.7% stake in Colpatria, which it subsequently resold to Mercantil Colpatria S.A. in June 2011. Banco de Bogotá acquired BAC-Credomatic in 2010, which has operations in several countries in Central America, for a reported purchase price of COP 3.53 billion. In December 2011 CorpBanca entered into an agreement for the acquisition of Banco Santander Colombia, and in the first quarter of 2012 we entered into an agreement for the purchase of the HSBC Subsidiaries as further described above.

**Competition**

We operate in a competitive market. Since the 1990s, when the Colombian financial system was deregulated, there has been an ongoing process of consolidation that has included foreign bank participants entering the market (see "– Financial System Overview"). We expect that consolidation to lead to the creation of larger local financial institutions, including additional foreign banks, presenting the risk that we could lose a portion of our market share in the industry, affecting our results of operations.

Our ability to maintain our competitive position depends mainly on our ability to anticipate and fulfill the needs of new and current customers through the development of innovative services and products, good customer service and strengthening our customer base through cross-selling. Our business will be adversely affected if we are unable to retain current customers and attract new ones. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of these opportunities is undermined by competitive pressures.

Currently more than 54 banking institutions are licensed to operate in Colombia, of which 23 are commercial banks. However in the commercial banking sector we compete more generally with the "larger banks." More specifically, our peer group consists of: Bancolombia, Colpatria, the Grupo Aval banks (Banco de Bogotá, Banco AV Villas, Banco Popular and Banco de Occidente), in addition to some international banks that are competitive in some of the sectors we operate, such as BBVA and Citibank.

The following table presents certain statistics for our key comptetitors and the Colombian financial sector overall as of and for year ended March 31, 2012:

| | Davivienda | Bancolombia | Bogota | BBVA | System-wide |
|---|---|---|---|---|---|
| Past due loans as % of total loans | 2.03% | 1.49% | 1.24% | 1.28% | 1.86% |
| Allowances / past due loans | 249.53% | 301.17% | 256.48% | 306.95% | 249.83% |
| ROA(1) | 2.59% | 3.70% | 2.85% | 2.00% | 2.92% |
| ROE (2) | 20.13% | 28.44% | 15.96% | 21.78% | 22.27% |

Source: SFC; for banking subsidiaries only.
(1) Return on assets calculated based upon assets at the beginning of the period.

(2) Return on equity calculating based upon equity at the beginning of the period.

Davivienda has been consistently gaining market share since 1997 when the entity was transformed into a commercial bank. Currently, Davivienda is positioned as the third largest bank in the Colombian financial industry in terms of assets. As of March 31, 2012, our total assets were equivalent to US$20.0 billion, on an individual basis, which represented a market share among banks of 11.9% compared to a 5.1% market share in 1997 on a non-consolidated basis. Davivienda ranks behind only Bancolombia with COP 61.2 trillion (US$34.2 billion) and Banco de Bogota with COP 44.7 trillion (US$24.9 billion) in terms of assets.

The following table shows our market share, on an unconsolidated basis, by major product category, and those of our main competitors as of March 31, 2012.

| Consumer Loans | Ranking | Market Share |
|---|---|---|
| Davivienda | 1 | 14.0% |
| Bancolombia | 2 | 13.4% |
| BBVA | 3 | 9.7% |

| Mortgage Loans[(1)] | Ranking | Market Share |
|---|---|---|
| BBVA | 1 | 22.8% |
| Davivienda | 2 | 21.7% |
| Bancolombia | 3 | 20.6% |

| Commercial Loans | Ranking | Market Share |
|---|---|---|
| Bancolombia | 1 | 24.1% |
| Bogotá | 2 | 16.9% |
| Davivienda | 3 | 10.0% |

| Credit Card Loans | Ranking | Market Share |
|---|---|---|
| Davivienda | 1 | 18.4% |
| Colpatria | 2 | 15.8% |
| Bancolombia | 3 | 14.7% |

Source: SFC; for banking subsidiaries only.

(1) Housing portfolio, including loans to employees and financial leases for housing, and excluding securitized mortgages.

Commercial banks also face increasing competition from other financial institutions that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans.

## BUSINESS

### General

#### *History*

We are organized under the laws of Colombia as a stock company (*sociedad anónima*), incorporated through year 2053 and licensed to operate as a commercial bank (*banco comercial*), registered in the Bogota Chamber of Commerce with number 00276917. Currently, we are the third largest financial institution in Colombia in terms of total assets, with a 10.8% market share as of March 31, 2012. We are the leading consumer bank in the country with a 14.0% market share for consumer loans as of March 31, 2012, and provide a wide variety of banking and credit services to individuals, families and businesses, including corporations, small- and medium-sized enterprises, or SMEs, and governmental entities. Our services include savings and current accounts, commercial, consumer and mortgage loans, credit and debit cards, mobile banking, fixed-term deposits and other services, such as money market services, structured trusts, voluntary pension fund management and brokerage services. We distinguish ourselves from our competitors through our upbeat and familiar marketing campaign and straightforward product offerings, and constantly innovate to provide exclusive offers in each of the markets we target.

We were incorporated on October 16, 1972 as a savings and mortgage corporation, Corporación Colombiana de Ahorro y Vivienda, or Coldeahorro, with offices in Bogotá, Medellín, Calí and Barranquilla, and at that time we were dedicated almost exclusively to mortgage lending. In 1973 we changed our name to Corporación Colombiana de Ahorro y Vivienda, Davivienda, and for the next 25 years we continued to grow organically, focusing on mortgage lending and savings products for individuals and families. Since 1997 our organic growth has also been supplemented by strategic acquisitions. In 1997, we reincorporated as a stock company (*sociedad anónima*), adopted our current name, Banco Davivienda S.A., and became licensed as a commercial bank. During the Colombian financial crisis of the late 1990s, we did not post any losses and, unlike many Colombian financial institutions, we did not require the assistance of Fogafin, the Colombian deposit insurance fund responsible for protecting depositors and ensuring the stability of the Colombian financial system.

Our retail banking business, which originally focused on savings and mortgage banking services for individuals and families, was further diversified in 1994 when we entered the credit card business and began offering MasterCard-branded credit cards. In 1997, we undertook our first major acquisition by purchasing Banco República de Venezuela, which we sold in 2001. In 2002, together with the International Finance Corporation, or IFC, and other Colombian financial institutions, we created Titularizadora Colombiana, the largest mortgage securitization agency in Colombia. This was our first initiative with the IFC, which remains one of our significant shareholders, holding approximately 3.9% of our outstanding capital stock as of the date of this offering memorandum. We further strengthened our position as a leader in the Colombian retail banking sector when we merged with Banco Superior in 2005, which resulted in our expansion in the credit card and consumer financing markets in Colombia. In 2006, we acquired Confinanciera, a leader in freight and passenger vehicle loans, giving us access to new business lines and opportunities. In February 2007, we acquired Bancafé, and we completed the integration of Bancafé's operations in 2010. The merger with Bancafé expanded our presence in the corporate banking sector and our portfolio of business with SMEs. This acquisition also gave us an international presence in Panama and in Miami.

In October 2010, we completed an initial public offering on the Colombian Stock Exchange of 26 million of our preferred shares, under the ticker symbol "PFDAVVNDA," raising proceeds of COP 416 billion (US$232 million). In November 2011, we completed an additional primary offering in Colombia of 35.8 million preferred shares, equivalent to 8.8% of our capital stock as of the date of this offering memorandum.

In January 2012, we announced an agreement to purchase from HSBC its banking operations in Costa Rica, El Salvador and Honduras for US$801 million. We anticipate that this transaction will close before the end of 2012, pending regulatory approval and satisfaction of other closing conditions. As of March 31, 2012, these operations consisted of 137 branches. Our anticipated acquisition of the HSBC Subsidiaries will further expand our reach into Central America.

As of March 31, 2012, we had, on a consolidated basis COP 37.4 trillion (US$20.9 billion) in total assets and COP 4.9 trillion (US$2.7 billion) in stockholders' equity. Our net interest income and net income for the three months ended March 31, 2012 were COP 637.8 billion (US$355.9 million) and COP 215.3 billion (US$120.2 million), respectively, for the year ended December 31, 2011 were COP 2,288.7 billion (US$1,277.1 million) and

COP 630.3 billion (US$351.7 million), respectively, and for the year ended December 31, 2010 were COP 1,939.5 billion (US$1,082.3 million) and COP 579,283 billion (US$323.3 million), respectively. We had an annualized return on average equity of 20.07% as of March 31, 2012 (average based on December 2011 and March 2012 balances). As of March 31, 2012, we had total ratios of non-performing loans to total loan portfolio of 2.28%, an allowance for loan losses to total loan portfolio of 4.99%, an allowance for loan losses to non-performing loans of 218.7% and a ratio of total loan portfolio to total deposits and bonds of 93.9%. At March 31, 2012, our Solvency Ratio was 14.26%, which is higher than the established regulatory requirement of 9.0% set forth under Colombian Capitalization Requirements.

Our name "Davivienda" and logo, "*La Casita Roja*," are among the most widely-recognized and respected brands in Colombia. We are the largest company within Grupo Bolívar, a leading business Colombian conglomerate with over 70 years of experience in the financial, insurance and construction sectors in Latin America.

***Business Overview***

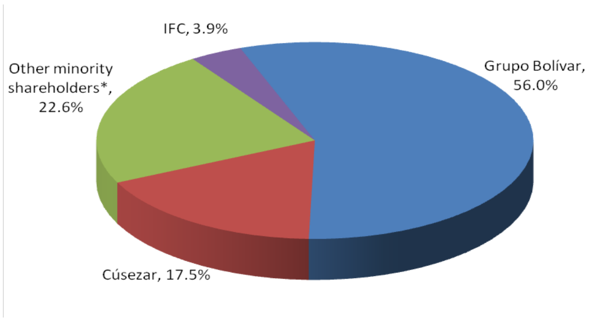
Retail and corporate banking represent the most significant parts of our business operations. Our retail banking clients are primarily middle-income individuals and families, and our main retail products include consumer loans, mortgages, credit cards and automotive loans. As of March 31, 2012, our market share of Colombian consumer loans and mortgage loans (including securitized mortgages) was 14.0%, and 24.7%, respectively, making us the largest provider of consumer loans and second largest mortgage lender in Colombia. Furthermore, we are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012, representing 18.4% of Colombian credit card loans outstanding. In February 2011, we introduced our Daviplata service, the first mobile phone banking service in Colombia, which allows users to access our mobile payment and money transfer platforms.

Our corporate banking clients are corporations, financial institutions, SMEs, agricultural businesses, state-owned enterprises and governmental entities. We have been steadily growing our commercial banking business and we are currently the third largest bank in this segment with a 10.0% market share as of March 31, 2012. For the three months ended March 31, 2012, 77.8% of our revenues were derived from financial margin and 22.2% of our revenues were derived from non-interest income, including brokerage revenues. As of March 31, 2012, approximately 26.6% of the total loans provided by us were guaranteed or secured by collateral (primarily real estate and other assets such as cash and securities). We also provide services related to the capital markets, money markets and foreign exchange markets, and we also provide brokerage services in connection with fixed-income securities through our subsidiary Davivalores. Internationally, we provide banking services in Panama through our subsidiary, Bancafé Panamá, and in Miami through our branch, Davivienda International. As of March 31, 2012, our international operations accounted for 0.5% of our revenues, and we plan to expand our presence in Central America with the closing of our acquisition of the HSBC Subsidiaries before the end of 2012. We also are engaged in leasing activity through our subsidiary, Confinanciera and trust services through our subsidiaries, Fiducaria Davivienda and Fiduciara Cafetera.

***Organizational Structure***

Grupo Bolívar is our majority shareholder through its holding company, Sociedades Bolívar S.A., which held approximately 56.0% of our capital stock as of the date of this offering memorandum. As of the same date 17.5% of our capital stock was held by Cúsezar, and 3.9% was held by the IFC. In October 2010, we completed the initial public offering in Colombia of 26 million of our preferred shares, under the ticker symbol PFDAVVNDA, raising proceeds of COP 416 billion (US$232 million). In November 2011, we completed an additional primary offering in Colombia of 35.8 million preferred shares, raising proceeds of COP 716 billion (US$400 million), equivalent to 8.8% of our capital stock as of the date of this offering memorandum. In the third quarter of 2011, our Shareholder's Assembly approved the conversion of up to 50% of the common shares held by minority shareholders into preferred shares, of which 7,956,340 shares were converted. Subsequent to this offering, our capital stock is comprised of 443,866,625 total shares issued and outstanding, of which 100,537,305, or 22.7%, are preferred shares, an increase from 20.9% preferred shares outstanding immediately prior to the offering that took place in November of 2011, and the conversion of 7,956,340 shares from common shares into preferred shares in the first quarter of 2012 and was effective as of April 1, 2012.

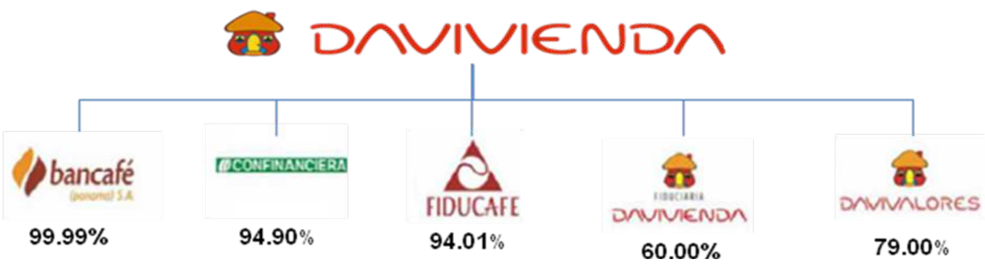
The following chart sets forth our shareholders structure as of the date of this offering memorandum:




(*) Includes minority preferred and common shareholders.

In the third quarter of 2011, our Shareholder's Assembly approved the conversion of up to 50% of the common shares held by minority shareholders into preferred shares. This conversion process was completed on March 29, 2012 and the conversion was effective as of April 1, 2012.

The following chart sets forth our principal subsidiaries and our ownership in them as of the date of this offering memorandum:




(1) In terms of our corporate structure, Davivienda International, our Miami branch, is formally considered a part of Davivienda due to the fact that for Colombian legal purposes the branch is part of Banco Davivienda, S.A. On September 13, 2011, our board of directors approved the merger of Confinanciera into Davivienda. We anticipate that this merger will be completed before the end of the third quarter of 2012.

The following table provides a breakdown of key financial metrics for our principal subsidiaries as of March 31, 2012:

| | **Banco Davivienda** | **Bancafé Panamá** | **Confinanciera** | **Fiducafe** | **Fiduciaria Davivienda** | **Davivalores** |
|---|---|---|---|---|---|---|
| | (expressed in millions of COP, except percentages) | | | | | |
| Assets .................. | 35,856.9 | 1,384.9 | 493.0 | 83.7 | 65.6 | 16.1 |
| Contribution ........ | 94.6% | 3.7% | 1.3% | 0.2% | 0.2% | 0.0% |
| Liabilities............. | 30,943.7 | 1,208.0 | 415.0 | 15.2 | 18.6 | 1.5 |
| Equity .................. | 4,913.2 | 176.8 | 78.0 | 68.6 | 47.0 | 14.6 |
| Net Income .......... | 225.8 | 8.5 | 6.6 | 2.3 | 3.8 | 2.4 |
| Contribution ........ | 90.6% | 3.4% | 2.7% | 0.9% | 1.5% | 0.9% |

## Corporate Information

Our principal executive offices are located at Torre Central Davivienda, Av. El Dorado No. 68 C – 61, Bogotá D.C., Colombia. Our telephone number is +57-1-330-0000.

## Competitive Strengths

We believe that our primary business strengths, which have helped us achieve positive results in a competitive environment, include the following:

***A leading, integrated full service bank with the strongest consumer banking franchise in Colombia.***

We are one of the largest financial institutions in Colombia and have developed a strategic and leading presence in the principal segments of the market for banking services with a market share by total assets of 10.8% as of March 31, 2012. We are the market leader in consumer loans with a 14.0% market share in terms of loans outstanding as of March 31, 2012. We are the largest issuer of credit cards in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012 (representing 18.4% of all Colombian credit card loans outstanding), and the second largest mortgage lender in Colombia, with 168,245 customers as of March 31, 2012 (representing 24.7% of all Colombian mortgage loans outstanding). We are also the third largest commercial lender in Colombia and have been steadily growing the business, achieving a 10.0% market share as of March 31, 2012.

Our leading universal bank franchise is supported by our extensive national network of 563 branches in 178 municipalities and 1,468 Davivienda-branded ATMs. This sizeable national footprint, along with our innovative and creative marketing campaigns, has allowed us to create unique and strong brand awareness that delivers on customer appeal and loyalty.

***Strong and consistent financial and operating performance with controlled risk exposure.***

Our business combines healthy profitability with tight control of risk exposure by assembling a high quality portfolio of assets that produces strong and consistent returns and mitigates risk. Our ROAE for the three months ended March 31, 2012 was 20.07% and our ROAE for 2009, 2010 and 2011 were 22.31%, 19.56% and 15.15%, respectively. For the three months ended March 31, 2012, we achieved a ROAA of 2.47% and our ROAA for 2009 and 2010 was 1.90% and 2.06%, respectively. As of March 31, 2012, our net interest margin was 8.3% and our efficiency ratio was 46.3% before allowances.

In addition, our client portfolio is well diversified, with clients in a variety of economic sectors, including individuals, SMEs, large corporations and governmental entities. As of March 31, 2012, we provided financial services and products to approximately 3,934,900 individuals, 98,220 corporations and 3,970 governmental institutions and entities in Colombia.

We believe our risk management policies are in line with best practices. We focus these policies on credit, market, liquidity and operational risks. Risk management is embedded in our operations, internal controls and strategic planning. As of March 31, 2012, we had total ratios of non-performing loans to total loan portfolio of 2.2%, an allowance for loan losses to total loan portfolio of 4.99%, and an allowance for loan losses to non-performing loans of 218.7%.

We also have access to stable and low-cost sources of funding, such as term deposits, savings accounts and checking accounts. In particular, deposits are our principal source of funding, representing approximately 93.0% of our net loans and leases as of March 31, 2012. Our average cost of funds rate at March 31, 2012 was 4.6%. Nonetheless, we have diversified our funding sources through borrowing from foreign financial institutions and national development banks (such as Findeter, Bancoldex and Finagro), and by issuing long-term bonds in Colombia and, through this offering, abroad.

***Industry leader in innovation and technology.***

Our history of innovation in the Colombian retail banking market differentiates us from our competitors and increases the attractiveness of our services and products as we expand our operations in other market segments and geographies. In 2002, together with the IFC, and other Colombian financial institutions, we created Titularizadora Colombiana, the largest mortgage securitization agency in Colombia. We were also the first to offer financial leases for houses as an alternative to traditional mortgages and remain leaders in this market. More recently, we introduced our Daviplata service, the first mobile phone banking service in Colombia. This free service has already attracted 520,800 users since February 2011, and allows our customers to access our mobile payment and money transfer platforms and the option of speaking with a skilled customer service representative or using automated options.

Through Daviplata, we expect to expand our penetration of banking services into underserved segments of the Colombian market.

We believe these innovations increase the attractiveness of our services and products among consumer and commercial customers and will be important in this respect as we expand our operations in other market segments and geographies.

***Track record of growth through strategic acquisitions and organic expansion has led to growing market positions in new business lines.***

Since our incorporation in 1972, we have achieved our growth objectives and gained competitive advantages through organic expansion and strategic acquisitions. In 1994, we entered the credit card business, and with the acquisition of Banco Superior in 2005, we further strengthened our leadership position, and today we are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation.

Our expansion into freight and commercial vehicle leasing came through our acquisition of Confinanciera in 2006. With the acquisition of Granbanco S.A. – Bancafé, or Bancafé, in 2007 we significantly broadened our presence in the corporate banking sector and our portfolio of business with SMEs, particularly in the agricultural sector. This acquisition also gave us an international presence in Panama and in Miami. We further plan to increase our presence in Central America through the acquisition of HSBC's banking operations in Costa Rica, El Salvador and Honduras, which we expect to be completed by the end of 2012. Our growth throughout the years has allowed us to complete our transformation into a full service universal bank.

Our consistent growth strategy has allowed us to become a leader in the various market segments in which we operate without compromising client service. Moreover, we have successfully integrated acquired companies while maintaining our cohesive corporate culture.

***Key member of Grupo Bolívar, one of the largest business conglomerates in Colombia.***

Grupo Bolívar, our ultimate controlling shareholder, is the third largest financial conglomerate in Colombia in terms of assets with more than 70 years of experience across a diversified spectrum of industries, including insurance, banking and construction. Access to Grupo Bolívar's breadth of experience and exposure to multiple sectors in Colombia allows us to benefit from best practices and technologies. Management and risk planning for all of Grupo Bolívar's subsidiaries, for example, is performed on a consolidated basis by a centralized risk unit controlled by Grupo Bolívar.

We also capitalize on our relationship with other entities within Grupo Bolívar to capture synergies. For example, we leverage Seguros Bolívar's position as one of the leading insurance companies in Colombia to offer bank insurance products and services through our network, for which we earn commissions. We also obtain synergies from Constructora Bolívar, a leading construction company in Colombia, which arise from mortgage loans we extend to purchasers of property developed by Constructora Bolívar. Colombian Banking Laws set forth restrictions and limitations on transactions carried out with these related parties; for a description of these laws and our policies, see "Related Party Transactions."

***Highly experienced and talented management team with an average tenure of 14 years working for Davivienda.***

We have a highly experienced senior management team that has been working together for many years. This continuity has helped establish long-standing relationships and loyalty with customers. Our management team has substantial industry experience and has a proven track record of successfully steering the bank through different economic cycles and of acquiring and integrating related businesses and assets. For a more detailed description of our management team, see "Management."

## Strategy

***Capitalize on our leading position in the Colombian financial services markets and expand our international presence, particularly in Central America.***

We intend to continue to capitalize on our strong brand name recognition and leading market position in Colombia to grow our business. We plan to expand our client base along with our product lines in profitable growth sectors, while at the same time adhering to our controlled risk environment in order to optimize the distribution of risk and ensure long-term stable growth across all segments of our business. We believe that particularly in our corporate banking business we have ample opportunity in which to grow organically and through future strategic acquisitions. We also plan to increase our presence in Colombia by increasing the number of Davivienda branches and ATMs and by selectively expanding into new regions of Colombia.

In addition, we plan to increase our presence abroad through the acquisition of HSBC's banking operations in Costa Rica, El Salvador and Honduras, which, according to HSBC, as of March 31, 2012, have 137 branches. Through this expansion, we plan to deepen our presence throughout Central America and build on our previous success with acquisitions, as we did with our prior acquisitions of Confinanciera, Banco Superior and Bancafé, which strengthened our penetration in Colombia and provided us with an international presence in Panama and Miami.

***Deepen customer relationships through cross-selling opportunities.***

Our strategy is to increase penetration among our client base and promote greater client loyalty through the cross-selling of products and services offered by us, our subsidiaries and other entities within Grupo Bolívar. We plan to continue offering bundled products, including a broad variety of banking, insurance and other products and services across our business lines, subsidiaries and Grupo Bolívar, particularly to individuals and families. In particular, we intend to continue taking advantage of the classification of our retail banking customers into five categories (inclusion, classic, premium, premium plus and private banking), based on their income and degree of access to financial services, to create targeted products for each customer category and relationship-oriented services geared towards these target markets. We plan to continue to leverage this cross-selling potential through a variety of means, such as strengthening our offering of cash management, capital market products and foreign exchange and brokerage services to our existing client base. Likewise, we intend to promote our ability to offer a bundle of services through our affiliates in the United States and Panama to meet our clients' banking needs. We also intend to continue to leverage on strategies such as our Transmilenio debit card frequent customer reward program (Transmilenio is the mass public transport system in Bogotá) and our annual Expofamilia promotional event, which attracted more than 150,000 visitors in 2011 and resulted in the extension of more than 8,000 loans, representing a 53% increase in comparison to the prior year's event, among others.

***Expand our customer base by promoting financial inclusion***

We plan to expand our client base by promoting financial inclusion and bringing in new clients that have not previously been users of banking services through a variety of means, such as Daviplata's mobile banking platform.

In commercial banking, we plan to become the bank of choice for SMEs, a segment that still has a low usage rate for banking services. By complementing our offerings with products for these clients and addressing their specific needs, we seek to broaden our client base and profitably participate in this segment that has one of the highest growth potentials in the market.

***Leverage our market presence in key sectors of the Colombian economy to take advantage of increased levels of investment and development.***

We will seek to be a key participant in the increased levels of investment and development anticipated in Colombia in the following five key sectors of the economy: infrastructure, mining, energy, housing and agriculture. These five sectors are ones in which we have a strong market presence and where we believe we are well-situated to provide financial services to participants in these sectors as well as to their service providers. We plan on continuing to align our own growth strategy with the sectors of the economy with the greatest potential for growth and investment.

***Continuing to improve our operating efficiency and profitability by effectively deploying our assets while maintaining solid risk management practices.***

To maintain the efficiency of our operational activities, we intend to maintain close control over our operating costs by investing in technological improvements, specialized training of our personnel and strictly monitoring our internal controls. In addition, by promoting the use of our ATMs, website and mobile banking services to reduce branch traffic, we seek to provide banking services at a competitive cost. We also intend to improve operating efficiency and increase profitability by seeking to reduce our funding costs through maintaining a low-cost deposit base, selective market and bank financings and concentrating our efforts on higher margin products and services. At the same time, we will remain committed to prudent risk management and strict internal controls to minimize the extent and impact of any potential losses.

**Our Principal Business Lines**

As noted above, we are primarily engaged in retail and corporate banking. Our retail banking services are offered primarily through three business units, consumer lending, mortgages and deposits, and our clients are primarily middle-income families and individuals. We are the single largest provider of consumer loans in Colombia, and we are the second largest mortgage lender. Our corporate banking services are offered to a variety of large corporations, SMEs and governmental entities. We are also engaged in proprietary trading, including trading in capital markets, money markets and foreign exchange markets, brokerage services in connection with fixed-income securities and derivatives, leasing and trust services.

The following chart shows certain unconsolidated relevant financial information about our business lines as of and for the three months ended March 31, 2012:

| | Retail Banking | | | Corporate Banking |
|---|---|---|---|---|
| | Consumer Lending | Mortgage Lending | Credit Cards | |
| | (expressed in millions of COP) | | | |
| Loans | 6,175,637 | 4,567,073 | 2,406,533 | 12,892,808 |
| Loan Loss Allowances | (532,144) | (105,396) | (207,367) | (441,464) |
| Interest Income | 261,443 | 136,079 | 125,502 | 284,381 |
| Fee Income | 13,836 | 11,857 | 52,457 | 3,108 |
| Operating Expense | 34,221 | 13,846 | 74,527 | 21,225 |

***Retail Banking***

We categorize our retail banking clients into five categories:

- Inclusion, which we define as those individuals and families that have not historically accessed or used banking services, and who are typically lower income;
- Classic, which we define as those individuals and families with annual household incomes below US$4,000;
- Premium, which we define as those individuals and families with annual household incomes between US$4,000 and US$11,000;
- Plus, which we define as those individuals and families with annual household incomes exceeding US$11,000 and a net worth of at least US$150,000; and
- Private banking, which we define as those individuals and families with a net worth exceeding US$1,000,000.

Our retail banking operations are focused on two primary areas: consumer lending and mortgages. In addition, within this business we also manage our credit card operations, which are offered not only to individuals and families, but also to corporate and governmental clients. We envision significant investments in our retail banking operations, specifically with our premium and plus customers. We are also increasing our efforts to market packaged products to families and other identifiable groups, such as those that work for a single employer.

### Consumer Lending

Our consumer lending operations consist primarily of payroll loans, credit card loans, automotive loans and revolving loans. As of March 31, 2012, we had approximately 3,934,900 clients within our consumer lending business, accounting for approximately 14.0% of the outstanding consumer loans in Colombia, making us the country's leading consumer lender. This business is targeted at individuals and families, who frequently take advantage of a number of the services that we offer, which in addition to lending products include savings accounts, checking accounts and term deposits, and for higher-income customers, cash and investment portfolio management services. As of March 31, 2012, our consumer loan portfolio had COP 8.7 trillion (US$4.9 billion) outstanding, of which 27.4% consisted of payroll loans, 27.6% consisted of credit card loans, 16.4% consisted of personal revolving loans, 12.4% consisted of automotive loans and 16.2% consisted of other types of consumer loans. Consumer loans accounted for 31.9% of our total loan portfolio as of March 31, 2012.

As of March 31, 2012, our consumer portfolio grew by COP 744.4 million in comparison to March 31, 2011. For the same period, our delinquent loan coverage ratio (*cobertura por altura de mora*) was 205.8% at March 31, 2012, compared to the Colombian financial system-wide ratio of 219.36%. The quality of our consumer portfolio declined during 2010 in comparison with ratios for non-performing loans system-wide, particularly due to our revolving loan portfolio, but these trends have reversed since the beginning of 2011, with more controls over credit approvals and tighter oversight of defaulted loans.

### Mortgage Lending

We are the second largest mortgage lender in Colombia, with nearly 168,245 customers as of March 31, 2012, representing 24.7% of Colombian mortgage loans outstanding. Our outstanding mortgages along with our financial leases portfolio had COP 4,324 billion (US$2,413 million) outstanding as of March 31, 2012, representing 15.9% of our total loan portfolio. Our mortgage lending operations are targeted at two distinct client segments:

- low income borrowers, whom we define as those who qualify for public housing developments that are subsidized by the government for loans at a maximum value of COP 76.5 million (US$42,691) (these accounted for 35.8% of the mortgage loans we disbursed in the three months ended March 31, 2012, and 41.0% of the overall public housing development loans disbursed in Colombia during the same period); and

- high income borrowers, whom we define as those applying for financial and traditional housing loans in excess of US$42,691 (these accounted for 64.2% of the mortgage loans we disbursed in the three months ended March 31, 2012, corresponding to 15.9% of the overall financial leases and housing loans disbursed in Colombia during the same period).

We typically securitize and sell a significant percentage of the mortgages that we extend through Titularizadora Colombiana, including 33.3% of gross mortgages we generated during the three months ended March 31, 2012. Every housing loan that we extend must be secured by a first property lien. Loans cannot exceed 70% of the value of the real estate (or 80%, in the case of public housing development mortgages). The mortgage loans that we extend have terms of between 5 and 30 years.

We anticipate growth in the Colombian mortgage market due to plans announced in June 2011 by the Colombian Government to increase the country's available housing stock by 1,000,000 units through a series of government subsidies and incentives over the next 4 years. We also plan to capitalize on our relationship with other entities of Grupo Bolívar to promote our mortgage lending operations, particularly through the extension of mortgages on home and office developments by Constructora Bolívar, amongst others, once those properties are sold to third parties. For the three months ended March 31, 2012, approximately 9.6% of the loans we disbursed were related to construction projects undertaken by entities affiliated with Grupo Bolívar, mainly Constructora Bolivar.

### Credit Card Operations

We are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012, representing 18.4% of Colombian credit card loans outstanding. We have held the exclusive franchise for Diners Club credit cards in Colombia since 2006 when we merged with Banco Superior, and we also offer a variety of Visa and MasterCard credit cards, including Classic, Gold and Platinum cards (and Black cards, in the case of MasterCard, and the Visa Signature card). We are the only bank in the industry offering agricultural oriented credit cards, such as the Cafetera card. Many of the credit cards we offer are also linked to loyalty programs with partners, such as airlines or retailers, or are targeted at special customers segments, such as medical professionals or university students. In each case, the credit lines issued and level of customer service offered are targeted to the risk profile, demands and expectations of the target customer. Our primary customers for credit cards are individuals and families who are customers of our retail banking operations, although we also offer credit cards to our corporate banking customers. For more information on the risk-decision process, see "Risk Management."

As of March 31, 2012, the balance outstanding on credit cards that we issue was COP 2,407.3 billion. We derive income from interest paid on the balances outstanding on credit cards that we issue and from fees payable by the holders of the cards we issue.

We also derive income from debit cards and prepaid cards, of which we have approximately 2,883,446 and 180,000 in circulation as of March 31, 2012, respectively. These cards are branded by either USA electron or MasterCard Maestro network.

***Corporate Banking***

We provide our corporate banking services to more than 98,220 corporations, financial institutions, SMEs, agricultural businesses, state-owned enterprises and governmental entities. Our corporate banking services include loan products, credit products, cash management services, leasing, structured finance products and foreign currency loans, all of which are tailored to the size and needs of each client. In addition, we offer an array of other banking services to our clients. For example, our large and medium-sized corporate clients frequently engage us to provide payroll services, treasury, factoring, leasing, corporate retirement account management, and international banking services, while our SMEs and smaller corporate clients more frequently use our saving and checking accounts, insured credit cards, and our Daviplata mobile banking services. We have recently increased our presence in the leasing business and expect to continue to focus on this business. We are also market leaders in treasury operations and have strong operations in rediscounting short-term debt securities.

Our commercial loan portfolio represents the largest single category of our lending operations, with approximately COP 14.2 trillion (US$7.9 billion) in loans outstanding as of March 31, 2012, accounting for 52.2% of our total loan portfolio. On an unconsolidated basis, we had approximately 10.0% market share for commercial loans in Colombia as of March 31, 2012, making us the third largest commercial lender in the country.

We primarily analyze our commercial lending operations by the types of customers to whom these services are offered, including:

- Corporate clients, who we define as companies with annual income of more than COP 30,000 million (approximately US$16.7 million), and intermediate corporate clients, who we define as those companies with annual sales between COP 7,000 million (approximately US$3.9 million) and COP 30,000 million (approximately US$16.7 million), both of which are served by a specialized team of managers and executives, and which together accounted for approximately 75.1% of our commercial loans outstanding as of March 31, 2012 and 23.5% of our total loans outstanding;

- SMEs, who we define as those with annual sales between COP 200 million (approximately US$111,603) and COP 7,000 million (approximately US$3.9 million), which accounted for approximately 16.3% of our commercial loans outstanding as of March 31, 2012 and 5.1% of our total loans outstanding; and

- Construction and building clients, which accounted for approximately 7.1% of our commercial loans outstanding as of March 31, 2012 and 2.2% of our total loans outstanding.

We also offer corporate banking services to over 3,970 governmental institutions. Loans outstanding to governmental clients totaled COP 123.0 billion (US$68.6 million) as of March 31, 2012, which accounted for 1.5% of our commercial loans outstanding and 0.5% of our total loans outstanding.

Our commercial lending operations target a variety of industries, and as of March 31, 2012, our loans outstanding were well diversified among the following industries: industrial (19.1%), infrastructure (9.5%), services

(9.3%), agriculture (8.8%), food (6.2%), oil, gas and mining (6.2%), transportation (5.3%), finance (5.0%), energy (4.8%) and manufacturing (3.6%). Since our acquisition of Bancafé in 2007, we have significantly increased our presence among agribusiness clients, particularly coffee producers, and we are now the market leader for private loans in this sector.

We believe that we have great growth potential, particularly in SMEs, given our network and the number of geographic locations that we cover.

Our commercial portfolio grew by 25.8% during 2011, almost 7 basis points above the market average. The ratio of our non-performing loans to total loans in this portfolio was 0.78% at March 31, 2012, below the industry average of 1.19%, and our default coverage ratio was 437.33% compared to the industry's 367.86%.

***Other Businesses***

**International Banking Services**

Our international banking services are provided by our subsidiary in Panama, Bancafé Panamá, and our international branch in Miami, Davivienda International. Our international banking services are primarily focused on providing an extension of our services to Colombian customers that have businesses abroad, as well as to former Bancafé clients with a longstanding relation with that institution. Our offices in Panama and Miami each offer loans, letters of credit, credit cards, debit cards (in Miami), term deposits, savings and checking accounts, international wire transfers, online banking services and, in Panama, local and international leasing. As of March 31, 2012, our international operations accounted for 0.45% of our revenues.

Bancafé Panamá is a commercial bank, with a general banking license to engage in all types of local and international banking operations in Panama such as commercial loans, term and current deposits, and leasing products. It was established in 1972, has COP 1,384.9 billion ( US$772 million) in assets as of March 31, 2012, and has two branches, located in Panama City and Colón (the duty free zone). Bancafé Panamá has 2,470 customers, most of whom are Panamanian corporate customers or Davivienda corporate customers with business operations in Panama. Our presence in Panamá, allows us to strengthen our corporate image abroad, and provides access to the Panamanian customer base. Bancafé Panamá's net income was COP 8,483 million (US$4.7 million) and COP 55,825 million (US$28.7 million) as of March 31, 2012 and December 31, 2011, respectively.

Davivienda International is a branch of Davivienda located in Miami, and is regulated by the Federal Reserve Bank of the United States and the Florida Office of Financial Regulation. The entity was initially established in 1981 as a subsidiary of Banco Cafetero, but was converted into a branch of Davivienda in January 2011 following the authorizations of both US and Colombian authorities. We are currently the only Colombian bank that is licensed to open accounts for qualified customers in Miami. As of March 31, 2012 Davivienda International had approximately COP 392.0 billion (US$218.8 million) in assets and approximately 720 customers, most of whom are Davivienda corporate customers, affiliates or subsidiaries of Colombian corporations located in Florida and personal banking customers with investments over US$100,000.

**Trust Services**

Our trust services, such as asset management, payments, guarantees, mutual funds, and estate trusts, are provided through our subsidiaries Fiduciaria Davivienda and Fiducafé. As of March 31, 2012, Fiduciaria Davivienda had COP 3.9 trillion (US$2.2 billion) in assets under management, and manages voluntary pensions, real estate holdings and investments on behalf of its trust clients. Fiducafé had COP 3.7 trillion (US$2.1 billion) in assets under management as of March 31, 2012 and manages structured trusts. Net income for the three months ended March 31, 2012 for Fiduciaria Davivienda was COP 3,794 million (US$2.1 million) and for Fiducafé was COP 2,253 million (US$1.3 million). This segment contributed 2.4% of our total income for the three months ended March 31, 2012.

As of February 29, 2012, Fiduciaria Davivienda's and Fiducafé's market shares in the trust services sector were 1.8% and 1.8%, respectively.

### Brokerage Services

Our brokerage services are provided through our subsidiary, Davivalores S.A. Comisionista de Bolsa, or Davivalores. Davivalores complements our investment services by offering our customers brokerage, administrative and custodial services related to fixed and variable rate instruments, including shares, bonds, term deposits and mortgage-backed securities. The company's customers include individuals, SMEs, corporations and governmental entities. With over 166,000 customers and more than COP 2.5 billion in administered assets as of March 31, 2012, Davivalores is key to our private banking strategy. Davivalores has been making significant investments in its infrastructure, technology and human resources over the last two years in order to support its growth plans and strategic objectives. Net income for Davivalores was COP 1,983 million (approximately US$1.1 million) and COP 2,388 million (approximately US$1.3 million) for the year ended December 31, 2011 and the three months ended March 31, 2012, respectively. As of March 31, 2012, Davivalores's market share for brokerage services by assets was 0.35%.

### Leasing Services and Specialized Financing

In addition to the housing leasing services provided by Davivienda, we provide specialized financing for vehicles—both for private and commercial use—through our subsidiary Confinanciera. Commercial use vehicles are primarily those that are used for transporting passengers or freight for profit. Net income for Confinanciera was COP 25,590 million (US$14.3 million) and COP 6,648 million (US$3.7 million) for the year ended December 31, 2011 and the three months ended March 31, 2012, respectively. Confinanciera had a loan portfolio of COP 411 billion (US$230 million) and COP 422 billion (US$235 million) as of December 31, 2011 and March 31, 2012, respectively. Starting 2012, we will expand our leasing services beyond housing leasing to enter into the commercial leasing business.

## Distribution Network

As of March 31, 2012, we had a growing retail network consisting of 563 branches in 178 cities and towns in Colombia. By comparison, we had 559 total branches at the end of 2011 and 545 branches at the end of 2010. As of March 31, 2012, we had approximately 1,468 Davivienda-branded ATM's. As of the same date, we provided financial services and products to approximately 3,934,900 individuals, 98,220 corporations and 3,970 governmental institutions and entities in Colombia. We are the market leader for credit card issuances in Colombia, with approximately 1,749,134 credit cards in circulation as of March 31, 2012, representing 18.4% of Colombian credit card loans outstanding. In February 2011, we introduced our Daviplata service, the first mobile phone banking service in Colombia, which allows users to access our mobile payment and money transfer platforms. Our Daviplata service has already attracted 520,800 users since its introduction.

## Operations

### *Treasury Operations*

Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs, engaging in hedging transactions, as well as the issuance of public and private debt. Our treasury had COP 5,436 billion (US$3.0 billion) in investments under management as of March 31, 2012. Through its treasury operations, Davivienda is the leading market maker in Colombia in the negotiation of Colombian government treasury bonds. Our treasury is also one of the most active issuers of private debt in the Colombian market, with bonds and term deposits outstanding of approximately COP 10,850 billion (US$6.1 billion) as of March 31, 2012.

Our currency market operations are distinguished by our strong participation in the swap market, particularly for U.S. dollar-Colombian peso transactions and in the derivatives market. See "Risk Management – Derivatives." We also engage in the cross-selling of products from our treasury operations to clients of our corporate banking business. We frequently provide day-to-day management over our clients' liquidity and portfolio needs, particularly for pension funds, trusts, stock brokerage and real estate clients. Our treasury also manages liquidity and portfolio needs for the clients of our affiliates in Panama and Miami, generating complementary products and services to their local activities. Our treasury operations contributed 0.8% to overall net income for the three months ended March 31, 2012.

### *Marketing and Brands*

We seek to differentiate ourselves from our banking competitors through our upbeat, energetic and dynamic marketing campaigns. Our logo, "*La Casita Roja*," is one of the most recognized brands in Colombia, and is identified with those values that we seek to promote as a company, including happiness, togetherness, respect, industriousness, growth and goal-setting. Since we first expanded into retail banking in 1997, we have marketed our business with phrases like "*Aquí lo tiene todo*," or "You have everything here," which reflects the breadth of services we provide, or "*Su dinero puede estar en el lugar equivocado*," or "Your money may be in the wrong place," which seeks to attract new customers, based on the quality of the services we provide. These phrases have inspired several advertising campaigns, such as The Correspondant for the 2010 World Cup, which positioned Davivienda as a household name in Colombia.

Our culture is based on teamwork and focused on customer service (responsiveness, advice, interest and safety). This has allowed us to have a high quality performance, which is reflected by the 86.2 quality index obtained for the second quarter of 2011, as well as obtaining 90.6 in the "Indica" study done by Market Research, a survey of customer satisfaction in the financial services. Both metrics position us as the leading banking institution in terms of customer service in the industry.

## Information Technology

Our information technology, or IT, area is responsible for our systems operation and availability as well as data security and integrity. Our main data center is located in Bogotá, and our disaster recovery and back-up center is located at IBM's computing center in Bogotá, approximately 15 kilometers from our main data center.

We have made significant investments in technology, and we plan to continue doing so to enable us to retain and enhance our competitive position in various markets and to improve the security and quality of our services. To convert critical operating processes and to expand services, we invested COP 10.3 billion (US$5.3 million) in 2010, COP 13.4 billion (US$6.9 million) in 2011 and invested a total of COP 3,324 million (US$1.85 million) for the three months ended March 31, 2012 in information technology. These investments were primarily in an upgrade to our Enterprise Service Bus (the backbone of our IT architecture, which facilitates communication between services), upgrades to our transactional Switch (which manages all transactions with ATMs, debit cards, credit cards and point of sale transactions for third-party networks, such as Visa and MasterCard), upgrading our Customer Relationship (CRM) system (which organizes, automates and synchronizes business processes, particularly sales activities and allows for the generation of quotes and data in real time, and implements models for customer relationships and monitor the impact on campaign costs), implementing systems for monitoring technology services, and modernizing our systems, among other upgrades.

As noted above, as of March 31, 2012 we had 1,468 ATMs in Colombia. This network was fully upgraded in 2010 with equipment from Diebold that incorporates enhanced security and anti-fraud features. Under our agreements with Diebold, they will provide maintenance and technology upgrades to the network over a period of seven years, which is subject to extension.

Each branch of Davivienda has a web application called Channel Interaction Manager of Unisys which allows branch staff to make all the operations related to the management of the office and customer care. Our current network is a system with centralized MPLS WAN connectivity, distributed through four major communications providers (Telmex, ETB, Telefonica and UNE) having redundancy in ring and hub equipment in our datacenter. These contracts include terms relating to the transmission of data, service levels and availability, and penalties for failure to meet specified service criteria. Each service provider is required to update its network as needed to service our offices and ATMs. Contracts are generally entered into for 36 months. We own our entire platform infrastructure.

As of March 31, 2012, we had approximately 441 information technology personnel. We have reorganized our IT department as a service oriented organization that provides integral business solutions, IT services (IT operations and telecommunications) and information security management. Our information technology team meets twice a year with upper management to review any deviation to our information technology strategic plan, to establish new objectives needed to align the business strategy to the IT strategic plan and ensure information security and continuity of business operation. The internal audit and control division of our information technology internal controls committee constantly monitors how the entire information technology area complies with business objectives, and issues recommendations and advice in case of any divergence.

***Legal and Regulatory Proceedings***

We and our subsidiaries are involved in various claims and legal actions arising in the ordinary course of business. Other than as described below, we do not believe these proceedings are likely to have a material adverse effect on our results of operations or financial condition.

We are subject to various claims against us related to Bancafé and its subsidiaries. In connection with our acquisition of Bancafé in 2007, we entered into an agreement with Fogafin, the Colombian state entity responsible for protecting depositors and ensuring the stability of the Colombian financial system, whereby Fogafin agreed to indemnify us for 85% of any losses suffered as a result of certain civil litigation against Bancafe and its subsidiaries and for 90% of any losses suffered as a result of certain labor litigation following our acquisition, provided such claims were filed by February 17, 2010. As of March 31, 2012 there were 448 claims that were subject to our agreement with Fogafin, and the total claimed pursuant to these actions amounted to approximately COP 62,463 million (US$34.8 million), for which we have reserved COP 14,223 million (US$7.9 million) as a contingency for losses. An additional 1,086 claims have been filed as of March 31, 2012, that are not subject to our agreement with Fogafin, and the total claimed pursuant to these actions amounts to approximately COP 178,104 million (US$99.4 million), for which we have reserved COP 73,152 million (US$40.8 million) as a contingency for losses. There are some claims that have not been reserved because they have not been quantified due to a lack of information, discovery, or documentation required to make an objective and reasonable calculation of potential losses.

As of the date of this offering memorandum, there are no legal, administrative or arbitral proceedings with any contingencies amounting to more than 10% of our total assets. However, we can offer no assurances that no such proceedings will arise in the future.

***Property***

As of March 31, 2012 we occupied 563 premises in Colombia for our network of branch offices, of which we owned 287 and leased 276, as well as an additional 487 premises dedicated to administrative uses, of which we own 220 and lease 267 under terms varying from one to five years. As of March 31, 2012, 22 of the properties that we owned were leased to third parties. In June 2011, we exercised the option under a lease to purchase our main headquarters, located in the Torre Bolivar bulding, which is located at Avenida El Dorado 68 B-31.

***Employees***

As of March 31, 2012, we had 11,420 employees, an increase of 18.3% employees since December 31, 2008. None of our employees is represented by a union or is subject to a collective bargaining agreement. However, every three years we enter into a non-binding pact with our employees that sets forth the benefits that they will receive, the substance of which is based upon employee feedback. Our current pact, the seventh that we have entered into since 1991, is valid through June 30, 2012, and we have fully negotiated and entered into a new pact, effective on July 1, 2012 for 36 months from that date.

We offer extensive benefits to our personnel and their families. These benefits include:

- a special mortgage credit, allowing each employee one loan for up to 35 times the employee's current salary, subject to a cap of US$53,000 (for social housing programs we finance up to 80% of the purchase price and for standard housing programs up to 70% of the purchase price);
- educational grants to employees who want to further their professional careers;
- a daily lunch stipend to employees in Bogotá who work Monday through Friday;
- payment of 62% of the cost of comprehensive healthcare coverage, as well as vision coverage of up to US$89 per year;
- a vacation allowance, equal to ten days of basic or regular salary per year; and

- uniforms.

We consider our current relations with our workforce to be good. We have never experienced a general strike of our employees, and we believe our attrition rate, compared to others in our industry, is typical. In those situations where we have undertaken restructurings or decided to close offices, we have reached agreements with our employees (and in coordination with the Ministry of Social Protection (*Ministerio de la Protección Social*)) that include severance payments based on the employee's age, in addition to the payment of social benefits.

## RISK MANAGEMENT

### General

Our risk management policies are based on an organizational structure oriented towards the achievement of strategic objectives. These policies rely on knowledge, administration and risk control, while supporting the growth of our business and allowing us to seize market opportunities. Our management efforts are directed towards the fulfillment of our strategic goals and controlling the risk associated with it. Risk management and control is performed through different areas that are specialized in specific lines or segments, such as credit risk, market and liquidity risks, or that perform their tasks across the company, such as the management of operational risk or internal control, as well as strategy compliance supervision. Approximately 245 individuals are part of our risk management unit.

Our risk exposures are classified into the following categories for control purposes:

- market risk;
- credit risk;
- liquidity risk;
- operational risk (including processing risk and system risk);
- legal risk; and
- other risks (reputational risk and others, technology and fraud).

We consider risk management an essential activity that requires continuous improvement and adjustment according to our operations. Market risk is defined as the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates or equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform an obligation to us, which can affect both our loan and investment portfolios. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal market conditions, and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems and internal controls, or errors while processing transactions.

Risk management regulations for the Colombian banking industry are set forth under the Basic Accounting and Financial Circular issued by the SFC, as well as other applicable laws and regulations. According to these regulations, all banks operating in Colombia are required to have adequate policies and procedures in place to manage credit, liquidity, operational (including legal) and market risks, which must include sound measurement and monitoring methods. We have implemented policies and procedures, approved by our board of directors, which management believes comply with the requirements set forth under the Basic Accounting and Financial Circular of the SFC.

### Risk Management Organizational Structure

Following basic professional guidelines, our operational, risk and commercial areas are independent. However, they work together to develop initiatives and programs to follow and control risks to find a balance between profitability and risk-taking. In addition, our synergies with the other companies of Grupo Bolívar allow for programs that support and strengthen our risk management strategies.

Our risk management strategies for the different risks we face are defined by the Executive Vice President of Risk of Grupo Bolívar in conjunction with our vice presidents responsible for the management of each of the risks, who, together with the Vice President of Investment Risk of Grupo Bolívar and the designated committees, keep track of and control our risks and suggest modifications and adjustments to our policies for the approval of our board of directors.

In the same way, the Corporate Credit Vice President also defines the strategies related to corporate credit, and presents policies for the approval of our board of directors.

Our board of directors defines our risk management policies and our exposure limits for each of the risks we face. To keep track of and control these risks, we have the following committees:

- Personal Loan Credit Risk Committee;
- Small and Medium Business Credit Risk Committee;
- Constructor Credit Risk Committee;
- Corporate Credit Risk Committee;
- Assets and Liabilities Management Committee;
- Financial and Investment Risk Committee of Grupo Bolívar;
- Operational Risk Administration System ("SARO") and Financial Consumer System ("SAC") Committee;
- Anti-Money-Laundering and Terrorism Financing Administration System ("SARLAFT") Committee;
- Audit Committee; and
- Accounting Policies Committee.

Some of our risk management policies, including those related to our treasury, liquidity, derivatives and the market, are set forth in the Financial Risk Management Manual of Grupo Bolívar. All subsidiaries of Grupo Bolívar, including us, are required to have adequate structures in place to limit their risk exposure. These policies mitigate investment and counterparty risk, impose limits on traders, limit VaR, and establish early alert systems within our treasury operations.

## Risk Management Policies

### *Market Risk*

*Overview*

We are exposed to market risk as a result of potential losses due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates, equity prices and other risk factors such as sovereign risk.

Grupo Bolívar's Financial Risk and Investments Committee determines the level of financial risk that we can assume, based on applicable regulations. Those limits are then reviewed and ratified by our board of directors. Our Vice President of Risk and Financial Control proposes, defines and controls the implementation of specific policies and procedures to manage market risk, pursuant to the guidelines that our board of directors or the Financial Risk and Investments Committee of Grupo Bolívar have established. For managing market risk, we rely on tools that have been developed internally both to control and monitor our risks in compliance with applicable legal and corporate guidelines. Our Vice President of Investment Risk is responsible for identifying, measuring, monitoring, analyzing and controlling market risks inherent in our business; analyzing our exposure under stress scenarios and confirming compliance with our risk management policies; designing the methodologies for valuation of the market value of certain financial instruments; reporting to our senior management and our board of directors any violation of the risk management policies; reporting to our senior management on a daily basis the levels of market risk associated with the trading instruments recorded in its treasury book; proposing policies to our board of directors and to senior management that ensure the maintenance of predetermined risk levels.

Market risk management is currently governed by the Basic Accounting Circular, issued by the SFC. Since January 2002, Colombian banks have been required to calculate a VaR which is considered in our solvency calculation with a methodology provided by the SFC in accordance with articles 2.1.1.1.1 through 2.1.1.1.16 of Decree 2555 of 2010. Future changes in VaR requirements could have a material impact on our operations.

*VaR Methodology*

We currently measure our exposure to market risk as well as our currency risk exposure using a VaR methodology established in accordance with Chapter XXI of the Basic Accounting and Financial Circular, which is based on the model recommended by the Amendment to the Capital Accord to Incorporate Market Risks of the Basel Committee of 2005, which focuses on the trading instruments and excludes investments classified as "held to maturity" and any other investment that comprises the non-trading instruments. In addition, the methodology eliminates the aggregation of risks by the use of correlations and, as an alternative, establishes a new allocation system based on defined zones and bands.

Our total market risk is calculated by the arithmetical aggregation of the VaR calculated for each of our subsidiaries. The aggregated VaR is reflected in our Capital Adequacy (Solvency) ratio, in accordance with Decree 2555. The risk categories included in this VaR are interest rate, currency, stock price, and liquidity risks, depending on the different portfolio compositions.

We reinforce the analysis with the Value-At-Risk model as published by J.P. Morgan in 1994 in the document *Risk Metrics: "Return to Risk Metrics: The Evolution of the Standards."* Finally, to assess the return volatility we use the Exponentially Weighted Moving Average methodology, and diversification through correlation.

In addition, in response to the limitations to which models based on assuming normal conditions are subject, a model has been developed so that the calculation of VaR with various different distributions (Normal, Log Normal, TStudent) and an extreme value theory (Gumbel) is possible, as well as the Expected Tail Loss (ETL) method for each of the distributions. The latter is for the purpose of applying stress test scenarios as a measurement to quantify the maximum loss a portfolio might incur in the event that market conditions go beyond the calculated VaR. Finally, back testing is used to validate the proper performance of the model.

We have established different limits to control market risk exposure that includes Portfolio Position, VaR, Portfolio Duration, Derivatives Portfolio Mismatch, and Derivatives Portfolio Term. Additionally, measurements such as the following are taken:

- Interest Rate Sensitivity: Estimated amount by which the value of a portfolio or balance sheet would vary in the event of changes in interest rates, taking into account the term of duration, modified duration and convexity of the portfolio or balance sheet.

- Fixed income portfolio sensitivity: Estimated amount by which the value of a portfolio or balance sheet would vary in the event of changes in interest rates, taking into account the term of duration, modified duration and convexity of the portfolio or balance sheet.

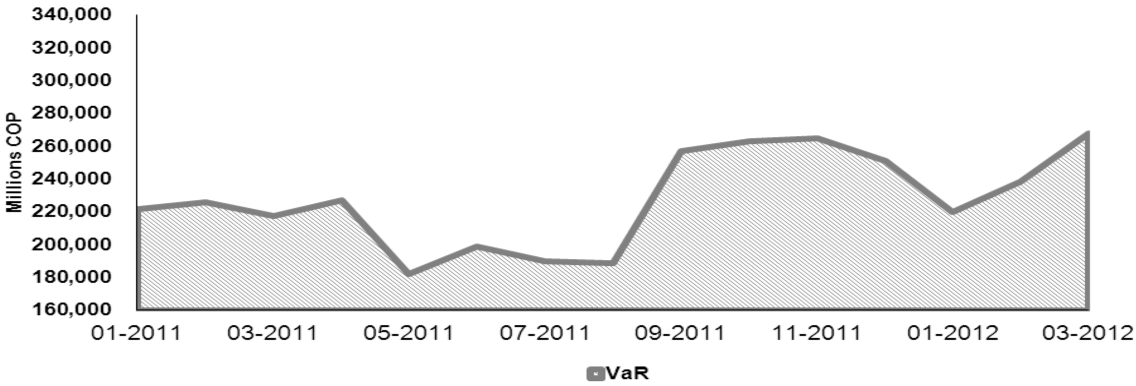
- European Option Sensitivity: Delta, Gamma, Rho, Theta and Vega Greeks in order to carry out a variety of sensitivity exercises under different rate and price scenarios.

- Early warning system for the portfolio's monthly cumulative loss.

*Derivatives*

The main risks associated with derivative transactions are market (change in market prices), credit (non-fulfillment of obligations), and liquidity risks (lack of marketability at prices in line with recent sales). Regarding market risk we use VaR for most of our derivatives (e.g., interest rate risk and foreign exchange risk) and the "Greeks" (which refers to the Greek letters that measure the different dimensions of risk in an option position) to manage our exposure. Credit risk is monitored on a daily basis through limits control and a mark-to-market methodology that establishes potential credit risk exposure. In addition, we mitigate the liquidity risk of derivatives by establishing restrictions, related to the term of transactions and the authorized underlying assets, given the most adequate liquid market conditions. There is also the risk of documenting, structuring and incorporating the terms and conditions of derivatives transactions. However this risk is mitigated by the use of standard contracts among local market participants, ISDA's for off-shore clients, the local clearing agency and strict regulations. In addition, the execution and performance of these types of transactions depend on our ability to develop adequate control and administration systems, and hire and retain qualified personnel.

The following chart shows our VaR for the fifteen months ended March 31, 2012:




| VaR Intrest Rate | VaR Currency | VaR Equity | VaR Collective Portfolios | Total VaR |
|---|---|---|---|---|
| 265,645 | 1,942 | 267 | - | 267,587 |

Amounts in Millions COP

### *Credit Risk*

*Overview*

Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the financial condition of a borrower, which causes an asset (including off-balance sheet transactions) to lose value. Overseas credits also include an element of country risk, which is closely related to credit risk, and is defined as the risk that changes in currency values or political or economic situations result in a loss. We analyze on an ongoing basis the credit risk to which our loan portfolio is exposed considering the terms of the corresponding obligations as well as the level of risk associated with each borrower. Quantifying credit risk reflects the concentration of risk toward a specific customer or industry and fluctuations in the values of real estate, securities and other types of collateral. This data is analyzed to quantify the risk of an entire portfolio or an individual loan. In order to calculate credit risk, historical data for the borrower and facility is entered into a database, the parameters are set — such as the probability of a ratings change, loss given default, and correlation of credit ratings among borrowers — and then the probability distribution of losses for the entire portfolio (amount of loss for what probability) is computed to determine the maximum potential loss in the future. The quantified credit risk results are then used to formulate business plans and provide a standard against which individual credit applications are assessed. In addition, we run stress tests on a monthly basis, and control the credit portfolio by concentrations limits, credit rate limits and sector limits in order to maximize profitability while minimizing the risk of the portfolio. Our board of directors sets certain credit risk limits for each of our loan portfolios that serve as measuring guidelines.

Credit assessments involve a variety of financial analyses, including cash flow analysis, to predict a borrower's ability to repay a loan and the borrower's growth prospects. These quantitative measures are then combined with qualitative analyses of industry trends, research and development capabilities, the competitiveness of the borrower and its products or services and the borrower's management capabilities.

Our Credit Risk Management System contains the policies, procedures, models and control mechanisms that allow us to identify, measure and mitigate our credit risk. This system enables us to manage our credit risk both from the provision system perspective, as well as for the management of loan granting procedures and their respective follow-up. We and our subsidiaries evaluate and qualify our loan operations with our clients regardless of the type of loan. We update the portfolio behavior with regard to prepayments, payments, defaults and allowances. Our policies and methodologies permit the measurement of inherent credit risks of our lending operations and potential future changes in its conditions.

In July 2007, we adopted the Reference Model for Commercial Loans. In July 2008, we adopted the Reference Model for Consumer loans, following guidelines issued by the SFC, which in conjunction with the policies described above constitute our general provisions model.

Based on these models, the individual provision for loan portfolios is calculated as a sum of the following individual components:

(a) the individual current credit risk (procyclical): corresponding to the portion of the individual provision on the loan portfolio that reflects the current credit risk for each debtor; and

(b) the individual future credit risk (countercyclical): corresponding to the portion of the individual provision on the loan portfolio, reflecting future possible changes in the debtor's credit risk. This portion is included to reduce the impact on the income statement when such a situation occurs. The reference models must take into account and calculate this component based on all available information reflecting such changes.

In the case of retail banking we have developed our own models for the control, follow-up with the reference model, collection and loss estimation, which are constantly being calibrated and are essential in our credit risk management efforts. These statistical models are based on, among others, the historic behavior of our portfolios, demographic and social variables affecting our clients and cash-flow projections.

With regards to our corporate lending business, we have also developed our own assessment models to manage risk adequately. These models are based on both quantitative and qualitative factors, and their indicators have been developed taking into account the financial statements and individual characteristics of our clients. Our quantitative analysis is based upon the financial information of our clients, which allows us to compare and evaluate their performance in a precise way in terms of cash-flows, debt capacity, profitability and efficiency. Likewise, these models allow us to compare individual clients with their industry peers.

For certain types of clients we also take into account client-specific factors. For instance, for clients in the construction industry we evaluate the financial and commercial viability of the projects they are looking to finance, the developer's experience and the project's execution. For small businesses, our evaluation and acceptance policies are comprehensive, requiring analysis of the historic and projected financial results of the client, the client's industry, an evaluation of the management team, as well as a measurement of the company's repayment capacity through a projected cash-flow analysis. In the agricultural sector we evaluate the viability of the agricultural productive project, giving the most emphasis to the relative experience of the client in the specific activity and the technical parameters applicable to each subsector. Finally, with regards to lending to governmental entities, the analysis is focused on the strict compliance with the regulatory guidelines set forth by the Ministry of Finance, the Laws 617 of 2000, 358 of 1997 and 819 of 2003, as well as a complementary analysis of the Medium-Term Fiscal Plan (*Marco Fiscal de Mediano Plazo*) and of income to be offered as collateral.

*Supervision and Lending Policies*

In our retail lending business, the Vice President of Personal Banking Credit is in charge of evaluation, management and collection activities. Credit line approvals are based on a pyramidal structure of attributions with defined caps, as well as some collegiate credit committees. For these approvals, a credit scoring system is in place, based on historic information used to evaluate client variables, their behavior, current indebtedness, type of product and guarantees. Other methodologies are also available to address homogenous groups and assign risk levels.

In our corporate lending business, credit risk assessment is the responsibility of the Vice President of Corporate Banking, who evaluates lending applications, follows performance of current facilities, assigns risk levels and performs collection efforts. Our target market includes local and foreign companies whose economic activities are consistent with the regulations and guidelines established by the Colombian Business Entity Superintendency as well as our own internal guidelines. Our market is segmented as follows:

- Corporate clients, who we define as companies with annual income of more than COP 30,000 million (approximately US$16.7 million), and intermediate corporate clients, who we define as those companies with annual sales between COP 7,000 million (approximately US$3.9 million) and COP 30,000 million (approximately US$16.7 million), both of which are served by a specialized team of managers and executives, and which together accounted for approximately 75.1% of our commercial loans outstanding as of March 31, 2012 and 23.5% of our totals loans outstanding;.

- SMEs, who we define as those with annual sales between COP 200 million (approximately US$111,603) and COP 7,000 million (approximately US$3.9 million), which accounted for approximately 16.3% of our commercial loans outstanding as of March 31, 2012 and 5.1% of our total loans outstanding; and

- Construction and building clients, which accounted for approximately 7.1% of our commercial loans outstanding as of March 31, 2012 and 2.2% of our total loans outstanding.

We perform a detailed assessment of the credit soundness of the companies, macroeconomic indicators, microeconomic variables applicable to the client, its culture, strategy, policies, procedures and the diverse quantitative and qualitative risks that might affect their business, taking into account the context in which it operates.

We have developed lending policies based on portfolio strategies, underwriting, management, supervision, types of credits, specific acceptance criteria and risk rating. Under these policies, we must have adequate diversification by sector, type of borrowers, concentration, maturities and currencies.

Commercial loans are our most common type of credits (*e.g.*, secured loans, lines of credit and term loans). In some cases, guarantees are considered as an additional source of payment in the credit process; however, we do not lend based only on collateral, regardless of its value. The decision to extend credit is made solely on the ability of the borrower to repay the loan and the collateral package.

The prices are consistent with the necessary return to cover expected and non-expected risk, provisions, costs and profits. We do not determine our margin requirements based exclusively on market rates; we also determine the margins based on the particular rating of each credit. Therefore, our pricing is based on market rates, our funding costs and the rating of each credit.

*Credit Collection*

As part of our ongoing process to monitor risks, we monitor the credit collection process, which is the most important principle in our credit process. We analyze, evaluate and monitor each credit and, if applicable, its guarantees. Special attention is paid to non-performing loans and stricter measures are used for these loans. When expanding or restructuring a loan, we give consideration to the following key factors:

- Viability of the business as a going concern.
- Long-term cash flow consistency and sustainability of the business.
- Strengthening of the collateral underlying the loan.
- Contributions of partners or further capitalizations.
- Expectation of recovery and loss mitigation.

When a borrower fails to pay a loan on time, the credit is, after a specified number of days (depending upon the type of loan), classified as non-performing and transferred to the workout group, which analyzes and designs, together with the collection and legal departments, a collection plan. Any amendment to the original terms or conditions of the loan has to be approved by our credit committee. We do not make additional loans to a borrower in default.

***Credit Classification***

The SFC provides the following minimum risk classifications, according to the financial situation of the debtor or the past due days of the obligation:

Category A, or "Normal Risk": Loans and financial leases in this category are appropriately serviced. The client's financial statements or its projected cash flows, as well as all other credit information available to us, reflect adequate paying capacity.

Category B, or "Acceptable Risk, Above Normal": Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.

Category C, or "Appreciable Risk": Loans and financial leases in this category represent insufficiencies in the debtor's paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.

Category D, or "Significant Risk": Loans and financial leases in this category have the same deficiencies as loans in category C, but to a larger extent; consequently, the probability of collection is highly doubtful.

Category E, or "Risk of Non-Recovery": Loans and financial leases in this category are deemed uncollectible.

***Suspension of Accruals***

The SFC established that interest, UVR, lease payments and other items of income cease to be accrued in the consolidated statements of income and begin to be recorded in memorandum accounts until effective payment is actually collected, after a loan is in arrears for more than the following periods of time:

| **Loan type** | **Arrears in excess of** |
|---|---|
| Commercial | 90 days |
| Consumer | 60 days |
| Mortgage | 60 days |
| Microcredit | 30 days |

For our subsidiary Bancafé Panamá, all loans are suspended after 90 days.

***Liquidity Risk***

Liquidity risk refers to the possibility of not having the funds for covering in a timely and efficient manner expected and unexpected cash flows, including withdrawals, settlement of transactions due either to a mismatch between the use and procurement of funds or to an unexpected outflow of funds, or having to borrow at higher interest rates. Liquidity risk also refers to our ability to meet our cash obligations as they become due, without affecting the ordinary course of our business. This risk manifests itself through the lack of available liquid assets or a higher cost of capital.

Our principal sources of funding are savings accounts, term deposits and checking accounts. Because we rely primarily on short-term deposits for funding, a sudden or unexpected shortage of funds in the banking systems in which we operate and money markets may prevent us from meeting our obligations or obtaining necessary funding without incurring higher costs or the need to sell certain assets at prices below prevailing market values, which could materially and adversely affect our results of operations and financial condition.

Our liquidity risk management policy is based on the guidelines that the SFC has established for the entities it supervises through the Basic Accounting and Financial Circular.

In 2009, a short-term liquidity index (*Indicador de Riesgo de Liquidez*), or IRL, that measures 7-, 15- and 30-day liquidity was established and to replace the liquidity gap methodology, which prior to 2009 was used in calculating the difference between expected cash flow disbursements from assets and the expected cash flow disbursements from liabilities. The IRL index is defined as the difference between adjusted liquid assets and net liquidity requirements. In order to arrive at adjusted liquid assets, assets are adjusted by market liquidity, exchange rate and reserve requirements. Net liquidity requirements are the difference between expected contractual asset and liability cash flows. Cash flows from past due loans are not included in this calculation.

A variety of different methods have been developed to measure liquidity risk, designed to address our specific needs. The results of these methods are used by the Financial Risk and Investment Committee and the Assets and Liabilities Committee, or ALCO, to make decisions concerning the various businesses and portfolios managed.

Our Internal Liquidity Risk methodology establishes the needed level of liquidity based on an analysis of resource requirements, available liquidity and the economic environment. We then determine the possibility of meeting the estimated requirements of liquidity for the short term, depending on the resources available for different scenarios. The measurement results are continuously monitored and reported to the ALCO and our board of directors.

Liquidity needs are defined as the maximum possible withdrawal in four different scenarios (normal liquidity level, medium liquidity level, low liquidity level and severe liquidity), using extreme value theory to suppose stress events for different periods of time. The calculations are made implementing a parametric model that uses historical information. The available resources are understood as the amount of resources that might be used to satisfy the liquidity needs mentioned previously, by using transitory mechanisms (e.g. money market transactions) or definitive mechanisms (e.g. selling of investments).

In addition, such methods include the following:

- Balance sheet interest rate and exchange rate sensitivity analysis.
- Contractual GAP analysis.
- Stable and variable part of funding analysis.
- Liquidity coverage ratio analysis.
- Stable funding ratio analysis.
- Concentration of funding analysis.

These measurements are in addition to those established by and reported to the SFC.

We maintain assets that allow us to respond to the liquidity demands of our clients, whether in U.S. dollars or in pesos. In the investment of these assets, we strive to keep low levels of credit risk, and we invest these resources in debt instruments issued by international and national financial entities. These investments are subject to credit limits established by the risk management and rates committee and the credit committee.

***Operational Risk***

Operational risk is defined as the possibility of loss caused by internal or external failures due to insufficiencies in processes, people or systems. Operational risks and losses can result from fraud, employee errors, failure to properly document transactions or to obtain proper internal authorization, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters or the failure of external systems. In order to address this risk type as well as internal control, we have developed an operating risk management model, methodology and framework based on the ANZ standards and legal requirements, which is the operational risk management methodology commonly used internationally that allows us to identify, analyze, quantify and prioritize possible loss events, as well as establish the proper actions to mitigate, transfer or assume operating risks, and monitor, control and register them in a standardized manner.

Our policies with respect to operational risk comply with the norms established by the SFC (which, in turn, follow the Basel II Accord of 2004), and the U.S. Sarbanes-Oxley Act of 2002. These norms require that Colombian banks establish a system for the administration of operational risks, (S*istema de Administración de Riesgos*

*Operacionales* or SARO), which includes the identification, measurement, control and monitoring functions as well as a business continuity plan. In addition, for each operative business line the risk events are listed according to principles provided by the Basic Accounting Circular, to each of their operative lines (such as corporate finance, issue and negotiation of securities, commercial banking, assets management, etc.) in order to record the risk events that may occur and cause fraud, technology problems, legal and reputational problems and problems associated with labor relations at the bank.

In order to comply with these norms, we established an operational risk unit independent of the operational and control areas led by the Assistant to the Vice President of Operational Risk, who manages 46 people in this unit. The responsibilities of these units are the establishment and definition of policies and methodologies, and the procedures for communicating within each organization all information related to operational risk.

***Technological Risk***

Technological risk is the possibility of a loss of information arising from the failure, malfunction or unauthorized use of our computer systems, including hardware, software, networks or any other electronic data systems. We have instituted a number of basic policies to manage systems risk, including a security policy, usage regulations, data back-up procedures, contingency procedures and disaster recovery procedures. We evaluate on a regular basis the information security risk identification of our IT infrastructure, databases, systems and processes. We have also developed an incident response plan in order to mitigate the impact of the business security breaches using specific metrics to track and monitor any possible outside hacking attempts.

Since systems-related problems at financial institutions have increasingly greater potential impact on the public, and systems risk has increased with the growth of an information technology and the concomitant rising use of networks and personal computers, we have taken steps to ensure smooth and secure operation of our information systems. To maintain the privacy of customer information and prevent information leaks, we have encrypted sensitive information, blocked unauthorized external access and implemented known countermeasures to secure our data. We have also established contingency plans and conducted training as required to ensure that we are prepared in the event of an emergency. We will continue to revise our countermeasures as new technologies and usage patterns emerge to maintain the utmost security of our data.

***Legal Risk***

Legal risk is the potential loss arising from non-compliance with legal or administrative rules and regulations applicable to us, as well as any possible loss arising from judicial rulings against us. We have developed, defined and implemented policies and procedures to manage legal risk, including management and labor risk. Additionally, we have developed mechanisms to determine, track, and quantify the possible losses arising from legal processes and if necessary to create provisions for these contingencies according to the policies established by our legal and accounting groups.

**Anti-Money Laundering**

We have established a comprehensive set of policies and procedures to comply with all regulatory requirements related to anti-money laundering and terrorism financing risk. Our Anti-Money Laundering and Terrorism Financing Administration System, or SARLAFT, is based on the premise of risk management by means of the so-called "know-your-customer" checklists. We aim to learn about our customers and their operations, market segments, clients, products, distribution channels and jurisdictions to monitor transactions and report suspicious operations (those that may be connected to money laundering or the financing of terrorist activities) to the authorities, in accordance with External Circular 026 of June 2008 issued by the SFC.

Our SARLAFT is supported by our corporate culture, policies, controls and procedures that are of common knowledge and application to our organization. They are compliant with the Colombian regulatory framework, and include the recommendations and international best-practices on anti-money laundering, specifically those of the Financial Action Task Force. Specifically, prior to the rendering of a service or providing a product, personnel are required to obtain full identification from potential clients, including tax status, and to keep all such information in the account file. Any cash deposit with a value equal to or in excess of US$5,000 is reported periodically to the authorities. Our employees are also required to identify and report any transaction that by their characteristics, origin, region or other attributes seem suspicious. Suspicious transactions include the exclusive use of cash or cash equivalents, especially old or damaged bills and documents that fail to identify completely the transactions. Our employees are trained to recognize suspicious transactions and, if appropriate, report them to the Compliance Officer in accordance with our policies.

In compliance with the applicable Colombian regulations, our Board of Directors has appointed a Compliance Officer and his alternate, who are duly registered before the SFC. Our Compliance Officer and his alternate are charged with overseeing the adoption and implementation of our anti-money laundering procedures as well as developing and promoting the staff training programs to educate employees on policies and regulations relating to the prevention of money laundering and acts of terrorism. Our conduct rules and procedures are outlined in our SARLAFT Manual, as required by Colombian law, as well as in our code of conduct, both of which are widely distributed and freely accessible to all our employees. We provide our employees with continuous training to meet our anti-money laundering risk management goals.

## MANAGEMENT

### Board of Directors

Our bylaws provide that our board of directors consist of five members, each with a personal alternate director as elected at our annual ordinary shareholders' meeting. The members of our board of directors are elected for two-year terms at our annual ordinary general shareholders' meeting. Pursuant to Colombian law, members of our board of directors continue to be members of the board despite the expiration of their term until new members of the board have been appointed and assume office. Board members may be ratified indefinitely for additional two-year periods. The current members of our board of directors were elected or ratified on March 8, 2011 for the 2011-2013 period.

In accordance with the Colombian Securities Law, at least 25% of the members of our board of directors are independent. For more information on independence requirements for our board of directors, see "Supervision and Regulation – Regulatory Framework for Colombian Banking Institutions – Ownership and Management Restrictions."

Pursuant to our bylaws, an alternate director must be appointed for each member of our board of directors. Alternate directors attend board of directors' meetings only when called to substitute for his or her respective member of the board of directors due to temporary or absolute absences.

The following are our current directors and their alternates:

| Name | Alternate Director |
|---|---|
| Carlos Guillermo Arango Uribe | Álvaro Carvajal Bonnet |
| Javier Jose Suárez Esparragoza | David Peña Rey |
| Álvaro Peláez Arango* | Federico Salazar Mejía* |
| Gabriel Humberto Zarate Sánchez | Victor Enrique Flórez Camacho |
| Bernard Pasquier* | Mark Alloway* |

* Non-Grupo Bolivar management directors.

The secretary of our board of directors is Mauricio Valenzuela Gruesso.

Each member of our board of directors during the 2011 period received COP 2,000,000 as compensation for attending each meeting of the board of directors, except for those members who are also executive officers. For the year ended December 31, 2011, the aggregate compensation paid to members of our board of directors was COP 405.8 million (approximately US$226,442).

Set forth below is a brief description of the business experience of each of the principal members of our board of directors:

*Carlos Guillermo Arango Uribe* is the Chairman of our board of directors and an independent member who has served on our board since 1997. He has held several positions in financial institutions as Branch Director for Conavi, Financial Assistant for Compañía Seguros Bolívar in Medellin and Manager of the Construction Department for the same company. Mr. Arango also has experience outside the financial industry as Manager of Constructora Bolívar S.A. and as President of the same company, a position that he currently holds. He has served as alternate on the board of directors of Pensiones Santander, Eternit Atlántico, Industrias e Inversiones Samper, BISÓN and Junta de Delegatarios in Incuagro E.U. He is currently principal member of the board of directors of Fiduciaria Davivienda S.A. He holds a degree in economics from Universidad de Antioquia and a master's degree in management from INALDE.

*Javier José Suárez Esparragoza* is a member of our board of directors and has served on our board since 2002. He has served as our Executive Vice President, Financial and Risk, since 2001. He has held several positions in the financial sector as Marketing Assistant for Compañía de Seguros Bolívar S.A., Head of Marketing in health insurance for Seguros Comerciales Bolívar, Management Assistant, Actuarial Assistant, and Financial Risks Vice President for the same entity, as well as Financial Risks Director for Compañía de Seguros Bolívar S.A. In addition to his financial institutions experience, Mr. Suárez has experience as Financial Risks Director and Financial Risks Vice President, a position that he currently holds, for Grupo Bolívar. He has served as alternate on the board of directors of Delta Bolívar, and Davivalores S.A., as well as a principal member of the board of directors of Banco Superior, Granbanco, and currently Fiduciaria Davivienda S.A. Mr. Suárez is a civil engineer from Universidad de los Andes, and holds a master's degree in Finance and Actuarial Sciences from Georgia State University, as well as a diploma in banking management from Universidad de los Andes.

*Álvaro Peláez Arango* is a member of our board of directors and has served on our board since 1997. He has experience outside the financial industry where he held several positions as engineer for the Comité de Cafeteros and technical manager at Cusezar S.A. He is currently the CEO of Cusezar S.A. He has served as alternate member on the board of directors of Banco Superior, and Granbanco, as well as member of the board of Constructora Sólidez en Liquidación, Constructora Portobelo and Constructora Monticelo. Mr. Peláez holds a degree in civil engineering from Universidad de los Andes.

*Gabriel Humberto Zárate Sánchez* is the Vice Chairman of our board of directors and is an independent member who has served on our board since 1997. He was technical manager for Urbanizadora Alfredo y Ambrosio Peña, for Cinca Limitada and for Industrial de Construcciones S.A. Currently he is the managing partner at Inversiones Zárate Gutiérrez y Cia. as well as alternate for the manager of Inversiones, Industrias y Construcciones LTDA and Cementos Tequendama. Within the financial industry Mr. Zárate has served as member of the board of directors of the Venezuelan Central Bank, Granbanco, Banco Superior and currently Davivienda. He holds an undergraduate degree in architecture from Fundación Universidad de América.

*Bernard Pasquier* is an independent member of our board of directors and has served on our board since April 2011. He has held several positions in financial institutions as advisor to the president of the World Bank, as Director for South Asia, Latin America and the Caribbean at the International Finance Corporation, as General Secretary of Compagne Monegasque de Banque (Monaco) and as an independent consultant. He has served as director of Dream Food International. Mr. Pasquier holds a degree in business administration from Ecole Superior de Commerce et d'Administration des enterprises in Montpellier, France, and a Masters of Public Administration from Harvard University.

**Audit Committee**

In accordance with Colombian regulation, we have an audit committee whose main purpose is to support our board of directors in supervising the effectiveness of our internal controls, as further discussed below. The committee consists of at least three directors, one of whom must be a financial expert and who are elected by the board of directors for a period of one year, renewable indefinitely.

The current members of the audit committee are Messrs. Álvaro Peláez Arango, Javier José Suárez Esparragoza and Gabriel Humberto Zárate Sánchez.

In addition, the following individuals attend our Audit Committee meetings: the company's internal auditor (*Auditor Interno*) or compliance officer (*Oficial de Cumplimiento*) is required to attend the meetings of the Audit Committee, but does not have any voting rights. Typically our Audit Committee meetings are also attended by our Chief Executive Officer and Mr. Carlos Guillermo Arango Uribe, a member of our board of directors.

As established by the SFC, the audit committee has a charter approved by our board of directors which establishes its composition, organization, objectives, duties, responsibilities and extension of its activities. Our board of directors also establishes the remuneration of the members of the audit committee. Pursuant to Colombian law, the audit committee must meet at least quarterly and must present a report of its activities at the general shareholders' meeting.

Our audit committee advises the board of directors generally on internal control matters, and it specifically undertakes to:

- review financial semiannual audited statements prior to their submission to the board of directors and to the general shareholders' meeting;

- supervise the internal auditor to verify if its actions address the internal control needs of the company and to identify limitations with respect to its duties;
- review all internal control reports of the company and supervise compliance with such reports by the company's management;
- issue its opinion on the independence of the external auditor, based on standards set forth by Colombian and U.S. regulations;
- monitor the company's levels of risk exposure at least every six months and propose mitigation measures as needed;
- propose to the board of directors control systems to prevent, detect and adequately respond to the risk of fraud and improper conduct by company employees;
- provide assistance to our board of directors in fulfilling its responsibilities with respect to our compliance with legal and regulatory requirements;
- make recommendations to the general shareholders' meeting concerning the engagement of the independent accounting firm; and
- issue reports to the board of directors on matters deemed relevant.

**Corporate Governance Committee**

In addition to the legally mandatory audit committee, we have a corporate governance committee whose main purpose is to provide assistance to the board of directors in the implementation of best practices concerning corporate governance and compliance policies. The committee consists of at least three members, one of whom must be a member of our board of directors and who are elected by the board of directors for one-year terms that are subject to indefinite renewal.

The current members of the governance committee are Messrs. Ricardo Leon Otero, Mauricio Valenzuela Gruesso and Mr. Enrique Florez Camacho, who serves as the director representative on the corporate governance committee.

Pursuant to regulations of our bylaws, the corporate governance committee has a charter approved by the board of directors, which sets forth the main aspects related to the operation of such committee, including, among others, its duties.

**Compensation and Nominating Committee**

In addition to the legally mandatory audit committee, Grupo Bolivar's compensation and nominating committee serves us in an advisory and informational capacity, without having executive powers. This committee suggests guidelines and general principles for the nomination and appointment of executive officers and presidents of companies within Grupo Bolívar, as well as the employee compensation and wage policies, including those applicable to management.

The committee consists of three members, who are elected by the board of directors of Sociedades Bolívar for one-year terms, subject to indefinite renewal.

The current members of the compensation and nominating committee are Messrs. Fernando Hinestrosa Forero, Bernardo Carrasco Rojas and Enrique Umaña Valenzuela, all of whom are members of the board of directors of Sociedades Bolívar.

### Executive Officers

All of our executive officers are appointed by our board of directors. As of March 31, 2012 our current executive officers are:

| Name | Position | Years serving as executive officer |
|---|---|---|
| Efraín Forero Fonseca | Chief Executive Officer | 21 |
| Javier J. Suárez Esparragoza | Executive Vice President, Financial and Risks | 11 |
| L. Maritza Pérez Bermúdez | Executive Vice President, Retail Banking and Marketing | 5 |
| Álvaro A. Carrillo Buitrago | Executive Vice President, Corporate Banking | 16 |
| Daniel Cortés | Executive Vice President, Capital Markets | 1 |
| Juan Manuel Díaz Ardila | Executive Vice President, Human Resources and Administration | 5 |
| Victor Enrique Flórez Camacho | Executive Vice President, Technology | 8 |

*Efraín Forero Fonseca* is our Chief Executive Officer, and has held this position since 1990. He has over 31 years of experience in the financial sector, having previously served as Chief Executive Officer of Delta Bolívar CFC prior to joining Davivienda. Prior to this, Mr. Forero held several positions within Compañía de Seguros Bolívar, including Financial Management Assistant, Chief of the Information Technology Department, Deputy Manager of the Bogotá Branch, Administrative Manager and Financial Manager. Mr. Forero holds a degree in industrial engineering from the Pontificia Universidad Javeriana, a Masters of Business Administration in Industrial Engineering from the University of Michigan and a Specialization in Banking from the Universidad de los Andes. He attended the Senior Management Program (PADE) at Universidad de la Sabana.

*Javier José Suárez Esparragoza* is employed by our parent company, Sociedades Bolívar, and acts as our Executive Vice President, Financial and Risk, and has held this position since 2001, and is also a member of our board of directors. For additional information regarding Mr. Suárez, see the biographical information above under "—Board of Directors."

*L. Maritza Pérez Bermúdez* is our Executive Vice President, Retail Banking and Marketing, and has held this position since 2008. She has over 23 years of experience in the financial sector, 16 of which have been with Davivienda. At Davivienda, Ms. Pérez has served as Director of Marketing and Advertising, Director of Personal Credit and Assistant to the Chief Executive Officer. Prior to joining Davivienda, she was a Marketing Manager at Delta Bolívar. Ms. Pérez holds a degree in industrial engineering from the Pontificia Universidad Javeriana and a Specialization in Finances and Banking from the Universidad de los Andes. She has attended the Bank Marketing and Advanced Management Program at the Universidad de los Andes and the Product Management and Design Implementation of a Marketing Plan Program at INCOLDA.

*Álvaro A. Carrillo Buitrago* is our Executive Vice President, Corporate Banking, and has held this position since 1996. He has over 20 years of experience in the financial sector. He previously served as Executive Vice President, Financial and Credit at Banco República de Venezuela, and as Chief Executive Officer of both Banco Superior and Granbanco, before each of these entities was merged with Davivienda. Mr. Carrillo holds a degree in economics, with a specialization in finance, as well as a Specialization in Preparation and Assessment of Investment Projects, both from the Colegio Mayor de Nuestra Señora del Rosario.

*Daniel Cortés* is our Executive Vice President, Capital Markets, and has held this position since 2011. He has over 22 years of experience in the financial sector. Prior to joining Davivienda, he was Treasury Vice President at Citibank Colombia from 2007 to 2010. He also served as Investment Vice-President at Fondo de Pensiones y Cesantias Porvenir, Treasury Vice-President at BBVA Banco Ganadero, Treasury Vice-President at Banco Santander Colombia and Treasury Vice-President at Bank of America. Mr. Cortés holds a degree in Accounting and Business Administration from the Wharton School of Finance, University of Pennsylvania.

*Juan Manuel Díaz Ardila* is our Executive Vice President, Human Resources and Administration, and has held this position since 2006. He has over 29 years in the financial sector, all of them with Davivienda. Prior to his current position, he has served within Davivienda as Manager of the Bucamaranga Branch, Manager of the Bogotá Commercial Branch, Vice President of Mortgage Banking, and Vice President of Human Resources. Mr. Díaz holds a degree in civil engineering from the Universidad Industrial de Santander, and a Specialization in Banking and the

Senior Management Program from the Universidad de los Andes. He has studied Finance and Administration at the Escuela Adminstración y Finanzas EAFIT.

*Victor Enrique Flórez Camacho* is our Executive Vice President, Technology, and has held this position since 2004. He has over 29 years of experience in the financial sector, six of which have been with Davivienda. He has worked in the financial sector as Organization and Methods Advisor, Technical Insurance Chief, Technical Brokers Chief, Deputy Manager of the Branch of Corredores Asociados, Administrative Manager, Planning Manager and Vice President of Information Technology for Seguros Comerciales Bolívar. At present, he also acts as Vice President of Technology at Sociedades Bolívar S.A. Outside the financial sector, he has served as Manager of Cómputo Bolívar S.A. and principal member of the Board of Directors of Casesa S.A., Soft Bolívar and Seguridad Compañía Administradora de Fondos de Inversión, Banco Superior, ACH Colombia S.A. and Soluciones Bolívar S.A. Mr. Camacho holds a degree in industrial engineering from the Pontificia Universidad Javeriana, with a Specialization in Strategic IT Management from the Universidad de los Andes.

The address for each of the members of our board of directors and our executive officers is Torre Central Davivienda, Av. El Dorado No. 68 C – 61, Bogotá D.C., Colombia.

## PRINCIPAL SHAREHOLDERS

Our authorized capital stock consists of 480,000,000 authorized shares, of nominal value COP 125 per share. Each of our common shares has one vote per share. Our preferred shares have no voting rights except under limited circumstances. As of March 31, 2012 we had a total of 443,866,625 shares outstanding, of which 343,329,320 were shares of common stock and 100,537,305 were shares of preferred stock. In October 2010, we completed our initial public offering in Colombia of 26,000,000 of our preferred shares, under the ticker symbol PFDAVVNDA, raising proceeds of COP 416 billion (US$232 million). On November 10, 2011 we completed a primary offering of an additional 35,809,649 preferred shares of our preferred shares, raising proceeds of COP 716.2 billion (US$400 million).

The table below sets forth certain information relating to our principal shareholders and their respective shareholding as of March 31, 2012, by type of shares:

**Common Shares**

| | As of March 31, 2012 | |
|---|---|---|
| **Shareholder** | **Number of Shares** | **Percentage of Total Ownership (%)** |
| Inversiones Financieras Bolívar S.A. | 66,060,672 | 14.88% |
| Inversora Anagrama Inveranagrama S.A. | 66,051,552 | 14.88% |
| Sociedades Bolívar S.A. | 37,981,816 | 8.56% |
| Compañía de Seguros Bolívar S.A. | 34,132,760 | 7.69% |
| Seguros Comerciales Bolívar S.A | 32,775,232 | 7.38% |
| Capitalizadora Bolívar S.A. | 2,437,312 | 0.55% |
| Multinversiones Bolívar S.A. | 1,443,725 | 0.33% |
| Investigaciones y Cobranzas El Libertador S.A. | 58,472 | 0.01% |
| **Total Grupo Bolívar** | **240,941,541** | **54.28%** |
| Inversiones Cúzesar S.A. | 38,671,272 | 8.71% |
| Inversiones Meggido S.A. | 37,338,856 | 8.41% |
| Salazar Gomez Mejía y Cia en Liquidación | 3,280 | 0.00% |
| **Total Grupo Cúzesar** | **76,013,408** | **17.13%** |
| International Finance Corporation | 17,492,716 | 3.94% |
| Vanguardia Inversiones S.A.S. | 3,990,924 | 0.90% |
| Inversiones Zarate Gutiérrez y CIA S.C.S. | 2,630,378 | 0.59% |
| Other minority shareholders | 2,260,353 | 0.51% |
| **Total others** | **26,374,371** | **5.94%** |
| **Subtotal Common Shares** | **343,329,320** | **77.35%** |

**Preferred Shares**

| | As of March 31, 2012 | |
|---|---|---|
| **Shareholder** | **Number of Shares** | **Percentage of Total Ownership (%)** |
| Construcción y Desarrollo Bolívar S.A.S. | 7,524,965 | 1.70% |
| **Total Grupo Bolivar** | **7,524,965** | **1.70%** |
| Vanguardia Inversiones S.A.S. | 8,722,411 | 1.97% |
| Oppenheimer Developing Markets Fund | 8,250,984 | 1.86% |
| Fondo de Pensiones Obligatorias Protección | 6,413,959 | 1.45% |
| Fondo de Pensiones Obligatorias Porvenir | 6,091,275 | 1.37% |
| Fondo de Pensiones Obligatorias Colfondos | 2,732,412 | 0.62% |
| Inversiones Zarate Gutiérrez y CIA S.C.S. | 2,630,377 | 0.59% |
| Other minority shareholders | 58,170,922 | 13.11% |
| **Total others** | **93,012,340** | 20.96% |
| **Subtotal Preferred Shares** | **100,537,305** | **22.65%** |
| **Total** | **443,866,625** | **100.00%** |

Grupo Bolívar, through its holding companies, including Inversiones Financieras Bolivar S.A., Inversora Anagrama Inveranagrama S.A., Sociedades Bolivar S.A., Compañía de Seguros Bolivar S.A., Seguros Comerciales Bolivar S.A., Capitalizadora Bolívar S.A., Multinversiones Bolívar S.A., Construcción y Desarrollo Bolívar S.A.S. and Investigaciones y Cobranzas el Libertador S.A., is our majority shareholder, and holds approximately 56.0% of our capital stock as of March 31, 2012. As of March 31, 2012 approximately 17.5% of our capital stock was held by Grupo Cúzesar, represented by Inversiones Cúsezar S.A., Inversiones Meggido S.A. and Salazar Gomez Mejia y Cia., which are construction and investment companies, and approximately 3.9% was held by the International Finance Corporation.

Only our common shares grant voting rights. As of March 31, 2012 Grupo Bolívar, through its holding companies, held approximately 70.2% of our voting rights, Grupo Cúzesar held approximately 22.1% of our voting rights, the International Finance Corporation held approximately 5.1% of our voting rights and other minority shareholders held approximately 2.6% of our voting rights.

## RELATED PARTY TRANSACTIONS

Colombian Banking Law sets forth certain restrictions and limitations on transactions carried out with related parties, these being understood to be principal shareholders, subsidiaries, directors and senior management. Transactions that are prohibited for credit institutions are described in the Financial Statute, specifically in Articles 119 and 122 thereof, as well as in the Commerce Code as amended by Law 222 of 1995. Credit and risk concentration limits are regulated by Decree 2555 (articles 2.1.2.1.1 through 2.1.3.1.6), including its respective amendments and addendums.

Under these laws, our related parties are:

- Sociedades Bolívar S.A., its subsidiaries and subordinates.
- Shareholders or beneficial owners of 5% or more of the equity of Davivienda.
- Legal entities in which Davivienda is a beneficial owner of 10% or more of their equity.
- Administrators of Bolívar S.A., Davivienda and other entities that are part of Grupo Bolivar.
- Our senior management and the members of our board of directors.

The aforementioned laws establish, among others, the following: (i) subsidiaries must carry out their activities independently and with administrative autonomy; (ii) transactions between the parent company and its subsidiaries must be of a real nature and cannot differ considerably from standard market conditions, nor be detrimental to the Colombian government, shareholders or third parties and (iii) subsidiaries may not borrow funds from, or acquire any shares issued by, their parent company.

According to the provisions of the Code of Commerce of Colombia, neither our directors nor management may directly or indirectly purchase or sell shares issued by us while they remain in their offices, except when said transactions are (i) carried out for reasons that are not purely speculative and with due authorization from the board of directors, which shall be granted by the affirmative vote of two-thirds of its members, excluding that of the person requesting such authorization, or (ii) when the board of directors should consider such transactions to be convenient and the shareholders shall have authorized such transactions with the affirmative vote of its ordinary majority as provided in our by-laws, excluding the vote of the person requesting such authorization. Our Corporate Governance Code requires our directors and management to comply with these provisions of the Code of Commerce of Colombia.

According to Article 122 of the Financial Statute, transactions that are carried out (as determined by the Colombian Government) by credit institutions with their shareholders holding 5% or more of their subscribed capital, with their managers, as well as those carried out with spouses and relatives of shareholders and managers with up to a second degree of consanguinity or affinity, or of a single civil status, shall require the unanimous affirmative vote on the part of the members of the board of directors attending the corresponding meeting. In the minutes of this meeting no condition may be agreed upon that is different from that otherwise used by the entity with regard to the public, according to the type of transaction in question, except those transactions that are carried out with managers to address health, education, housing and transport issues according to the rules and regulations that the board of directors should determine in a general fashion for such purpose. To grant this type of credit, we must verify that regulations concerning limits of credit and concentration of risks are not violated.

All economic relations that we maintain with our directors and senior executives must be conducted pursuant to the limitations and conditions established by the applicable legislation and regulations governing the prevention, handling and resolution of conflicts of interest.

From time to time, we make loans to related parties and engage in other transactions with such parties. Such loans have been made in the ordinary course of business, on substantially the same terms, including interest rates and required collateral, as those prevailing at the time for comparable transactions with other similarly situated persons, and have not involved more than the normal risk of collectability or presented other unfavorable features.

As of March 31, 2012, loans and accounts receivable with our unconsolidated related parties amounted to COP 241.9 billion (US$135.0 million). These loans and accounts receivable consisted of lines of credit and secured and unsecured loans. The aggregate amount of the five largest related party transactions represented 93.39% of the aggregate amount of loans granted to related parties and 0.89% of our gross loan portfolio as of March 31, 2012. All credits and loans granted to related parties have been granted on terms no more favorable than on an arms' length basis.

The table below shows details about our loans with related parties that exceed US$120,000, as of March 31, 2012:

| Entity | Relation | Type of Loan | Principal outstanding as of December 31, 2011 | Interest paid during year ended on December 31, 2011 | Minimum Interest rate | Maximum Interest Rate |
|---|---|---|---|---|---|---|
| Sociedades Bolivar | Grupo Bolivar | Corporate (Commercial) | COP 205.8 billion | COP 5.81 billion | 10.19% | 10.19% |

As of December 31, 2009, 2010 and 2011 and March 31, 2012, loans granted to related parties on a non-consolidated basis amounted to COP 305 billion, COP 38 billion, COP 248 billion and COP 242 billion, respectively, which represented, 1.67%, 0.18%, 0.92% and 0.89%, of our gross loan portfolio as of such dates, respectively. These loans were primarily granted to Constructora Bolívar Cali S.A. and Contructora Bolívar Bogotá S.A.

From time to time, we enter into agreements, including service agreements, with our affiliates, such as Fiduciaria Davivienda. We have entered into service agreements pursuant to which we render services for the use of the Davivienda network to Fiduciaria Davivienda and other administrative, accounting, finance, treasury and legal services to our affiliates. We believe that these transactions with our affiliates have been made on terms that are no less favorable to us than those that could be obtained from unrelated third parties.

## SUPERVISION AND REGULATION

### Colombian Banking Regulators

Pursuant to Colombia's Constitution, the Colombian national legislature has the power to prescribe the general legal framework within which the government may regulate the financial system. The Colombian Constitution also permits the national legislature to authorize government intervention in the economy by statute. The agencies vested with the authority to regulate the financial system are the Board of Directors of the Central Bank, the Ministry of Finance, the SFC, the Superintendency of Industry and Commerce (the "SIC"), Fogafin and the Self-Regulatory Organization (*Autoregulador del Mercado de Valores*) (the "SRO").

#### *Central Bank*

The Central Bank (*Banco de la República*) exercises the customary functions of a central bank, including price stabilization, monetary policy, legal currency issuance, regulation of currency circulation, credit and exchange rate monitoring and management of international reserves. Its board of directors is the regulatory authority for monetary, currency exchange and credit policies, and is responsible for the direction of the Central Bank's duties. The Central Bank also acts as lender of last resort to financial institutions.

Pursuant to the Colombian Constitution, the Central Bank is autonomous and independent from the government in the formulation of monetary policy, currency exchange and credit policies, and for administrative matters. Specifically, the Constitution provides administrative, technical, budgetary and legal autonomy for the Central Bank and its board of directors in respect of monetary, credit and foreign exchange matters. The Central Bank reports to the National Congress. Its board of directors is comprised of seven members, one of whom is the Minister of Finance and Public Credit. One member is the General Manager of the Central Bank, and the other five members, who are full-time employees, are appointed by the President of Colombia for four-year terms, although they can be ratified for equivalent terms.

#### *Ministry of Finance and Public Credit*

The Ministry of Finance designs, coordinates, regulates and executes economic policy, seeking to create an optimal administration of public finances for the economic and social development of the country. The Ministry of Finance regulates all aspects of finance, securities and insurance activities, pursuant to powers conferred by the Colombian Constitution and by statute.

As part of its duties, the Ministry of Finance issues decrees and regulations relating to financial, taxation, customs, public credit and budgetary matters that may affect banking activities. In particular, the Ministry of Finance is responsible for regulations relating to financial institutions' capital adequacy, risk limitations, authorized transactions, disclosure of information and accounting.

#### *Superintendency of Finance*

The SFC, was created as a result of the merger between the Superintendency of Banking and the Superintendency of Securities in 2005. All of the powers and responsibilities of the former Superintendency of Banking and Superintendency of Securities were assigned to the newly created SFC.

The SFC is a technical entity affiliated with the Ministry of Finance that acts as the inspection, supervision and control authority of all entities involved in financial, insurance and securities exchange activities, as well as any other operations related to the management, use or investment of resources collected from the public.

The SFC is the authority responsible for supervising the Colombian financial system with the purpose of preserving its stability and trustworthiness, as well as promoting, organizing and developing the Colombian securities market and protecting the users of financial and insurance services and investors in general. In the performance of its duties, the SFC supervises and controls financial institutions, including commercial banks, such as Davivienda, finance corporations, finance companies, financial services companies and insurance companies.

Financial institutions must obtain the authorization of the SFC before commencing operations. In addition, all public offerings of securities require the prior approval of the SFC.

The SFC has broad discretionary powers to supervise financial institutions, including the authority to impose fines on financial institutions and their directors and officers for violations of applicable regulations. Violations of the financial system rules and regulations are subject to administrative, and in some cases, criminal sanctions. The SFC may inspect Colombian financial institutions on a discretionary basis and has the authority to impose fines on such institutions and their directors and officers for violations of Colombian laws or regulations, or such financial institutions' by-laws.

The SFC is also responsible for monitoring and regulating the market for publicly traded securities in Colombia and for monitoring and supervising securities market participants, including the Colombian Stock Exchange, brokers, dealers, mutual funds and issuers.

The SFC exerts its supervisory powers over the financial sector on a consolidated and comprehensive basis. The consolidated supervision extends to all financial institutions including banks operating in Colombia and their subsidiaries abroad, in the latter case to the extent permitted by the laws of the respective country of incorporation. For these purposes, the SFC has executed several memorandums of understanding with foreign financial sector regulators, including the Superintendency of Banks of Panamá, and is currently negotiating the execution of additional memorandums of understanding with other financial regulators to promote an exchange of information and enhance its consolidated and comprehensive supervision.

According to Colombian law (Decree 2555 of 2010 and Basic Accounting Circular), and in order to facilitate the SFC's supervision, financial institutions are required to consolidate the results of operations of all of their subsidiaries in order to present consolidated financial statements of the controlling entity and its subsidiaries, consolidated Solvency Ratios and capital adequacy requirements of the group.

The SFC may also conduct onsite inspections of Colombian financial institutions and, subject to the applicable laws of the subsidiary's country of incorporation, their subsidiaries located abroad.

According to Article 48-1 of Decree 2080 of 2000, when granting authorizations to Colombian financial institutions to invest in foreign financial entities, the SFC must take into account the possibility of exercising comprehensive and consolidated supervision. In addition, according to Law 1328 of 2009 and Decree 4032 of 2010 (which was included in Decree 2555 of 2010): (1) direct capital investments by Colombian financial institutions in foreign financial, brokerage or insurance companies, branches or agencies, require the prior authorization by the SFC, and (2) indirect capital investment (i.e., through a subsidiary) in foreign financial, brokerage or insurance companies, branches or agencies, require the prior authorization by the SFC if: (a) the initial investments equal or exceed 10% of the investor's paid-in capital in a twelve-month period, (b) additional investments equal or exceed 5% of the investor's paid-in capital in a twelve-month period or (c) the financial regulatory authority of the country where the investments is to be made has not executed a memorandum of understanding with the SFC. Other indirect investments do not require the approval of the SFC, but must be reported to such entity prior to the respective investment.

As a bank and issuer of securities traded on the Colombian Stock Exchange, Davivienda is subject to the supervision, inspection and surveillance of the SFC.

**Other Colombian regulators**

***Fogafin***

Fogafin, the Colombian Deposit Insurance Fund, was created in 1985 pursuant to Law 117. The primary function of Fogafin is to administer the deposit insurance system, with the objective of guaranteeing the deposits and savings held by the general public in Colombian financial institutions. The other primary purposes for which Fogafin was formed were to support the banking industry, to facilitate the privatization of financial institutions by the Colombian government and to liquidate financial institutions under receivership.

Fogafin has tools and mechanisms that enable it to administer and temporarily take equity stakes in troubled financial institutions in order to allow it to determine whether a financial institution is viable or requires liquidation.

*__Securities Market Self-Regulatory Organization__*

Self-regulation in the capital markets was formally introduced in Colombia by Law 964 of 2005, and the SRO was created in June 2006.

The SRO has the power to supervise, sanction and regulate the entities subject to self-regulation (i.e., including securities intermediaries and any entity that voluntarily submits itself to self-regulation). The SRO may issue mandatory instructions to its members.

The securities market SRO's supervisory powers entitle it to review compliance with applicable laws and regulations and impose sanctions in the case of violations. The SRO may also propose regulation aimed at various purposes, including conflicts of interest and improving the integrity and quality of the capital markets.

To better achieve their objectives and avoid duplicative efforts, the SRO and the SFC have executed a memorandum of understanding. The purpose of the memorandum is to define the principles and criteria that should be considered by the two entities in coordinating their activities and in performing their regulatory, disciplinary and supervisory powers.

All capital market intermediaries, including Davivienda, must become members of the SRO and are subject to its regulations.

*__Superintendency of Industry and Commerce__*

According to Law 1340 of 2009, the SIC is the competent national authority for all antitrust matters in every sector of the economy, including the financial sector.

As such, the SIC is responsible for undertaking administrative investigations of antitrust violations, and has the power to impose corresponding sanctions.

The SIC is responsible for approving economic mergers, acquisitions and integrations between and among enterprises, except for mergers, acquisitions or integrations between financial entities. The SFC is the authority responsible for approving mergers, acquisitions and integrations between financial institutions. For such approvals, the SFC must obtain a non-binding prior written opinion by the SIC.

**Regulatory Framework for Colombian Banking Institutions**

The basic regulatory framework of the Colombian financial sector is set forth in Decree 663 of 1993, the *Estatuto Orgánico del Sistema Financiero,* as amended by, among others, Law 510 of 1999, Law 546 of 1999, Law 795 of 2003, Law 964 of 2005 and Law 1328 of 2009, as well as Decree 2555 of 2010, which compiled regulations that were dispersed in separate decrees, including regulations regarding capital adequacy and lending activities. The financial sector is also regulated by External Resolution 8 of 2000 (exchange control regulation statute) and Resolution 4 of 2001 issued by the Board of Directors of the Central Bank.

Decree 663 of 1993 defines the structure of the Colombian financial system and defines the different types of business entities that are considered to be part of it, including: (i) credit institutions (*establecimientos de crédito*) (which are further categorized into commercial banks (*establecimientos bancarios*), finance corporations (*corporaciones financieras*), financing companies (*compañias de financiamiento*) and finance cooperatives (*cooperativas financieras*)); (ii) financial services entities (*sociedades de servicios financieros*); (iii) capitalization corporations (*sociedades de capitalización*); (iv) insurance companies (*entidades aseguradoras*); and (v) insurance intermediaries (*intermediarios de seguros*).

Decree 663 of 1993 provides that no financial, banking or credit institution may operate in Colombia without the prior approval of the SFC. Subject to prior approval of the SFC, foreign banks may operate in Colombia through their affiliates established and incorporated in Colombia. Under Law 1328 of 2009, which will be in effect starting July 15, 2013, foreign banks will be permitted to operate through their "branches" and are not under the obligation of incorporating a Colombian subsidiary. Operations through these branches will be subject to prior approval by the SFC.

The main role of banks, finance corporations and financing companies is to receive deposits. Banks place funds back into circulation by means of loans or any active credit operations; finance corporations place funds into circulation by means of active credit operations or investments, with the purpose of promoting the creation or expansion of enterprises; and financing companies place funds back into circulation by means of active credit operations, with the purpose of fostering the sale of goods and services, including the development of leasing operations.

Each credit institution must be separately authorized before it may develop and provide financial services. Furthermore, the activities of credit institutions are subject to limitations and restrictions, including limitations and restrictions relating to the extension of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, and the administration of third-party funds. One of the principal restrictions on financial activities is that banks may not acquire or hold products, merchandise, shares of corporations, income bonds, or other similar securities, except (i) when the bank has received those goods or securities as collateral for loans it has made or (ii) with respect to shares, when they are issued by companies where banks are permitted to hold investments (mainly financial affiliates). Banks are also subject to other limitations, including limitations on lending activities.

***Modifications to Basel Framework***

Laws 510 of 1999, 546 of 1999, 795 of 2003 and 1328 of 2009 substantially modified the control, regulation and surveillance powers of the SFC. In addition, Law 510 of 1999 and Law 1328 of 2009 streamlined the procedures and powers for Fogafin.

The main purpose of Law 510 of 1999 was to increase the solvency and stability of Colombia's financial institutions by establishing rules regarding their incorporation, as well as the permitted investments of credit institutions, insurance companies and investment companies. Law 546 of 1999 was enacted in order to regulate the system of long-term home loans.

Law 795 of 2003 was enacted with the purpose of broadening the scope of activities to be performed by financial institutions and to update Colombian regulations with the latest principles of the Basel Committee. Law 795 of 2003 also increased the minimum capital requirements needed to incorporate a financial institution and authorized the SFC to take precautionary measures with respect to financial institutions whose capital falls below certain thresholds. For example, in order to avoid a temporary Preventive Measure or Intervention Measure by the SFC, troubled financial institutions must submit a restructuring program to the SFC.

The recently enacted Law 1328 of 2009 provides a new set of rights and responsibilities for customers of the financial system and a set of obligations for financial institutions in order to minimize disputes. Prior to Law 1328 of 2009, foreign banks were able to operate in Colombia by establishing a Colombian subsidiary authorized by the SFC. Following the enactment of Law 1328 of 2009, as of July 15, 2013, foreign banks will be permitted to operate through their "branches" and will not be required to incorporate a Colombian subsidiary. Law 1328 of 2009 also broadened the scope of permitted business activities by regulated entities. Following its adoption, credit institutions were allowed to operate leasing businesses and banks were allowed to extend loans to third parties so that borrowers could acquire control of other companies.

Pursuant to articles 62 and 63 of Law 1430 of 2010, the SFC must observe how financial institutions behave with regards to the pricing of their services during at least six months, and report its findings to the Colombian government. Based on such report the Colombian government may assess if there is "insufficient competition in the relevant market of financial services" and reach a decision regarding whether to use the following special remedial powers granted by Law 1430 of 2010: (i) fixing prices of financial services; or (ii) determining minimum and maximum price caps for financial services.

In order to implement and enforce the provisions related to Colombia's financial system, the SFC has issued periodic circulars and resolutions. The External Circular 007 of 1996, as amended, consolidates all of the rules and regulations applicable to financial institutions, including rules and regulations relating to the management, operations, investments, lending activities and money laundering prevention activities of financial institutions. The External Circular 100 of 1995 ("Basic Accounting Circular"), as amended, consolidates all of the regulations applicable to the accounting and financial rules of financial institutions. Furthermore, the Basic Accounting Circular regulates the assessment of credit institutions' investments, risk management, financial statements, information disclosure and inter-banking credits.

Violations of Laws 510 of 1999, 546 of 1999, 795 of 2003 or 1328 of 2009, as well as of specific provisions of Decree 663 of 1993 and their relevant regulations, are subject to administrative sanctions and, in some cases, criminal sanctions.

***Key Interest Rates***

Colombian commercial banks, finance corporations and financing companies are required to report data to the Central Bank on a weekly basis regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Central Bank calculates the *Depósitos a Término Fijo* ("DTF") rate, which is published at the beginning of the following week for use in calculating interest rates payable by financial institutions. The DTF is the weighted average interest rate paid by commercial banks, finance corporations and financing companies for certificates of deposit with maturities of 90 days. For the week ending on March 31, 2012 the DTF was 5.36%.

The Central Bank also calculates the interbank rate (*Interés Bancario de Referencia*, or "IBR"), which acts as a reference of overnight and one-month interbank loans, based on quotations submitted each business day by eight participating banks to the Central Bank. Using a weighted average of the quotations submitted, the Central Bank calculates the overnight IBR each business day. The one-month IBR is calculated each Tuesday.

Article 884 of the Colombian Code of Commerce provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the "current" banking interest rate (*Interés Bancario Corriente*), calculated as the average of the interest ordinarily charged by banks within a set period of time. The "current" banking interest rate is certified by the SFC. The "current" banking interest rate for ordinary and consumption lending applicable to the period ending on March 31, 2012 was 5.25%, and the limit 29.88%.

***Capital Adequacy Requirements***

Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 2555 of 2010, as amended) are based on the Basel Committee standards. The regulations establish four categories of assets, which are assigned different risk weights, and require that a credit institution's Technical Capital (as defined below) be at least 9% of that institution's total risk-weighted assets.

Technical Capital (*patrimonio técnico*), for the purposes of the regulations consists of the sum of primary capital (*patrimonio primario*, or "Tier One Capital"), and secondary capital (*patrimonio adicional*, or "Tier Two Capital," and together with Tier One Capital, "Technical Capital").

Tier One Capital consists mainly of:

- outstanding and paid-in share capital;
- legal and other reserves;
- profits retained from prior fiscal years;
- the balance of the patrimonial account of adjustments of changes (*ajuste de cambios*);
- the total value of the revaluation of the equity account (*revalorización del patrimonio*) (if positive) and of the foreign currency translation adjustment account (*ajuste por conversión de estados financieros*);
- current fiscal year profits in a proportion equal to the percentage of prior fiscal year profits that were capitalized, or allocated to increase the legal reserve, or all profits that must be used to cover accrued losses;
- any shares held as security by Fogafin when the entity is in compliance with a recovery program aimed at bringing the institution back into compliance with capital adequacy requirements (if the SFC establishes

that such recovery program has failed, these shares shall not be taken into account when determining primary capital (Tier One));

- subordinated bonds issued by financial institutions and subscribed by Fogafin when they comply with the requirements stated in the regulations;
- the part of the surplus capital account from donations that complies with the requirements set forth in the applicable regulation;
- the value of dividends declared to be paid in shares; and
- the value of the liabilities owned by non-controlling interests.

Items deducted from Tier One Capital are:

- losses of any prior or current period;
- the total value of the capital revaluation account, if negative;
- accumulated inflation adjustment on non monetary assets, provided that the respective assets have not been transferred;
- subordinated debt instruments issued by entities (excluding subsidiaries) that are subject to the supervision of the SFC, but excluding appraisals and investments in Finagro credit establishments and investments undertaken pursuant to Article 63 of the Financial Statute; and
- investments in shares, mandatorily convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by foreign financial institutions where the investor directly or indirectly holds at least 20.0% of the capital of said institution (excluding subsidiaries), including foreign currency translation and excludes appraisals.

Tier Two Capital consists of other reserves and retained earnings, which are added to the Tier One Capital to calculate Technical Capital.

Tier Two Capital includes:

- 50% of the accumulated inflation adjustment of non-monetary assets (provided that such assets have not been disposed of);
- 50% of asset reappraisal excluding: (i) revaluations of foreclosed assets or assets received as payment of credits; (ii) the reappraisal of direct or indirect capital investments and investments in subordinated debt in entities subject to the supervision of the SFC, excluding subsidiaries, in compliance with the requirements set forth in the applicable regulation and (iii) the reappraisal of direct or indirect capital investments and investments in subordinated debt in foreign financial entities with respect to which the bank's share is or exceeds 20% of the entity's subscribed capital;
- mandatorily convertible bonds effectively subscribed and paid, with maturities of up to five years (provided that the terms and conditions of their issuance were approved by the SFC and subject to the conditions set forth by SFC);
- subordinated monetary obligations not in excess of 50% of Tier One Capital and in compliance with additional requirements stated in the regulations;
- the part of the surplus capital account from donations in compliance with the requirements set forth in the applicable regulations; and
- general allowances made in accordance with the instructions issued by the SFC.

In computing Technical Capital, Tier Two Capital may not exceed the total amount of Tier One Capital.

As of March 31, 2012, our Solvency Ratio was 14.26%, exceeding the requirements of the Colombian government and the SFC by 526 basis points. This represents a 0.14% decrease in our Solvency Ratio when compared to the fourth quarter of 2011 resulting from a 19.1% reduction in the market value of the Tier Two Capital subordinated bonds. As of December 31, 2011, our Solvency Ratio was 14.40%. The increase in our capital adequacy ratios is explained by an increase in our weighted asset risk level by COP 5.2 million during 2011, representing growth of 20.2% compared to December 31, 2010. This growth was primarily attributable to growth in our loan portfolio, without a corresponding increase in our Tier One or Tier Two Capital.

The Basic Accounting Circular contains provisions relating to liquidity risk, interest rate risk, foreign exchange rate risk and market risk. Colombian banks are required to calculate a VaR based on a methodology provided by the SFC. VaR is used in assessing a bank's solvency. Future changes in VaR requirements could have a material impact on our operations in the future. According to the SFC, financial institutions must maintain a ratio between its Technical Capital and credit/market risk-weighted assets (Solvency Index, or *Índice de Solvencia*) of more than 9% of the total of their assets, whether they are expressed in local or foreign currency.

Davivienda's loan portfolio, net of provisions, was 68.5% weighted in the calculation of risk-weighted assets at March 31, 2012.

***Mandatory Investments***

Colombian banking institutions are required to invest in agricultural development bonds (*Títulos de Desarrollo Agropecuario*, or "TDAs") issued by Finagro, a government entity, according to External Resolution 3 of 2000 of the Central Bank. The Central Bank requires that each bank maintain a total investment in these bonds equal to 5.7% of its checking and saving deposits, plus 4.3% of its term deposits with a maturity of up to 18 months. Finagro may issue two different types of agricultural development bonds, Class A with an interest rate of four percentage points below the term deposit (*Deposito a Termino Fijo* or "DTF") interest rate and Class B with an interest rate of two percentage points below DTF-2. If the DTF interest rate falls to 4% or less, the profitability of the Class A TDAs will be 0%, and if the DTF interest rate falls to 2% or less, the profitability of the Class B TDAs will be 0%. Banks are required to invest 37% of the total mandatory investment in Class A TDAs and 63% in Class B TDAs.

Until 2006, banking institutions were also required to invest in debt reduction bonds (*Títulos de Reducción de Deuda*), issued by the Colombian government. Such bonds are no longer a mandatory investment but are still outstanding in the portfolios of bank institutions until maturity.

Under government discretion, authorities may extend the scope of current regulations or require additional disbursements on current or new types of mandatory investments.

***Minimum Capital Requirements***

Article 80 of Decree 663 of 1993, as amended by Law 795 of 2003, establishes minimum incorporation capital requirements for different financial institutions. When a financial institution fails to comply with the minimum required capital, it shall be liquidated, merged into another institution or its corporate form shall be converted into another category of financial institution, notwithstanding the fact that the institution may be subject to fines imposed by the SFC.

The minimum incorporation capital requirement for banks on an unconsolidated basis for 2012 is COP 73.75 billion, for 2011 was COP 71.09 billion, and for 2010 was COP 68.9 billion. Through March 31, 2012, we have consistently satisfied this incorporation capital requirement. Each of our subsidiaries has also satisfied the applicable minimum incorporation capital requirements.

***Capital Investment Limit***

All investments in subsidiaries and other authorized capital investments, other than those carried out in order to fulfill legal provisions, may not exceed 100% of the total aggregate of the capital, equity reserves and the equity reappraisal account of the respective bank, financial corporation or financing company, excluding unadjusted fixed assets and including deductions for accumulated losses.

*Foreign Currency Position Requirements*

According to External Resolution 5 of 2005 issued by the Board of Directors of the Central Bank, as amended by External Resolutions 4 of 2007, 3 and 13 of 2008 and 1 and 7 of 2009, a financial institution's foreign currency position is the difference between such institution's foreign currency-denominated assets and liabilities (including any off-balance sheet items), realized or contingent, including those that may be sold in Colombian legal currency.

Resolution 4 of 2007 (as amended by Resolution 3 of 2008) of the Board of Directors of the Central Bank of Colombia provides guidelines for foreign currency positions of financial institutions, including the following:

- The average of a bank's foreign currency position for three business days cannot exceed the equivalent in foreign currency of 20% of the bank's technical capital. Currency exchange intermediaries such as Davivienda are permitted to hold a three business days' average negative foreign currency position not exceeding the equivalent in foreign currency of 5% of its Technical Capital (with penalties being payable after the first business day). At March 31, 2012 our unconsolidated foreign currency position was COP 1,878 billion (US$1,048 million) on own account; and COP 19.7 billion (US$11 million) on own account in cash, which falls within the regulatory guidelines;

- Foreign currency position in cash is defined as the difference between all foreign currency-denominated assets and liabilities. A bank's three business days' average foreign currency position in cash cannot exceed 50% of the bank's Technical Capital. In accordance with Resolution 4 of 2007 (as amended by Resolution 3 of 2008) of the Board of Directors of the Central Bank of Colombia, the three-day average shall be calculated on a daily basis and the foreign currency position in cash cannot be negative. At March 31, 2012 our unconsolidated foreign currency position was COP 1,878 billion (US$1,048 million) (of which US$11 million was represented by cash holdings), which falls within the regulatory guidelines.

- Gross position of leverage is defined as (i) the value of term contracts denominated in foreign currency, plus (ii) the value of transactions denominated in foreign currency to be settled within two days in cash, and (iii) the value of the exchange rate risk exposure associated with exchange rate options and derivatives. Resolution 4 of 2007 (as amended by Resolution 3 of 2008) of the Board of Directors of the Central Bank establishes that the average of a bank's gross position of leverage for three business days cannot exceed 550% of the Technical Capital of such bank. At March 31, 2012 our gross position of leverage was COP 12,113 billion (US$6,759 million) and the maximum allowed was COP 27,861 billion (US$15,547 million).

In calculating the gross position of leverage, Resolution 12 of 2007 of the Board of Directors excludes any exchange transactions that intermediaries of the foreign market perform in their role as local suppliers of liquidity of foreign currency using the Systems of Compensation and Liquidation of Currencies when there is a breach of payment by a participant.

*Reserve Requirements*

Commercial banks are required by the Board of Directors of the Central Bank to satisfy reserve requirements with respect to deposits and other cash demands. These reserves are held by the Central Bank in the form of cash deposits. According to Resolution 11 of 2008, the reserve requirements for Colombian banks are measured bi-weekly and the amounts depend on the class of deposits.

The reserves of credit institutions range between zero and 11%. For example, credit institutions must maintain reserves of 11% for checking accounts deposits and savings accounts deposits and other liabilities, reserves of 4.5% for term deposits with a maturity of less than 540 days, and no reserves for term deposits with a maturity of more than 540 days.

Credit institutions may maintain these reserves in their accounts at the Central Bank or in cash.

*Foreign Currency Loans*

Residents of Colombia may obtain foreign currency loans from foreign residents (e.g, foreign financial institutions, foreign companies, etc), from Colombian currency exchange intermediaries or by placing debt securities abroad. Foreign currency loans must be either channeled through foreign exchange intermediaries (such as Colombian financial institutions) or deposited in offshore compensation accounts (including specially designated accounts at foreign banks held by Colombian residents and registered before the Central Bank).

Under regulations issued by the Central Bank, every Colombian resident and institution borrowing funds in foreign currency is generally required to post with the Central Bank non-interest-bearing deposits for a specified term, although the size of the required deposit is currently zero.

Additionally, as established in article 26 of Regulation 8 of 2000, in certain cases, such deposits would not be required, such as in the case of foreign currency loans aimed at financing Colombian investments abroad or for short-term exportation loans, provided that the loan is disbursed against the funds of *Banco de Comercio Exterior—Bancoldex*. Moreover, according to article 59-1(c) of Regulation 8 of 2000, foreign currency loans obtained from Colombian currency exchange intermediaries (i.e., Colombian banks) would not be required to post such deposits as long as the foreign financing is used for the purposes included in article 59-1(c) of Resolution 8 of 2000, such as, for the purpose of financing their authorized lending activities in a foreign currency with a tenor equal to, or shorter than, the tenor of the foreign financing. In addition to the latter, article 59-1(c) of Regulation 8 of 2000 also provides that, among others, Colombian banks are authorized to issue debt securities abroad with the purpose of, among others, financing their authorized lending activities in a foreign currency with a tenor equal to, or shorter than, the tenor of the foreign financing.

In addition, pursuant to Law 9 of 1991, the Board of Directors of the Central Bank is entitled to impose conditions and limitations on the incurrence of foreign currency indebtedness in order to avoid pressure in the foreign exchange market.

According to article 408 of the Colombian Tax Code (as amended by article 47 of Law 1430 of 2010), interest payments or accruals to foreign non-resident individuals or foreign non-domiciled entities derived from long term foreign loans (i.e., one year or longer) are subject to a 14% withholding tax, whereas interest payments or accruals to foreign non-resident individuals or foreign non-domiciled entities derived from short term foreign loans (i.e., less than one year) are subject to a 33% withholding tax. Nevertheless, certain exceptions apply to this rule, including (i) foreign indebtedness incurred by entities controlled by the Colombian government and (ii) loans obtained abroad by Colombian banks and financial corporations.

***Requirements for Foreign Investment in Colombia***

Colombia's foreign investment statute regulates the manner in which non-residents are permitted to invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Central Bank and obtain authorization for certain types of investments. Certain foreign exchange transactions, including those between residents and non-residents, must be made through authorized foreign exchange market participants. Any income or expenses under any ADR program must be made through the foreign exchange market.

Non-residents are permitted to directly hold portfolio investments in Colombia, through either a registered stock brokerage firm, a trust company, or an investment firm. Investors would only be allowed to transfer dividends abroad after the foreign investment registration procedure with the Central Bank has been completed. The failure of a non-resident investor to report or register foreign exchange transactions with the Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or an investigation that may result in a fine, may be commenced.

***Allowance for Loan Losses***

The SFC has issued guidelines relating to allowances for loan losses in the Basic Accounting Circular, as amended, and External Circular 054 of 2009, which refer to the adoption of a system for the administration and management of credit risks ("SARC") by credit institutions. Banks, financing companies, finance corporations and other credit institutions are required to adopt a SARC system.

The SARC system adopted by each credit institution must contain policies and procedures defining the manner in which the institution assesses, evaluates, classifies, grades, controls and covers credit risk. Management must adopt policies and procedures to ensure adequate risk management in connection with the establishment of allowances and of lending and continuous monitoring standards.

The SFC's guidelines specify the criteria for classifying loans, including type of loan (i.e., commercial, consumer, mortgage or microcredit loans), age of loan, term of default and variation of the credit risk of the debtor (by determining repayment capability and payment record). Credit institutions are also required to apply specific allowances to particular categories of loans, which are calculated as a percentage of the outstanding balance.

In addition to the general allowance, individual allowances for loan losses must be established.

***Lending Activities***

Title II, Book I of Part II of Decree 2555 of 2010, provides that a financial institution may not lend on an unsecured basis to a single borrower an amount in excess of 10% of such institution's Technical Capital, or 25% if amounts above 5% are secured by collateral in accordance with the financial institution's guidelines.

Pursuant to Title VI, Book 36 of Part II of Decree 2555 of 2010, a bank may not make a loan to any shareholder that holds directly more than 10% of its share capital for one year after such shareholder reaches the 10% threshold. In no event may a loan to a shareholder holding, directly or indirectly, 20% or more of a bank's share capital exceed 20% of a bank's technical capital. In addition, no loan to a single financial institution may exceed 30% of a bank's Technical Capital, with the exception of loans funded by Colombian development banks for which no limit exists.

If a financial institution exceeds these limits, the SFC may impose a fine equal to up to twice the amount by which any such loan exceeded the limit and, in some cases, there may be criminal sanctions.

Decree 2555 sets a maximum limit for risk concentrated in one single party, equivalent to 30% of a bank's Technical Capital, the calculation of which includes loans, leasing operations and equity and debt investments.

The Central Bank also has the authority to establish maximum limits on the interest rates that commercial banks and other financial institutions may charge on loans. According to the aforementioned limits, no person or institution can charge an interest rate greater than 1.5 times the "current" banking interest rate.

***Ownership and Management Restrictions***

We are organized as a stock company (*sociedad anónima*). Our corporate existence is subject to the rules applicable to commercial companies, principally the Colombian Code of Commerce. The Colombian Code of Commerce requires stock companies (such as Davivienda) to have at least five shareholders at all times and provides that no single shareholder may own 95% or more of Davivienda's subscribed capital stock. Article 262 of the Colombian Code of Commerce prohibits our subsidiaries from acquiring our stock.

Pursuant to the Financial Statute (as amended by Law 795 of 2003), any transaction resulting in an individual or corporation holding 10% or more of any class of capital stock of any Colombian financial institution, including, any transactions resulting in holding ADRs representing 10% or more of our outstanding common and preferred shares, is subject to the prior authorization of the SFC. For that purpose, the SFC must evaluate the proposed transaction based on the criteria and guidelines specified in Law 510 of 1999, as amended by Law 795 of 2003. Transactions entered into without the prior approval of the SFC are null and void and cannot be recorded in the institution's stock ledger. These restrictions apply equally to Colombian as well as foreign investors.

Colombian financial institutions that are issuers of securities to the public must comply with special rules regarding the composition of their board of directors. In particular, at least 25% of the board members of the board of our directors must be independent. To be considered independent, the board members must not be (i) employees or directors of Davivienda; (ii) shareholders of Davivienda that directly or indirectly address or control the majority of the voting rights or that may determine the majority composition of the management boards; (iii) shareholders or employees of entities that render certain services to Davivienda in cases in which the service provider receives 20% or more of its income from Davivienda; (iv) employees or directors of a non-profit organization that receives donations from Davivienda in excess of certain amounts; (v) directors of other entities in whose board of directors one of the legal representatives of Davivienda participates; and (vi) any other person that receives from Davivienda any kind of economic consideration (except as for the considerations received by the board members, the auditing committee or any other committee of the board of directors).

***Intervention Powers of the Superintendency of Finance — Bankruptcy Considerations***

Pursuant to the Colombian Banking Law, the SFC has the power to intervene in the operations of a bank in order to prevent it from, or to control and reduce the effects of, a bank failure.

The SFC may undertake Intervention Measures and intervene in a bank's business (i) prior to the liquidation of the bank, by taking precautionary measures in order to prevent the bank from entering into a state where the SFC would need to take possession, or (ii) to take possession of the bank to either administer the bank or order its liquidation, depending on the severity of the situation.

The purpose of taking possession is to allow the SFC to decide (i) whether the entity should be liquidated, (ii) whether it is possible to place it in a position to continue doing business in the ordinary course, or (iii) whether other measures may be adopted to secure better conditions so that depositors, creditors and investors may obtain the full or partial payment of their credits.

If the SFC takes possession of a bank, Fogafin must appoint a special agent (who must be accepted by the SFC) to administer the affairs of the bank during such process and until the bank is ordered to be liquidated or the entity is reestablished to continue doing business in the ordinary course.

During the period of the SFC's possession (which period ends when the liquidation process begins), Colombian Banking Laws prevent any creditor of the bank from (i) initiating any procedure for the collection of any amount owed by the bank, (ii) enforcing any judicial decision rendered against the bank to secure payment of any of its obligations, (iii) placing a lien or attachment on any of the assets of the bank to secure payment of any of its obligations, or (iv) making any payment, advance or compensation or assuming any obligation on behalf of the bank, with the funds or assets that may belong to it and are held by third parties, except for payments that are made by way of set-off between regulated entities of the Colombian financial and insurance systems.

In the event that the bank is liquidated, the SFC must, among other measures, provide that all term obligations of the bank are due and payable at the date when the order to liquidate becomes effective.

During the liquidation process, bank deposits and other types of savings instruments will be excluded from the liquidation assets and paid with preference. From then on, claims of creditors rank as follows: (i) amounts owed to employees and former employees for salaries, benefits, indemnities and pensions; (ii) taxes; (iii) secured credits (iv) all other credits, except subordinated credits; and (v) subordinated credits. Each category of creditors will collect in the order indicated above, whereby distributions in one category will be subject to completing full distribution in the prior category. Colombian banks and other financial institutions are not subject to the laws and regulations that govern generally the insolvency, restructuring and liquidation of industrial and commercial companies. However, if pursuant to Intervention Measures, the SFC decides to liquidate Davivienda, it is obligated to follow the above mentioned priorities of payment.

***Deposit Insurance—Troubled Financial Institutions***

Subject to specific limitations, Fogafin is authorized to provide equity and/or secured loans to troubled financial institutions, and to insure deposits of commercial banks and certain other financial institutions. In 1998 and 1999, to address the adverse effects of the economic crisis, the following regulations, among others, were adopted: Law 546 of 1999 (*Ley de Vivienda*) and Law 550 of 1999 (*Ley de Reactivación Económica*).

To protect the customers of commercial banks and certain financial institutions, Resolution No. 1 of 1988 of Fogafin, as recently amended by Resolution No. 1 of 2010, requires mandatory deposit insurance. Under this resolution, banks must pay an annual premium of 0.3% of total funds received on savings accounts, checking accounts and certificates of deposit. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank, up to a maximum of COP 20 million, regardless of the number of accounts held.

### *Anti-Money Laundering Provisions*

The regulatory framework to prevent and control money laundering is contained in, among others, the Financial Statute and Circulars 26 of 2008 and 19 of 2010 issued by the SFC, as well as Law 599 of 2000, as amended from time to time (the Colombian Criminal Code).

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering ("FATF"). Colombia, as a member of the GAFI-SUD (a FATF-style regional body) follows all of FATF's 40 recommendations and eight special recommendations.

Anti-money laundering provisions have been complemented with provisions aimed at deterring terrorism financing. For that purpose, by means of Circular 26 of 2008 the SFC has issued regulations requiring the implementation by financial institutions of a system of controls for money laundering and terrorism financing.

The requirements include "know your customer" rules and procedures to protect financial institutions from being used directly by shareholders and executives in money laundering activities, for channeling funds for terrorist activities, or for the concealment of assets from such activities; those rules and procedures set forth detailed instructions for monitoring these risks, as well as reporting suspicious operations.

### *Risk Management Systems*

Commercial banks, including us, must have risk administration systems to meet the SFC minimum standards for compliance and to avoid and mitigate the following risks: (i) credit; (ii) liquidity; (iii) market; (iv) operational; and (v) money laundering and terrorism.

Generally, commercial banks are required to assign risk-weightings to their assets based on 0%, 25%, 50% and 100% ratios depending on their risks. Standards to evaluate risk have been established and different ratings are awarded (A, B, C, D and E) to each credit asset depending on the level of risk.

Depending on the rating assigned, a different amount of provisions are required, as established by the SFC in Chapter II of the Basic Accounting Circular.

With respect to liquidity and market risks, commercial banks must follow the provisions of the Basic Accounting Circular, which defines criteria and procedures for measuring a bank's exposure to interest rate risk, foreign exchange risk, and market risk. Under such regulations, banks must send the SFC information on the net present value, duration, and interest rate of its assets, liabilities, and derivative positions. Since January 2002, Colombian banks have been required to calculate, for each position on the balance sheet, a volatility rate and a parametric VaR, which is calculated based on net present value, modified duration and a risk factor computed in terms of a basis points change. Each risk factor is calculated and provided by the SFC.

With respect to operational risk, commercial banks must assign a rating, according to principles provided by the Basic Accounting Circular, to each of their operative lines (such as, among others, corporate finance, issue and negotiation of securities, commercial banking and asset management) in order to record the risk events that may occur and cause fraud, technology problems, legal and reputational problems and problems associated with labor relations at the bank.

## DESCRIPTION OF THE NOTES

As used below in this "Description of the Notes" section, "Davivienda" means Banco Davivienda S.A., a banking institution organized and existing under the laws of Colombia, and its successors, but not any of its subsidiaries. Davivienda issued the Notes described in this offering memorandum under an indenture (the "Indenture") dated July 9, 2012 executed between Davivienda and The Bank of New York Mellon, as trustee (the "Trustee"), registrar, transfer agent and paying agent and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent and transfer agent. The terms of the Notes include those set forth in the Indenture. You may obtain a copy of the Indenture from Davivienda at its address set forth elsewhere in this offering memorandum.

The following is a complete description of the material terms and provisions of the Notes. You are encouraged to consult a copy of the Indenture for exact details of the provisions governing the Notes. You can find definitions of certain terms used in this description under the heading "—Certain Definitions."

The Notes were issued by Davivienda as Subordinated Notes (within the meaning of the laws of Colombia, with the effects set forth in letter (d) of Article 2.1.1.1.7 of Decree 2555). The Notes are not treated under the banking laws and regulations of Colombia as bank deposits, and the noteholders are not required to open accounts with Davivienda. Noteholders will not have recourse to deposit insurance or any other protections afforded to depositors in financial institutions under the laws of any jurisdiction. The Notes are treated under Colombian and New York law as debt instruments.

According to Colombian banking laws, banks are permitted to issue subordinated debt, including the Notes, and to include the outstanding aggregate principal amount of such subordinated debt as a component of Tier Two Capital, provided such subordinated debt meets the conditions set forth in letter (d) of Article 2.1.1.1.7 of Decree 2555 of 2010. Technical Capital is comprised of Tier One Capital, which consists of different types of capital, such as Capital Stock and capital reserves, and Tier Two Capital, which includes subordinated debt, such as the Notes. However, commencing on the fifth anniversary prior to the final maturity date, the amount of subordinated debt that will be eligible to be included in Tier Two Capital will decrease by 20% of the aggregate outstanding amount of such subordinated debt on an annual basis. As a result, after July 9, 2017, the outstanding aggregate principal amount of the Notes that will qualify as Tier Two Capital will decrease by 20% annually such that on July 9, 2018, the amount of Notes that will qualify as Tier Two Capital will drop to 80% and will decrease by 20% each year until reaching 0% in 2022. See "Supervision and Regulation – Regulatory Framework for Colombian Banking Institutions – Capital Adequacy Requirements"

### Principal, Maturity and Interest

The Notes will mature on July 9, 2022 and will be redeemed at 100% of their issue price upon maturity. The Notes will bear interest at the rate shown on the cover page of this offering memorandum starting on July 9, 2012, payable semi-annually on January 9 and July 9 of each year (each, an "interest payment date"), commencing on January 9, 2013, to Holders of record at the close of business on June 25 or December 26, as the case may be, immediately preceding the relevant interest payment date (whether or not a Business Day). Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. If any interest payment date or final maturity date is a day that is not a Business Day, the related payment of the principal and interest will be made on the next succeeding Business Day as if it were made on the date the payment was due, and no interest will accrue on the amounts so payable for the next period from and after the interest payment date or the final maturity date, as the case may be, to the next succeeding Business Day.

The Notes were issued in registered form, without coupons, and in minimum denominations of US$200,000 and integral multiples of US$1,000. Each book-entry note will be represented by one or more global notes registered in the name of The Depository Trust Company, which is referred to in this offering memorandum as "DTC" or the "depositary," or its nominee. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by the DTC and its participants. See "—Book-Entry System; Delivery and Form."

Davivienda will pay the principal of and interest on the Notes and any Additional Amounts (as defined below) in U.S. Dollars.

An aggregate principal amount of Notes equal to US$500,000,000 was issued in this offering. Davivienda may issue additional Notes having identical terms and conditions to the Notes being issued in this offering (the "Additional Notes"). Any Additional Notes will be part of the same issue as the Notes being issued in this offering and will be treated as one class with the Notes being issued in this offering, including for purposes of voting, redemptions and offers to purchase. Pursuant to the Indenture, no Additional Notes may be issued unless Davivienda delivers to the Trustee an Opinion of Counsel to the effect that such Additional Notes will be fungible with, and will constitute a single issue with, the Notes being issued in this offering for U.S. federal income tax purposes. For purposes of this "Description of the Notes," references to the Notes include Additional Notes, if any.

**Additional Amounts**

All payments made by Davivienda under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any Taxing Authority in any jurisdiction in which Davivienda is organized or is otherwise resident for tax purposes or any jurisdiction from or through which any payment under the Notes is made by or at the direction of Davivienda or its paying agent (each a "Relevant Taxing Jurisdiction"), unless Davivienda is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If Davivienda is required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction, from any payment made under or with respect to the Notes, Davivienda will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction will equal the amount the Holder would have received if such Taxes had not been withheld or deducted; provided, however, that no Additional Amounts will be payable with respect to any Tax that would not have been imposed, payable or due:

(1) but for the existence of any present or former connection between the Holder (or the beneficial owner of, or Person ultimately entitled to obtain an interest in, such Notes) and the Relevant Taxing Jurisdiction (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) other than the mere holding of the Notes or enforcement of rights thereunder or the receipt of payments in respect thereof;

(2) but for the failure to satisfy any certification, identification or other reporting requirements whether imposed by statute, treaty, regulation or administrative practice, provided, however, that Davivienda has delivered a request to the Holder to comply with such requirements at least 30 days prior to the date by which such compliance is required, and provided further that in no event shall such Holder's requirement to make such certification or identification require such Holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such Holder been required to file IRS Forms W-8BEN, W-8ECI, W-8EXP and/or W8IMY; or

(3) if the presentation of Notes (where presentation is required) for payment had occurred within 30 days after the date such payment was due and payable or was duly provided for, whichever is later.

In addition, Additional Amounts will not be payable if the beneficial owner of, or Person ultimately entitled to obtain an interest in, such Notes had been the Holder and such beneficial owner would not be entitled to the payment of Additional Amounts by reason of clause (1), (2) or (3) above. In addition, Additional Amounts will not be payable with respect to any Tax which is payable otherwise than by withholding from payments of, or in respect of principal of, or any interest on, the Notes.

Whenever in the Indenture or in this "Description of the Notes" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under or with respect to any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Taxes are, were or would be payable in respect thereof. Upon request, Davivienda will provide the Trustee with documentation satisfactory to the Trustee evidencing the payment of withholding Taxes in respect of which Davivienda has paid Additional Amounts.

Davivienda will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery or registration of the Notes or any other document or instrument referred to therein, or the receipt of any payments with respect to the Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction other than a jurisdiction in which Davivienda is organized or is otherwise resident for tax purposes, the United States of America or any jurisdiction in which a paying agent is located, but not excluding those resulting from, or required to be paid in connection with, the enforcement of the Notes or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

**Methods of Receiving Payments on the Notes**

Davivienda will make payments of principal of and interest on the Notes and any Additional Amounts represented by global notes by wire transfer of U.S. dollars to DTC or to its nominee as the registered Holder of the Notes, which will receive the funds for distribution to the owners of beneficial interests in the Notes. Davivienda has been informed by DTC that the owners will be paid in accordance with the procedures of DTC and its participants. None of Davivienda, the Trustee or any paying agent shall have any responsibility or liability for any of the records of, or payments made by, DTC or its nominee.

**Notices**

Davivienda will (i) mail any notices to Holders of certificated Notes at the addresses appearing in the security register maintained by the registrar and (ii) deliver any notices to Holder of global notes to DTC in accordance with its applicable procedures. Davivienda will consider a notice to the Holders to be given at the time it is given in accordance with the foregoing. Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange, the notices will also be published in a leading newspaper having general circulation in Luxembourg (expected to be the Luxemburger Wort) or on the website of the Luxembourg Stock Exchange, www.bourse.lu. Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication.

**Subordination of the Notes**

The payment of all Obligations on or relating to the Notes will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all Obligations due in respect of Senior External Liabilities of Davivienda, whether outstanding on the Issue Date or incurred after that date and will be senior only to all classes of Davivienda's Capital Stock. The Notes will rank *pari passu* with all other unsecured and subordinated Indebtedness of Davivienda, if any, that complies with the requirements set forth in Decree 2555, other than subordinated Indebtedness that, under its terms, is designated as junior to the Notes. Pursuant to Colombian banking laws, the Notes will constitute "subordinated bonds" (*bonos subordinados*).

The creditors holding Senior External Liabilities will be irrevocably entitled to receive payment in full in cash or cash equivalents of all obligations due in respect of Senior External Liabilities before the Holders will be entitled to receive any payment or distribution of any kind or character with respect to any obligations on or relating to the Notes in the event of any distribution to creditors of Davivienda:

- in a total or partial liquidation, dissolution or winding up of Davivienda;
- in the event that the SFC takes possession of Davivienda and determines to liquidate Davivienda;
- in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to Davivienda or its assets;
- in an assignment for the benefit of creditors; or
- in any marshalling of Davivienda's assets and liabilities.

As a result of the subordination provisions described above in the event of a liquidation of Davivienda, the Notes will be senior only to Davivienda's Capital Stock and subordinated debt that is expressly junior to the Notes, and accordingly, Holders may recover less ratably than creditors of Davivienda who are creditors of Senior External Liabilities.

**Optional Redemption**

The Notes may not be redeemed prior to the final maturity date.

**Certain Covenants**

The Indenture contains, among others, the following covenants:

***Mergers, Consolidations, Etc.***

Davivienda will not consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or a series of transactions, all or substantially all of Davivienda's properties and assets to any Person, unless:

the surviving entity, if other than Davivienda, is organized and existing under the laws of Colombia or the United States and assumes via supplemental indenture all of the Obligations under the Notes and the Indenture;

Davivienda, or the surviving entity, as the case may be, is not immediately after such transaction in Default under the Notes and the Indenture; and

Davivienda or the surviving entity will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each, in form and substance satisfactory to the Trustee, stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the continuing Person, enforceable in accordance with their terms.

***Maintenance of Office or Agent for Service of Process***

Davivienda shall maintain an office or agent for service of process in the Borough of Manhattan, The City of New York, where notices to and demands upon Davivienda in respect of the Notes and the Indenture may be served. Initially this agent will be CT Corporation System, and Davivienda will agree not to change the designation of such agent without prior notice to the Trustee and designation of a replacement agent in the Borough of Manhattan, The City of New York.

***Provision of Financial Statements and Reports***

Davivienda will provide or cause to be provided to the Trustee any financial statements which Davivienda may file with the SFC, or which are otherwise made available to the public in such language or form as such financial statements are prepared. In addition to the foregoing (and without duplication), Davivienda will cause to be provided to the Trustee (i) in English (or accompanied by an English translation thereof) as soon as available and in any case within 45 days after the end of each fiscal quarter (other than the fourth quarter), its unaudited consolidated balance sheet and the related unaudited consolidated statement of operations calculated in accordance with Colombian Banking GAAP and (ii) in English (or accompanied by an English translation thereof) as soon as available and in any case within 120 days after the end of each fiscal year, its audited consolidated balance sheet and the related audited consolidated statements of operations, changes in stockholders' equity and cash flow calculated in accordance with Colombian Banking GAAP and accompanied by a report thereon by an independent public accountant of recognized international standing, in each case together with a "management's discussion and analysis of Davivienda's financial condition and results of operations" disclosure substantially in the form set forth under "Results of Operations – Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011" for purposes of (i) above and "Results of Operations – Year Ended December 31, 2011 Compared to Year Ended

December 31, 2010" for purposes of (ii) above, both as set forth under "Management's Description and Analysis of Results of Operations and Financial Condition" in this offering memorandum.

For as long as the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Davivienda will furnish to any Holder of Notes issued under Rule 144A, or to any prospective purchaser designated by such holder of Notes, upon request of such Holder of Notes, financial and other information described in paragraph (d)(4) of Rule 144A with respect to it to the extent required in order to permit such Holder of Notes to comply with Rule 144A with respect to any resale of its Note, unless during that time Davivienda is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about it is otherwise required pursuant to Rule 144A.

In addition, if and so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, copies of such reports and information furnished to the Trustee will also be made available at the specified office of the paying agent in Luxembourg.

Delivery of such reports, information and documents to the Trustee shall be for informational purposes only and the Trustee's receipt of such reports, information and documents shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including Davivienda's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

***Further Actions***

Davivienda will, at its own cost and expense, satisfy any condition or take any action (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, as may be necessary or as the Trustee may reasonably request, in accordance with applicable laws and/or regulations, to be taken, fulfilled or done in order to (i) enable Davivienda to lawfully enter into, exercise its rights and perform and comply with its obligations under the Indenture and the Notes, as the case may be; (ii) ensure that its obligations under the Indenture and the Notes are legally binding and enforceable; (iii) make the Indenture and the Notes admissible in evidence in the courts of the State of New York and Colombia; (iv) preserve the enforceability of, and maintain the Trustee's rights under, the Indenture; and (v) respond to any reasonable requests received from the Trustee to enable the Trustee to facilitate the Trustee's exercise of its rights and performance of its obligations under the Indenture and the Notes, including exercising and enforcing its rights under and carrying out the terms, provisions and purposes of the Indenture and the Notes.

**Events of Default**

Each of the following is an "Event of Default":

(1) failure by Davivienda to pay interest on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;

(2) failure by Davivienda to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity or otherwise and the continuance of any such failure for seven days;

(3) Davivienda pursuant to or within the meaning of any Bankruptcy Law:

   (a) commences a voluntary case;

   (b) consents to the entry of an order for relief against it in an involuntary case;

   (c) consents to the appointment of a Custodian of it or for all or substantially all of its assets;

   (d) makes a general assignment for the benefit of its creditors;

   (e) is subject to any other Intervention Measure or Preventive Measure; or

(4) a court of competent jurisdiction or relevant entity enters an order or decree under any Bankruptcy Law that:

(a) is for relief against Davivienda as debtor in an involuntary case;

(b) appoints a Custodian of Davivienda or a Custodian for all or substantially all of the assets of Davivienda; or

(c) orders the liquidation of Davivienda, and the order or decree remains unstayed and in effect for 60 days.

If Davivienda fails to make payment of principal of or interest or Additional Amounts, if any, on the Notes (and, in the case of payment of principal, such failure to pay continues for seven days or, in the case of payment of interest or Additional Amounts, such failure to pay continues for 30 days), each Holder has the right to demand and collect under the Indenture and Davivienda will pay to the Holders the applicable amount of such due and payable principal, accrued interest and Additional Amounts, if any, on the Notes; provided, however, that to the extent that the SFC has adopted an Intervention Measure in connection with Davivienda, under the Bankruptcy Law, the Holders would not be able to commence proceedings to collect amounts owed outside the intervention proceeding.

There is no right of acceleration in the case of a Default in any payment on the Notes (whether when due or otherwise) or the performance of any of Davivienda's other obligations under the Indenture or the Notes. Notwithstanding the immediately preceding sentence, provided that there shall have been a change, amendment or modification to the Colombian Banking Laws that would permit such right without disqualifying the Notes from Tier Two Capital status and the Holders exercise such right in accordance with applicable Colombian Banking Law, the Holders shall have the right to accelerate the payments due under the Notes during the occurrence and continuation of an Event of a Default. Subject to the subordination provisions of the Notes, if any Event of Default occurs and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided herein) to collect the payment of principal and interest on the Notes or to enforce the performance of any provision under the Indenture.

The Trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an authorized officer of the Trustee with direct responsibility for the Indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the Trustee by Davivienda or any Holder.

See "Risk factors—Risks relating to the Notes—Holders will not have the right to accelerate the Notes."

**Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes, which shall survive until all Notes have been canceled and the rights, protections and immunities of the Trustee) as to all outstanding Notes when either:

(1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by Davivienda and thereafter repaid to Davivienda or discharged from this trust) have been delivered to the Trustee for cancellation and Davivienda has paid all sums payable by it under the Indenture, or

(2) (a) all Notes not delivered to the Trustee for cancellation otherwise have become due and payable and Davivienda has irrevocably deposited or caused to be deposited with the Trustee trust funds in trust in an amount of money sufficient to pay and discharge the entire Indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation,

(b) Davivienda has paid all sums payable by it under the Indenture,

(c) Davivienda has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity, and

(d) the Holders have a valid, perfected, exclusive security interest in the foregoing trust.

In addition, Davivienda must deliver an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

**Transfer and Exchange**

A Holder will be able to register the transfer of or exchange Notes only in accordance with the provisions of the Indenture. The registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Without the prior consent of Davivienda, the registrar is not required to register the transfer or exchange of a Note between a record date and the next succeeding interest payment date.

Each Note will be issued in registered form and the registered Holder will be treated as the owner of such Note for all purposes.

**Purchase of Notes**

Davivienda may at any time purchase Notes at any price in the open market, in privately negotiated transactions or otherwise. Notes so purchased by Davivienda may be held, resold in accordance with the Securities Act of 1933, as amended, or any exemption therefrom, or surrendered to the Trustee for cancellation, unless such purchase, resale or surrender for cancellation would have the effect of disqualifying the Notes from Tier Two Capital status under applicable Colombian banking law. Such right shall not be construed as an option or right of pre-payment, cancellation or similar right of the Note Holders.

**Amendment, Supplement and Waiver**

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in aggregate principal amount of the Notes then outstanding; provided, that without the consent of each affected Holder, no amendment or waiver may:

(1) reduce, or change the maturity of, the principal of any Note;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) change the currency or place of payment of principal of or interest on the Notes;

(4) modify or change the related definitions affecting the subordination of the Notes or any provision of the Indenture (including the covenants in the Indenture) in a manner that adversely affects the Holders in any material respect;

(5) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;

(6) impair the rights of Holders to receive payments of principal of or interest on the Notes; or

(7) make any change in these amendment and waiver provisions.

Notwithstanding the foregoing, Davivienda and the Trustee may amend the Indenture or the Notes without the consent of any Holder to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of Davivienda's obligations under the Notes and the Indenture in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with "Description of the Notes—Certain Covenants—Mergers, Consolidations, Etc." or to make any change that does not adversely affect the rights of any Holder in any material respect.

### No Personal Liability of Directors, Officers, Employees and Stockholders

No director, Officer, employee, incorporator or stockholder of Davivienda will have any liability for any obligations of Davivienda under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

### Concerning the Trustee

The Bank of New York Mellon is the Trustee under the Indenture and has been appointed by Davivienda as registrar, transfer agent and paying agent with regard to the Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of Davivienda, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee.

### Unclaimed Amounts

Subject to relevant abandoned or unclaimed property laws, any money deposited with the Trustee or paying agent or held by Davivienda, in trust, for the payment of principal, premium, interest or any Additional Amounts, that remains unclaimed for two years after such amount becomes due and payable shall be paid to or upon the written order of Davivienda or, if held by Davivienda, shall be discharged from such trust. The Holder will look only to Davivienda for payment thereof, and all liability of the Trustee, paying agent or of Davivienda shall thereupon cease. However, the Trustee or paying agent may at the expense of Davivienda cause to be published once in a newspaper in each place of payment, or to be delivered to Holders, or both, notice that the money remains unclaimed and any unclaimed balance of such money remaining, after a specified date, will be repaid to Davivienda.

### No Sinking Fund

The Notes will not be entitled to the benefit of a sinking fund.

### Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for admission to trading on the Euro MTF Market of the Luxembourg Stock Exchange. Davivienda will use its reasonable best efforts to maintain such listing, provided that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive Davivienda could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, or Davivienda determines that it is unduly burdensome to maintain a listing on the Luxembourg Stock Exchange, Davivienda may delist the Notes from the Euro MTF Market in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as Davivienda may decide. Although there is no assurance as to the liquidity that may result from a listing on the Luxembourg Stock Exchange, delisting the Notes from the Luxembourg Stock Exchange may have a material effect on the ability of Holders of the Notes to resell the Notes in the secondary market

**Luxembourg Paying Agent, Transfer Agent and Listing Agent**

For so long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, Davivienda will maintain a paying agent, transfer agent and listing agent in Luxembourg. Davivienda has initially appointed The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg paying agent, transfer agent and listing agent. To the extent that the Luxembourg paying agent is obliged to withhold or deduct tax on payments of interest or similar income, Davivienda will, to the extent permitted by law, ensure that it maintains an additional paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting of June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, such Directive.

**Governing Law**

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, except that the authorization and execution of such documentation by Davivienda will be governed by the laws of Colombia. Under the terms of the Notes and the Indenture, Davivienda has submitted to the personal jurisdiction of any U.S. federal or New York State courts located in the Borough of Manhattan, The City of New York.

**Currency Rate Indemnity**

Davivienda has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, Davivienda will indemnify the relevant Holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from Davivienda's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

**Certain Definitions**

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

"amend" means to amend, supplement, restate, amend and restate or otherwise modify; and "amendment" shall have a correlative meaning.

"asset" means any asset or property.

"Bankruptcy Law" means the provisions of the Financial Statute concerning bankruptcy of financial institutions, Parts 8 and 9 of Decree 2555 of 2010, as amended, and any other Colombian law or regulation regulating the insolvency of financial entities from time to time.

"Board of Directors" shall mean, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing.

"Business Day" means a day other than a Saturday, Sunday or other day on which banking institutions in New York or Colombia are authorized or required by law to close.

"Capital Stock" means any and all classes of shares a Colombian financial institution is authorized to issue under applicable Colombian laws including, but not limited to, common shares, non-voting preferred shares and privileged shares and *acciones representatitvas de capital garantía* set forth in letter (f) of Article 2.1.1.1.5 of Decree 2555 and issued in favor of Fogafin.

“Colombian Banking GAAP” means the regulations of the SFC for financial institutions (Resolution 3600 of 1998 and External Circular 100 of 1995 as amended from time to time) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, consistently applied, as in effect on the Issue Date.

“Custodian” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

“Decree 2555” means Decree 2555 of 2010, issued by the Ministry of Finance and Public Credit as amended from time to time.

“Default” means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

“Financial Statute” means Decree 663 of 1993, as may be amended from time to time, of the Republic of Colombia.

“Holder” means any registered holder, from time to time, of the Notes.

“Indebtedness” means, with respect to any Person, any obligation for the payment or repayment of money borrowed or otherwise evidenced by debentures, Notes, bonds, or similar instruments or any other obligation (including all trade payables and other accounts payable and including payments relating to bank deposits) that would appear or be treated as indebtedness upon a balance sheet if such Person prepared it in accordance with Colombian Banking GAAP.

“Interest” means, with respect to the Notes, interest on the Notes.

“Intervention Measures” means the measures described in article 114 of the Financial Statute that allow the SFC to take possession of a financial institution.

“Issue Date” means July 9, 2012.

“Obligation” means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under any Indebtedness.

“Officer” means any of the following of Davivienda: the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary.

“Officers’ Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means an opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be the employee of or counsel to Davivienda, any subsidiary of Davivienda or the Trustee.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

“Preventive Measures” means the measures described in article 113 of the Financial Statute, that the SFC can take with respect to a financial institution prior to and in order to avoid having to take an Intervention Measure.

“principal” means, with respect to the Notes, the principal of, and premium, if any, on the Notes.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Senior External Liabilities” means any liabilities to third parties that constitute external debt of Davivienda (*pasivo externo*) under Colombian banking laws and accounting principles whether outstanding on the Issue Date or thereafter created, incurred or assumed, unless, the instrument creating or evidencing the same or pursuant to which the same is outstanding expressly provides that such external debt shall not be senior in right of payment to the Notes. Under Colombian banking laws and accounting principles, "external debt" (*pasivo externo*) means, in the case of Davivienda, any and all liabilities to third parties, as reflected in the financial statements of Davivienda from time to time or any and all liabilities to third parties in the event of liquidation.

"SFC" means the *Superintendencia Financiera de Colombia*, or the Colombian Superintendency of Finance.

"Tax" shall mean any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

"Taxing Authority" shall mean any government or political subdivision or territory or possession of any government or any authority or agency therein or thereof having power to tax.

"Technical Capital" means the *patrimonio técnico* of banks comprised of Tier One Capital basic capital (*patrimonio básico*) and Tier Two Capital additional capital (*patrimonio adicional*) pursuant to Decree 2555, or any other Colombian law or regulation regulating the *patrimonio técnico* in effect from time to time.

"Tier One Capital" means, as of any date of determination, the "*patrimonio básico*" as the same is defined in article 2.1.1.1.5 of Decree 2555 or any other Colombian law or regulation regulating the *patrimonio básico* in effect from time to time.

"Tier Two Capital" means, as of any date of determination, the "*patrimonio adicional*" as the same is defined in article 2.1.1.1.5 of Decree 2555 or any other Colombian law or regulation regulating the *patrimonio adicional* in effect from time to time.

**Book-Entry System; Delivery and Form**

The Notes have been offered and sold in connection with the initial offering thereof solely to "qualified institutional buyers," as that term is defined in Rule 144A under the Securities Act of 1933, as amended, pursuant to Rule 144A, and in offshore transactions to persons other than "U.S. persons" as defined in accordance with Regulation S. Following the initial offering of the Notes, the Notes may be resold to qualified institutional buyers pursuant to Rule 144A, in offshore transactions in reliance on Regulation S, and pursuant to Rule 144 under the Securities Act, as described under "Transfer Restrictions."

***The Global Notes***

*Rule 144A Global Note*

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A were initially issued in the form of one or more registered Notes in global form, without interest coupons. The Rule 144A global was deposited on the date of the closing of the sale of the Notes with, or on behalf of, The Depository Trust Company, or DTC and registered in the name of Cede & Co., as nominee of DTC, and will remain in the custody of the Trustee pursuant to the FAST Balance Certificate Agreement between DTC and the Trustee for credit to the respective accounts of the purchasers, or to such other accounts as they may direct. Interests in the Rule 144A global note will be available for purchase only by qualified institutional buyers.

*Regulation S Global Note*

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act were initially issued in the form of one or more registered Notes in global form, without interest coupons. The Regulation S global note was deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers, or to such other accounts as they may direct.

Investors may hold their interests in the Regulation S global note directly through Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") or Clearstream Banking, société anonyme ("Clearstream"), if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the expiration of the restricted period (as defined below under "Exchanges Among the Global Notes"), investors may also hold such interests through organizations other than Euroclear or Clearstream that are participants in the DTC system. Euroclear and Clearstream will hold such interests in the Regulation S global note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Such depositaries, in turn, will hold such interests in the Regulation S global note in customers' securities accounts in the depositaries' names on the books of DTC.

Except as set forth below, the Rule 144A global note and the Regulation S global note, collectively referred to in this section as the "global notes," may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in respect of the global notes may not be exchanged for Notes in physical, certificated form (referred to as "certificated Notes") except in the limited circumstances described below.

The Notes are subject to certain restrictions on transfer and will bear a restrictive legend as set forth under "Transfer Restrictions."

All interests in the global notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

***Exchanges Among the Global Notes***

Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the closing of the sale of the Notes (through and including the 40th day, the "restricted period"), transfers by an owner of a beneficial interest in respect of the Regulation S global note to a transferee who takes delivery of this interest through the Rule 144A global note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the restricted period.

Transfers by an owner of a beneficial interest in respect of the Rule 144A global note to a transferee who takes delivery of such interest through the Regulation S global note, whether before or after the expiration of the restricted period, will be made only upon receipt by the Trustee of a certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 under the Securities Act and that, if such transfer is being made prior to the expiration of the restricted period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Any beneficial interest in respect of one of the global notes that is transferred to a Person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

***Certain Book-Entry Procedures for the Global Notes***

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. None of Davivienda, the initial purchasers, the Trustee, the paying agent or any of their respective agents or affiliates takes any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a "banking organization" within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and (v) a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

Davivienda expects that pursuant to procedures established by DTC (i) upon deposit of each global note, DTC will credit the accounts of participants designated by the initial purchasers with an interest in the global note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a global note to such Persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of Persons who hold interests through participants, the ability of a person having an interest in Notes represented by a global note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or Holder of the Notes represented by the global note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in respect of a global note will not be entitled to have Notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes, and will not be considered the owners or Holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each owner of a beneficial interest in respect of a global note must rely on the procedures of DTC and, if such owner is not a participant or an indirect participant, on the procedures of the participant through which such owner holds its interest, to exercise any rights of a Holder of Notes under the Indenture or such global note. Davivienda understands that under existing industry practice, in the event that it requests any action of Holders of Notes, an owner of a beneficial interest in respect of a global note desires to take any action that DTC, as the Holder of such global note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize owners holding through such participants to take such action or would otherwise act upon the instruction of such owners. None of Davivienda, the Trustee, any paying agent or any of their respective agents or affiliates will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, liquidated damages, if any, and interest on any Notes represented by a global note registered in the name of DTC or its nominee will be payable by Davivienda to the Trustee or to or at the direction of DTC or its nominee in its capacity as the registered Holder of the global note representing such Notes under the Indenture. Under the terms of the Indenture, Davivienda and the Trustee and each of their respective agents or affiliates may treat the Persons in whose names the Notes, including the global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, none of Davivienda, the Trustee or any of their respective agents or affiliates has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in respect of a global note (including principal, premium, if any, liquidated damages, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in respect of a global note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a global security by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. None of Davivienda, the Trustee or any of their respective agents or affiliates will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

***Certificated Notes***

If (i) Davivienda notifies the Trustee in writing that DTC is no longer willing or able to act as a depositary or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days of such notice or cessation, (ii) Davivienda, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the Indenture or (iii) upon the occurrence of certain other events as provided in the Indenture, then, upon surrender by DTC of the global notes, certificated Notes will be issued to each Person that DTC identifies as the beneficial owner of interests in the global notes. Upon any such issuance, the registrar is required to register such certificated Notes in the names of such Person or Persons (or the nominee of any thereof) and cause the same to be delivered thereto.

None of Davivienda, the Trustee or any of their respective agents or affiliates shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and each such Person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

## PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement between us and Credit Suisse Securities (USA) LLC, located at 11 Madison Avenue, New York, NY 10010 and J.P. Morgan Securities LLC, located at 384 Madison Avenue, New York, NY 10179, as initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amount of Notes that appears opposite its name in the table below.

| Initial Purchasers | Principal Amount of Notes |
|---|---|
| Credit Suisse Securities (USA) LLC……………………………………... | US$250,000,000 |
| J.P. Morgan Securities LLC…………………………….......................... | US$250,000,000 |
| Total…………………………………………………………………..… | US$500,000,000 |

The purchase agreement provides that the obligations of the initial purchasers to purchase the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. The purchase agreement also provides that the initial purchasers must purchase all the Notes if any of the Notes are purchased.

We have been advised that the initial purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to "qualified institutional buyers," as defined in Rule 144A under the Securities Act, in reliance on Rule 144A, and outside the United States in reliance on Regulation S. For more on resale of the Notes by the initial purchasers, see "Transfer Restrictions". The price at which the Notes are offered may be changed at any time without notice. The initial purchasers may sell Notes through certain of their affiliates.

In the purchase agreement, we have agreed:

- to indemnify each initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchaser may be required to make in respect of those liabilities; and

- that we will not offer or sell any of our debt securities outside Colombia with a tenor of longer than one year (other than the Notes) for a period of 60 days after the date of this offering memorandum without the prior written consent of the initial purchasers.

The Notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons as defined in Regulation S except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act. See "Transfer Restrictions".

Accordingly, in connection with sales outside the United States, the initial purchasers have agreed that, except as permitted by the purchase agreement and as set forth in "Transfer Restrictions", they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and they will have sent to each dealer to which they sell Notes during the 40-day restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act unless made pursuant to an exemption under the Securities Act.

**Sales Outside the United States**

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum as completed by the final terms in relation thereto to the public in that Relevant Member State other than:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of Notes described in this offering memorandum located within a Relevant Member State will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" as defined in the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

***United Kingdom***

Each initial purchaser represents and warrants in the purchase agreement that (i) it has not offered or sold and, prior to the date six months after the date of issuance of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended), (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the Financial Services and Market Act 2000 does not apply to the Company and (iii) it has complied and will comply with all applicable provisions of the Financial Services and Market Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### *Colombia*

The Notes have not been and will not be registered in the Colombian National Registry of Securities and Issuers maintained by the SFC and may not be offered or sold publicly or otherwise be subject to brokerage activities in Colombia, except as permitted by Colombian law.

### *Hong Kong*

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in this offering memorandum (and the accompanying prospectus) being a ''prospectus'' within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case, whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### *Singapore*

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the ''SFA''), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

### *Japan*

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the ''Financial Instruments and Exchange Law'') and each initial purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### New Issue of Securities

The Notes constitute a new class of securities with no established trading market. We applied to have the Notes listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market. The initial purchasers have advised us that they currently intend to make a market in the Notes. However, the initial purchasers are not obligated to do so and any market-making activities with respect to the Notes may be discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of or the trading market for the Notes.

### Stabilization Transactions

In connection with the offering, the initial purchasers may, but are not required to, engage in covering transactions, stabilizing transactions and penalty bids. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Penalty bids permit an initial purchaser to reclaim a selling concession from a dealer when the initial purchaser, in covering syndicate short positions or making stabilizing purchases, repurchase Notes originally sold by that dealer. These activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. However, there is no assurance that the initial purchasers will undertake stabilization transactions. If the initial purchasers engage in stabilizing or short-covering transactions, they may discontinue them at any time, and if begun, must be brought to an end after a limited period. Any over-allotment stabilizing and short-covering transaction must be conducted by the relevant initial purchasers, or persons acting on their behalf, in accordance with applicable laws. These transactions may be effected in the over-the-counter market or otherwise.

### Relationships with the Initial Purchasers

The initial purchasers and their affiliates have performed certain commercial investment banking and advisory services for us and our affiliates from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of business.

Certain of the initial purchasers and/or their affiliates may enter into derivative transactions in connection with the Notes, acting at the order and for the account of their clients, pursuant to the terms agreed to between such initial purchaser and its respective client. Such initial purchasers and/or their affiliates may also purchase some of the Notes as a hedge for such transactions. Such transactions may have an effect on demand, price or other terms of the offering.

### Settlement

Delivery of the Notes was made against payment therefor on July 9, 2012, which was the sixth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+6"). Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wanted to trade on the date of pricing or the next two business days were required, by virtue of the fact that the Notes initially would settle in T+6, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wished to trade the Notes on the date of pricing or the next two business days should have consulted their own advisor.

### Indemnification

We have agreed to indemnify each initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that an initial purchaser may be required to make in respect of any of those liabilities.

### Stamp Taxes and Other Charges

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with the purchase of securities.

## CERTAIN COLOMBIAN TAX CONSIDERATIONS

The following summary contains a description of the principal Colombian income tax considerations in connection with the purchase, ownership and sale of the Notes, but does not purport to be a comprehensive description of all Colombian tax considerations that may be relevant to a decision to purchase the Notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than those of Colombia.

This summary is based on the tax laws of Colombia as in effect on the date of this offering memorandum, as well as regulations, rulings and decisions in Colombia available on or before such date and now in effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Prospective purchasers of the Notes should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

Article 25-a(3) and Article 266(3) of the Colombian Tax Code (*Estatuto Tributario*) provide that indebtedness obtained abroad by banks does not generate income for Colombian tax purposes and is not deemed to be held in Colombia. Furthermore, Article 266(6) generally provides that debt securities issued by a Colombian issuer and traded abroad are not deemed to be held in Colombia.

As a result, under current Colombian law, payments of principal and interest on the Notes to holders of the Notes who are not resident or domiciled in Colombia are not subject to Colombian income tax, and no income tax will be withheld from payments by us to holders of the Notes not resident or domiciled in Colombia.

In addition, and given that the Notes will be deemed to be a loan possessed abroad, gains realized on the sale or other disposition of the Notes will not be subject to Colombian income tax or withholdings as long as the holder of the Notes is not a Colombian resident for tax purposes or is not domiciled in Colombia.

## CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

**To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in these listing particulars is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code; (b) such discussion is written in connection with the promotion or marketing (within the meaning of Circular 230) of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.**

The following is a summary of the certain U.S. federal income tax consequences to a U.S. Holder of the Notes. For purposes of this summary, a "U.S. Holder" means a citizen or resident of the United States or a domestic corporation or a holder that is otherwise subject to U.S. federal income taxation on a net income basis in respect of the Notes. This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations and rulings and decisions currently in effect, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to particular investors in light of their personal investment circumstances, such as banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, traders in securities or commodities that elect mark-to-market treatment, persons that will hold Notes as a hedge against currency risk or as a position in a "straddle" or conversion transaction, partnerships or partners therein, tax-exempt organizations or persons whose "functional currency" is not the U.S. dollar, nor does it discuss U.S. federal income tax considerations applicable to certain types of investors subject to special treatment under the U.S. federal income tax. In addition, this discussion does not consider the effect of any alternative minimum taxes or any foreign, state, local, gift, estate or other tax laws that may be applicable to a particular investor. This discussion assumes that investors will purchase the Notes at their original issuance and hold the Notes as capital assets within the meaning of Section 1221 of the Code.

### *Payments of Interest*

Payments of interest on the Notes, including any amounts withheld in respect of any taxes and any payments of Additional Amounts, will be taxable to a U.S. Holder as ordinary interest income at the time it is paid or accrued in accordance with the U.S. Holder's usual method of accounting for U.S. federal income tax purposes. If Colombian or other non-U.S. income taxes are withheld on interest payments on the Notes (including any income taxes withheld on any Additional Amounts paid), a U.S. Holder will also be treated as having received an amount equal to the amount of such income taxes and as having paid such amount to the relevant taxing authority. As a result, the amount of interest income included in gross income by a U.S. Holder would be greater than the amount of cash actually received by the U.S. Holder in such instance. Interest paid on the Notes will constitute income from sources without the United States for foreign tax credit purposes. Such income generally will constitute "passive category income" for foreign tax credit purposes. Subject to generally applicable restrictions and conditions (including a minimum holding period requirement), if any foreign income taxes are withheld on interest payments on the Notes, a U.S. Holder generally will be entitled to a foreign tax credit in respect of any such foreign income taxes. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. The rules relating to the calculation and timing of foreign tax credits (or, if elected by the U.S. Holder, deductions) are complex. U.S. Holders should consult their own tax advisors with regard to the availability of a foreign tax credit (or the availability of deductions) under their particular circumstances.

### *Disposition of Notes*

Upon the sale, redemption, retirement or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the disposition (less an amount equal to any accrued interest that the U.S. Holder did not previously include in income, which should be taxable as interest as described under " — Payments of Interest" above) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the price paid by the U.S. Holder for the Note.

Gain or loss realized on the sale, redemption, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the holding period for such Note is more than one year. Net long-term capital gain recognized by an individual U.S. Holder is currently subject to tax at a lower rate than net short-term capital gain or ordinary income. Capital gain or loss recognized by a U.S. Holder generally will be U.S. source gain or loss for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

If any gain from the sale, redemption, retirement or other taxable disposition of Notes is subject to Colombian or other non-U.S. income tax, a U.S. Holder may not be able to credit such tax against its U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code (because such gain generally would be U.S. source income) unless such income tax can be credited (subject to applicable limitations) against U.S. federal income tax due on other income that is treated as derived from foreign sources. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. Prospective investors should consult their own tax advisors as to the U.S. federal income tax (including foreign tax credit) implications of such sale, redemption, retirement or other taxable disposition of a Note.

***Information Reporting and Backup Withholding***

In general, information reporting requirements may apply to payments of principal and interest on a Note (including payments of Additional Amounts, if any) and to the proceeds of a sale of a Note made to U.S. Holders. In addition, "backup withholding" may apply to such payments or proceeds if the beneficial owner fails to provide a correct taxpayer identification number or to otherwise comply with the applicable backup withholding rules. Certain persons (including, among others, corporations) are not subject to the backup withholding and information reporting requirements.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment made to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability provided the appropriate information is timely furnished to the Internal Revenue Service.

**THE U.S. FEDERAL AND COLOMBIAN INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN THE U.S. FEDERAL, COLOMBIAN OR OTHER TAX LAWS.**

## CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on employee benefit plans subject to Title I of ERISA and on entities that are deemed to hold the assets of such plans ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the plan.

**Prohibited Transaction Issues**

Section 406 of ERISA and Section 4975 of the Code prohibit an ERISA Plan, as well as those plans not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts, or an entity deemed to hold the assets of such plans (together with ERISA Plans, "Plans") from engaging in certain specified transactions involving "plan assets" with any person or entity who is a "party in interest" under ERISA or a "disqualified person" under Section 4975 of the Code (a "Party in Interest") with respect to such Plan. Such Parties in Interest could include, without limitation, Davivienda, the initial purchasers, the Trustee, registrar, paying agent and transfer agent, and the Luxembourg listing agent, paying agent and transfer agent or any of their respective affiliates. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) ("Non-ERISA Arrangements") are not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code but may be subject to substantially similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws ("Similar Laws").

The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest, or (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any plan assets.

The acquisition, holding and/or disposition of Notes by a Plan with respect to which we or certain of our affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless the Notes are acquired, held or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued prohibited transaction class exemptions, or "PTCEs," that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions include, without limitation:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more, or receives no less, than "adequate consideration" in connection with the transaction (the "service provider exemption").

There can be no assurance that any of the PTCEs or any other exemption will be available with respect to any particular transaction involving the Notes.

**Representation**

By its purchase of any Note or any interest therein, any purchaser or any transferee of such Note or interest, will be deemed to have represented and warranted that either:

(i) no assets of a Plan or a Non-ERISA Arrangement have been used to acquire such Notes or an interest therein; or

(ii) the purchase and holding and any subsequent transfer of such Notes or an interest therein do not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase or holding under Similar Laws, as applicable. If you are an insurance company or the fiduciary of a pension plan or an employee benefit plan, and propose to invest in Notes, you should consult your legal counsel.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.*

The Notes have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction, and may not be offered or sold except pursuant to transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Regulation S under the Securities Act.

**Purchasers' Representations and Restrictions on Resale and Transfer**

Each purchaser of Notes (other than the initial purchasers in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that Notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that Notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

(4) it will not resell or otherwise transfer any of such Notes except (a) to Davivienda, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to another exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

(6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(7) it acknowledges that the trustee, registrar or transfer agent for the Notes will not be required to accept for registration the transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to Davivienda that the restrictions set forth herein have been complied with;

(8) it acknowledges that Davivienda, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its

purchase of the Notes are no longer accurate, it will promptly notify Davivienda and the initial purchasers;

(9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account; and

(10) (i) no assets of (A) an employee benefit plan subject to ERISA, (B) a plan subject to Section 4975 of the Code, (C) any entities that are deemed to hold the assets of employee benefit plans subject to ERISA or plans subject to Section 4975 of the Code, or (D) certain employee benefit plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) have been used to acquire the Notes or an interest therein or (ii) the purchase and holding and any subsequent transfer of the Notes or an interest therein do not constitute a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of substantially similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws.

**Legends**

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act ("Rule 144A"), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.**
>
> **This legend may be removed solely at the discretion and at the direction of the issuer."**

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees that neither this note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.**
>
> **This legend may be removed solely at the discretion and at the direction of the issuer."**

The resale restriction periods may be extended, in Davivienda's discretion, in the event of one or more issuances of additional Notes, as described under "Description of the Notes." The above legends (including the restrictions on resale specified thereon) may be removed solely in Davivienda's discretion and at Davivienda's direction.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global Notes and certificated Notes, see “Description of the Notes.”

## LEGAL MATTERS

The validity of the Notes was passed upon for us by Brigard y Urrutia Abogados S.A., as to matters of Colombian law, and by Cleary Gottlieb Steen & Hamilton LLP, as to matters of New York law. Certain legal matters in connection with this offering were passed upon for the initial purchasers by Gómez-Pinzón Zuleta Abogados S.A., as to matters of Colombian law, and by Shearman & Sterling LLP, as to matters of New York law.

## INDEPENDENT AUDITORS

The consolidated financial statements of Banco Davivienda S.A. and its subsidiaries as of December 31, 2010 and 2011 and for each of the years ended December 31, 2009, 2010 and 2011, included in this offering memorandum have been audited by KPMG Ltda., independent auditors, as stated in their report appearing herein, which includes an explanatory paragraph regarding Banco Davivienda's board of directors' approval on January 23, 2012 to acquire the HSBC operations in Costa Rica, El Salvador and Honduras.

## GENERAL INFORMATION

### Clearing Systems

The Notes have been accepted for clearing and settlement, and trading in book-entry form into the systems used by DTC. For the Rule 144A Note, the ISIN number is US059501AA40, the CUSIP number is 059501 AA4 and the Common Code is 080166494. For the Regulation S Note, the ISIN number is USP0918ZAX44, the CUSIP number is P0918Z AX4 and the Common Code is 080166524.

### Listing

We applied to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange. Copies of our by-laws, the indenture, as may be amended or supplemented from time to time, our most recent annual audited financial statements and any published quarterly or semiannual unaudited financial statements will be available, at no additional expense to the Holder (which such expense shall be for the account of Davivienda), at our principal executive offices, as well as at the offices of the Trustee, and at the offices of the Luxembourg paying agent, at such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange.

### Colombian Registration

The Notes have not been and will not be registered in the Colombian National Registry of Securities and Issuers maintained by the SFC and may not be offered or sold publicly or otherwise be subject to brokerage activities in Colombia, except as permitted by Colombian law.

### Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes, including the satisfaction of the notification requirements of the SFC, which has to be informed about the offering at least ten days before its closing, which was filed on June 4, 2012. Our board of directors approved the offering in August 16, 2011 and approved an increase in its size in June 1, 2012. Investors are advised to review the indenture. You may obtain a copy of the indenture and form of Notes by contacting us or the Trustee at the address indicated in this offering memorandum.

### Responsibility and No Material Adverse Change

Davivienda accepts responsibility for the information contained in this offering memorandum and, to the best of its knowledge and belief (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to have a material effect on such information. Except as disclosed in this offering memorandum, there has not been any significant change in our financial or trading position since the date of our last published interim financial statements included in this offering memorandum and there has not been any material adverse change in our business prospects since the date of our last published audited financial statements included in this offering memorandum.

**No Litigation**

Except as disclosed herein, we are not involved in any governmental litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor so far as we are aware is any such governmental litigation or arbitration proceedings pending or threatened.

## INDEX TO FINANCIAL STATEMENTS

**KPMG Ltda.**
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## INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banco Davivienda S.A.:

We have audited the accompanying consolidated balance sheets of Banco Davivienda S.A. and its subsidiaries referred to in note 1 to such consolidated financial statements at December 31, 2010 and 2011, and the related statements of income, shareholders' equity, and cash flows, including the summary of significant accounting policies and other explanatory notes, for each of the years in the three-year period ended December 31, 2011.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with generally accepted accounting principles in Colombia and the regulations of the Colombian Superintendency of Finance for financial institutions (collectively "Colombian Banking GAAP"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Colombia. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement in the financial statements. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the balances and accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco Davivienda S.A. and its subsidiaries at December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with Colombian Banking GAAP.

The accompanying consolidated financial statements as of and for the year ended December 31, 2011 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Colombian pesos have been translated into United States dollars on the basis set forth in note 2 of the notes to the consolidated financial statements.

As discussed in note 35 to the consolidated financial statements, on January 23, 2012, the Board of Directors of Banco Davivienda, S.A. approved the acquisition of the operations that the HSBC Group has in Costa Rica, El Salvador and Honduras in accordance to Act. No. 825.

June 6, 2012

KPMG Ltda.

KPMG Ltda
Bogotá D.C., Colombia.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
**AS OF DECEMBER 31, 2010 AND 2011**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| Assets | Note | | December 31, 2010 | | December 31, 2011 | | December 31, 2011(1) |
|---|---|---|---|---|---|---|---|
| | | | (millions of COP) | | | | (thousands of U.S.$) |
| Cash and cash equivalents: | | | | | | | |
| Cash and due from banks | 3 | COP | 1,492,046 | COP | 1,406,486 | US$ | 784,839 |
| Interbank and overnight funds | 4 | | 191,663 | | 1,928,630 | | 1,076,202 |
| Total cash and cash equivalents | | | 1,683,709 | | 3,335,116 | | 1,861,041 |
| Investment securities: | 5 | | | | | | |
| Debt securities: | | | | | | | |
| Trading | | | 2,507,643 | | 3,240,514 | | 1,808,252 |
| Available for sale | | | 1,427,758 | | 1,085,924 | | 605,961 |
| Held to maturity | | | 385,306 | | 332,114 | | 185,324 |
| Total debt securities | | | 4,320,707 | | 4,658,552 | | 2,599,537 |
| Equity securities: | | | | | | | |
| Trading | | | 771 | | 1,007 | | 562 |
| Available for sale | | | 111,165 | | 117,605 | | 65,625 |
| Total equity securities | | | 111,936 | | 118,612 | | 66,187 |
| Allowance for impairment | | | (40,954) | | (31,337) | | (17,487) |
| Total investment securities , net | | | 4,391,689 | | 4,745,827 | | 2,648,237 |
| Loans and financial leases: | 6 | | | | | | |
| Commercial loans | | | 12,488,801 | | 15,680,998 | | 8,750,215 |
| Consumer loans | | | 7,605,826 | | 8,605,747 | | 4,802,127 |
| Microcredit loans | | | 68,222 | | 92,050 | | 51,365 |
| Mortgage loans | | | 1,772,322 | | 2,460,173 | | 1,372,811 |
| | | | 21,935,171 | | 26,838,968 | | 14,976,518 |
| Allowance for loans and financial lease losses | 7 | | (1,167,115) | | (1,291,883) | | (720,889) |
| Total loans and financial leases, net | | | 20,768,056 | | 25,547,085 | | 14,255,629 |
| Accrued interest receivable on loans and financial leases, net | 8 | | 337,053 | | 384,395 | | 214,498 |
| Bankers' acceptances and derivatives | 9 | | 74,479 | | 125,791 | | 70,193 |
| Foreclosed assets, net | 10 | | 52,474 | | 38,837 | | 21,672 |
| Premises and equipment under operating leases, net | 11 | | 7,561 | | 5,851 | | 3,265 |
| Premises and equipment, net | 12 | | 370,484 | | 393,793 | | 219,742 |
| Prepaid expenses and deferred charges | 13 | | 86,241 | | 226,627 | | 126,461 |
| Goodwill | 14 | | 1,267,943 | | 1,181,627 | | 659,364 |
| Other assets, net | 15 | | 133,266 | | 152,186 | | 84,922 |
| Reappraisal of assets | 16 | | 436,996 | | 520,815 | | 290,622 |
| Total assets | | COP | 29,609,951 | COP | 36,657,950 | US$ | 20,455,646 |
| Memorandum accounts | 28 | COP | 12,297,971 | COP | 15,627,705 | US$ | 8,720,477 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET (CONTINUED)**
**AS OF DECEMBER 31, 2010 AND 2011**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| | Notes | | December 31, 2010 | | December 31, 2011 | | December 31, 2011(1) |
|---|---|---|---|---|---|---|---|
| | | | (millions of COP) | | | | (thousands of U.S.$) |
| Liabilities | | | | | | | |
| Deposits : | 17 | | | | | | |
| Non-interest bearing: | | | | | | | |
| Checking accounts | | COP | 2,688,889 | COP | 2,799,865 | US$ | 1,562,364 |
| Savings deposits | | | 231,757 | | 237,924 | | 132,765 |
| Other Deposits | | | 250,036 | | 241,679 | | 134,860 |
| Total non-interest bearing deposits | | | 3,170,682 | | 3,279,468 | | 1,829,989 |
| Interest bearing: | | | | | | | |
| Checking accounts | | | 571,975 | | 796,564 | | 444,494 |
| Time deposits | | | 7,001,149 | | 6,688,751 | | 3,732,416 |
| Savings deposits | | | 8,604,427 | | 12,259,480 | | 6,840,961 |
| Total interest bearing deposits | | | 16,177,550 | | 19,744,795 | | 11,017,870 |
| Total deposits | | | 19,348,233 | | 23,024,263 | | 12,847,859 |
| Interbank and overnight borrowing | 18 | | 58,012 | | 73,535 | | 41,034 |
| Borrowings from financial institutions | 19 | | 2,400,221 | | 3,557,095 | | 1,984,909 |
| Long-term debt | 22 | | 3,082,595 | | 3,700,988 | | 2,065,203 |
| Accrued interest payable | | | 131,504 | | 146,874 | | 81,958 |
| Bankers' acceptances and derivative instruments | 9 | | 82,401 | | 97,055 | | 54,158 |
| Accounts payable | 20 | | 540,366 | | 779,864 | | 435,175 |
| Other liabilities | 23 | | 281,330 | | 328,856 | | 183,506 |
| Accrued expenses | 24 | | 90,328 | | 120,839 | | 67,430 |
| Non-controlling interest | 25 | | 25,995 | | 33,252 | | 18,555 |
| Total liabilities | | | 26,040,985 | | 31,862,622 | | 17,779,786 |
| Shareholders' Equity | | | | | | | |
| Subscribed and paid in capital | 27 | | | | | | |
| Non-voting preferred shares | | | 6,448 | | 11,569 | | 6,456 |
| Common shares | | | 46,783 | | 43,911 | | 24,503 |
| Additional paid-in capital | | | 1,561,632 | | 2,246,030 | | 1,253,316 |
| Retained earnings | | | | | | | |
| Appropriated | 27 | | 1,179,623 | | 1,601,087 | | 893,429 |
| Unappropriated | | | 334, 922 | | 377,699 | | 210,761 |
| Cumulative translation adjustment | | | (6,722) | | - | | - |
| Reappraisal of assets | | | 433,604 | | 517,119 | | 288,560 |
| Equity inflation adjustments | | | (1,802) | | - | | - |
| Unrealized net gains (losses) on investments available for sale | | | 14,477 | | (2,088) | | (1,165) |
| Total Shareholders' equity | | | 3,568,965 | | 4,795,328 | | 2,675,860 |
| Total Liabilities and Shareholders' Equity | | COP | 29,609,951 | COP | 36,657,950 | US$ | 20,455,646 |
| Memorandum accounts | 28 | COP | 12,297,971 | COP | 15,627,705 | US$ | 8,720,477 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**

(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars, except income per share)

| | Note | December 31, 2009 | December 31, 2010 | December 31, 2011 | December 31,2011 (1) |
|---|---|---|---|---|---|
| | | | (millions of COP) | | (thousands of U.S.$) |
| Interest income | | | | | |
| Interest on loans | | COP 2,363,634 | COP 2,274,617 | COP 2,752,935 | US$ 1,536,176 |
| Interest on investment securities | | 314,497 | 243,025 | 253,949 | 141,707 |
| Interbank and overnight funds | | 6,937 | 2,046 | 4,927 | 2,749 |
| Financial leases | | 108,846 | 141,207 | 178,805 | 99,776 |
| **Total interest income** | | 2,793,915 | 2,660,895 | 3,190,615 | 1,780,408 |
| Interest expense | | | | | |
| Checking accounts | | 23,738 | 18,095 | 20,068 | 11,198 |
| Time deposits | | 499,042 | 313,596 | 303,777 | 169,512 |
| Savings deposits | | 222,536 | 141,520 | 230,292 | 128,506 |
| **Total interest expense on deposits** | | 745,316 | 473,211 | 554,137 | 309,216 |
| Borrowings from financial institutions | | 75,152 | 63,576 | 97,366 | 54,332 |
| Interbank and overnight borrowing | | 2,215 | 1,182 | 1,597 | 891 |
| Repo transaction | | 7,284 | 8,812 | 8,662 | 4,834 |
| Long term debt | | 144,155 | 174,647 | 240,134 | 133,998 |
| **Total interest expense** | | 974,122 | 721,427 | 901,897 | 503,271 |
| **Net interest income** | | 1,819,793 | 1,939,467 | 2,288,719 | 1,277,137 |
| Allowance for loan, accrued interest losses and other receivables | | (1,668,835) | (1,520,478) | (1,738,979) | (970,375) |
| Recovery of non performing loans | | 981,329 | 1,160,392 | 1,124,302 | 627,376 |
| Allowance for investment and foreclosed assets | | (26,645) | (16,876) | (11,017) | (6,148) |
| Recovery of allowance foreclosed assets and investment | | 16,654 | 14,184 | 20,874 | 11,648 |
| Allowance for other assets | | (14,230) | (4,445) | (15,023) | (8,383) |
| Total allowance, net | | 711,727 | 367,223 | 619,845 | 345,882 |
| **Net interest income after allowance** | | 1,108,065 | 1,572,245 | 1,668,874 | 931,255 |
| Fees, commission and services income | | 695,213 | 717,522 | 776,156 | 433,106 |
| Fees and commission expenses | | (76,621) | (81,506) | (103,245) | (57,612) |
| Non-interest income | 30 | 990,503 | 1,369,233 | 1,773,079 | 989,403 |
| Dividends income | | 13,574 | 16,394 | 16,687 | 9,312 |
| **Total non-interest income and dividend income** | | 1,622,670 | 2,021,643 | 2,462,677 | 1,374,208 |
| Administrative expenses | 32 | 828,504 | 984,328 | 1,036,636 | 578,457 |
| Operating expenses | | 180,056 | 197,976 | 203,054 | 113,307 |
| Non-interest expenses | 31 | 1,160,195 | 1,664,995 | 2,071,987 | 1,156,198 |
| **Income before income taxes and non-controlling interest** | | 561,980 | 746,588 | 819,875 | 457,502 |
| Income tax expense | 21 | (92,215) | (161,163) | (181,845) | (101,472) |
| Non-controlling interest | | (8,648) | (6,142) | (7,691) | (4,291) |
| **Net income** | | COP 461,117 | COP 579,282 | COP 630,339 | US$ 351,738 |
| Net income per share | | COP 9,892 | COP 1,420 | COP 1,420 | US$ 0.792 |
| Weighted average number of subscribed shares | 27 | 46,613,691 | 408,050,973 | 443,836,739 | 443,836,739 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

# BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
# FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Stated in millions of Colombian pesos (COP), and thousands of U.S. dollars)

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Retained earnings | | | | |
| | | Non voting preferred shares | | Common shares | | Additional paid-in capital | | Cumulative translation Adjustment net | | Appropriated | | Unappropriated | | Equity inflation adjustments |
| **Balance at December 31, 2008** | **COP** | **-** | **COP** | **43,183** | **COP** | **942,052** | **COP** | **(5,767)** | **COP** | **705,130** | **COP** | **261,741** | **COP** | **-** |
| Net income | | | | - | | - | | | | - | | 461,117 | | - |
| Transfer to appropriated retained earnings | | | | 4,574 | | 180,975 | | | | 121,214 | | (306,763) | | - |
| Issuance of shares | | | | - | | - | | | | - | | - | | - |
| Changes in equity surplus | | | | | | | | | | | | | | |
| Acumulated translation adjustment | | | | | | | | 2,785 | | | | | | |
| Other | | | | | | 7,069 | | | | (10,620) | | 12,868 | | 545 |
| Donation | | | | - | | - | | | | (2,730) | | - | | - |
| Dividends declared (March and September 2009) | | | | - | | - | | | | | | (152,558) | | - |
| **Balance at December 31, 2009** | **COP** | **-** | **COP** | **47,757** | **COP** | **1,130,096** | **COP** | **(2,983)** | **COP** | **812,995** | **COP** | **276,403** | **COP** | **545** |
| Net income | | - | | - | | - | | | | - | | 579,282 | | - |
| Transfer to appropriated retained earnings | | - | | - | | - | | | | 348,739 | | (413,736) | | - |
| Issuance of shares | | 3,249 | | 0 | | 412,807 | | | | - | | - | | - |
| Transfer common for preferred shares | | 3,199 | | (3,199) | | | | | | | | | | |
| Changes in equity surplus | | | | | | | | | | | | | | |
| Accumulated translation adjustment | | | | | | | | (3,739) | | - | | - | | |
| Other | | | | (321) | | 17,816 | | | | 23,615 | | (41,854) | | (2,349) |
| Donation | | - | | - | | - | | | | (6,252) | | - | | - |
| Non controllong interest | | 0 | | 2,546 | | 913 | | | | 527 | | 114 | | 2 |
| Dividends declared (March and Sptember 2010) | | - | | - | | - | | | | - | | (65,289) | | - |
| **Balance at December 31, 2010** | **COP** | **6,448** | **COP** | **46,783** | **COP** | **1,561,632** | **COP** | **(6,722)** | **COP** | **1,179,623** | **COP** | **334,922** | **COP** | **(1,802)** |
| Net income | | - | | - | | | | | | | | 630,339 | | |
| Transfer to appropriated retained earnings | | - | | - | | | | | | 405,584 | | (405,584) | | |
| Issuance of shares | | 4,473 | | | | 711,219 | | | | | | | | |
| Transfer common for preferred shares | | 2,872 | | (2,872) | | | | | | | | | | |
| Changes in equity surplus | | | | | | | | | | | | | | |
| Accumulated translation adjustment | | | | | | | | 6,722 | | | | | | |
| Other | | (2,468) | | | | (26,940) | | | | 22,153 | | (10,062) | | 1,804 |
| Donation | | | | | | | | | | (6,112) | | | | |
| Non controllong interest | | 244 | | | | 119 | | | | (161) | | (531) | | (2) |
| Dividends declared (March and September 2011) | | - | | | | | | | | | | (171,384) | | |
| **Balance at December 31, 2011** | **COP** | **11,569** | **COP** | **43,911** | **COP** | **2,246,030** | **COP** | **-** | **COP** | **1,601,087** | **COP** | **377,699** | **COP** | **-** |
| **Balance at December 31, 2011 (in thousands of US$) (1)** | **US$** | **6,456** | **US$** | **24,503** | **US$** | **1,253,316** | **US$** | **-** | **US$** | **893,429** | **US$** | **210,761** | **US$** | **-** |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| | December 31, 2009 | December 31, 2010 | December 31, 2011 | 2011 (1) |
|---|---|---|---|---|
| | | (millions of COP) | | (thousands of US$) |
| **Cash flows from operating activities:** | | | | |
| **Net income** | **461,117** | **579,282** | **630,339** | **351,738** |
| Adjustments to reconcile net income to net cash used in operating activities: | | | | |
| Deferred income taxes | 75,840 | 29,128 | 58,274 | 32,518 |
| Allowance for loan, accrued interest losses and other receivables, net | 1,668,835 | 1,520,478 | 1,738,979 | 970,375 |
| Allowance for investments and foreclosed assets | 26,645 | 16,876 | 11,017 | 6,148 |
| Allowance for other assets | 14,230 | 4,445 | 15,023 | 8,383 |
| Depreciation and amortization | 141,349 | 179,678 | 190,512 | 106,308 |
| Recovery of allowance for investments and foreclosed assets | (16,654) | (14,184) | (20,874) | (11,648) |
| Gains on sale of loans and financial leases | (11,750) | (45,032) | (12,084) | (6,743) |
| Net gains on sale of investments | (101,099) | (35,082) | (28,151) | (15,709) |
| Recovery of non performing loans | (981,329) | (1,160,392) | (1,124,302) | (627,376) |
| Gains on sale of other assets, net | (15,632) | (1,336) | (12,031) | (6,713) |
| Increase in loans and financial leases | (2,947,352) | (5,415,712) | (5,786,821) | (3,229,127) |
| (Increase) Decrease in investment securities in circulation | (1,526,871) | 218,162 | (316,372) | (176,540) |
| Net change in other assets and liabilities | (93,902) | 69,755 | (180,713) | (100,840) |
| Increase in deposits | 1,603,035 | 1,006,106 | 3,676,030 | 2,051,276 |
| Equity tax | - | - | 46,535 | 25,967 |
| **Net cash used in operating activities** | **(1,703,538)** | **(3,047,829)** | **(1,114,639)** | **(621,984)** |
| **Cash flows from investing activities:** | | | | |
| Additions of premises and equipment | (71,116) | (66,630) | (120,183) | (67,064) |
| Proceeds from sales of premises and equipment | 13,705 | 4,202 | 39,630 | 22,114 |
| Proceeds from sales of assets held for sale and foreclosed assets | 16,519 | 21,802 | 32,865 | 18,339 |
| **Net cash used in investing activities** | **(40,891)** | **(40,547)** | **(47,688)** | **(26,611)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from sales of loans | 515,713 | 1,445,997 | 477,508 | 266,456 |
| Increase (Decrease) in interbank and overnight borrowing | 382,129 | (458,214) | 15,523 | 8,662 |
| (Decrease) Increase in borrowing from financial institutions | (166,157) | 1,000,464 | 1,156,875 | 645,552 |
| Increase in debt securities in circulation | 951,666 | 899,914 | 618,393 | 345,072 |
| Donations | (2,730) | (6,252) | (6,112) | (3,411) |
| Issuance of common shares | - | 416,056 | 715,691 | 399,366 |
| Increase (Decrease) in non-controlling interest | 5,446 | (1,544) | 7,258 | 4,050 |
| Dividends paid | (119,963) | (128,274) | (171,403) | (95,645) |
| **Net cash provided by financing activities** | **1,566,104** | **3,168,147** | **2,813,731** | **1,570,101** |
| (Decrease) Increase in cash and cash equivalents | (178,324) | 79,775 | 1,651,407 | 921,508 |
| Cash and cash equivalents at beginning of year | 1,782,257 | 1,603,932 | 1,683,709 | 939,533 |
| **Cash and cash equivalents at end of year** | **1,603,932** | **1,683,709** | **3,335,116** | **1,861,041** |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.



(Continued)

## BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - ORGANIZATION AND BACKGROUND

Banco Davivienda S.A. was incorporated under the laws of the Republic of Colombia on October 16, 1972. The main purpose of Banco Davivienda S.A. is to provide a broad range of general banking services to customers from individuals to major corporations. Banco Davivienda S.A. and its subsidiaries (collectively referred to herein as the "Bank" or "Banco Davivienda S.A.") offer mortgage loans, commercial and consumer loans and banking services and provide other services, including leasing, securities brokerage and asset management services.

By Public Deed No. 3202 of April 30, 2010, Notary Seventy One of the District of Bogotá, registered on May 4, 2010 at the Chamber of Commerce, Banco Davivienda S.A. changed the par value per share from one thousand pesos (COP 1,000) to one hundred twenty five pesos (COP 125).

The most representative bylaw reforms are:

- By means of Resolution 562 dated June 10, 1997, the Colombian Superintendency of Finance (referred to herein as "SFC") approved the transformation from a Savings and Loan Corporation to a Commercial Bank.
- By Public Deed No. 4541, dated August 28, 2000, prepared by Notary Eighteen in the District of Bogotá, Banco Davivienda formalized the acquisition of 100% of the shares of Delta Bolívar S.A. ("Delta Bolívar"). Consequently, Delta Bolívar was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on September 1, 2000, extinguishing Delta Bolívar as a legal entity.
- By Public Deed No. 2369, dated April 27, 2006, prepared by Notary One in the District of Bogotá, Banco Davivienda formalized the absorption by merger of Bansuperior S.A. Consequently, Bansuperior S.A. was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on May 2, 2006, extinguishing Bansuperior S.A. as a legal entity.
- By Public Deed No. 7019, dated August 29, 2007, prepared by Notary Seventy-One in the District of Bogotá, registered on September 3, 2007 in the Chamber of Commerce, Banco Davivienda formalized the absorption by merger of Granbanco S.A. Consequently, Granbanco S.A. was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on September 1, 2007, extinguishing Granbanco S.A. as a legal entity.
- By Public Deed No. 3202, dated April 30, 2010, prepared by Notary Seventy-One in the District of Bogotá, registered on May 4, 2010 in the Chamber of Commerce, Banco Davivienda formalized the change of its nominal share value from one thousand pesos (COP 1,000.00) to one hundred twenty-five pesos (COP 125.00). The Bank's authorized capital remains at 480 million shares.

### Conversion of Bancafé International subsidiary to an international branch

In 2009, Banco Davivienda S.A. requested authorization from the relevant government agencies in Colombia to convert its Banco Cafetero International Corporation subsidiary, based in Miami, into an international branch, which was not objected by the SFC and therefore the Bank initiated the required formalities before the authorities of the United States of America.

After obtaining authorizations from the relevant authorities of the United States of America and SFC, at December 29, 2010, Banco Davivienda S.A announced the possibility of starting operations of a branch office in Miami, Florida, USA, subject to compliance with all legal requirements required by the authorities of the United States and exchange regulations for the closing of operations of the Banco Cafetero International Corporation subsidiary.

Accordingly from January 1, 2011, Bancafé International ceased to be a subsidiary and became Davivienda International Branch. The branch is regulated and supervised by the Federal Reserve of the United States of America and the Florida Office of Financial Regulation.

The income generated by the integration of Bancafé International and Davivienda during the first half of 2011 was COP 3,364 million.

The figures of assets, liabilities, shareholders' equity, and net income in the individual Financial Statements of Banco Davivienda and its Subsidiaries and in the case of net income, for the years ended, respectively December 31, 2010 and December 31, 2011, respectively, were as follows:

| | December 31, 2010 (millions of COP) | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Equity | Net Income |
| Banco Davivienda S.A. | 28,236,894 | 24,668,333 | 3,568,562 | 516,665 |
| Confinanciera S.A. | 416,683 | 345,850 | 70,833 | 15,825 |
| Fiduciaria Cafetera S.A. | 76,356 | 7,008 | 69,348 | 7,334 |
| Fiduciaria Davivienda S.A. | 58,393 | 5,954 | 52,438 | 15,116 |
| Davivalores S.A. | 11,902 | 1,248 | 10,653 | 380 |
| Bancafé Panamá S.A. | 1,007,399 | 849,619 | 157,780 | 55,825 |
| Bancafé International Corporation S.A. | 198,036 | 174,777 | 23,260 | 478 |
| | 30,005,663 | 26,052,789 | 3,952,874 | 611,623 |

| | December 31, 2011 (millions of COP) | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Equity | Net Income |
| Banco Davivienda S.A. | 35,183,747 | 30,371,193 | 4,812,554 | 592,813 |
| Confinanciera S.A. | 479,424 | 396,992 | 82,432 | 25,590 |
| Fiduciaria Cafetera S.A. | 80,945 | 9,642 | 71,304 | 7,045 |
| Fiduciaria Davivienda S.A. | 62,364 | 7,132 | 55,232 | 15,514 |
| Davivalores S.A. | 14,770 | 1,991 | 12,779 | 1,983 |
| Bancafé Panamá S.A. | 1,275,914 | 1,097,363 | 178,550 | 21,613 |
| | 37,097,164 | 31,884,313 | 5,212,851 | 664,558 |

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND FINANCIAL STATEMENTS PRESENTATION

### *Basis of Presentation*

Banco Davivienda S.A. has prepared these individual and consolidated financial statements in accordance with the regulations of the SFC for financial institutions (Resolution 3600 of 1988 and External Circular 100 of 1995) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, or “Colombian GAAP” and, together with such regulations, “Colombian Banking GAAP”.

The financial statements of foreign subsidiaries have been adjusted in order to adopt uniform accounting policies as required by Colombian Banking GAAP.

In accordance with its bylaws, the Bank prepares on a semester basis its financial statements at June 30 and December 31, which are consolidated. Such financial statements are presented to shareholders and local regulatory authorities. Additionally, the Bank prepares standalone financial statements on the same semester basis which serve as the basis for dividends and other distributions.

The Bank’s significant accounting policies and procedures are described below.

### *Banco Davivienda S.A. and its consolidated subsidiaries*

The consolidated financial statements include Banco Davivienda S.A. and its majority-owned subsidiaries in which it holds, directly or indirectly, 50% or more of the outstanding voting shares.

All significant intercompany transactions and balances have been eliminated in consolidation.

The majority interests of Banco Davivienda S.A. as of December 31, 2010 and December 31, 2011 were as follows:

| | | Participation percentage | | |
|---|---|---|---|---|
| Entity | Business purpose | December 31, 2010 | December 31, 2011 | Date of incorporation (I) or Acquisition (A) |
| Fiduciaria Davivienda SA. | Asset management and trust services | 60.00% | 60.00% | December 14, 1992 (I) |
| Davivalores S.A. | Securities brokerage | 79.00% | 79.00% | March 12, 1998 (I) |
| Confinanciera S.A. | Financial services | 94.90% | 94.90% | December 4, 2006 (A) |
| Bancafé Panamá S. A. | Banking | 99.90% | 99.99% | February 16, 2007 (I) |
| Fiduciaria Cafetera S. A. | Asset management and trust services | 94.01% | 94.01% | February 16, 2007 (A) |
| Bancafé International Corporation S.A. (1) | Banking | 100.00% | - | February 16, 2007 (A) |

(1) See comment in Note 1.

***Translation of foreign currency transactions and consolidated balances***

*Translation of financial statements in foreign currency*

The financial statements of Banco Davivienda S.A.'s subsidiaries with functional currencies different from the Colombian peso are translated to Colombian pesos as follows:

Balance sheet accounts are translated to Colombian pesos using the Tasa Representativa de Mercado ("TRM") or market exchange rate applicable at the end of the year, as established by the SFC (except equity accounts which are translated at the historical exchange rate). The market exchange rates at December 31, 2010 and December 31, 2011, were COP 1,913.98 and COP 1,942.70 per US$ 1.00, respectively.

In accordance with instructions of the SFC since December 31, 2011, cumulative translation adjustments are netted against retained earnings, and as a consequence the balance of those accounts as of December 31, 2011 was zero.

*Transactions and balances in foreign currency by Banco Davivienda S.A and its local subsidiaries*

Transactions and balances in foreign currency are translated by Banco Davivienda S.A. and its banking subsidiaries to Colombian pesos using the market exchange rates applicable on the corresponding dates, as established by the SFC. The exchange rates at December 31, 2010 and December 31, 2011 are as stated above. Exchange rate differences arising from the translation of assets and liabilities denominated in foreign currency to Colombian pesos are recorded in the account. Exchange gains on foreign transactions are recorded in non-interest income or as exchange loss on foreign transactions in non-interest expenses on the consolidated statements of income.

*Convenience translation to US dollars*

Banco Davivienda S.A. and its banking subsidiaries maintain their accounting records and prepare their unaudited condensed consolidated financial statements in Colombian pesos. The U.S. dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, dividing the Colombian peso amounts by the exchange rate of COP 1,792.07 per US$1.00, which is the market exchange rate as of March 31, 2012, as published on April 1, 2012, as calculated by the SFC. The use of this methodology in translating Colombian pesos to U.S. dollars is referred to as the "U.S. dollar translation methodology," and should not be construed as a representation that the Colombian peso amounts actually represent, or have been, or could be converted into U.S. dollars at that or any other rate.

***Use of estimates in the preparation of consolidated financial statements***

The preparation of consolidated financial statements, according with Colombian Banking GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

***Real Value Unit rate (UVR) – Mortgage loans***

The transactions that Banco Davivienda S.A. and its subsidiaries carry out with regard to mortgage loans linked to the Real Value Unit (*Unidad de Valor Real* or “UVR”) are adjusted on a daily basis based on the daily value of the UVR, as published by the Colombian Central Bank (the “Central Bank”). The values assigned by the Central Bank to the UVR, in Colombian pesos were, at December 31, 2010 COP 190.82; and at December 31, 2011, COP 198.45. The UVR reflects the monthly variance of the Colombian IPC (Colombian Consumer Price Index).

Law 546 of 1999 in its article 3, created the UVR as an account unit that reflects the purchasing power of the currency based exclusively on the variation of the consumer price index certified by the DANE (the Colombian National Bureau of Statistics, in Spanish the *Departamento Administrativo Nacional de Estadística*) which value is calculated in accordance with the methodology adopted by the National Government.

In order to eliminate the distortion generated by the seasonality of inflation in operations, income generated in UVRs must be amortized over a period of one year.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash and amounts due from banks that are highly liquid investments with a maturity of one month or less at the date of acquisition. Interbank and overnight funds, explained in the note below are considered to be cash equivalents for the purposes of this statement.

Under Colombian Banking GAAP there are no special requirements of forms to prepare the Bank’s statement of cash flows. The statement of cash flows was prepared using the indirect method.

***Interbank and overnight funds***

This represents the funds directly placed by the Bank and its subsidiaries in other financial institutions with or without investment collateral, using surplus liquidity, with or without a commitment to resell, at terms of up to 30 days. The account also includes overnight deposits with banks abroad using Bank funds deposited outside Colombia.

***Repurchase and resale (repo) transactions***

A repurchase and resale transaction, or “repo transaction” is defined as the acquisition or transfer of securities, in exchange for the delivery of liquid funds (with or without a discount), assuming at that time and by virtue of such action, the commitment to transfer or acquire from the counterparty, on either the same day or at a later date, without at any time exceeding the term of one year, at an established price, the securities subject to the transaction or other securities of similar kind. Under the terms of certain repo transactions, securities may be exchanged for other securities, and restrictions may be imposed as to the transferability of such securities. The value of the securities granted or received to support repo transactions is registered in the “Memorandum accounts.” The returns agreed upon for these transactions are based on SFC rules and regulations and are recorded as income (in the case of lending operations) or expense (in the case of borrowing operations) in the consolidated statements of income.

***Simultaneous transactions***

A simultaneous transaction is defined as the acquisition or transfer of securities, regularly conducted by the Bank and/or its subsidiaries, in exchange for the delivery of liquid funds (without a discount), assuming at that time and by virtue of such action, the commitment to transfer or acquire from the counterparty, on either the same day or at a later date without at any time exceeding the term of one year, at an established price, the securities subject to the transaction. Under the terms of simultaneous transactions, securities may not be changed for other securities, and restrictions may not be imposed as to the transferability of such securities. The value of the securities granted or received to support simultaneous transactions is registered in “Memorandum accounts”. The returns agreed upon for these transactions are based on SFC rules and regulations and are recorded as income (in the case of lending operations) or expense (in the case of borrowing operations) in the consolidated statements of income.

***Investment securities***

**a) Classification**

Investment securities are classified as “trading,” “available for sale” or “held to maturity.” The first two of these groups might include investments in debt or equity securities. The third group only includes investments in debt securities.

**1) Trading securities**

Trading securities are those acquired mainly with the purpose of obtaining profits from short-term price fluctuations and are accounted for at fair value through profit and loss.

**2) Available for sale securities**

Available for sale securities are those which do not fall into the other two categories and for which the investor has both a clear intention and legal, contractual, financial and operational capacity to hold for at least one year since the date investments are classified as available for sale. On the first business day after a year has passed since the initial classification of the securities as available for sale, investors decide whether to leave them in this category or reclassify them as trading or held to maturity. If on the day an available for sale security is reclassified as trading, unrealized gains or losses must be recognized as either income or expense in the consolidated statements of income.

Available for sale securities include, in accordance with the Colombian Stock Exchange (*Bolsa de Valores de Colombia*), low liquidity level and unquoted equity securities.

**3) Held to maturity securities**

Held to maturity securities are debt securities acquired with the stated purpose and legal, contractual, financial and operational capacity to hold until maturity. These securities are accounted for at their acquisition cost plus accrued interest using the effective interest rate method and may not be used for liquidity operations, unless they are mandatory investments entered into on the primary market, provided that the counterparty for the transaction is the Central Bank, institutions overseen by the SFC or, in exceptional cases, as otherwise determined by the SFC.

**b) Initial measurement**

Securities are initially accounted for at their acquisition cost. Subsequent measurement depends upon their classification.

**Debt Securities**

Available for sale and trading debt securities are appraised and valued on a daily basis. Banco Davivienda S.A. and its subsidiaries determine the fair value of these securities by using the pricing, reference rates and spreads that “Infoval” (*Información para Valoración,* the entity created as provider of market prices by the Colombian Stock Exchange) calculates and publishes daily.

Held to maturity debt securities are accounted for at their acquisition cost plus accrued interest using the annual internal rate of return calculated on the purchase date.

**Equity Securities**

The SFC mandates that equity investments are to be marked to market on a daily basis. However, in the case of investments in securities that have low liquidity levels, or that are not listed on a securities exchange, and whose only source of valuation are the financial statements of the issuing company, Banco Davivienda S.A. and its subsidiaries regularly conduct valuations of such investments, recording the amounts thus appraised in their consolidated financial statements.

Since August 24, 2009, the SFC eliminated the trade-weighted stock index that was previously used as a benchmark for valuing shares and instead established the following stock valuation method:

***a. Listed equity securities, issued and traded in Colombia***

Securities are valued daily based on prices published by authorized entities (i.e., the Colombian Stock Exchange). In the absence of a price calculated for the day on which these securities are appraised, the last known valuation price is to be used. In the case of a listed equity security not reporting any trades on the secondary market as of its issue date, and for which there is no indicated market price for its primary issue, it should be appraised based on the guidelines stipulated in paragraph b below.

***b. Non-listed equity securities, issued in Colombia***

Securities are valued based on acquisition cost which is later increased or decreased depending upon the investor's percentage stake in all subsequent changes in the issuer's shareholders' equity.

For this purpose, the issuer's shareholders' equity is calculated based on audited financial statements at the cut-off dates of June 30 and December 31 of each year. However, when more recent audited financial statements are released, such financial statements may be used to calculate the latest changes to the equity of the issuer. Entities have a maximum allowed time of three months, subsequent to the cut-off date of the financial statements, to update the valuations of their investments.

**Securities Denominated in Foreign Currency or in UVR**

Foreign exchange gains or losses resulting from investment in foreign currency securities and UVR Securities are recorded as exchange gains on foreign transactions in non-interest income or as exchange loss on foreign transactions in non-interest expenses in the consolidated statements of income, and interest income, respectively.

**c) Subsequent measurement**

As described above, security investments are initially accounted for at their acquisition cost. Subsequent measurement and recording depend upon how they are classified by the investor as follows:

**Trading securities**

These investments are recorded on a daily basis at fair value and include investments in debt and equity securities acquired for short-term trading purposes. Unrealized gain or losses resulting from differences in fair values are included in the consolidated statement of income for the period.

Trading investments are valued at fair value using referential prices published daily by the Colombian Stock Exchange. Debt investments issued by foreign entities are valued using published reference prices sourced from recognized international price vendors.

**Available for sale securities**

Debt securities

Differences between the present value of future flows of the securities at the valuation date and the last present value calculated and recorded are registered as increases or decreases in the "investment securities" account in the balance sheet and are also accounted for in the consolidated statement of income. Differences arising between the market value and the present value are reported as "gross unrealized gains (losses) on investment available for sale" in shareholders' equity. This procedure is performed on a daily basis.

Equity securities

Changes to the fair value are associated to changes in the equity of the investments and are recorded in accordance with the investment trading volume, as follows:

***Securities with low liquidity levels or securities not listed on a stock exchange***

If the value of the investment, based on the latest audited financial statements available and released by the issuer, exceeds the carrying value of the investment, the difference is recorded as other assets in a special account "reappraisal of assets" with a charge or credit into the stockholders' equity in the account "reappraisal of assets." A decrease in the fair value of the investment below the carrying value cost is recorded as a provision with a charge to the statement of income. This provision could be reversed in the future if the fair value increases in excess of the carrying value.

Dividends received in cash or shares on investment equity securities are recorded as income on an accrual basis.

***Securities with high or medium liquidity levels***

Differences between current and previous mark-to-market valuations of these securities are recorded daily as "Gross unrealized gains or losses on investment available for sale," within the shareholders' equity accounts, and by crediting or debiting the investment securities account.

Dividends received in cash or in kind, including those from capitalizing the equity revaluation account, must be recorded as dividend income.

**Held to maturity securities**

Investments held to maturity are accounted for at acquisition cost plus accrued interest using the effective interest internal rate method. The effective interest rate is the internal rate of return calculated at the time of the purchase of the investment. Interest accruals are recorded as interest income on investment securities in the consolidated statements of income.

**d) Impairment evaluation of investment securities**

The prices of trading and available for sale debt securities that do not have fair exchange prices, those classified as held to maturity equity securities with low or minimum liquidity, or those that are unquoted must be adjusted on each valuation date, based on the credit risk classification.

Debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions ("Fogafin") or issued by the Central Bank are not subject to this adjustment.

- Securities issued abroad or with a foreign ranking

  Securities that are rated by a rating firm recognized by the SFC or securities issued by entities that are rated by those recognized international rating firms cannot be registered for an amount that exceeds the following percentages of their nominal net amortization value as of the valuation date:

| Long Term Ranking | Short Term Ranking | Max. Amount % |
|---|---|---|
| BB+, BB, BB- | 3 | Ninety (90) |
| B+, B, B- | 4 | Seventy (70) |
| CCC | 5 and 6 | Fifty (50) |
| DD, EE | 5 and 6 | Zero (0) |

  A provision for impairment of investments classified as held to maturity is recorded for the difference between the carrying value and its fair value.

  For securities and debt securities without a rating from an external rating agency, the amount of the allowance must be established through the methodology determined by the Bank. Such methodology must be approved by the SFC.

- Securities from issuers without a foreign rating and equity securities

These securities are rated and classified according to the methodology defined by the Bank and its subsidiaries. The maximum value, as defined by the SFC, at which these investments may be recorded according to their category, is as follows:

| | Category | Max. Registered Amount % (1) | Investment Characteristics |
|---|---|---|---|
| A | Normal | One hundred (100) | Issuer shows sufficient financial capacity for fulfilling both principal and interest related to securities issued. |
| B | Acceptable risk, greater than normal | Eighty (80) | Present factors of uncertainty that could affect the capacity to continue adequately servicing the debt and indicators of weakness that could affect their financial situation. |
| C | Appreciable risk | Sixty (60) | Medium-high probability of non-fulfillment of timely payments of capital and interest which may compromise the recovery of the investment. |
| D | Significant risk | Forty (40) | Non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful. |
| E | Unrecoverable | Zero (0) | Recovery highly improbable. |

(1) On the net nominal amortization values as of the valuation date for debt securities or the acquisition cost less allowances for equity securities. Securities or debt securities granted by the state, issued by the Central Bank or Fogafin are not subject to these adjustments.

**Reclassification of investment securities**

The Bank reclassifies investments from available for sale to trading when its main purpose is to obtain gains on short-term price fluctuations.

Investments reclassified from available for sale to trading are subject to accounting and valuation rules and regulations applicable to the trading category. As a result, unrealized gains or losses must be accounted for as either income or expense on the date on which these are reclassified.

***Loans and financial leases portfolio***

These accounts record loans and financial leases made by the Bank and its subsidiaries. They are funded by the Bank's own capital, public deposits and other internal and external sources of funds.

Loans are recorded at their face value, including for acquisition of loans (factoring operations) which are recorded at acquisition cost, and foreign currency operations, which are converted into local currency. The agreed interest rate does not affect the value for which the loans are recorded.

Financial leasing operations are recorded as loans in an initial moment equal to the face value of the asset to be leased to the customer and subsequently the loan is amortized when the rental payments are due in the amount of the payment corresponding to principal.

Credit risk evaluation method is set out by enacted regulations, using an ongoing monitoring process and periodic portfolio classification.

Allowances for loan and financial lease losses are established based on requirements issued by the SFC.

**a) Classification loan destination**

Loans and financial lease contracts are classified as follows:

**Mortgage Loans**

Loans granted to individuals for the acquisition of new or used residential units. Loans are denominated in UVRs or Colombian pesos and are backed by a first-priority mortgage on the asset financed. Tenor for amortization must fall between a minimum of five years and a maximum of 30 years. Loans may be fully or partially prepaid at any time without penalty. In the event of partial prepayment, the debtor is entitled to choose whether application is to be made against outstanding capital installments or to a reduction in the tenor of the obligation

**Consumer Loans**

Loans which, regardless of the amount, are extended to individuals for the purchase of consumer goods or payment of services for non-commercial or entrepreneurial purposes and different from those disbursed as microcredit transactions.

**Microcredit Loans**

These are loans granted to microbusinesses (or small businesses), whose total balance outstanding with the Bank does not exceed 25 times the effective legal minimum monthly salaries ("SMLVs").

"Microbusiness" means a legal entity focused on entrepreneurial activities related to farming and livestock, industrial, commercial or service activities, owned by an individual or corporate entity, whether rural or urban, whose staff does not exceed ten workers and whose total assets are under 500SMLVs.

**Commercial Loans**

Commercial loans are loans and financial leases that are granted to individuals or companies in order to carry out organized economic activities, and are not classified as microcredit loans.

According to Law 795 issued in 2003, housing leases are also classified as commercial loans. Banco Davivienda S.A. maintains the property rights, and monthly payments received are applied partly to capital and partly to interest at the agreed interest rate. The allowance for housing leases is based on the criteria for commercial loans.

**b) Credit risk evaluation and evaluation frequency**

The Bank analyzes on an ongoing basis the credit risk to which its loan portfolio is exposed considering the terms of the corresponding obligations as well as the level of risk associated with the borrower. This risk evaluation is based on information relating to the historical performance data, the particular characteristics of the borrower, collateral, debt service with other entities, macroeconomic factors, financial information, etc. For mortgage and microcredit loans the analysis is performed only on the basis of the past due days of the loans.

The Bank evaluates and subsequently classifies its lending and financial lease operations with its customers in May and November of each year and the results of such evaluations are recorded in June and December of each year.

For commercial loans, the following minimum credit risk ratings are assigned, according to the financial situation of the debtor and/or the past due days of the obligation; additionally, all significant counterparty relationships as well as loans under special supervision are reviewed in detail every six months:

| *Rating* | *Qualitative Factors* |
|---|---|
| A - *Normal Risk* | Loans and financial leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to the Bank, reflect adequate paying capacity. |
| B - *Acceptable Risk, Above Normal* | Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts. |
| C - *Appreciable Risk* | Loans and financial leases in this category represent insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations. |
| D – *Significant Risk* | Loans and financial leases in this category are deemed uncollectible. |
| E – *Unrecoverable* | Loans and financial leases in this category are considered impaired loans. |

**c) Write-off Policies**

Loans may be subject to write-offs when all possible collection mechanisms have been exhausted, and when such loans are provisioned for 100 percent of the loan.

Write-offs do not, however, constitute release of the officers' responsibility for approval and administration of the incumbent loan, nor do they eliminate their obligation to continue to engage in collection efforts aimed to accomplish recovery. The recovery of write-off loans is accounted for in the consolidated statements of income.

The Board of Directors of Banco Davivienda S.A. and its subsidiaries is the only administrative body with sufficient authority to approve write-offs of loans deemed uncollectible.

The following table illustrates the number of days after which the internal write-off policies of the Bank and certain subsidiaries engaged in lending require that loans are 100 percent reserved in principal, interest and other concepts:

| Type of Loan | Number of days before 100% provision taken by the Bank and Confinanciera | Bancafe Panama |
|---|---|---|
| Commercial | 570 | Individual assessment |
| Consumer and microcredit | 180 (different from unsecured vehicle) | |
| Mortgage | 540 | |
| Housing Leasing | 540 (commercial loan) | |
| Commercial Vehicle | 360 | |
| Consumer Vehicle | 360 | |
| Microcredit | 180 | |

**Regulations for the guarantees**

The guarantee is an instrument whereby the Expected Loss ("EL") is reduced in the event of non-compliance. The guarantee encompasses the right the Bank is entitled to when the debtor ceases the payment of his/her obligations due to lack of compliance.

The loan approval in the Bank and its subsidiaries should include the guarantee whereby the operation is being authorized.

The analysis of the guarantee is based upon an evaluation of the following characteristics:

- Suitability: According to proscribed legal definitions.
- Legality: Legal interest in the guarantee is documented and perfected in a manner that allows for judicial recourse when enforcing repayment obligations.
- Value: Calculated on the basis of technical criteria and objectives.
- Realization: Collecting upon the guarantee is reasonably possible.

For consumer and commercial loans, whether a guarantee will be permitted is governed by Decree 2360 of 1993.

In the case of mortgages for home loans, guarantees are provided with a first lien, in an unspecified amount in favor of the Bank over the mortgaged property. Mortgages must be perfected through public deed before a notary and registered at the corresponding Public Document Registration Office (*Oficina de Registro de Instrumentos Públicos*).

The value of a guarantee securing a mortgage loan is updated by taking the initial value at which the mortgage is registered, and then performing an adjustment in accordance with the mortgage price index published by the National Planning Department (*Departamento Nacional de Planeación*).

**Alignment Rules**

The Bank performs its internal alignment, or update, process for each borrower monthly, and for such purposes classifies each borrower in the highest risk category for those borrowers that have been granted the same type of loan, absent some reason for lowering the risk associated with a particular borrower, to the extent permitted by applicable rules.

For those customers of the Bank and its consolidated subsidiaries, the same rating is given to the loan as is granted to a borrower, unless there are basis for classifying the borrower in a lower risk category.

**d) Credit Risk Rating for reports**

For purposes of risk ratings, loans are reported to central management and reported in the financial statements in accordance with their maturity profiles based on the following table:

**Commercial loans**

| Type of risk | Rating reporting | Cluster Rating | Days past due |
|---|---|---|---|
| Normal | AA | A | 0-29 |
| Acceptable | A | B | 30-59 |
| Acceptable | BB | B | 60-89 |
| Appreciable | B | C | 90-119 |
| Appreciable | CC | C | 120-149 |
| Significant Risk | D | D | 150-569 |
| Unrecoverable | E | E | Over 569 |

**Consumer loans**

| Type of risk | Rating reporting | Cluster Rating | Motor score | Other scores | Credit card score |
|---|---|---|---|---|---|
| Normal | AA | A | 0.2484 | 0.3767 | 0.3735 |
| Normal | A* | A | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | A | B | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | BB | B | 0.81507 | 0.89 | 0.9382 |
| Appreciable | B | C | 0.94941 | 0.9971 | 0.9902 |
| Appreciable | CC | C | 1 | 1 | 1 |
| Significant Risk | D | D | 1 | 1 | 1 |
| Unrecoverable | E | E | 1 | 1 | 1 |

(*) For loans to be recognized in group A, the SFC defines as an additional qualification a range of default between 0 and 30 days to the consumer loan reference model to avoid affecting the portfolio indicators.

**Mortgage and Microcredit loans**

| Risk | Rating | Housing | Microcredit |
|---|---|---|---|
| | | Month delay | |
| Normal | A | 0 to 2 | 0 to 1 |
| Acceptable | B | Above 2 to 5 | Above 1 to 2 |
| Appreciable | C | 5 to 12 | Above 2 to 3 |
| Significant Risk | D | 12 to 18 | Above 3 to 4 |
| Unrecoverable | E | above 18 | Above 4 |

**e) Allowance for loans and financials leases losses**

Banco Davivienda S.A. and its banking subsidiaries adopted the Commercial and Consumer Reference Models ("MRC" and "MRCO"), issued by the SFC for their commercial and consumer loans, respectively:

- General allowance

  As of December 31, 2010 and December 31, 2011, there is general allowance for the microcredit and mortgage loans which is equivalent to 1% of the total gross loan portfolio for these types of loans.

- Individual allowances under reference models

  Allowances that reflect the individual credit rating of each debtor and combine a "pro-cyclical" individual allowance component and "counter-cyclical" individual allowance component. The first component reflects credit risk exposure during regular economic conditions, and the second reflects changes in the credit risk exposure of each debtor as a result of impairment of debt service capacity during future crisis periods. Both the MRC and MRCO Reference Models are used to calculate both components of the allowance. Until March 31, 2010 holding provisions that have a reference model were calculated without considering the individual countercyclical component, accumulation phase.

According to the aforementioned reference models, the allowance for loan losses is estimated according to the following formula for Expected Loss:

**Expected Loss = [Probability of Default] x [Exposure at the time of Default] x [Loss Given Default]**

**Probability of Default ("PD")**: PD corresponds to the probability of the debtors defaulting on their obligations in a period next of twelve months. PD is defined as a percentage according to the following matrices, established by the SFC.

To estimate the expected losses in the different segments the following level of assets of debtors is applied as follows:

**Commercial loans**

| Company size | Asset level (in terms of SMMLV) |
|---|---|
| Large companies | More than 15,000 SMMLV* |
| Medium companies | Between 5,000 SMMLV and 15,000 SMMLV |
| Small businesses | Less than 5,000 SMMLV |

*SMMLV: refers to *Salario Mínimo Mensual Legal Vigente*, or the effective legal minimum monthly salaries. In 2010, the effective legal minimum monthly salary in Colombia was COP 515,000; and in 2011 it was COP 535,600.

| Rating | Large companies | | Medium companies | | Small businesses | | Natural persons (2) | |
|---|---|---|---|---|---|---|---|---|
| | Matrix A(1) | Matrix B(1) | 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% |
| Non-compliance | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

(1) As defined by the SFC, Matrix A reflects PD in a growing economic scenario while Matrix B reflects PD in a worsening economic scenario. Matrix A is used to calculate the pro-cyclical component of the individual allowance while Matrix B is used to calculate the counter-cyclical component.
(2) Loans to natural persons mainly refer to sole proprietorships, which are legal entities commonly used in Colombia by individuals with the objective of insulating personal assets from potential business risks.

**Consumer loans**

| Rating | Vehicles General | | Others General | | Credit Card | |
|---|---|---|---|---|---|---|
| | Matrix A | Matrix B | Matrix A | Matrix B | Matrix A | Matrix B |
| AA | 0.97% | 2.75% | 2.10% | 3.88% | 1.58% | 3.36% |
| A | 3.12% | 4.91% | 3.88% | 5.67% | 5.35% | 7.13% |
| BB | 7.48% | 16.53% | 12.68% | 21.72% | 9.53% | 18.57% |
| B | 15.76% | 24.80% | 14.16% | 23.20% | 14.17% | 23.21% |
| CC | 31.01% | 44.84% | 22.57% | 36.40% | 17.06% | 30.89% |
| Non-compliance | 100% | 100% | 100% | 100% | 100% | 100% |

***Exposure to default***

With regard to the MRC and MRCO Reference Models, the exposure value of an asset is the current balance of the principal outstanding, accrued and unpaid interest, and other receivables regarding commercial and consumer loan obligations.

***Loss Given Default ("LGD")***

LGD is defined as a percentage to reflect the credit loss incurred if a debtor defaults.

LGD for debtors depends on the type of collateral and would experience a gradual increase in the percentage of loss according to the amount of days elapsing after being classified in each category. For this purpose, 100% of the collateral value is considered to cover the principal amount.

The LGD applied by the Bank, contemplates the type of guarantee range "without guarantee", and in addition, applies a greater percentage in the first range of failing debtors, as follows:

| Type of guarantee | Year | LGD | Days after Default status | New LGD | Days after Default status | New LGD |
|---|---|---|---|---|---|---|
| Commercial loan, without guarantee | 2010 | 55% | 210 | 80% | 420 | 100% |
| | 2011 | 55% | 210 | 80% | 420 | 100% |
| Consumer loan, without guarantee | 2010 | 65% | 180 | 85% | 360 | 100% |
| | 2011 | 75% | 30 | 85% | 90 | 100% |

Additionally, for both commercial, and consumer loans, portfolio loans classified as D or E are recorded with an allowance of 100%.

Foreign Subsidiaries and branches

For the commercial portfolio of Bancafé Panamá S.A. and Banco Davivienda S.A.'s Miami branch, respectively, the loan loss allowance for clients with economic activities in Colombia, is calculated by applying the Colombian MRC. For clients of foreign subsidiaries with economic activity in other countries (outside Colombia), an internal model is applied in addition to the allowances applied in the country of origin that considers additional factors, such as country risk, which also takes into account the different credit risk categories, write-off experience (previous two years history), as approved by the Colombian regulator. These additional factors do not apply to countries with lower risk than Colombia or for debt collateralized with deposits.

**Mortgage loans**

Individual provisions for credits in all risk categories have at least the following percentages as of December 31, 2010 and 2011, depending on the percentage covered with guarantees:

| Rating | Minimum required by the standard | | Minimum required by the Bank | |
|---|---|---|---|---|
| | Partly covered | Uncovered part | Partly covered | Uncovered part |
| A | 1.0% | 1.0% | 1.5% | 3.0% |
| B | 3.2% | 100.0% | 5.0% | 100.0% |
| C | 10.0% | 100.0% | 20.0% | 100.0% |
| D | 20.0% | 100.0% | 60.0% | 100.0% |
| E | 30.0% | 100.0% | 100.0% | 100.0% |

**Microcredit Loans**

Individual provisions for the protection of credits in all risk categories have at least the following percentages:

| Rating | Minimum required by the standard | | Minimum required by the Bank | |
|---|---|---|---|---|
| | Principal | Uncovered part | Principal | Uncovered part |
| A | 1.0% | 0.0% | 1.6% | 1.6% |
| B | 2.2% | 1.0% | 4.0% | 5.0% |
| C | 0.0% | 20.0% | 0.0% | 30.0% |
| D | 0.0% | 50.0% | 0.0% | 60.0% |
| E | 0.0% | 100.0% | 0.0% | 100.0% |

**f) The effect of guarantees on allowances**

The Bank does not consider any collateral or guarantees into its calculation of the allowance for loan losses to its commercial and consumer portfolio, in accordance with the rules of the SFC. In the case of microcredit and mortgage loans the guarantees support only the principal and not interest, and accordingly, the outstanding balances of these loans


(Continued)

that are covered by qualified guarantees are provisioned first applying the percentage basis of its score, and then applying that percentage to the difference between the outstanding balance and 70 percent of the value of the guarantees.

In the case of the portion of mortgage loans that are unguaranteed, the difference between the value of the outstanding balance and 100 percent of the value of the guarantee has to be booked. For the guaranteed portion, 100 percent of the value of the collateral should be applied.

Depending on the type of credit and the past due loans, the percentage of the total value of the guarantee for provisioning is considered as follows:

For Non-Mortgage loans:

| Past due period | Percentage |
|---|---|
| 0 to 12 months | 70% |
| More than 12 months to 24 months | 50% |
| More than 24 months | 0% |

For Mortgage loans:

| Past due period | Percentage |
|---|---|
| 0 to 18 months | 70% |
| More than 18 months to 24 months | 50% |
| More than 24 months to 30 months | 30% |
| More than 30 months to 36 months | 15% |
| More than 36 months | 0% |

**Troubled loan restructurings**

Loans are restructured when Banco Davivienda S.A. and its subsidiaries grant a concession to a debtor, as a result of economic or legal matters adversely impacting the debtor's financial situation, which Banco Davivienda S.A. or the relevant subsidiary would not otherwise make.

Loans can be restructured either through the capitalization of interest recorded in memorandum accounts or by writing-off balances (which may include capital, interest, and other items). The amounts capitalized are recorded as "deferred income" under the "other liabilities" line item, and are amortized in proportion to the amounts actually collected and the income is recorded on a cash basis.

Extraordinary restructurings are those based on External Memorandum 039 of 1999 issued by the SFC. According to the External Memorandum, reversals of loan loss allowances or improvements of credit risk categories are only acceptable when all the terms of the restructured loan are sufficiently demonstrated. In the event that a debtor with a restructured loan does not comply with each of the agreed terms, its loans are downgraded to the credit risk category that the debtor had prior to the restructuring or to an even higher risk category.

According to Law 550 of 1999, which stipulates restructuring regulations, Banco Davivienda S.A. and its subsidiaries that had restructured loans in accordance with Law 550, are expected to cease accrual of interest on the outstanding loans once the restructuring conditions are agreed upon. Banco Davivienda S.A. and its subsidiaries are required to maintain the same credit risk category on loans pre-restructuring and post-restructuring. The only exception is the case in which prior to the restructuring, the loan was classified as A. In this situation, the financial subsidiaries must downgrade it at least to B and create an allowance of 100% of the debt outstanding. Law 1116 of 2006 ("The Bankruptcy Law") repealed Law 550 of 1999 and stipulated that any debtor that enters into a restructuring agreement is considered in "default".

Pursuant to loan restructurings which adhered to the terms established in the Fiscal and Financial Reform Programs stipulated by Law 617 of 2000 and that are still enacted as of December 31, 2011, Banco Davivienda S.A. and its subsidiaries engage in the application of the following policies set forth below:

***Guarantee of financial obligations with governmental entities***

The Colombian Government guarantees the financial obligations that governmental entities have with financial institutions supervised by the SFC (i.e. Banco Davivienda. S.A. and its subsidiaries) upon fulfillment of all requirements established under Law 617 of 2000. For outstanding loans of governmental entities that have entered into a fiscal adjustment agreement, the Government guarantees up to 100%.

***Suspension of accruals***

The SFC established that interest, income for UVR, lease payments and other items of income cease to be accrued in the consolidated statements of income and begin to be recorded in Memorandum Accounts until effective payment is collected after a loan is in arrears for more than 60 days for mortgage and consumer loans, 90 days for commercial loans, and 30 days for microcredit loans. After the suspension of accruals, interest collected is recorded in the consolidated statements of income on a cash basis.

***Securitized loans***

During the years 2010 and 2011 the Bank has securitized performing mortgage loans indexed to UVR's and at a fixed rate.

The Bank proceeded to completely separate and isolate from its equity the total amount of underlying assets that were securitized, pursuant to Article 2 of Resolution 775 of 2001 issued by the SFC by issuing A, B and C-rated credit securities to finance the building and purchase of housing. A-rated securities were sold to the securitizing party and the B and C-rated securities were recorded as trust rights - investments - pursuant to instructions received from the SFC. All expenses incurred in taking possession of the guarantee are paid for by the Bank; in exchange the Bank receives the amount remaining after paying out the total amount of principal and interest on these securities.

Loan portfolios sold under securitization processes are derecognized at their net book value. Any difference arising between the proceeds of the sale and its book value is recorded as an income or expense, as applicable, in the statement of operations. Loans that are securitized are derecognized as non-recourse credit providing the following conditions are fulfilled:

- Loans are transferred exclusively to a special purpose entity ("SPE") named "Universalidad."
- The disposal or transfer of securitized assets shall not be subject to any type of restriction by the transferor.
- The risks and returns of the loans must also have been totally transferred to the SPE.
- Under no circumstance shall the transferor keep discretionary rights to dispose of, control, limit, encumber, substitute, reacquire, or use the assets thus transferred or disposed of.

***Derivatives***

Banco Davivienda S.A. records the amount of agreements between two or more parties to purchase or sell assets at a future date, whose compliance or settlement is agreed upon more than two business days following the operation initiation date, in order to provide or obtain an economic hedging, in the terms defined by the SFC. Therefore, these agreements create reciprocal and unconditional rights and obligations.

Derivatives are recorded as assets and liabilities at fair value on a net basis, including those derivatives for which the fair value is a liability. Operations are formalized by contract or letter of intent. The Bank has contracts for forwards, options and swaps.

Foreign exchange derivatives are designed to cover exchange exposure risks on structural or traded open positions by setting up a reciprocal operation or synthetic coverage for up to the maximum exposures allowed by the SFC.

Changes in the fair value of such contracts are recognized in the consolidated statement of income.
The difference between rights and obligations is recorded daily as income or expense from forward contracts in foreign currency.


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***Swap Contracts***

The fair value of swap contracts is determined using the discounted cash flow method at the interest rates applicable for each cash flow. Interest rate curves are drawn up for each operation based on information sourced from Bloomberg and Infoval.

***Option Contracts***

Options are appraised as stipulated by the SFC using the Black-Scholes/Merton method, which is the model commonly used on an international level.

Accounting treatment

Since 2010, Banco Davivienda S.A. has recognized all of its derivative instruments on its balance sheet as either assets or liabilities depending on the rights or obligations under the derivatives contracts. Before 2010, all derivatives were recognized as assets on a net basis. This change in accounting principle does not have a material effect on the balance sheet. All derivatives shall be measured at fair value; changes in the fair value are recognized currently in the statement of operations, except that premium received or paid in option contracts and changes in the fair value of swap contracts on their first day are deferred and recognized in the statement of operations on a straight line basis during the life of the contract. SFC accounting rules permit hedge accounting, but the Bank does not use it.

***Foreclosed assets***

Banco Davivienda S.A. and its subsidiaries record foreclosed assets using the following criteria:

- Foreclosed assets represented by real estate properties are recognized based on commercial appraisals technically determined and personal properties; stocks and equity interests are recorded based on market values.
- When foreclosed assets are not in a condition to be immediately liquidated, their cost increases with all those expenses required in order to prepare such assets for sale.
- If the proceeds of the sale are more than the settlement value agreed upon with the debtor, that difference is recorded as accounts payable to the debtor. If the proceeds of the sale are expected to be insufficient to cover the outstanding debt, the difference must be immediately charged as a non-operating expense.
- Personal property received in payment corresponding to investment securities is valued by applying the criteria indicated in this note under "Investment securities," but taking into account provision requirements for the periods referred to below.
- The profits obtained from a credit sale are deferred over the life of the credit, and are realized as the obligation is paid off.
- When the commercial value of the property is lower than its book value, a provision is recorded for the difference.
- Reappraisals of foreclosed assets are carried out every three years and recorded in memorandum accounts.

- Legal term for the sale of foreclosed assets

  Institutions must sell foreclosed assets, in a period no more than two years after the foreclosure date, except when upon the board of directors' request, the SFC extends the term. However, in any event, the extension may not exceed an additional period of two years.

- Assets held for sale

  Banco Davivienda S.A. records as assets held for sale those not used any more for the performance of their corporate objective. Those assets continue to have depreciation applied up to the time of their eventual disposal.

  Once the assets are classified as held for sale, the term for the sale is the same established for foreclosed assets.

- Allowance for foreclosed assets

  With the issuance of the Colombian SFC External Circular 034 of August 2003, supervised banks must design and adopt their own internal models for the calculation of provisions for foreclosed assets, through which expected losses for all types of assets are estimated. The Bank and its subsidiaries do not have their own internal model for calculating provisions for foreclosed assets through which expected losses are estimated by type of asset and approved by the SFC.

Until such model is presented and approved by the SFC, provisions will be made following the parameters set forth below:

- Real estate

  The SFC requires a provision equal to 30% of the value of the asset at the time of receipt be made in proportional monthly installments within the first year following receipt of the asset. This provision will increase an additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired, the provision must be 100% of the value upon receipt.

- Moveable assets

  The SFC requires a provision equal to 35% of the value of the asset at the time of acquisition be made in proportional monthly installments within the first year following receipt. This provision must be increased an additional 35% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions.

***Premises and equipment***

This line item records tangible assets acquired or leased assets, constructed or in the process of importation or construction which are to be used indefinitely in the course of the Bank's business and which have a useful life exceeding one year. Premises, plant and equipment are initially recorded at the cost of acquisition, including direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

Additions, improvements and extraordinary repairs that have a significant increase in the useful life of these assets are capitalized, while maintenance and repairs are expensed as incurred.

Premises and equipment are stated at acquisition cost net of accumulated depreciation and were adjusted for price-level changes from January 1, 1992 to December 31, 2000. Depreciation is calculated on a straight-line basis over the estimated useful lives of the underlying assets.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, except for office equipment, furniture and fixture and computer equipment acquired before December 2006, which are depreciated using the declining balance method. This is a depreciation method that provides for a higher depreciation charge in the first year of an asset's life and gradually decreasing charges in subsequent years. The annual depreciation rates for each asset class are:

| | |
|---|---|
| Buildings | 5% |
| Equipment, office furniture and fittings | 10% |
| Computer equipment | 20% |
| Vehicles | 20% |

The individual net book value of real estate (cost less accumulated depreciation) is compared against market values taken from independent professional appraisals. If the market value is higher, a reappraisal of assets is recorded in "reappraisal of assets" within shareholders equity and if the market value is inferior to the net book value the difference is charged to expenses as provision for other assets for the period if there is not a sufficient balance in the "reappraisal of assets" account to absorb the difference. Valuations must be made at least every three years.

***Prepaid expenses, deferred charges and goodwill***

**a) Prepaid expenses**

Prepaid expenses are payments made by the Bank and its subsidiaries in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services.

Prepaid expenses comprise the following:

- Insurance premiums amortized over the life of the policy using the straight line amortization method; and
- Other concepts that are amortized during a twelve month term.

**b) Deferred charges**

Deferred charges are goods and services received, for which the Bank expects to obtain future economic benefits, and include the following:

- Remodeling expenses, amortized within a term not longer than two years or in the term of the lease agreement, except if the remodeling expenses affect the valuation of the asset.
- Computer programs amortized in a term not longer than three years.
- The deferred income tax asset generated by the effect of temporary differences will be amortized in the terms when the temporary differences giving rise to it are reverted.
- Working clothes or uniforms to employees in a period of twelve months.
- Fee and commissions and advisory over a 60 month period, corresponding to important projects with long term recovery expectation.
- Cost of flight tickets financed to special clients as business strategy over a period of 12 months (loyalty program with clients).
- Equity tax (see note below)

The other concepts are amortized during the estimated period of time of recovering the disbursement or during the period in which the benefits are expected.

**c) Equity tax**

Since 2007 Colombian tax regulations have required companies to annually pay a special tax, in addition to income tax, calculated on their net assets, as established for the purposes of calculation of the tax, as of January 1 of each year at the tax statutory rate of 1.2%.

During 2010 new regulations on this matter came into force requiring companies to calculate this tax only once for subsequent years as of January 1, 2011 at the tax rate of 6% and payable in 8 semiannual installments over four years, without interest. The equity tax calculated by the Bank and it subsidiaries amounts to approximately COP 195,889 million in total, which, according to accounting rules in Colombia was recorded as a deferred asset to be amortized against results on a straight-line basis over four years. As of December 31, 2011, the Bank has amortized COP 47,376 million in results.

**d) Goodwill**

The SFC stipulates how to value, where to register and how to amortize goodwill. According to the SFC rules, goodwill is defined as the difference between the amount of capital paid in an acquisition of a business and the book value of equity of the acquired entity. Goodwill is created only after the acquiring company achieves control of the acquired entity.

For the acquisition of Granbanco S.A. allocation of goodwill in business lines is allowed according to the rules of the SFC and amortization is to be charged on a monthly basis over a period of 20 years, unless a financial entity decides to amortize it in a shorter period of time. The methodology proposed by the SFC to amortize goodwill uses an exponential method based on the following formula:

$$y = ex/20$$

***Reappraisal of assets***

This account includes reappraisal of investments available for sale with low liquidity levels and properties and equipment; specifically, real estate, vehicles and works of art.

Reappraisal of available for sale equity securities are recorded based on the issuer's changes in equity.

Reappraisal of real estate properties is measured as the difference between the net cost of the assets and the fair estimated value, based upon a commercial appraisal conducted by firms with recognized experience and reputation in these matters. In the event that the fair value is less than the net cost of the property, under a rule of prudence, an allowance is recorded. According to Decree 2649 of 1993, reappraisals of assets should be updated at least once every three years.

***Income taxes***

Income taxes payable are recognized in the financial statements as an amount that approximates the amount due on the respective income generated in the period pursuant to Colombian tax legislation. Deferred income taxes are generally recognized for temporary timing differences mainly relating to goodwill and the valuation of investment portfolios.

***Income received in advance and deferred liabilities***

Interests received in advance correspond to quarterly interest paid by constructors, which are amortized in accordance to the period covered by the payment and capitalized interest on the restructured loans for which income is amortized in proportion to the values collected by capital.

The gain for sale of foreclosed assets sold on installment is recognized as revenue at the time that the installment payments are received based on the accounts receivable collection percentage.

***Estimated Liabilities and Allowances***

Provisions are recorded to cover estimated liabilities related to fines, lawsuits, penalties and demands that may exist when the following conditions are met:

a) There is a right acquired and, consequently, an obligation contracted.

b) The payment is enforceable or probable.

c) The allowance is rationalized, quantifiable and verifiable.

d) In addition, it records the estimated values corresponding to taxes, contributions and enrollments.

e) In accordance with the provisions of Decree 2649 of 1993, which regulates general accounting and issues rules and principles generally accepted in Colombia, the classification of the possible outcome of legal proceedings initiated against the Bank, the provision is made depending on a contingency that is designated as probable, possible or remote and according to this classification, provisioning rates have been defined up to:

| | |
|---|---|
| Probable Contingency | 100% |
| Possible Contingency | 50% |
| Remote Contingency | 0% |

f) Estimated labor liabilities are recorded based on laws and labor agreements in force based on calculations of the amounts that must be paid to employees.

 (Continued)

***Contingent and memorandum accounts***

Memorandum accounts record transactions in which Banco Davivienda S.A. and its subsidiaries acquire contingent rights or assume contingent obligations, which are in each case conditioned by possible or remote future events. The non-performing loan portfolio and these accounts also include financial income accrued from the time at which the balance sheet ceases to accrue on the income accounts with regard to the loan portfolio and financial leasing operations.

Possible and remote contingencies are recognized in memorandum accounts; the probable contingencies, including fines, sanctions, litigation and lawsuits are evaluated by each of the Bank and its subsidiaries' legal departments. Estimating loss contingencies necessarily implies exercising judgment and is, therefore, subject to opinion. In estimating loss contingencies regarding pending legal proceedings against each banking subsidiary, each legal department evaluates, among other aspects, the merits of each case, the case law of the courts in question and the current status of the individual proceedings.

If this evaluation reveals the probability that a material loss has occurred and the amount of the liability can be estimated, then it is recorded in the consolidated financial statements. If the evaluation reveals that a potential loss is not probable or the outcome either is uncertain or probable but the amount of the loss cannot be estimated, then the nature of the corresponding contingency is disclosed in a note to the consolidated financial statements along with the probable estimated range of the loss. Loss contingencies that are estimated as being remote are not disclosed.

Memorandum accounts record third-party operations whose nature does not affect the financial situation of Banco Davivienda S.A. and its subsidiaries. This also includes tax memorandum accounts that record figures for drawing up tax returns and internal control or management information accounts.

***Foreign subsidiaries standardization effect***

The Bank approved the account plans and standardization *(homologation*) of the accounting regulations of foreign subsidiaries, to the applicable accounting regulation in Colombia, according to the guidelines established by the SFC, mainly in those that may affect the structure of consolidated financial statements, such as those related to investments, provisions recording, fixed assets, depreciation, etc. For the commercial and consumer portfolio, a Commercial and Consumer Reference Model (MRCO) was applied and the Bank's MRCO for customers with an economic activity in Colombia and for the other customers, an expert model is applied which involves among other variables, the country risk and writing off factor.

The effect in net income of this procedure as of December 31, 2010 and 2011 was the following (millions of COP):

| | 2010 | 2011 |
|---|---|---|
| Total effect of foreign subsidiaries standardization | 34,118 | 6,344 |

***Earnings per share***

To determine net income per share, the Bank uses the weighted average of the number of shares outstanding during the accounting period. For years ended December 31, 2010 and 2011 the average shares outstanding were 408,050,973 for 2010 and 443,836,739 for 2011, and the net earnings per share was COP 1,420 for 2010 and COP 1,420 for 2011. In April 2010, the Bank effected a stock split, which resulted in reducing the nominal value of the shares; see Note 27.



(Continued)

## NOTE 3 - CASH AND DUE FROM BANKS

The balances of cash and amounts due from banks consisted of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (in millions of COP) | |
| Colombian peso-denominated: | | |
| Cash | 760,067 | 796,470 |
| Due from the Colombian Central Bank | 463,156 | 263,680 |
| Due from domestic Banks | 16,307 | 136,005 |
| Remittances of domestic negotiated checks in transit | 26,144 | 38,566 |
| Allowance for cash and due from banks | (607) | (464) |
| Total peso-denominated | 1,265,067 | 1,234,257 |
| Foreign currency-denominated: | | |
| Cash | 3,037 | 1,262 |
| Due from the Colombian Central Bank | 59 | 65 |
| Due from foreign Banks | 219,705 | 170,762 |
| Remittances of foreign negotiated checks in transit | 4,199 | 155 |
| Allowance for cash and due from banks | (21) | (15) |
| Total foreign currency-denominated | 226,979 | 172,229 |
| Total cash and due from banks | 1,492,046 | 1,406,486 |

The central bank in Colombia and other foreign countries where Banco Davivienda S.A. and its subsidiaries operate, require financial institutions to set aside specific amounts of cash as reserves against deposits. These reserves may be held as vault cash in a non-interest bearing account with the central banks. Though one objective of reserve requirements is to safeguard liquidity in the banking system, institutions do not look to their reserves as a primary source of liquidity. Restricted amounts totaled COP 1,497,514 million as of December 31, 2010 and COP 1,848,225 million as of December 31, 2011.

In Colombia, according to Resolution 11 of 2008, reserve requirements are measured bi-weekly and the amounts depend on the type of deposit (11% for checking and saving accounts and, 4.5% for time deposits with a maturity of less than 540 days). No other restrictions exist on cash and due from banks.

**Reconciliations of Transactions in Foreign Currency**

As of December 31, 2010, the bank had 26 reconciliations for items older than 30 days valued at US$37,400. As of December 31, 2011, the Bank had 16 reconciliations for items older than 30 days valued at US$13,200.

## NOTE 4 – INTERBANK AND OVERNIGHT FUNDS

The balance of interbank and overnight funds consisted of the following:

| | Rate | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (in millions of COP) | |
| Colombian peso-denominated banks | 5.30% | 187,759 | 1,914,254 |
| Foreign currency banks | 0.35% | 3,904 | 14,376 |
| | | 191,663 | 1,928,630 |

## NOTE 5 – INVESTMENT SECURITIES

A summary of investments securities is as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Trading debt securities | | |
| *Colombian peso-denominated*: | | |
| Colombian government | 1,042,470 | 1,751,968 |
| Financial institutions | 1,234,112 | 1,229,855 |
| Other | 231,030 | 249,046 |
| Total Colombian peso-denominated | 2,507,612 | 3,230,869 |
| Financial institutions and government entities in foreign currency | 31 | 9,645 |
| Total trading debt securities | 2,507,643 | 3,240,514 |
| Trading equity securities | 771 | 1,007 |
| Available for sale debt securities | | |
| Colombian government | 492,189 | 244,660 |
| Financial institutions | 828,910 | 762,281 |
| Other | 106,659 | 78,882 |
| Total local currency denominated | 1,427,758 | 1,085,823 |
| Foreign governments | - | 101 |
| Total available for sale debt securities | 1,427,758 | 1,085,924 |

Available for sale equity securities

| | December 31, 2010 | | December 31, 2011 | |
|---|---|---|---|---|
| | Ownership % | (millions of COP) | Ownership % | (millions of COP) |
| Corporación Andina de Fomento | 0.004% | 368 | 0.004% | 383 |
| Fondo para el financiamiento del sector agropecuario (Finagro) | 12.67% | 61,557 | 12.67% | 67,985 |
| Compañía de Inv. del Café | 29.54% | 13,441 | 29.54% | 13,441 |
| Cámara de riesgo central de Contraparte S.A | 5.51% | 1,872 | 4.68% | 1,872 |
| Alma cenes generals de deposito de café. Almacafé S.A. | 0.01% | 10 | 0.01% | 10 |
| Titularizadora Colombiana S.A. | 21.12% | 17,500 | 21.12% | 14,563 |
| Redeban Multicolor S.A. | 26.04% | 8,230 | 26.04% | 8,230 |
| A.C.H. Colombia S.A. | 18.42% | 1,848 | 18.42% | 1,849 |
| Deceval S.A. | 11.90% | 5,081 | 11.85% | 5,081 |
| Cámara de compensación divisas de Colombia S.A. | 6.38% | 159 | 6.38% | 159 |
| Banco Bilbao Vizcaya Argentaria. BBVA | 0.00% | 15 | 0.00% | - |
| Bolsa de Valores de Colombia (BVC) | 1.41% | 565 | 1.41% | 565 |
| Fondo de Reposiciòn Fogacol | 0.00% | 293 | 0.00% | 305 |
| Tecnibanca S.A. | 0.94% | 226 | 0.94% | 226 |
| Multiactivos | - | - | 21.12% | 2,936 |
| | | 111,165 | | 117,605 |

Dividends received from equity investments amounted COP 16,394 million and COP 16,687 million for the years ended December 31, 2010 and 2011, respectively.

Held to maturity securities

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Colombian peso denominated: | | |
| Colombian government | 316,376 | 291,245 |
| Financial institutions | 68,930 | 40,869 |
| Total held to maturity securities | 385,306 | 332,114 |

An analysis of the activity in the valuation allowance of securities losses during the years ended on December 31, 2009, 2010 and 2011 is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Balance at beginning of year | 24,199 | 40,420 | 40,954 |
| Allowance for year | 19,591 | 10,208 | 2,089 |
| Reclassification | 181 | (377) | 0 |
| Recovery of allowance | (3,551) | (9,297) | (11,706) |
| Balance at end of year | 40,420 | 40,954 | 31,337 |

The balance of allowances is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Trading securities | 26,009 | 25,807 | 14,253 |
| Available for sale – equity securities | 13,443 | 13,443 | 13,443 |
| Available for sale – debt securities | - | 1,125 | 3,474 |
| Held to maturity – debt securities | 968 | 579 | 167 |
| Balance at end of year | 40,420 | 40,954 | 31,337 |

**Detail of the maturity terms of investments**

| December 31, 2010 | From 0 to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|
| | | | (millions of COP) | | |
| Trading debt securities | 339,894 | 1,005,359 | 695,873 | 466,517 | 2,507,643 |
| Trading equity securities | | | | 771 | 771 |
| Available for sale debt securities | 9,738 | 546,759 | 702,936 | 168,325 | 1,427,758 |
| Available for sale equity securities | - | - | - | 111,165 | 111,165 |
| Held to maturity securities | 45,616 | 273,432 | 59,236 | 7,021 | 385,306 |
| | 395,249 | 1,825,551 | 1,458,045 | 753,798 | 4,432,643 |

| December 31, 2011 | From 0 to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|
| | | (millions of COP) | | | |
| Trading debt securities | 450,365 | 1,588,445 | 575,166 | 626,538 | 3,240,514 |
| Trading equity securities | 957 | 0 | 0 | 50 | 1,007 |
| Available for sale debt securities | 41,258 | 324,153 | 491,486 | 229,028 | 1,085,924 |
| Available for sale equity securities | 0 | 0 | 0 | 117,605 | 117,605 |
| Held to maturity securities | 33,267 | 264,784 | 33,695 | 370 | 332,114 |
| | 525,847 | 2,177,382 | 1,100,347 | 973,589 | 4,777,164 |

**Investments available for the sale in equity securities**

December 31, 2010

| Entity | Adjusted Cost | Reappraisal of Assets | Allowance | Rating | Dividends |
|---|---|---|---|---|---|
| Corporación Andina de Fomento | 368 | 58 | - | A | 9 |
| MasterCard International | - | - | - | | 5 |
| Fondo para el financiamiento del sector agropecuario Finagro | 61,557 | 6,898 | - | A | 7,977 |
| Compañía de Inv. del Café | 13,441 | - | (13,441) | A | - |
| Cámara de riesgo central de Contraparte | 1,872 | (476) | - | A | - |
| Almacenes Generales de Deposito de café. Almacafé S.A. | 10 | - | 2 | B | - |
| Titularizadora Colombiana S.A. | 17,500 | 11,084 | - | A | 3,738 |
| Redeban Multicolor S.A. | 8,230 | 9,060 | - | A | 1,142 |
| A.C.H. Colombia S.A. | 1,849 | 2,225 | - | A | 925 |
| Deceval S.A. | 5,081 | 3,048 | - | A | 2,519 |
| Cámara de compensación divisas de Colombia S.A. | 159 | 5 | - | A | - |
| Banco Bilbao Vizcaya Argentaria. BBVA | 15 | - | - | A | - |
| Bolsa de Valores de Colombia (BVC) | 565 | 882 | - | A | 5 |
| Fondo de Reposiciòn Fogacol | 293 | 26 | - | A | - |
| Tecnibanca S.A. | 226 | 134 | - | A | 74 |
| | COP 111,165 | 32,944 | (13,443) | | 16,394 |

 (Continued)

December 31, 2011

| Entity | Adjusted Cost | Reappraisal of Assets | Allowance | Rating | Dividends |
|---|---|---|---|---|---|
| Corporación Andina de Fomento | 383 | 99 | - | A | 8 |
| Fondo para el financiamiento del sector agropecuario Finagro | 67,985 | 6,163 | - | A | 7,067 |
| Compañía de Inv. del Café | 13,441 | - | (13,441) | A | - |
| Cámara de riesgo central de Contraparte | 1,872 | (497) | - | A | - |
| Almacenes generales de depósito de café. Almacafé S.A. | 10 | - | (2) | B | - |
| Titularizadora Colombiana S.A. | 14,563 | 15,411 | - | A | 4,829 |
| Redeban Multicolor S.A. | 8,230 | 9,183 | - | A | 1,042 |
| A.C.H. Colombia S.A. | 1,849 | 1,704 | - | A | 958 |
| Deceval S.A. | 5,081 | 2,698 | - | A | 2,689 |
| Cámara de compensación divisas de Colombia S.A. | 159 | 40 | - | A | - |
| Bolsa de Valores de Colombia (BVC) | 565 | 1,034 | - | | - |
| Fondo de Reposiciòn Fogacol | 305 | - | - | | - |
| Tecnibanca S.A. | 226 | 160 | - | A | 94 |
| Multiactivos | 2,936 | 1,286 | - | A | - |
| | COP 117,605 | 37,281 | (13,443) | | 16,687 |



(Continued)

## NOTE 6 – LOANS AND FINANCIAL LEASES

The following is a summary of the loans and financial leases by classification:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Commercial loans | | |
| Corporate and construction | 7,322,880 | 9,100,304 |
| Other commercial lines | 3,224,466 | 4,248,873 |
| Credit cards | 244,659 | 268,358 |
| Vehicles | 237,600 | 263,198 |
| Overdrafts | 82,633 | 93,392 |
| Financial leases | 1,376,563 | 1,706,873 |
| | 12,488,801 | 15,680,998 |
| Mortgage loans | 1,772,322 | 2,460,173 |
| Consumer loans | | |
| Credit card | 1,884,593 | 2,331,193 |
| Other consumer lines | 4,705,463 | 5,116,422 |
| Vehicles | 966,838 | 1,109,505 |
| Overdrafts | 48,932 | 48,627 |
| | 7,605,826 | 8,605,747 |
| Microcredit loans | 68,222 | 92,050 |
| Total loans | 21,935,171 | 26,838,968 |
| Allowance | (1,167,115) | (1,291,883) |
| Net loans | 20,768,056 | 25,547,085 |

At December 31, 2010 and 2011, issuances of mortgage bonds guaranteed by housing mortgage loans are as follows (in millions of COP):

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Issuance II* | 12,305 | - |
| Issuance III | 35,387 | 30,699 |
| | 47,692 | 30,699 |

* Redeemed in February 2011.

**Social interest housing**

The Bank has assigned resources to finance social interest housing in compliance with the provisions of Decrees 1041 of 1995 and 1122 of 1996. During the year ended December 31, 2010 the bank placed resources of COP 659,799 million, of which COP 566,260 million were loans to individuals and COP 178,975 million were in the form of construction loans. During the year ended December 31, 2011, the bank placed resources of COP 774,960 million, of which COP 488,871 million consisted of loans to individuals and COP 286,089 million were in the form of construction loans.

The value of social interest housing portfolio is as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (in millions COP) | |
| Individuals | 1,196,218 | 1,649,530 |
| Constructors | 62,281 | 173,325 |
| | 1,258,499 | 1,822,855 |

**Loans with subsidized interest rates**

According to Law 1143 of 2009, the Bank must grant a subsidy on the interest rate applicable to certain mortgage loans if specified conditions are met by the debtors during the first seven years of the tenure of the loan. The amount of the subsidy is reimbursed to the Bank by the Central Bank.

In addition, the Bank has offered to these clients and assumed an additional subsidy on the interest rate applicable for the subsequent eight years of the tenure of the loan. For these purposes, the Bank has recorded an allowance to cover this commitment in an amount of COP 3,847 million as of December 31, 2010 and COP 11,282 million as of December 31, 2011.

As of December 31, 2010 the Bank had disbursed 31,421 mortgage loans under this benefit in the amount of COP 1,261,827 million, and as of December 31, 2011 51,203 mortgage loans under this benefit in the amount of COP 1,768,631 million.

This procedure allows lower interest rates to be charged during the first seven years of each loan and in accordance with established ranges, as follows:

| Property Value<br>Legal Minimum Wage | Coverage Rate<br>Percentage |
|---|---|
| Public Mortgage Up to 135 | 5% |
| >135 up to 235 | 4% |
| >235 up to 335 | 3% |

The Bank will generate a monthly bill to the Central Bank for the implementation of the coverage benefit in accordance with established procedures.

The coverage benefit is intended for:

- Early cancellation of credit or lease contract;
- If the debtor is in arrears exceeding three consecutive months;
- At the request of the credit debtors;
- By credit subrogation;
- By transfer/surrender of the lease; or
- For bringing the deadline forward.

**Loans by economic sector**

The following is a summary of loans outstanding by economic sector:

| | December 31, 2010 | | December 31, 2011 | |
|---|---|---|---|---|
| Sectors | Balance | % of Total | Balance | % of Total |
| | (millions of COP) | | | |
| Agriculture, forestry, cattle breeding, fishing and hunting | 423,298 | 1.93% | 557,820 | 2.08% |
| Coal mining exploitation, extraction of crude oil and natural gas | 865,698 | 3.95% | 669,315 | 2.49% |
| Metallic and non-metallic mineral extraction | 66,063 | 0.30% | 13,871 | 0.05% |
| Manufacturing of food products | 488,785 | 2.23% | 785,715 | 2.93% |
| Manufacturing of textile products, garments, leathers and related products | 152,342 | 0.69% | 255,996 | 0.95% |
| Manufacturing of paper and its printing and publishing products | 82,611 | 0.38% | 171,764 | 0.64% |
| Manufacturing of chemical substances, chemical products and rubber | 109,455 | 0.50% | 1,037,766 | 3.87% |
| Manufacturing of oil and coal derivate products | 122,858 | 0.56% | 160,035 | 0.60% |
| Manufacturing of mineral products | 253,190 | 1.15% | 137,474 | 0.51% |
| Manufacturing of metallic based and finished products | 189,321 | 0.86% | 302,819 | 1.13% |
| Manufacturing of machinery and equipment | 47,669 | 0.22% | 37,005 | 0.14% |
| Manufacturing of other manufactured products including timber | 25,536 | 0.12% | 26,307 | 0.10% |
| Electricity, gas and water supply | 133,059 | 0.61% | 951,441 | 3.54% |
| Construction | 617,753 | 2.82% | 1,511,618 | 5.63% |
| Wholesale and retail trade | 1,075,818 | 4.90% | 1,443,287 | 5.38% |
| Vehicles | 386,897 | 1.76% | 572,920 | 2.13% |
| Hotels and restaurants | 59,328 | 0.27% | 153,845 | 0.57% |
| Transportation and communications | 742,364 | 3.38% | 1,095,649 | 4.08% |
| Services rendered to companies | 2,459,653 | 11.21% | 1,716,529 | 6.40% |
| Public administration and defense | 419,321 | 1.91% | 473,231 | 1.76% |
| Health, education, entertainment and cultural services | 1,310,093 | 5.97% | 388,657 | 1.45% |
| Mortgage loans to individuals and families | 3,146,151 | 14.34% | 4,172,800 | 15.55% |
| Consumer loans to individuals and families | 7,523,974 | 34.30% | 8,511,753 | 31.71% |
| Transportation equipment manufacturing | 7,970 | 0.04% | 4,400 | 0.02% |
| Beverages and cigarettes | 884 | 0.00% | 30,589 | 0.11% |
| Others | 1,225,080 | 5.59% | 1,656,362 | 6.17% |
| | 21,935,171 | 100.00% | 26,838,968 | 100.00% |

At December 31, 2010 and 2011 the Bank qualified 100 percent of its loans, interest and other concepts in accordance with the Basic Circular Letter 100, 1995 from the SFC. The result of such qualification is the following (in millions of COP):

**December 31, 2010**

Commercial loans with suitable guarantees (1):

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 2,125,478 | 18,173 | 1,432 | 2,145,083 | 7,905,316 | 56,619 | 496 | 168 |
| B-Acceptable | 192,225 | 2,041 | 654 | 194,920 | 784,114 | 23,521 | 249 | 243 |
| C- Appreciable Risk | 38,785 | 609 | 245 | 39,639 | 124,749 | 10,160 | 465 | 223 |
| D-Significant Risk | 23,140 | 506 | 352 | 23,998 | 84,193 | 19,592 | 477 | 346 |
| E-Unrecoverable | 26,473 | 353 | 89 | 26,915 | 77,844 | 26,473 | 335 | 88 |
| Total | 2,406,101 | 21,682 | 2,772 | 2,430,555 | 8,976,216 | 136,365 | 2,022 | 1,068 |

(1) Suitable guarantees are deemed to exist where the loan has sufficient collateral to hedge the credit risk.

Commercial loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible other guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 9,674,487 | 81,304 | 5,114 | 9,760,905 | 2,109,372 | 243,426 | 2,179 | 700 |
| B-Acceptable | 247,029 | 2,208 | 483 | 249,720 | 239 | 29,157 | 237 | 288 |
| C-Appreciable Risk | 43,549 | 677 | 225 | 44,451 | - | 11,238 | 527 | 211 |
| D-Significant Risk | 94,325 | 2,264 | 657 | 97,246 | - | 94,152 | 2,126 | 645 |
| E-Unrecoverable | 23,310 | 307 | 69 | 23,686 | - | 23,310 | 291 | 69 |
| Total | 10,082,700 | 86,760 | 6,548 | 10,176,008 | 2,109,611 | 401,283 | 5,360 | 1,913 |
| Total Commercial Loans | 12,488,801 | 108,442 | 9,320 | 12,606,563 | 11,085,827 | 537,648 | 7,382 | 2,981 |

Consumer loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 848,822 | 7,008 | 2,063 | 857,893 | 2,229,276 | 22,266 | 230 | 95 |
| B-Acceptable | 31,013 | 501 | 115 | 31,629 | 90,137 | 3,077 | 125 | 34 |
| C-Appreciable Risk | 20,336 | 317 | 82 | 20,735 | 54,907 | 3,669 | 258 | 67 |
| D-Significant Risk | 18,532 | 365 | 172 | 19,069 | 44,524 | 17,587 | 347 | 168 |
| E-Unrecoverable | 16,432 | 200 | 113 | 16,745 | 44,480 | 16,432 | 185 | 112 |
| Total | 935,135 | 8,391 | 2,545 | 946,071 | 2,463,324 | 63,031 | 1,145 | 476 |

Consumer loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible other guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 5,996,818 | 51,118 | 15,266 | 6,063,202 | 268 | 166,329 | 1,730 | 715 |
| B-Acceptable | 260,184 | 4,425 | 983 | 265,592 | - | 27,493 | 1,123 | 302 |
| C-Appreciable Risk | 139,022 | 2,255 | 475 | 141,752 | - | 22,966 | 1,878 | 407 |
| D-Significant Risk | 188,457 | 3,953 | 829 | 193,239 | - | 188,403 | 3,751 | 808 |
| E-Unrecoverable | 86,210 | 1,046 | 540 | 87,796 | - | 86,210 | 969 | 527 |
| Total | 6,670,691 | 62,797 | 18,093 | 6,751,581 | 268 | 491,401 | 9,451 | 2,759 |
| General allowance | | | | | | 98 | | |
| Total Consumer Loans | 7,605,826 | 71,188 | 20,638 | 7,697,652 | 2,463,592 | 554,530 | 10,596 | 3,235 |

Microcredit loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 64,094 | 669 | 329 | 65,092 | 112,682 | 7,113 | 83 | 49 |
| B-Acceptable | 1,065 | 10 | 12 | 1,087 | 2,056 | 1,035 | 9 | 12 |
| C-Appreciable Risk | 535 | 3 | 8 | 546 | 948 | 535 | 3 | 8 |
| D-Significant Risk | 252 | 2 | 9 | 263 | 568 | 252 | 2 | 9 |
| E-Unrecoverable | 712 | 8 | 40 | 760 | 1,140 | 712 | 8 | 40 |
| Total | 66,658 | 692 | 398 | 67,748 | 117,394 | 9,647 | 105 | 118 |


(Continued)

Microcredit loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible other guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 1,503 | 11 | 6 | 1,520 | 142 | 193 | 2 | - |
| B-Acceptable | 29 | - | 1 | 30 | 3 | 23 | - | 1 |
| C-Appreciable Risk | 26 | 1 | 1 | 28 | 3 | 20 | 1 | 1 |
| D-Significant Risk | - | - | - | - | - | - | - | - |
| E-Unrecoverable | 6 | - | - | 7 | 3 | 7 | - | 1 |
| Total | 1,564 | 12 | 8 | 1,585 | 151 | 243 | 3 | 3 |
| General allowance | | | | | | 682 | | |
| Total Microcredit Loans | 68,222 | 704 | 406 | 69,333 | 117,545 | 10,572 | 108 | 121 |

Mortgage loans:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 1,614,360 | 7,090 | 9,727 | 1,631,177 | 4,237,958 | 24,307 | 496 | 2,683 |
| B-Acceptable | 106,989 | 302 | 1,777 | 109,068 | 302,958 | 5,576 | 293 | 1,774 |
| C-Appreciable Risk | 37,375 | 121 | 793 | 38,289 | 111,307 | 7,535 | 121 | 794 |
| D-Significant Risk | 10,947 | 40 | 388 | 11,375 | 36,118 | 6,572 | 40 | 388 |
| E-Unrecoverable | 2,651 | 10 | 144 | 2,805 | 9,580 | 2,651 | 10 | 144 |
| Total | 1,772,322 | 7,563 | 12,829 | 1,792,714 | 4,697,921 | 46,641 | 960 | 5,783 |
| General allowance | | | | | | 17,727 | | |
| Total Mortgage Loans | 1,772,322 | 7,563 | 12,829 | 1,792,714 | 4,697,921 | 64,368 | 960 | 5,783 |
| Total Portfolio | 21,935,171 | 187,897 | 43,193 | 22,166,262 | 18,364,885 | 1,167,115 | 19,046 | 12,120 |

**December 31, 2011**

Commercial loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 3,152,661 | 27,339 | 2,102 | 3,182,102 | 11,318,814 | 68,668 | 780 | 246 |
| B-Acceptable | 146,266 | 2,006 | 455 | 148,727 | 550,876 | 13,652 | 193 | 159 |
| C- Appreciable Risk | 31,486 | 666 | 196 | 32,348 | 84,950 | 5,948 | 500 | 176 |
| D-Significant Risk | 35,518 | 1,046 | 459 | 37,023 | 90,474 | 33,877 | 1,046 | 498 |
| E-Unrecoverable | 19,264 | 241 | 76 | 19,580 | 58,831 | 19,264 | 241 | 84 |
| Total Commercial Loans | 3,385,195 | 31,298 | 3,288 | 3,419,780 | 12,103,945 | 141,409 | 2,760 | 1,163 |

Commercial loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 11,830,611 | 100,950 | 6,283 | 11,937,845 | 152,673 | 240,744 | 2,341 | 873 |
| B-Acceptable | 327,669 | 4,672 | 675 | 333,015 | - | 28,925 | 428 | 349 |
| C- Appreciable Risk | 35,406 | 753 | 195 | 36,354 | - | 6,048 | 567 | 176 |
| D-Significant Risk | 69,936 | 2,158 | 755 | 72,849 | - | 69,710 | 2,153 | 711 |
| E-Unrecoverable | 32,182 | 373 | 72 | 32,627 | - | 32,182 | 373 | 64 |
| Total Commercial Loans | 12,295,804 | 108,906 | 7,980 | 12,412,690 | 152,673 | 377,609 | 5,862 | 2,173 |
| General allowance | | | | | | 224 | | |
| Total Commercial Loans | 15,680,998 | 140,203 | 11,269 | 15,832,470 | 12,256,617 | 519,241 | 8,622 | 3,335 |

Consumer loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 923,964 | 9,271 | 2,304 | 935,539 | 2,414,222 | 27,909 | 337 | 119 |
| B-Acceptable | 38,965 | 798 | 138 | 39,901 | 106,693 | 4,723 | 250 | 48 |
| C-Appreciable Risk | 23,515 | 481 | 94 | 24,090 | 69,569 | 4,742 | 433 | 84 |
| D-Significant Risk | 19,565 | 542 | 106 | 20,213 | 41,296 | 16,525 | 547 | 125 |
| E-Unrecoverable | 25,551 | 513 | 213 | 26,277 | 53,988 | 24,793 | 515 | 232 |
| Total Consumer Loans | 1,031,560 | 11,605 | 2,855 | 1,046,020 | 2,685,768 | 78,692 | 2,082 | 608 |

Consumer loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 6,636,657 | 66,842 | 16,833 | 6,720,333 | 15,913 | 203,985 | 2,563 | 884 |
| B-Acceptable | 368,873 | 7,600 | 1,203 | 377,676 | - | 46,061 | 2,463 | 448 |
| C-Appreciable Risk | 208,996 | 4,163 | 625 | 213,783 | - | 40,665 | 3,767 | 576 |
| D-Significant Risk | 263,855 | 7,552 | 1,086 | 272,493 | - | 223,248 | 7,547 | 1,066 |
| E-Unrecoverable | 95,806 | 1,926 | 635 | 98,367 | - | 92,703 | 1,925 | 616 |
| Total Consumer Loans | 7,574,187 | 88,083 | 20,382 | 8,727,672 | 15,913 | 606,662 | 18,265 | 3,590 |
| General allowance | | | | | | | | |
| Total Consumer Loans | 8,605,747 | 99,688 | 23,237 | 8,728,672 | 2,701,682 | 685,353 | 20,348 | 4,197 |

Microcredit loans with suitable guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 86,590 | 947 | 412 | 87,948 | 137,924 | 3,606 | 58 | 40 |
| B-Acceptable | 1,547 | 26 | 23 | 1,595 | 3,238 | 211 | 19 | 16 |
| C-Appreciable Risk | 1,150 | 10 | 23 | 1,184 | 2,097 | 423 | 7 | 20 |
| D-Significant Risk | 370 | 3 | 10 | 384 | 672 | 370 | 3 | 10 |
| E-Unrecoverable | 905 | 11 | 52 | 968 | 1,226 | 905 | 11 | 52 |
| Total Microcredit Loans | 90,562 | 997 | 520 | 92,079 | 145,157 | 5,515 | 98 | 138 |

Microcredit loans with other guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 1,421 | 13 | 3 | 1,435 | - | 58 | 1 | 1 |
| B-Acceptable | 26 | - | 4 | 31 | - | 6 | - | 4 |
| C-Appreciable Risk | 38 | 1 | - | 39 | - | 12 | 1 | - |
| D-Significant Risk | 1 | - | - | 1 | - | 1 | - | - |
| E-Unrecoverable | 2 | - | 4 | 6 | - | 2 | - | 4 |
| Total Microcredit Loans | 1,488 | 14 | 11 | 1,512 | - | 79 | 2 | 9 |
| General Allowance | | | | | | 920 | | |
| Total Microcredit Loans | 92,050 | 1,010 | 531 | 93,591 | 145,157 | 5,594 | 99, | 147 |

Mortgage loans:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 2,313,455 | 11,533 | 9,067 | 2,334,055 | 5,685,856 | 34,823 | 879 | 2,341 |
| B-Acceptable | 97,427 | 232 | 1,251 | 98,910 | 275,098 | 5,082 | 232 | 1,251 |
| C-Appreciable Risk | 35,062 | 88 | 627 | 35,777 | 105,220 | 7,044 | 88 | 627 |
| D-Significant Risk | 12,526 | 48 | 384 | 12,957 | 38,621 | 7,520 | 48 | 384 |
| E-Unrecoverable | 1,703 | 8 | 103 | 1,815 | 4,899 | 1,703 | 8 | 103 |
| Total Microcredit Loans | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 6,109,694 | 56,172 | 1,255 | 4,706 |
| General Allowance | | | | | | 24,602 | | |
| Total Microcredit Loans | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 6,109,694 | 80,775 | 1,354 | 4,853 |
| Total Loans | 26,838,969 | 252,811 | 46,469 | 27,138,248 | 21,213,150 | 1,291,883 | 30,324 | 12,385 |



(Continued)

The following provides loan portfolio detail by geographic area (expressed in millions of COP).

**December 31, 2010**

Commercial loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Principal | Interest | Other | Guarantees |
| Bogotá | 6,549,846 | 54,346 | 4,285 | 6,608,477 | 268,469 | 3,147 | 1,655 | 4,325,283 |
| Antioquia | 2,159,420 | 19,750 | 2,125 | 2,181,295 | 113,825 | 1,841 | 354 | 2,106,578 |
| Nororiental | 1,968,131 | 16,949 | 1,902 | 1,986,981 | 97,874 | 1,471 | 676 | 1,648,717 |
| Suroccidental | 1,218,811 | 14,711 | 1,008 | 1,234,530 | 45,642 | 852 | 296 | 911,729 |
| Panama | 540,374 | 2,460 | - | 542,835 | 11,204 | 68 | - | 2,093,520 |
| Miami | 52,219 | 226 | - | 52,445 | 633 | 3 | - | - |
| Total Commercial | 12,488,801 | 108,442 | 9,320 | 12,606,563 | 537,647 | 7,382 | 2,981 | 11,085,827 |

Consumer loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Principal | Interest | Other | Guarantees |
| Bogotá | 3,827,972 | 36,446 | 10,974 | 3,875,392 | 289,998 | 5,821 | 1,756 | 1,468,734 |
| Antioquia | 1,153,114 | 10,228 | 2,909 | 1,166,251 | 75,422 | 1,270 | 342 | 342,214 |
| Nororiental | 1,598,872 | 15,263 | 4,101 | 1,618,237 | 119,643 | 2,236 | 736 | 405,843 |
| Suroccidental | 1,016,136 | 9,209 | 2,655 | 1,027,999 | 69,218 | 1,264 | 401 | 246,802 |
| Panama | 9,732 | 42 | - | 9,744 | 152 | 5 | - | - |
| General allowance | | | | | 97 | | | |
| Total Consumer | 7,605,826 | 71,188 | 20,639 | 7,697,623 | 554,530 | 10,596 | 3,235 | 2,463,593 |

Mortgage loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Principal | Interest | Other | Guarantees |
| Bogotá | 1,210,707 | 4,953 | 8,089 | 1,223,750 | 32,240 | 642 | 3,529 | 3,147,170 |
| Antioquia | 176,653 | 851 | 1,460 | 178,964 | 4,187 | 103 | 633 | 525,839 |
| Nororiental | 221,107 | 1,031 | 2,445 | 224,583 | 6,197 | 136 | 1,229 | 614,175 |
| Suroccidental | 162,703 | 725 | 835 | 164,262 | 3,996 | 79 | 391 | 410,738 |
| Panama | 1,152 | 3 | - | 1,155 | 21 | - | - | - |
| General allowance | | | | | 17,723 | | | |
| Total Mortgage | 1,772,322 | 7,563 | 12,829 | 1,792,714 | 64,364 | 960 | 5,782 | 4,697,922 |

Microcredit loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Principal | Interest | Other | Guarantees |
| Bogotá | 67,902 | 701 | 402 | 69,005 | 9,860 | 108 | 120 | 117,107 |
| Antioquia | 37 | - | 1 | 39 | 2 | - | - | 15 |
| Nororiental | 277 | 3 | 3 | 283 | 27 | - | 1 | 421 |
| Suroccidental | 6 | - | 1 | 6 | 1 | - | - | 2 |
| General allowance | | | | | 682 | | | |
| Total Microcredit | 68,222 | 704 | 407 | 69,333 | 10,572 | 108 | 121 | 117,545 |
| Total Loans | 21,935,171 | 187,897 | 43,195 | 22,166,233 | 1,167,115 | 19,046 | 12,119 | 18,364,887 |

**December 31, 2011**

Commercial loans:

| | Principal | Interest | Others | Total | Allowance Principal | Allowance Interest | Allowance Other | Guarantees |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 7,289,072 | 65,611 | 4,684 | 7,359,369 | 231,589 | 3,406 | 1,811 | 6,591,424 |
| Antioquia | 3,238,584 | 29,466 | 2,874 | 3,270,924 | 111,870 | 1,985 | 388 | 2,395,846 |
| Nororiental | 2,497,987 | 25,612 | 2,451 | 2,526,049 | 104,961 | 2,270 | 734 | 2,055,481 |
| Suroccidental | 1,663,953 | 14,891 | 1,260 | 1,680,104 | 53,983 | 872 | 403 | 964,490 |
| Panama | 795,487 | 3,229 | - | 798,716 | 14,063 | 71 | - | 247,525 |
| Miami | 195,915 | 1,394 | - | 197,308 | 2,776 | 18 | - | 1,851 |
| Total Commercial | 15,680,998 | 140,203 | 11,269 | 15,832,470 | 519,242 | 8,622 | 3,335 | 12,256,617 |

Consumer loans:

| | Principal | Interest | Others | Total | Allowance Principal | Allowance Interest | Allowance Other | Guarantees |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 4,334,985 | 52,051 | 12,399 | 4,399,435 | 367,774 | 11,737 | 2,317 | 1,517,252 |
| Antioquia | 1,310,395 | 13,935 | 3,279 | 1,327,610 | 88,670 | 2,249 | 465 | 385,723 |
| Nororiental | 1,812,726 | 21,035 | 4,600 | 1,838,361 | 144,797 | 4,072 | 904 | 496,656 |
| Suroccidental | 1,125,248 | 12,370 | 2,959 | 1,140,577 | 84,014 | 2,283 | 511 | 284,576 |
| Panama | 22,393 | 296 | - | 22,690 | 98 | 6 | - | 17,475 |
| Total Commercial | 8,605,747 | 99,687 | 23,237 | 8,728,672 | 685,353 | 20,348 | 4,197 | 2,701,682 |

Mortgage loans:

| | Principal | Interest | Others | Total | Allowance Principal | Allowance Interest | Allowance Other | Guarantees |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 1,704,665 | 8,087 | 7,470 | 1,720,224 | 39,701 | 861 | 3,100 | 4,127,156 |
| Antioquia | 220,655 | 1,108 | 1,193 | 222,955 | 4,650 | 116 | 446 | 639,696 |
| Nororiental | 296,983 | 1,545 | 1,993 | 300,521 | 6,666 | 177 | 863 | 790,951 |
| Suroccidental | 236,911 | 1,165 | 776 | 238,852 | 5,140 | 101 | 297 | 550,166 |
| Panama | 959 | 4 | - | 962 | 15 | - | - | 1,725 |
| General Allowance | - | - | - | - | 24,602 | - | - | - |
| Total Commercial | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 80,774 | 1,255 | 4,706 | 6,109,694 |

Microcredit loans:

| | Principal | Interest | Others | Total | Allowance Principal | Allowance Interest | Allowance Other | Guarantees |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 91,813 | 1,007 | 528 | 93,348 | 6,456 | 98 | 145 | 144,805 |
| Antioquia | 3 | - | - | 3 | 1 | - | - | - |
| Nororiental | 234 | 3 | 3 | 240 | 58 | 2 | 2 | 352 |
| Total Microcredit Loans | 92,050 | 1,010 | 531 | 93,591 | 6,515 | 100 | 147 | 145,157 |
| | | | | | | | | |
| Total Loans | 26,838,968 | 252,811 | 46,469 | 27,138,248 | 1,291,883 | 30,325 | 12,385 | 21,213,150 |

The following is a summary of the maturity profile for the loan portfolio (expressed in millions of COP).

**December 31, 2010**

| | From 0 to 1 years | From 1 to 5 years | From 5 to 10 years | Above 10 years | Total |
|---|---|---|---|---|---|
| Commercial Loans | 3,962,844 | 3,748,782 | 3,405,498 | 1,371,677 | 12,488,801 |
| Consumer Loans | 1,333,268 | 5,350,485 | 877,848 | 44,225 | 7,605,826 |
| Microcredit Loans | 3,148 | 65,044 | 30 | - | 68,222 |
| Mortgage loans | 55,148 | 114,591 | 407,626 | 1,194,957 | 1,772,322 |
| Total | 5,354,408 | 9,278,902 | 4,691,002 | 2,610,859 | 21,935,171 |

**December 31, 2011**

| | From 0 to 1 years | From 1 to 5 years | From 5 to 10 years | Above 10 years | Total |
|---|---|---|---|---|---|
| Commercial Loans | 4,576,862 | 5,356,225 | 4,046,226 | 1,701,685 | 15,680,998 |
| Consumer Loans | 1,567,591 | 5,944,233 | 1,015,537 | 78,386 | 8,605,747 |
| Microcredit Loans | 8,939 | 83,081 | 30 | - | 92,050 |
| Mortgage loans | 39,181 | 119,455 | 456,194 | 1,845,343 | 2,460,173 |
| Total | 6,192,573 | 11,502,994 | 5,517,987 | 3,625,415 | 26,838,968 |

The following is a summary of loan portfolio, providing detail of those loans that have been restructured, or in the process of being restructured (Concordats), provisioned and those which have guarantees per classification (expressed in millions of COP):

December 31, 2010

| | Restructured | Concordats | Allowance | Guarantee |
|---|---|---|---|---|
| Commercial Loans | 134,489 | - | 46,958 | 180,051 |
| Consumer Loans | 498,034 | - | 115,802 | 81,978 |
| Microcredit Loans | 1,404 | - | 1,139 | 2,826 |
| Mortgage loans | 71,273 | - | 9,527 | 229,050 |
| | 705,200 | - | 173,426 | 493,905 |

December 31, 2011

| | Restructured | Concordats | Allowance | Guarantee |
|---|---|---|---|---|
| Commercial Loans | 194,282 | 178 | 52,513 | 337,748 |
| Consumer Loans | 652,010 | 17 | 163,662 | 84,109 |
| Microcredit Loans | 1,094 | - | 865 | 2,135 |
| Mortgage loans | 83,389 | - | 9,969 | 254,884 |
| | 930,775 | 195 | 227,009 | 678,876 |

The following shows restructured loans according to their rating:

| | December 31, 2010 | | December 31, 2011 | |
|---|---|---|---|---|
| | No. of Loans | Restructured (million of COP) | No. of Loans | Restructured (million of COP) |
| Commercial | | | | |
| A-Normal | 1,035 | 37,125 | 1,380 | 79,411 |
| B-Acceptable | 750 | 32,329 | 605 | 40,932 |
| C-Appreciable Risk | 379 | 21,245 | 440 | 23,492 |
| D-Significant Risk | 600 | 34,590 | 695 | 42,283 |
| E-Unrecoverable | 110 | 9,200 | 78 | 8,164 |
| | 2,874 | 134,489 | 3,198 | 194,282 |
| Consumer | | | | |
| A-Normal | 21,282 | 287,597 | 24,125 | 362,329 |
| B-Acceptable | 2,712 | 34,249 | 4,057 | 65,382 |
| C-Appreciable Risk | 3,838 | 53,487 | 4,775 | 85,414 |
| D-Significant Risk | 6,339 | 83,353 | 5,295 | 91,629 |
| E-Unrecoverable | 2,919 | 39,348 | 2,751 | 47,256 |
| | 37,090 | 498,034 | 41,003 | 652,010 |
| Mortgage | | | | |
| A-Normal | 1,858 | 29,668 | 2,170 | 37,120 |
| B-Acceptable | 1,007 | 17,894 | 992 | 21,067 |
| C-Appreciable Risk | 979 | 16,360 | 979 | 17,823 |
| D-Significant Risk | 359 | 6,263 | 361 | 6,739 |
| E-Unrecoverable | 73 | 1,088 | 36 | 640 |
| | 4,276 | 71,273 | 4,538 | 83,389 |
| Microcredit | | | | |
| A-Normal | 34 | 577 | 19 | 268 |
| B-Acceptable | 14 | 277 | 17 | 310 |
| C-Appreciable Risk | 9 | 221 | 19 | 376 |
| D-Significant Risk | 4 | 75 | 6 | 56 |
| E-Unrecoverable | 10 | 254 | 4 | 84 |
| | 71 | 1,404 | 65 | 1,094 |
| Total for entire loan portfolio | 44,311 | 705,200 | 48,804 | 930,775 |

Restructured loans by geographic zone:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (in millions of COP) | |
| Commercial | | |
| Bogotá | 76,327 | 63,494 |
| Antioquia | 24,473 | 43,574 |
| Nororiental | 16,950 | 69,371 |
| Suroccidental | 16,739 | 17,843 |
| | 134,489 | 194,282 |
| Consumer | | |
| Bogotá | 238,894 | 334,874 |
| Antioquia | 81,549 | 92,755 |
| Nororiental | 97,616 | 130,210 |
| Suroccidental | 79,975 | 94,171 |
| | 498,034 | 652,010 |



(Continued)

| | | |
|---|---|---|
| Mortgage loans | | |
| Bogotá | 51,565 | 63,877 |
| Antioquia | 4,048 | 5,376 |
| Nororiental | 9,700 | 8,148 |
| Suroccidental | 5,960 | 5,988 |
| | 71,273 | 83,389 |
| Microcredit | | |
| Bogotá | 1,404 | 1,094 |
| | 1,404 | 1,094 |
| **Total** | 705,200 | 930,775 |

**Shareholders and employees loan portfolio**

The loan portfolio includes the following loans to shareholders and employees:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Stockholders | 1,554,218 | 1,921,845 |
| Mortgage Employees | 106,743 | - |
| Consumer and Commercial Employees | 80,939 | 115,127 |
| | 1,741,900 | 2,036,972 |

The annual effective interest rates on loans and individual credits to shareholders and employees for the year ended December 31, 2010 and 2011 were the following:

| January - December 31, 2010 | January - December 31, 2011 |
|---|---|
| Between 3.5% and 21.27% | Between 3.5% and 28.63% |

The term for loans to shareholders and employees is between 1 and 15 years.

**Securitization of loans**

The following is a breakdown of the securitization for the periods ended December 31, 2010 and 2011:

December 31, 2010

| Issue | Date | Number | Rate | Principal | Interest | Other | Total | Gain |
|---|---|---|---|---|---|---|---|---|
| | | | | | (millions of COP) | | | |
| Pesos-E15 | Jul 23,2010 | 3,843 | 12.10% | 281,175 | 1,495 | (111) | 282,559 | 8,190 |
| Tips-E12 | Oct 08,2010 | 4,902 | 9.64% | 103,451 | 461 | (239) | 103,673 | 1,659 |
| Pesos E16 | Dec 02,2010 | 13,025 | 12.38% | 715,684 | 3,651 | (221) | 719,114 | 28,642 |
| Tips E13 | Dec 17,2010 | 4,290 | 8.95% | 89,095 | 494 | (24) | 89,565 | 2,531 |
| Tips-E11 | Feb 18,2010 | 3,058 | 4.50% | 75,313 | 351 | (187) | 75,477 | 564 |
| Pesos-E14 | Apr 16,2010 | 1,477 | 9.50% | 133,027 | 851 | (45) | 133,832 | 3,325 |
| | | 30,595 | | 1,397,745 | 7,303 | (827) | 1,404,220 | 44,911 |

December 31, 2011

| Issue | Date | Number | Rate | Principal | Interest | Other | Total | Gain |
|---|---|---|---|---|---|---|---|---|
| Pesos N-2 | Sep 16, 2011 | 1,719 | 13.24% | 148,603 | 780 | (66) | 149,318 | 3,715 |
| Pesos N-3 | Nov 11, 2011 | 1,926 | 13.19% | 193,446 | 1,068 | 226 | 194,739 | 5,804 |
| | | 3,645 | | 342,049 | 1,848 | 160 | 344,057 | 9,519 |



(Continued)

## Sale of non-performing loans

The following is the detail of the purchase and sale of loans during the years 2010 and 2011 under the securitization process (in millions of COP):

| | Year ended December 31, 2010 | | | |
|---|---|---|---|---|
| Sales | Principal | Interest | Other Allowance | Total |
| Covinoc | 230,860 | 34,088 | 7,797 | 272,745 |
| Konfigura Capital S.A. | 11,053 | 2,174 | 203 | 13,430 |
| | 241,913 | 36,262 | 8,000 | 286,175 |

| | Year ended December 31, 2011 | | | |
|---|---|---|---|---|
| Sales | Principal | Interest | Other Allowance | Total |
| Gerc 2011 | 83,046 | 6,532 | 1,851 | 91,428 |
| New Credit (COVINOC) | 156,614 | 7,231 | 1,430 | 165,274 |
| RF Soluciones S.A.S | 274,708 | 11,245 | 1,778 | 287,732 |
| | 514,368 | 25,008 | 5,059 | 544,434 |

On August 5, 2011, we sold a portfolio of non-performing loans totaling a nominal amount of COP 256,702 million to Gerc 2011 and New Credit (COVINOC) for COP 18,442 million, for which we agreed to receive payments in the following installments:

| Date | Value |
|---|---|
| August 18, 2011 | 1,016 |
| August 26, 2011 | 8,946 |
| September 1, 2011 | 4,000 |
| Balance in favor * | 4,480 |

* This amount to be paid December 27, 2011 is recorded as advanced income, according to SFC rules, which require that these gains be recognized on a cash basis.

On December 29, 2011, we sold a portfolio of non-performing loans totaling a nominal amount of COP 287,732 million to RF Solutions SAS, for COP 13,405 million of which we received COP 2,500 million on December 29, 2011, leaving a balance of COP 10,905 million for which payment will be received during the first quarter of 2012 and recognized as deferred income once such payment is received.

There were no purchases of non-performing loans during 2011.

## NOTE 7 - ALLOWANCE FOR LOANS AND FINANCIAL LEASE LOSSES

An analysis of the activity in the allowance for loan losses during the years ended on December 31 is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (in millions of COP) | |
| Balance at beginning of the period | 948,452 | 1,120,266 | 1,167,115 |
| Allowance for loan losses | 1,581,309 | 1,413,670 | 1,619,765 |
| Write-offs | (592,339) | (447,852) | (561,214) |
| Reclassification – Securitization | 1,428 | (750) | (1,097) |
| Recovery of allowance | (818,584) | (918,219) | (932,686) |
| Balance at end of year | 1,120,266 | 1,167,115 | 1,291,883 |

## NOTE 8 - ACCRUED INTEREST RECEIVABLE ON LOANS, AND FINANCIAL LEASES, NET

Accrued interest receivable on loans and finance leases consists of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Commissions | 2,282 | 3,466 |
| Accrued interest receivable on loans and financial leases | 187,897 | 253,051 |
| Payment on behalf of the clients | 48,038 | 50,646 |
| Advances to contractors | 39,472 | 14,494 |
| Account receivable for assets sold | 7,461 | 336 |
| Other receivables | 123,195 | 182,485 |
| Total | 408,345 | 504,478 |
| Allowance for accounts receivable | (71,292) | (120,083) |
| Accrued interest receivable on loans and financial leases net | 337,053 | 384,395 |

An analysis of the activity in the allowance for accrued interest receivable on loans and finance leases and accounts receivable losses during the years ended December 31, is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Balance at beginning of year | 87,892 | 80,335 | 71,292 |
| Allowance for the year | 87,541 | 106,864 | 119,279 |
| Write-offs | (38,918) | (34,917) | (25,632) |
| Reclassifications | 1,364 | (842) | 2,050 |
| Recovery of allowance | (57,542) | (80,146) | (46,904) |
| Balance at end of year | 80,335 | 71,292 | 120,083 |

## NOTE 9 – BANKERS' ACCEPTANCES AND DERIVATIVES

The Bank enters into transactions involving derivative instruments; particularly foreign exchange contracts, as part of its asset and liability management, and in acting as a dealer in order to satisfy its clients' needs. The notional amounts of these contracts are carried off-balance sheet.

Foreign exchange forward contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These contracts are generally standardized contracts, normally for periods between 1 and 180 days and are not traded in a secondary market; however, in the normal course of business and with the agreement of the original counterparty, they may be terminated or assigned to another counterparty.

When the Bank enters into a forward exchange contract, it analyzes and approves the credit risk (the risk that the counterparty might default on its obligations). Subsequently, on an ongoing basis, it monitors the possible losses involved in each contract. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, enters into master netting agreements whenever possible and when appropriate, obtains collateral.

The Bank's rights and commitments from customer acceptances and derivative operations were as follows:

| | December 31, 2010 | December 31,2011 |
|---|---|---|
| Assets | (millions of COP) | |
| Bankers' Acceptances | 2,215 | 472 |
| Assets Derivatives | | |
| Spot transactions | 49 | 22 |
| Forward contracts | 70,846 | 123,649 |
| Swaps | - | 212 |
| Options | 1,369 | 1,436 |
| Total asset derivatives | 72,264 | 125,319 |
| Total bankers' acceptances and derivative assets | 74,479 | 125,791 |
| Liabilities | | |
| Bankers' acceptances | 2,215 | 472 |
| Liabilities derivatives | | |
| Forward contracts | 67,593 | 86,828 |
| Swaps | - | 196 |
| Options | 1,197 | 3,158 |
| Coverage swaps | 11,397 | 6,400 |
| Total liabilities derivatives | 80,186 | 96,582 |
| Total bankers' acceptances and derivative liabilities | 82,401 | 97,055 |
| Net asset (liability) position of bankers' acceptances and derivatives (*) | (7,922) | 28,737 |

(*) The Bank recognized all of its derivatives instruments on its balance sheet as either assets or obligations depending on the rights or obligations under the derivatives contracts.

**Swaps contracts in purchase of Granbanco and issuance of IFC bonds**

The Bank entered into nine Cross Currency Swap ("CCS") contracts for coverage of interest rates and exchange rates in financing the purchase of Granbanco S.A.The terms of these agreements were CCS Libor – fixed rate and CCS Libor – variable rate for an amount of US$ 415,000,000 for a term of seven and three years, respectively.

At December 31, 2011, the Bank had entered into two swap contracts of interest rates. Currency Swaps issued in February 2007, for coverage of the issuance of IFC bonds for US$ 165,000,000**.**

The following is the detail of the swap contracts for the years ended December 31, 2010 and 2011 (in millions of COP):

| Period | Description | Term (years) | Initial Date | End Date | Rights | Obligations | Net |
|---|---|---|---|---|---|---|---|
| 2010 | Coverage Swap IFC Bonds | 7 | Feb.07.07 | Feb.07.14 | 316,983 | 328,380 | (11,397) |
| 2011 | Coverage Swap IFC Bonds | 7 | Feb.07.07 | Feb.07.14 | 321,193 | 327,593 | (6,399) |

## NOTE 10 - FORECLOSED ASSETS, NET

Foreclosed assets consisted of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Housing | 9,885 | 10,017 |
| *Other than housing* | | |
| Real estate | 42,106 | 26,543 |
| Properties | 18,289 | 19,167 |
| Other | 2,183 | 2,336 |
| Total | 72,463 | 58,063 |
| Allowance | (19,989) | (19,226) |
| Foreclosed assets, net | 52,474 | 38,837 |

A foreclosed asset analysis according to the date when the asset was foreclosed is as follows (in millions of COP):

| | Less than 1 year | Between 1 and 5 Years | Between 5 and 10 years | More than 10 years | Total | Allowance |
|---|---|---|---|---|---|---|
| As of December 31, 2010 | | | | | | |
| Real estate | 9,955 | 40,803 | 16,294 | 829 | 67,881 | 17,790 |
| Movable assets | 2,693 | 803 | 1,087 | 9 | 4,592 | 2,199 |
| | 12,648 | 41,606 | 17,381 | 838 | 72,473 | 19,989 |
| As of December 31, 2011 | | | | | | |
| Real estate | 13,309 | 35,989 | 4,025 | 860 | 54,183 | 17,222 |
| Movable assets | 2,224 | 546 | 1,092 | 19 | 3,880 | 2,004 |
| | 15,533 | 36,535 | 5,117 | 879 | 58,063 | 19,226 |

The changes in allowances for foreclosed assets during the years ended December 31 were as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Balance at beginning of year | 24,854 | 18,738 | 19,989 |
| Allowance | 7,054 | 6,667 | 8,928 |
| Write-offs | - | (484) | (355) |
| Reclassifications | (67) | (46) | (169) |
| Recovery of allowance | (13,103) | (4,886) | (9,168) |
| Balance at the end of year | 18,738 | 19,989 | 19,226 |

## NOTE 11 - PREMISES AND EQUIPMENT UNDER OPERATING LEASES, NET

Operating leases, where the subsidiary Confinanciera S.A. acts as lessor consisted of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Machinery, equipment and vehicles | 11,388 | 11,606 |
| Accumulated depreciation | (3,749) | (5,692) |
| Allowance | (78) | (62) |
| | 7,561 | 5,851 |

## NOTE 12 - PREMISES AND EQUIPMENT, NET

Property, plant and equipment consisted of the following as of December 31, 2010 and 2011.

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Property, plant and equipment | | |
| Land and buildings | 394,427 | 433,510 |
| Furniture, equipment, fixtures and vehicles | 103,450 | 102,141 |
| Computer equipment | 204,089 | 222,391 |
| Total | 701,966 | 758,042 |
| Less accumulated depreciation | (323,427) | (355,989) |
| Allowance for impairment | (8,055) | (8,260) |
| Property, plant and equipment, net | 370,484 | 393,793 |

An analysis of the activity in the allowance for impairment losses during the years ended December 31 is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Balance at beginning of year | 4,400 | 7,845 | 8,055 |
| Allowance | 7,105 | 1,968 | 9,805 |
| Reclassifications | | | 506 |
| Recovery of allowance | (3,660) | (1,758) | (10,106) |
| Balance at the end of year | 7,845 | 8,055 | 8,260 |

At December 31, 2010 and 2011 the Bank has insurance policies to cover the risks of theft, fire, earthquake, disturbance, mutiny, explosion, volcanic eruption, low tension, properties, loss or damages to offices and vehicles.

At December 31, 2010 and 2011 the Bank's premises and equipment were free of any restriction or guarantees.

The depreciation charged to expenses in the years ended in December 31, 2010 and 2011, was COP 41,763 million and COP 52,297 million, respectively.

## NOTE 13 - PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges consisted of the following:

| | December 31, 2010 | December, 31 2011 |
|---|---|---|
| | (millions of COP) | |
| Prepaid expenses: | | |
| Insurance premiums | 6,852 | 15,636 |
| Other | 1,172 | 2,127 |
| Total prepaid expenses | 8,024 | 17,762 |
| Deferred charges: | | |
| Remodeling expenses | 33,727 | 31,966 |
| Computer programs | 2,830 | 7,167 |
| Leasehold improvements | 16,211 | 2,779 |
| Deferred income tax asset (1) | 20,829 | 23,178 |
| Equity tax | - | 142,728 |
| Other | 4,620 | 1,046 |
| Total deferred charges | 78,217 | 208,864 |
| Total prepaid expenses and deferred charges | 86,241 | 226,627 |

(1) Deferred income tax assets relates to the following temporary differences:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Deferred income tax asset | | |
| Estimated liabilities | 3,736 | 3,520 |
| Bankers' acceptances and derivatives | 3,760 | 2,112 |
| Loans | 5,346 | 7,906 |
| Investments | 6,879 | 4,107 |
| Other | 1,108 | 5,534 |
| Total deferred income tax asset | 20,829 | 23,178 |

An analysis of the prepaid expenses and deferred charges during the years ended December 31 is as follows:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Balance at beginning of year | 106,031 | 62,641 | 86,241 |
| Additions | 289,523 | 158,511 | 625,878 |
| Amortizations | (332,913) | (134,911) | (485,492) |
| Balance at end of year | 62,641 | 86,241 | 226,627 |



(Continued)

## NOTE 14 – GOODWILL

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Bansuperior S.A. | 31,764 | - |
| Granbanco S.A. Bancafe | 1,225,744 | 1,181,627 |
| Confinanciera S.A. | 10,435 | - |
| | 1,267,943 | 1,181,627 |

Bansuperior S.A.

As a result of the purchase of Bansuperior made in September 2005, goodwill was recorded for COP 311,237 million and is amortized on a straight-line basis over 72 months. The balances of this goodwill are COP 31,764 million at December 31, 2010 and at December 31, 2011 was fully amortized.

Granbanco S.A. – Bancafé

Goodwill resulted from the acquisition of 99.62% of the shares of Granbanco S.A. – Bancafé. The purchase was authorized by Resolution 0139 of January 31, 2007 of the SFC.

According to External Circular 034 of 2006, the goodwill should be valued by an expert, who must be an independent professional with no conflict of interest with the Bank and with the accredited experience.

The following are the main characteristics considered in the evaluation of goodwill:

- Definition and determining of business lines was a process performed jointly by the management of both Banco Davivienda S.A. and Granbanco S.A., in which both entities identified the cash flow sources independent from lines of business.

- According to the above, the two business lines of Banco Davivienda S.A. and Granbanco S.A. were merged considering synergies that were assessed at the time. Therefore, goodwill was assigned to the following six business lines with a valuation of fair market value and based on the figures at December 31, 2006 for Davivienda and January 31, 2007 for Granbanco: (i) consumer, (ii) commercial, (iii) small and medium enterprises (SME), (iv) credit cards, (v) mortgages and (vi) affiliates (Panama and Miami).

- Overall criteria to define the previous business lines were: characteristics of the business lines (average placement rate, average balance by client/product, customer profile, growth of accounts receivable and expense assignation); feasibility of independent valuation and international accounting standards.

- Once the business lines are defined and the related assets identified, the statements of income and balance sheet by business line is determined based on the global statements of income and balance sheet and each entity's information system. This is for a projected period of 10 years.

The business lines are detailed as follows:

Consumer Line

Relates to the business of granting credit to individual persons, (other than credit included under the Credit Card line) including credit to finance the acquisition of consumer goods or the payment of services for non-commercial or entrepreneurial services.

Commercial Line

Relates to the business of granting credit to companies, official (or governmental) and solidarity sectors, except for small and medium companies (which are included in the small and medium enterprises or SME line), for the purpose of financing commercial or enterprise activities.

Small and Medium Enterprises (SME) Line

Granting of credit to small and medium enterprises (not included in the commercial line) to finance commercial or enterprise activities.

Credit Card Line

Relates to the business of granting credit for the acquisition of goods and services, specifically through the use of credit cards.

Mortgage Line

Credit line granted to persons to finance the purchase of new or used housing or the construction of housing. The assets purchased provide a guarantee of the credit.

Affiliate Line

Includes all the business developed by the affiliate entities in Panama and Miami.

Valuation Methodology

The valuation by business line was made by using the dividend flow methodology, discounted at the shareholders' financing rate; according to experts this is the most adequate to value financial institutions and it is broadly used by first level investment banks. This methodology consists in projecting the flow of available dividends during 10 years plus a terminal value and discounted at an appropriate rate.

The methodology of discounted dividends allows dividing the total flow to value in various flows and valuing each independently. The sum of these valuations is equal in terms of value and total flow valuation, assuming the same discount rate.

A summary of the goodwill acquired for each business line, the accumulated amortization and the amount as of December 31, 2010 and 2011 consisted of the following:

As of December 31, 2010

| | Participation (percentage) | Goodwill recorded | Accumulated Amortization | Balance |
|---|---|---|---|---|
| | | (millions of COP) | | |
| Business line | | | | |
| Consumer | 21.3% | 292,103 | 31,225 | 260,878 |
| Commercial | 43.8% | 600,872 | 64,232 | 536,640 |
| SMEs | 6.9% | 95,195 | 10,176 | 85,019 |
| Credit Card | 16.2% | 222,395 | 23,773 | 198,622 |
| Mortgage | 11.2% | 153,150 | 16,372 | 136,778 |
| Affiliate | 0.6% | 8,743 | 936 | 7,808 |
| Total | 100.0% | 1,372,458 | 146,714 | 1,225,744 |


(Continued)

As of December 31, 2011

| Business line | Participation | Goodwill recorded | Accumulated Amortization | Balance |
|---|---|---|---|---|
| Consumer | 21.3% | 292,103 | 40,615 | 251,488 |
| Commercial | 43.8% | 600,872 | 83,547 | 517,325 |
| SMEs | 6.9% | 95,195 | 13,236 | 81,959 |
| Credit Card | 16.2% | 222,395 | 30,923 | 191,473 |
| Mortgage | 11.2% | 153,150 | 21,294 | 131,856 |
| Affiliate | 0.6% | 8,743 | 1,216 | 7,527 |
| Total | 100.0% | 1,372,458 | 190,831 | 1,181,627 |

Proportional Equity Value - Confinanciera S.A.

There is an excess of the cost on the book value of COP 10,435 million at December 31, 2010, which is included as goodwill for the record of the proportional equity value. At December 31, 2011 this amount was fully amortized.

## NOTE 15 - OTHER ASSETS, NET

Other assets consisted of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Employee loan portfolio [1] | 106,751 | 125,392 |
| Deposits | 6,515 | 7,147 |
| Rights under trust agreements | 20,870 | 23,117 |
| Receivables from tax authorities | 13,023 | 9,368 |
| Total other assets | 147,159 | 165,024 |
| Allowance for other assets | (13,893) | (12,838) |
| Other assets, total | 133,266 | 152,186 |

(1) The classification of employee loan portfolios by credit risk according to SFC rules is as follows (in millions of COP):

December 31, 2010

| | Housing | Suitable Guarantee | Allowance |
|---|---|---|---|
| A - Normal | 106,751 | 292,973 | 1,601 |

December 31, 2011

| | Housing | Suitable Guarantee | Allowance |
|---|---|---|---|
| A - Normal | 125,298 | 364,835 | 1,886 |
| B - Acceptable | 93 | 226 | 5 |
| | 125,392 | 365,061 | 1,891 |

The loans granted to employees for housing and vehicles are supported by suitable guarantees.

An analysis of the activity in the allowance for the employee's loan losses during the years ended December 31 is as follows:

| | December 31, 2009 | December 31, 2010<br>(millions of COP) | December 31, 2011 |
|---|---|---|---|
| Balance at beginning of period | 22,908 | 20,902 | 13,893 |
| Transfer from business acquisition | 61 | - | - |
| Allowance for the period | 3,459 | 870 | 1,555 |
| Reclassifications | (2,391) | (1,549) | (506) |
| Write - offs | (205) | (159) | - |
| Recovery of allowance | (2,930) | (6,171) | (2,105) |
| Balance at end of the period | 20,902 | 13,893 | 12,838 |

## NOTE 16 - REAPPRAISAL OF ASSETS

The following table details the reappraisals of assets as of December 31, 2010 and 2011:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Assets revaluations | | |
| Investments | 33,421 | 37,777 |
| Reappraisal of property, plant and equipment | 400,437 | 479,920 |
| Impairment of investments | (476) | (496) |
| Total reappraisal assets | 433,382 | 517,201 |
| Other assets | 3,614 | 3,614 |
| Total assets reappraisal | 436,996 | 520,815 |



(Continued)

## NOTE 17 - DEPOSITS

The following is a detail of deposits and corresponding interest rates as of December 31, 2010 and December 31, 2011:

| | Interest rate | December 31, 2010 | Interest rate | December 31, 2011 |
|---|---|---|---|---|
| | | (millions of COP) | | |
| **Non- interest bearing** | | | | |
| Checking accounts | 0% | 2,688,889 | 0.0% - 0.96% | 2,799,865 |
| Savings deposits | | 231,757 | | 237,924 |
| *Other deposits* | | | | |
| Banking services | | 14,324 | | 2,185 |
| Special deposits | | 346 | | 255 |
| Payables for banking services | | 228,751 | | 232,332 |
| Affiliated establishments | | 6,616 | | 6,907 |
| Total other deposits | | 250,036 | | 241,679 |
| Total non-interest bearing deposits | | 3,170,682 | | 3,279,468 |
| **Interest bearing** | | | | |
| Checking accounts | | 571,975 | | 796,564 |
| *Time deposits* | | | | |
| Less than 6 months | 0%-4.4% | 1,815,772 | 4.10%-5.60% | 1,717,733 |
| Between 6 and 12 months | 4.0%-4.65% | 2,428,832 | 4.15%-5.80% | 1,715,291 |
| Between 12 and 18 months | 4.12%-5.00% | 766,123 | 4.20%-6.10% | 1,064,076 |
| Greater than 18 months (*) | 4.30%-5.65% | 1,968,641 | 4.35%-6.95% | 2,191,651 |
| Time deposits | | 6,979,369 | | 6,688,751 |
| *UVR term deposits* | | | | |
| Equal or greater than 18 months | | 21,779 | | 0 |
| Time deposits net | | 7,001,149 | | 6,688,751 |
| *Savings deposits* | | | | |
| Common savings | 0.0%-4.0% | 8,553,818 | 0.00% - 4.25% | 12,210,411 |
| Special savings | | 50,609 | | 49,069 |
| Total savings deposits | | 8,604,427 | | 12,259,480 |
| Total interest bearing | | 16,177,551 | | 19,744,795 |
| | | 19,348,233 | | 23,024,263 |

**Reserve on deposits**

As of December 31, 2010 and 2011, a reserve on deposits was held in accordance with External Resolution 11 of October 2008, and External Resolution 3 of 2000 of the Central Bank.

## NOTE 18 - INTERBANK AND OVERNIGHT BORROWING

Interbank and overnight borrowing are summarized as follows as of December 31, 2010 and 2011:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Overnight | 47,850 | 61,535 |
| Repos | 10,162 | 12,000 |
| | 58,012 | 73,535 |

Short-term interbank borrowings, obtained from other banks for liquidity purposes, are unsecured and generally have maturities ranging from 90 to 180 days.

## NOTE 19 – BORROWINGS FROM FINANCIAL INSTITUTIONS

The Colombian government has established programs to promote the development of specific sectors of the economy. These sectors include foreign trade, agriculture, tourism and many other industries. These programs are under the administration of various Colombian government entities.

Under these programs, the bank receives a loan request from an applicant operating in a designated economic sector. The Bank then performs a full credit analysis of the applicant based on its normal credit criteria. If the criteria are met, the Bank applies to the appropriate government agency for funding. The government agency reviews the loan application to determine compliance with the policy and objectives and may also perform an independent credit analysis of the applicant. Upon approval, the agency disburses funds to the Bank. The Bank, in turn, disburses the loan to its customer and assumes all credit risk.

Loan maturities vary depending on the program (ranging from one to ten years). Loans to customers are in the same currency and maturity as the borrowings from the agencies.

Borrowings from domestic development banks received from certain Colombian government agencies consisted of the following as of December 31, 2010 and 2011:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Peso denominated | | |
| Banco de Comercio Exterior de Colombia ("Bancoldex") | 91,748 | 84,498 |
| Financiamiento del Sector Agropecuario ("Finagro") | 165,636 | 261,849 |
| Financiera de Desarrollo Territorial ("Findeter") | 837,005 | 1,100,095 |
| Other | 5,403 | 50,507 |
| | 1,099,792 | 1,496,949 |
| Dollar denominated | | |
| Banco de Comercio Exterior de Colombia ("Bancoldex") | 105,443 | 272,522 |
| Financiera de Desarrollo Territorial ("Findeter") | - | 79,651 |
| Foreign Banks | 1,194,970 | 1,704,784 |
| Other | 16 | 3,189 |
| | 1,300,429 | 2,060,146 |
| | 2,400,221 | 3,557,095 |

Maturities of borrowings from financial institutions as of December 31, 2010 and December 31, 2011 were as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Less than 1 year | 1,301,056 | 1,795,878 |
| Between 1 and 5 years | 311,672 | 504,078 |
| Between 5 and 10 years | 517,957 | 1,027,256 |
| More than 10 years | 269,536 | 229,883 |
| Total borrowings from domestic development banks and other | 2,400,221 | 3,557,095 |



(Continued)

## NOTE 20 - ACCOUNTS PAYABLE

The following is a detail of accounts payable:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Equity tax | 185 | 142,958 |
| Other taxes | 34,880 | 66,858 |
| Suppliers | 154,046 | 169,029 |
| Withholding taxes and other taxes | 51,411 | 43,217 |
| TES law 546 of 1999 | 49,283 | 95,016 |
| Collections agreements with third parties | 7,115 | 15,415 |
| Dividends payable | 3,231 | 3,024 |
| Uncashed drafted checks | 12,899 | 13,954 |
| Purchase agreements | 9,746 | 3,637 |
| Collection for third parties | 48,795 | 36,108 |
| Payment an other to be settled | 54,560 | 13,496 |
| Taxes on consumer withdrawals | 12,555 | 17,144 |
| Treasure orders | 22,354 | 20,612 |
| Various creditors | 9,196 | 55,281 |
| Prepaid cards | 9,163 | 9,520 |
| Value added tax | 7,029 | 6,547 |
| Taxes on premises and equipment | 6,309 | 5,377 |
| Fees and Commissions | 1,773 | 4,292 |
| Insurance Premiums | 2,496 | 796 |
| Payroll | 376 | 216 |
| Forward operations | 4,580 | 13,277 |
| Others | 38,384 | 44,090 |
| | 540,366 | 779,864 |

## NOTE 21 - INCOME TAX EXPENSES

Income tax regulations applicable to the Bank provide the following:

Consolidated income tax reporting is not permitted under Colombian tax regulations and as a result losses incurred by any consolidated subsidiary may not be used to offset taxable income from another consolidated subsidiary. For consolidated domestic subsidiaries, the applicable tax rate in 2010 and 2011 was 33%.

Other income tax matters in Colombia are follows:

a) The consolidated rate is an average, since the legal rates for Fidudavivienda S.A., Fiducafetera S.A., Confinanciera S.A. are 33% and the rate for Bancafe Panamá S.A. is 30%**.**

b) The basis upon which income tax is determined cannot be lower than 3% of the Company's net tax equity on the last day of prior taxable year.

c) Excesses of imputed taxable income over ordinary taxable income arising in any year as from 2003 may be set off against ordinary taxable income within the subsequent five years. In all cases excesses of imputed taxable income over regular taxable income are adjusted for inflation.

Income tax expense from continuing operations under Colombian Banking GAAP for December 31, 2009, 2010 and 2011 was comprised of the following components:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Current Income Tax Expense | 16,375 | 132,035 | 123,571 |
| Deferred Income Tax Expense | 75,840 | 29,128 | 58,274 |
| Total Income Tax Expense | 92,215 | 161,163 | 181,845 |

Income taxes for the year ended on December 31, 2010 are subject to review by the tax authorities. The bank management and its legal advisors believe that no significant liabilities in addition to those recorded will arise from such a review.

## NOTE 22 – LONG-TERM DEBT

Long-term debt relates to bonds issued by the bank used to finance mortgage loans. The issuer has the option to prepay the principal amount of this debt.

The following is a summary of long-term debt as of December 31, 2010 and 2011:

| Type of Issuance | Issuance Date | Offer Amount (millions COP) | Series | Term (months) | Yield | Maturity | Book Value December 31, 2010 | Book Value December 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (millions of COP) | |
| **Mortgage Bonds** | | | | | | | | |
| Guarantee: Mortgage Loans rated "A" and prepayment option for issuer every 3 months. | | | | | | | | |
| Issuance | Dec-04 | 19,118 | G | 84 | UVR - 0.3 | Dec-11 | 624 | - |
| Issuance | Jun-06 | 60,173 | G | 84 | UVR + 0.75 | Jun-13 | 12,022 | 1,509 |
| Total Mortgage Bonds | | | | | | | 12,646 | 1,509 |
| **Subordinated Bonds** | | | | | | | | |
| Issuance Bonds in US dollars Guarantee: Mortgage Loans rated "A" and prepayment option for issuer every 3 months. | Feb-07 | 368,641 | G | 84 | Libor6 + 2.75 | Feb-14 | 316,983 | 321,194 |
| Issuance no-Guarantee | Feb-08 | 147,777 | C | 84 | IPC + 6.65 | Feb-15 | 147,777 | 147,777 |
| Issuance no-Guarantee | Feb-08 | 151,577 | D | 84 | UVR + 6.65 | Feb-15 | 170,193 | 176,986 |
| Issuance no-Guaranteed | Feb-10 | 138,497 | C7 | 84 | IPC + 5.25 | Feb-17 | 138,497 | 138,497 |
| Issuance no-Guaranteed | Feb-10 | 111,503 | U10 | 120 | UVR + 5.50 | Feb-20 | 113,925 | 118,472 |
| Total Subordinated Bonds | | | | | | | 887,375 | 902,926 |
| **Common Bonds (No-Guarantee)** | | | | | | | | |
| Issuance | Aug-08 | 170,570 | G | 60 | IPC + 6.24 | Aug-2013 | 170,570 | 170,570 |
| Issuance | Aug-08 | 147,300 | E | 36 | DTF + 2.59 | Aug-2011 | 147,300 | - |
| Issuance | Feb-09 | 79,671 | E2 | 24 | DTF + 1.2 | Feb-2011 | 79,671 | - |
| Issuance | Feb-09 | 89,800 | E3 | 36 | DTF + 1.35 | Feb-2012 | 89,800 | 89,800 |
| Issuance | Feb-09 | 121,800 | F5 | 60 | TF 10.40% | Feb-2014 | 121,800 | 121,800 |
| Issuance | Feb-09 | 123,433 | G | 84 | IPC + 5.50 | Feb-2016 | 123,433 | 123,433 |
| Issuance | Jul-09 | 72,000 | E2 | 24 | DTF + 1.38 | Jul-2011 | 72,000 | - |
| Issuance | Jul-09 | 73,000 | E3 | 36 | TF 7.89% | Jul-2012 | 73,000 | 73,000 |
| Issuance | Jul-09 | 215,000 | G5 | 60 | IPC + 4.79 | Jul-2014 | 215,000 | 215,000 |
| Issuance | Jul-09 | 90,000 | I1 | 18 | IBR + 1.44 | Jan-2011 | 90,000 | - |
| Issuance | Feb-10 | 215,062 | C5 | 60 | IPC + 3.98 | Feb-2015 | 215,062 | 215,062 |
| Issuance | Feb-10 | 86,051 | T2 | 24 | DTF + 0.95 | Feb-2012 | 86,051 | 86,051 |
| Issuance | Feb-10 | 97,050 | B1 | 18 | IBR + 0.95 | Aug-2011 | 97,050 | - |
| Issuance | Feb-10 | 101,837 | B3 | 36 | IBR + 1.36 | Feb-2013 | 101,837 | 101,837 |
| Issuance | Oct-10 | 120,150 | C5 | 60 | IPC + 3.14 | Oct-2015 | 120,150 | 120,150 |
| Issuance | Oct-10 | 196,050 | C7 | 84 | IPC + 3.63 | Oct-2017 | 196,050 | 196,050 |
| Issuance | Oct-10 | 91,550 | B2 | 24 | IBR + 1.10 | Oct-2012 | 91,550 | 91,550 |
| Issuance | Oct-10 | 92,250 | B3 | 36 | IBR + 1.31 | Oct-2013 | 92,250 | 92,250 |
| Issuance | Mar-11 | 244,211 | B30 | 30 | IBR + 1.35 | Sep-2013 | - | 244,211 |
| Issuance | Mar-11 | 86,482 | C39 | 39 | IPC + 2.80 | Jun-2014 | - | 86,482 |
| Issuance | Mar-11 | 76,055 | C84 | 84 | IPC + 3.88 | Mar-2018 | - | 76,055 |
| Issuance | Mar-11 | 193,252 | C120 | 120 | IPC + 4.19 | Mar-2021 | - | 193,252 |
| Issuance | Aug-11 | 90,000 | B27 | 27 | IBR + 1.68 | Jun-2013 | - | 90,000 |
| Issuance | Aug-11 | 90,000 | C48 | 48 | IPC + 3.60 | Mar-2015 | - | 90,000 |
| Issuance | Aug-11 | 159,230 | C90 | 90 | IPC + 3.99 | Sep-2018 | - | 159,230 |
| Issuance | Aug-11 | 160,770 | C126 | 126 | IPC + 4.23 | Sep-2021 | - | 160,770 |
| Total Common Bonds | | | | | | | 2,182,574 | 2,796,553 |
| | Total Current Bonds | | | | | | 3,082,595 | 3,700,988 |

Bonds by currency

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Colombian pesos | 2,468,848 | 3,082,827 |
| Foreign currency | 316,983 | 321,194 |
| Denominated in Colombian pesos - UVR | 296,764 | 296,968 |
| | 3,082,595 | 3,700,988 |

| | | |
|---|---|---|
| Bonds by maturity | | |
| Less than 1 year | 486,645 | 430,401 |
| Between 1 & 5 years | 2,024,045 | 2,228,261 |
| Between 5 & 10 years | 571,905 | 1,042,327 |
| | 3,082,595 | 3,700,988 |

## NOTE 23 - OTHER LIABILITIES

The following is the detail of other liabilities:

| | December 31,2010 | December 31,2011 |
|---|---|---|
| | (millions of COP) | |
| Accrued benefit obligation to the employees | 35,997 | 36,713 |
| Unearned income | 380 | 7,660 |
| Deferred credits | 42,017 | 41,166 |
| Letter of credit deferred payment | 2,610 | 6,812 |
| Deferred income tax (1) | 104,474 | 165,098 |
| Credits for applied | 56,316 | 29,340 |
| Surpluses in exchange | 128 | 108 |
| Surpluses in cash | 3,337 | 5,778 |
| Deposit accounts cancelled | 32,540 | 31,992 |
| Others | 3,531 | 4,189 |
| | 281,330 | 328,856 |

1) Deferred income tax liability relates to the following temporary differences:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Banker's acceptances and derivatives | 1,146 | 11,594 |
| Investments | 1,370 | 60 |
| Goodwill | 101,958 | 152,022 |
| Other | - | 1,421 |
| | 104,474 | 165,097 |



(Continued)

## NOTE 24 - ACCRUED EXPENSES

The following is the detail of estimated liabilities and allowances:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Labor liabilities | 3,008 | 3,483 |
| Income tax | 329 | 3,195 |
| Interest payable of TES Law 546, 1999 | 964 | 171 |
| Contributions and affiliations | 6 | 6 |
| Penalties and fines from the SFC | 410 | 410 |
| Penalties and fines, litigations, indemnifications and lawsuits (Note 26) | 80,759 | 86,886 |
| Others | 4,852 | 26,688 |
| | 90,328 | 120,839 |

## NOTE 25 – NON CONTROLLING INTEREST

Non-controlling interest in subsidiaries is calculated as the participation (% of minority interest) in each of the equity accounts of the subsidiary as of the date of consolidation (before any elimination of reciprocal operations or adjustments for consolidation effects).

In 2010 and 2011, non-controlling interest does not include any indirect participation in accordance with SFC instructions.

The following is the detail of the minority interest, at December 31, 2010 and 2011:

December 31, 2010

| | Equity | % Minority Interest | Minority Interest |
|---|---|---|---|
| | (millions of COP) | | |
| Fiduciaria Davivienda S.A | 52,438 | 33.52% | 17,580 |
| Davivalores S.A. | 10,653 | 17.60% | 1,875 |
| Confinanciera S.A. | 70,833 | 4.27% | 3,028 |
| Bancafé Panamá S.A. | 157,780 | 0.0007% | 1 |
| Fiduciaria Cafetera S.A. | 69,348 | 5.06% | 3,511 |
| | | | 25,995 |

December 31, 2011

| | Equity | % Minority Interest | Minority Interest |
|---|---|---|---|
| | (millions of COP) | | |
| Fiduciaria Davivienda S.A | 55,232 | 40.00% | 22,093 |
| Davivalores S.A. | 12,779 | 21.00% | 2,683 |
| Confinanciera S.A. | 82,432 | 5.10% | 4,204 |
| Bancafé Panamá S.A. | 178,550 | 0.0007% | 1 |
| Fiduciaria Cafetera S.A. | 71,304 | 5.99% | 4,271 |
| | | | 33,252 |



(Continued)

## NOTE 26 - COMMITMENTS AND CONTINGENCIES

Fines and sanctions from legal actions

Legal proceedings generating contingent liabilities as of December 31, 2011 were as follows:

### A. LITIGATION COVERED BY FOGAFÍN

These are the proceedings related to Granbanco S.A., Fiduciaria Cafetera S.A., Bancafé Panamá S.A. and Bancafé International Corporation, existing at January 31, 2007 and those for which notice was provided after February 16, 2007, which are in effect and specifically guaranteed by Fogafín.

### B. BANK'S LITIGATION

These correspond to the remaining proceedings generating contingent liabilities for the Bank and not covered by Fogafín. Following is a summary of the proceedings, as of December 31, 2010 and 2011:

December 31, 2010

| Type of process | Number of Proceedings | Allowance Value | Claim Value |
|---|---|---|---|
| | | (millions of COP) | |
| Litigation covered by the Guarantee Contract of Fogafín | 634 | 14,801 | 68,151 |
| Bank Litigation: | | | |
| Fines and sanctions (other administrative authorities) | 15 | 52,505 | 93,505 |
| Labor lawsuits | 56 | 1,126 | 2,262 |
| Ordinary proceedings | 1,294 | 12,327 | 88,824 |
| | 1,999 | 80,759 | 252,742 |

December 31, 2011

| Type of process | Number of Proceedings | Allowance Value | Claim Value |
|---|---|---|---|
| | | (millions of COP) | |
| Litigation covered by the Guarantee Contract of Fogafín | 473 | 14,225 | 63,512 |
| Bank Litigation: | | | |
| Fines and sanctions (other administrative authorities) | 18 | 58,993 | 92,278 |
| Labor lawsuits | 66 | 1,355 | 3,707 |
| Ordinary proceedings | 1,061 | 12,313 | 87,427 |
| | 1,618 | 86,886 | 246,924 |

A 15% allowance has been provided for legal proceedings covered by the Guarantee Contracts of Fogafín considering the guarantee coverage on the value of the corresponding contingency in conformity with its rating and only for ordinary and special proceedings. A 10% allowance is provided for labor proceedings.

Other legal proceedings to which the Bank and its subsidiaries are party are as follows:

**Criminal proceedings**

This refers to all criminal proceedings linking the Bank as a civilly liable-third party. As of December 31, 2010 and 2011, the total amount of the claims related to these proceedings does not exceed COP 70 million.

**Ordinary civil, special, administrative and labor proceedings**

As of December 31, 2010 there were 1,882 proceedings which claims amounted to approximately COP 252,305 million, and as of December 31, 2011 there were 1,499 which claims amount to approximately COP 246,924million.

These types of proceedings generate contingent liabilities for the Bank regardless of the procedural course required for each case; in general, given its potential civil, contractual or extra-contractual liability, and due to the fines or sanctions applied by the competent bodies in the execution of their duties, each proceeding has an individual rating and provision, if necessary.

Following is a detail of the legal proceedings that might generate the most significant economic impact for the Bank:

**Tax proceedings**

Income tax for taxable year 2003

1. Nullity appeal and restoration of rights against resolution of February 2007 and the official settlement of the review of March 2006 for COP 6,861 million; this proceeding is pending resolution of the appeal filed by the Bank against the first instance verdict that was adverse to its interests. The Bank's position is fully supported by legal basis; however, the contingency for the Bank is considered as eventual.

2. Nullity appeal and restoration of rights against resolution of June 2006 and the resolution of August 2005 for COP 3,046 million. This proceeding has been interrupted due to preliminary judgment until the second instance of the proceeding has been ruled upon. The contingency for the Bank is considered as eventual.

3. Nullity appeal and restoration of rights against resolution of October 2006 and the decision solving the reconsideration appeal of June 2007. The process concerns a penalty for improper refunds amounting to COP 3,814 million. On January 25, 2010, the case was filed at the Office of the State Council. In the opinion of the tax advisor, the contingency for the Bank is remote.

Regarding the items that do in fact become a contingent liability, these are rated as eventual and are covered by Fogafín; therefore, the allowance provided by the Bank corresponds to 15% of the claim, or COP 306 million. On this same subject there are two additional proceedings in course, one is a judicial proceeding involving nullity appeal filed by the Bank against an administrative decision issued by the Colombian National Tax and Customs Authority (*Dirección de Impuestos y Aduanas Nacionales,* or "DIAN"), prior to the one in reference, in which a refund is sought for the amount that the Bank should have paid on concept of income taxes for 2003; however this proceeding does not constitute a contingent liability for the Bank.

Income tax for taxable year 2004

The Bank filed with the Administrative Court of the Province of Cundinamarca (Tribunal Administrativo de Cundinamarca) a nullity appeal and restoration of rights against the Administrative Acts by means of which the DIAN set forth the amount payable on concept of income tax for 2004, the proceeding is stayed while the State Council rules on an appeal by the Bank against an adverse first instance ruling. Although the tax advisor considers the contingency to be remote, at December 31, 2011 COP 32,290 million have been reserved for this proceeding.

Tax on transactions (4x1000) year 2005

DIAN issued a reviewed liquidation for January 2007 onwards, weeks 01 through 52, proposing a modification of the tax payable along with an inaccuracy penalty, as it included overdrafts in checking accounts as taxable operations. The amount under discussion is COP 5,815 million, comprised of a greater tax value of COP 5,760 million and the inaccuracy penalty equivalent to COP 11,973 million.

- Regarding weeks 3, 4 and 9, the Bank's claim was ruled adversely by the Administrative Court of Cundinamarca and is on appeal before the State Council.

- Regarding weeks 31, 34, 35 and 36, the Administrative Court of Cundinamarca also ruled against the Bank and is on appeal before the State Council.

 (Continued)

- Regarding weeks 37, 38, 39, 40, 41 and 42, a second instance ruling is pending after the first decision was against Banco Davivienda S.A.'s interests.

- The nullity appeal and restoration of rights initiated with respect to weeks 32, 33, 46 and 49 was ruled adversely by the Administrative Court of Cundinamarca, and the decision was appealed.

- Finally, regarding weeks 43, 44, 45, 47, 48, 50, 51 and 52 of 2005, the proceeding is pending first instance decision.

For all cases, the opinion of the tax advisor is that the contingency for the Bank is remote.

Adverse actions filed by the DIAN against the Bank – Tax on equity for year 2007

The Tax Administration filed two claims against the Bank in connection with the refund of the tax on equity corresponding to taxable year 2007 for an amount of COP 4,485 million.

The first claim was admitted on February 12, 2010, but it was notified only until September 12, 2010. On July 16, 2010 the answer to the petition was filed, and a decision is pending to accumulate both claims.

The second claim was admitted on January 22, 2010 and notified on February 23, 2010. The answer to the petition was filed on March 25, 2010. On December 2, 2010 the procedure was stayed awaiting a decision on the accumulation of both claims.

In the opinion of the Bank's tax advisor, the contingency for the Bank is eventual, and an amount of COP 6,947 million has been reserved.

**Guarantee Contract for Contingent Liabilities entered into with Fogafín**

Due to the privatization of Granbanco S.A., on December 12, 2006 a guarantee contract for contingent liabilities was entered into with Fogafín; the contract is effective as of February 16, 2007.

Pursuant to such contract, and under the terms and conditions thereof, Fogafín guarantees the Bank payment of certain contingent liabilities expressly set forth in the document. Coverage corresponds to 85%, and exceptionally to 90%, in connection to labor and pension obligations from Banco Cafetero S.A.- in Liquidation -.

The contract foresees the existence of a contingency account comprised by the provisions held by Granbanco S.A. Bancafé and its subsidiaries at January 31, 2007, which amounted to COP 21,067 million. Any amount or fine guaranteed by Fogafín is to be deducted first from such account until the funds are entirely used. Upon exhaustion of the funds, Fogafín is committed to refund the Bank with the corresponding net effect under the terms of the said contract The existence of the account in reference with the provisions held at that moment determined that eventual losses in guaranteed judicial proceedings do not affect the Bank's Statement of profit and losses.

At December 31, 2010 and December 31, 2011, the number of proceedings covered by Fogafín are 634 and 473, respectively, with a provision of COP 14,801 million and COP 14,225 million and claims for COP 68,151 million and COP 63,512 million, respectively.

Based on the above, the Bank structured several accounts that reflect not only the reality of its contingent liabilities with the contract entered into with Fogafín, but also others that include matters not guaranteed by Fogafín, which must be borne in full by the Bank.

**Processes generating contingent liabilities with significant impact for the Bank.**

1. By means of a people's legal action, the Bank was sued by Alberto Botero Castro to make the bank return to the Public Treasury the money that, in the plaintiff's view, the Bank owed when making overstated charges to the Nation on concept of the relief provided by Law 546 of 1999. The procedure is in the evidentiary stage. The claim is undetermined but in conformity with the petition, it may correspond to an amount exceeding COP 5,000 million. Due to lack of evidence, the contingency was rated as remote.

2. Mercedes López Rodríguez initiated a people's legal action against the Bank arguing that the Bank and other financial entities had not returned the TES securities in conformity with the requirements of Law 546 of 1999. The process is lodged at Civil Court No. 4 of Bogotá and notification to the remaining defendants is pending. The contingency is rated as remote, and the amount may not be determined, but it is estimated to exceed the COP 1,000 million.

3. The National Committee Association for UPAC - UVR Users, along with other individuals, filed a class action suit against Banco Davivienda S.A. and other financial entities seeking a ruling to have the TES securities arising from wrongful liquidations and refusal to retrieve relief be returned to the Public Treasury. The claim is at the Administrative Court of Cundinamarca, and the defendants were served with process. The Court is reviewing a motion to dismiss the suit filed by Davivienda on June 29, 2011. Although the amount of the claim is not stated in the suit, it is estimated to exceed COP 5,000 million, and the contingency is rated as remote.

4. Among the significant proceedings due to the amount of the contingency, the following class actions existing at the moment shall be taken in into account, considering that each of these proceedings may cover a large number of petitioners, as per the provisions of the claim, which in turn may increase the value of the demands to significant amounts. At December 31, 2011 the following cases are in effect:

   - Class action initiated by Mr. Álvaro Bocarejo Romero and other debtors of Concasa, of which the Bank is a successor, due to the alleged unlawful charge of interests in mortgage loans; the procedure is held at the Civil Court No. 37 of Bogotá and it is pending of a personal notification of the writ of admission. The amount is undetermined and no provision is held as the contingency is deemed remote.

   - Oscar Zambrano Parada and others filed a petition at Civil Court No. 31 of Bogotá claiming for the recognition of damages from the alleged unlawful charge of commissions for financial and banking services. The process is in the evidentiary stage. The amount is undetermined and the contingency has been rated as eventual.

   - Rosmery Roa Sarmiento initiated a group action filed at the Civil Court No. 20 of Bogota arguing the alleged unlawful charge of financial services rendered by the Bank; this process is in the evidentiary stage. The amount claimed is undetermined and the contingency has been rated as remote. There is a similar group action initiated by José Guillermo T. Roa at Civil Court No. 5° of Bogotá, which is in the evidentiary stage, and the same considerations are applied.

   - A class action is in course at Civil Court No. 7 of Bogotá and initiated by Aida Acero and others arguing excessive charges of UPAC in mortgage loans granted at the time. The procedure is pending of a definition of prior exceptions presented by the Bank. The amount is undetermined and the contingency is rated as remote.

   - At the Administrative Court No. 14 of Barranquilla, a class action is in course and initiated by Silvana Heredia and others claiming the relocation of the people who acquired social interest housing in a sector of that city that has experienced increasing problems in the foundations. The process is pending a first instance verdict. The Bank is linked to the procedure for having granted the mortgage loans. The contingency is rated as remote.

   - Ana Rocío Murcia Gómez and others sued the Bank and other entities due to the geology faults shown in the land where the houses in the development at Parques del Sol I in the Municipality of Soacha were built. The lawsuit has been processed at the Administrative Court No. 29 of Bogotá and is in the evidentiary state. The amount is undetermined and the contingency has been rated as remote.

   - Mr. Henderson Sepúlveda and others brought a class action to the Civil Court No. 5 of Bogotá against the Bank due to excessive charge of interests in operations with credit cards. The procedure is in the evidentiary stage and there are no valid bases to determine the amount of the claim. The contingency is rated as remote.

   - Clara Cecilia Murcia and others brought a class action to the Administrative Court No. 5 of Bogotá against the Courts that did not abide the provisions of Law 546 regarding termination of the corresponding executive procedures. The Bank is linked to the process for having lodged the corresponding executive claims at the moment. The process is pending to resolve the prior exceptions presented by the Bank. The contingency has been rated as remote.

- Cornelio Villada Rubio and others brought a class action to the Administrative Court No 7 of Ibagué claiming compensation for the damages derived from having been reported to credit risk bureau without their authorization. The last event reported in the process was the answer to the petition by the Bank. The amount of the litigation is undetermined, and the contingency is rated as remote.

- Martha Luz Sanz Borja brought a class action against the Bank and other entities demanding compensation for damages derived from cracks and damages suffered by houses located in the development at Altos del Campo. The procedure is pending the decision of preliminary objections. The amount claimed is undetermined, and the contingency has been rated as remote.

- Fredy Alarcón and others brought a class action demanding compensation for alleged excessive charges made to the debtors of mortgage loans granted in UPAC. The claim is in process at the Civil Court No. 31 of Bogotá and is pending the resolution of the relief petition presented by the plaintiff. The amount is undetermined, and the contingency is rated as remote.

- Pedro Antonio Chaustre and Claudia Patricia Vasquez brought a class action against the Bank and Promociones y Cobranzas Beta S.A. claiming that the Bank, on an improper basis and without prior consultation, was charging preliminary collection costs to its Diners Card holders. The claim is in process at the Civil Court No. 30 of Bogotá, and a judicial reconciliation hearing is pending. The contingency is considered remote.

- Nohora Beatriz Santos Quiroga and others living at the development "Quintas del Sur" brought a class action against the Bank because, according to them, the Bank is responsible for damages suffered due to the deficiencies of the buildings of such complex. This claim is in process at the Administrative Court No. 29 of Bogotá, pending notification by the remaining defendants. The claims amount to COP 2,995 million plus any interest. The contingency was rated as remote.

- Mrs. Adriana Rocío Mantilla and others brought a class action against the Bank before the Administrative Court No. 2 of Cúcuta demanding compensation for damages suffered due to the failures of the buildings at the Vista Hermosa complex. The lawsuit was answered on November 11, 2010. The amount of the claim is undetermined, and the contingency is rated as remote.

**Bancafé Panamá S.A., Fiduciaria Davivienda., Confinanciera S.A. and Fiduciaria Cafetera S.A.**

Following analysis of the litigation to which the Bank's subsidiaries Bancafé Panamá S.A., Fiduciaria Davivienda S.A., Confinanciera S.A. and Fiduciaria Cafetera S.A. are a party, the Bank has determined that none of this litigation currently is deemed to represent a significant equity risk.

**Fiduciaria Cafetera S.A.**

In case that claims are for the payment of interests in arrears arising from the alleged omission of Consorcio Fidufosyga 2005 in complying with its legal and contractual duties by paying reimbursements in arrears, the contingency is deemed eventual, and so Consorcio Fidufosyga 2005 has made a provision of 50% of the total amount claimed.

Similarly, the first instance rulings in five of the proceedings brought against Consorcio Fidufosyga 2005 and/or Fisalud were favorable; therefore the claims of the suit were dismissed. Such proceedings are pending second instance rulings.

Fiducafé SA has a 9.86% interest in Consorcio Fidufosyga 2005 and a 17% interest in Consorcio Fisalud.

In the past, and as at the reporting date of December 31, 2011, Fiduciaria Cafetera S.A. has been sued in several proceedings, the most significant of which, by the amount at issue, are listed below.

Some of these proceedings, depending upon the date on which the facts giving rise to the cause of action occurred, are guaranteed under agreements with Fogafin related to the sale of shares of Granbanco Bancafé S.A. and Banco Davivienda

S.A. Under the terms of this guarantee, Fogafín covers up to 85% of the penalty amount, as well as court expenses and attorneys' fees.

Such proceedings are as follows:

- Salud Total S.A. brought Direct Reparation Action (2007-0065) against the Social Protection Ministry (*Nación - Ministerio de Protección Social*) and Consorcio Fidufosyga 2005, in which Fiducafé takes part (9.86%). The sum amounts to COP 2,120 million plus commercial interests. Regarding this matter, a first instance ruling against Fiducafé's interests is currently under review. The contingency is rated as probable, however, no contingency has been reserved as any damages would likely be paid by Fosyga, and would not be payable by members of the consortium to which Fiducafé is a party.

- Tax Responsibility Proceeding (50100-0078/08) filed by the District Comptroller's Office of Bogotá against Fiducafé and Fiduprevisora, members of Consorcio FPB, with the purpose of finding the tax officials responsible for identifying pensions lacking the requirements entirely filled in. Such proceeding is currently in the evidentiary stage and amounts to COP 287 million. The contingency has been rated as probable, and the provision for litigation amounts to COP 8 million.

- Cooperativa Nacional de Caficultores of Calarca´s ordinary process is guaranteed by Fogafin. In the month of October 2011 this culminated in a favorable ruling in favor of Fiducafé, ruling that the firm was not appealed.

- Similarly, there are more than 25 Direct Reparation lawsuits against Consorcio Fidufosyga 2005, which also include lawsuits against the Social Protection Ministry for amounts ranging from COP 1,000 million to COP 9,000 million.

## NOTE 27 - SHAREHOLDERS' EQUITY

Common Shares

As of December 31, 2010 and 2011, the Bank's capital consisted of 480,000,000 authorized shares, of which 408,056,976 were issued and outstanding at December 31, 2010 and 443,866,625 at December 31, 2011, with a COP 125 nominal value per share as of each date.

The subscribed and paid-in capital is the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Common Shares | 46,783 | 43,911 |
| Non-voting preferred shares | 6,448 | 11,569 |
| | 53,231 | 55,480 |

Amendments to the Bank's bylaws at Articles 5, 8, 9 and 15, were unanimously approved by the Bank's shareholders on April 28, 2010, and formalized by Public Deed No. 3202 of April 30, 2010, by Notary Seventy-One. The Bank's shares are registered capital, and may be: (a) normal or (b) with a preferential dividend and non-voting, although the latter may not represent more than 50 percent of the Bank's subscribed capital.

Reduction in Nominal Value per Share:

The General Assembly of Shareholders held on April 28, 2010, approved a stock split of the Bank's shares, which entailed a reduction in the nominal value of each share by a conversion factor of eight to one (8:1), reducing the nominal value of each share from COP 1,000 to COP 125. This conversion increased Banco Davivienda S.A.'s total shares outstanding from 50,000,000 shares to 480,000,000 shares. Consequently, the Bank's authorized capital of COP 60,000 million which was subsequently represented by 480,000,000 shares. The stock split was recorded in the Bank's 2010 financial statements. All share and per share amounts were not retroactively adjusted to reflect the stock split because it is not required by the Colombian Banking GAAP.

Issuance of Shares:

The General Assembly of Shareholder's meeting on April 28, 2010, authorized the issuance of up to 50,000,000 preferred shares. The amendments to the Bank's bylaws also entailed with a preferential dividend, but no voting rights for a period of three years following the registration of the shares with the Colombian National Registry of Securities and Issuers. This issuance was also approved by the SFC. After obtaining shareholder and regulatory approval, the Bank issued 26,000,000 preferred shares of nominal value COP 1,000 million at a price per share of COP 16,129 (of which 25,993,997 were issued and subscribed). As a result of this issuance, the Bank accounted for an increase in paid-in capital attributable to the sale of preferred shares of COP 413,165 million, and there was a nominal increase in paid-in capital of COP 3,249 million.

On August 26, 2011, the shareholders authorized an increase in the shares subject to the program and the issuance of up to 96,000,000 preferred shares.

The Meeting of Shareholders held on September 16, 2011 established that the first 16,000,000 shares would be offered first to existing preferred shareholders and the remaining shares to the general public.

On November 25, 2011 the Bank issued 35,809,649 preferred shares at a subscription price per share of COP 20,000, in accordance with the authorization given by shareholders on August 26, 2011. Consequently there was an increase of equity capital of COP 4,476 million and premium in the placement of shares for COP 711,717 million that increased the equity by COP 716,193 million.

At December 31, 2011 the remaining 29,886 preferred shares issued that were not paid generate a subscribed capital receivable equivalent to COP 3.7 million and a corresponding COP 594 million attributable to premium in the placement of shares preferential charge.

Dividend:

The General Assembly of Shareholders held on September 16, 2011, approved the payment of a dividend of COP 220 per share for a total of COP 89,773 million payable to the holders of the Bank outstanding 408,056,976 common shares and preferred.

The General Assembly of Shareholders held on on March 8, 2011, approved a dividend payment of COP 200 per share, for a total of COP 81,611 for 408,056,976 ordinary and preferred shares.

Conversion of shares:

The General Assembly of Shareholders held on December 31, 2010, also authorized minority shareholders that are not related to Group Bolívar, to convert up to 50% of the common shares they hold to preferred shares with a preferential dividend and no right to vote. Such conversion of common to preferred stock would be performed so that no conversion would trigger a modification of the Bank's paid-in capital, or the number of shares held by such shareholder. This conversion was approved by the SFC on September 8, 2010. The number of shares converted from common to preferred shares amounted to 25,586,704.

Appropriated retained earnings

Pursuant to Colombian law, 10% of the net income of the Bank and its Colombian subsidiaries in each year must be appropriated through a credit to a "legal reserve" until its balance is equivalent to 50% of the subscribed and paid capital. This legal reserve may not be reduced to less than the indicated percentage, except to cover losses in excess of undistributed earnings.

Appropriated retained earnings consisted of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Legal reserve | 8,659 | 39,145 |
| Statutory and voluntary reserves | 1,170,964 | 1,561,942 |
| Total | 1,179,623 | 1,601,087 |

Unappropriated retained earnings

Unappropriated retained earnings essentially determine the amount of dividend that will be paid to shareholders.

## NOTE 28 - MEMORANDUM ACCOUNTS

Memorandum accounts were composed of the following:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Commitments | | |
| Unused credit card limits | 7,101,359 | 7,834,746 |
| Unused credit limits | 3,674,517 | 4,168,269 |
| Other | 363,531 | 590,945 |
| Securities repurchased | 188,375 | 1,712,318 |
| Bank guarantees | 845,870 | 1,071,650 |
| Issued by the entity | 96,038 | 226,955 |
| Confirmed by the entity | 6,698 | 1,239 |
| Account payable nation law 546 of 1999 | 21,583 | 21,583 |
| | 12,297,971 | 15,627,705 |

## NOTE 29 - RELATED PARTY TRANSACTIONS

The following are considered related parties to the Bank:

- Sociedades Bolívar S.A. its subsidiaries and subordinates.
- Shareholders or actual beneficiaries of 5% or more of the equity of the Bank.
- Legal entities in which the Bank is a real beneficiary of 10% or more of the equity.
- Administrators of Sociedades Bolívar S.A., the Bank and other members of the Grupo Empresarial Bolívar.
- Officers and members of the board.

The Bank may enter into transactions, agreements or contracts with related parties on the understanding that any such operations are carried out with reasonable values, taking into account the following criteria among others:

- the conditions and prevailing market rates in the sector where the transaction is conducted;
- the activity of the companies involved; and
- growth prospects of the respective businesses.

Significant balances and transactions with related parties were as follows (in millions COP):

| | As of December 31, 2010 | | | | As of December 30, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Shareholders | Investment in entities with participation higher than 10%(1) | Bank's officers and board of directors | Related Companies | Shareholders | Investment in entities with participation higher than 10%(1) | Bank's officers and board of directors | Related Companies |
| Balance | | | | | | | | |
| Accounts receivable | 1,087 | 2,045 | 13,621 | 22,433 | - | 1,633 | 260 | 1,122 |
| Investments | - | 1,851,657 | - | - | - | 258,423 | - | - |
| Appraisals | - | 32,316 | - | - | - | 36,421 | - | - |
| Premises and equipment | - | - | - | - | - | - | - | 2,478 |
| Other assets | - | 30 | - | 3,824 | - | 31 | 1 | 13,531 |
| Loans | - | 743 | - | - | - | 2,786 | 24,658 | 220,164 |
| | 1,087 | 1,886,791 | 13,621 | 26,257 | - | 299,294 | 24,918 | 237,295 |
| Deposits | 2,173 | 307,724 | 2,526 | 61,429 | 5,390 | 123,947 | 5,637 | 66,689 |
| Borrowings from banks and others | | 165,636 | - | - | | 261,849 | - | - |
| Accounts payable | 316,983 | 19,223 | 135 | 16,190 | - | 30,302 | 296 | 14,407 |
| | 319,155 | 492,583 | 2,661 | 77,619 | 5,390 | 416,098 | 5,933 | 81,096 |
| Incomes | | | | | | | | |
| Interests | 15,815 | 192,351 | 1,230 | 46,001 | 4 | 167,387 | 1,922 | 73,636 |
| Non-interest income | - | 70 | 38 | 1,020 | | 112 | 19 | 1,053 |
| | 15,815 | 192,421 | 1,268 | 47,021 | 4 | 167,499 | 1,941 | 74,689 |
| Expenses | | | | | | | | |
| Interests | 6,623 | 68,308 | 889 | 35,110 | 207 | 80,230 | 1,280 | 43,139 |
| Non-interest expenses | - | 611 | - | 324 | - | 2,437 | 352 | 288 |
| | 6,623 | 68,919 | 889 | 35,434 | 207 | 82,667 | 1,632 | 43,427 |

## NOTE 30 - NON-INTEREST INCOME

The following table summarizes the components of non-interest income for the years ended December 31, 2009, 2010 and 2011:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Exchange gains on foreign transactions | 402,970 | 312,601 | 228,893 |
| Gain on derivatives valuation | 203,177 | 689,214 | 1,229,262 |
| Gain on sales on loans | 11,750 | 45,032 | 12,084 |
| Gain on sales on investments securities | 208,089 | 97,926 | 51,399 |
| Non-operating income | 125,831 | 94,038 | 91,518 |
| Syndicate credit rating | 38,020 | - | - |
| Recovery of allowance on assets | - | 128,242 | 152,225 |
| Others | 666 | 2,180 | 7,698 |
| | 990,503 | 1,369,233 | 1,773,079 |

## NOTE 31 - NON-INTEREST EXPENSES

The following table summarizes the components of Non Interest Expenses for the years ended December 31, 2009, 2010 and 2011:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Exchange losses on foreign transactions | 407,422 | 277,333 | 222,356 |
| Loss on derivatives valuation | 287,455 | 872,488 | 1,357,774 |
| Loss on sales on investments securities | 106,990 | 62,844 | 23,248 |
| Depreciation | 37,519 | 41,763 | 52,297 |
| Amortization | 103,830 | 137,915 | 138,215 |
| Amortization of excess investment cost over book value | 38,610 | 11,385 | 10,434 |
| Non operating expenses | 80,248 | 101,590 | 72,489 |
| Taxes | 41,461 | 90,818 | 129,498 |
| Deposit insurance | 47,852 | 54,255 | 59,646 |
| Other | 8,808 | 14,604 | 6,030 |
| | 1,160,195 | 1,664,995 | 2,071,987 |

## NOTE 32 – ADMINISTRATIVE EXPENSES

The following table summarizes the components of Administrative Expenses for the years ended December 31, 2009, 2010 and 2011:

| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| | | (millions of COP) | |
| Fees | 93,979 | 106,980 | 103,165 |
| Contributions and membership | 43,708 | 44,540 | 52,008 |
| Maintenance and repairs | 32,468 | 28,773 | 25,521 |
| Office arrangements | 13,730 | 19,412 | 18,562 |
| Utilities, cleaning and security service | 73,399 | 87,700 | 88,851 |
| Merchandising | 59,508 | 87,309 | 89,069 |
| Stationery | 14,101 | 15,178 | 15,635 |
| Employee expenses | 469,078 | 550,590 | 584,457 |
| Insurance | 23,704 | 35,491 | 53,372 |
| Others | 4,829 | 8,355 | 5,996 |
| | 828,504 | 984,328 | 1,036,636 |

## NOTE 33 - MINIMUM SHAREHOLDERS´ EQUITY REQUIREMENTS

The Banks shareholders' equity in Colombia, in line with the Basel Agreement, estimated according to the Colombian rules under Decree 1720 of 2001 cannot be lower than 9% of the local and foreign currency assets weighted per level of risk.

The classification of the risk assets in each category is made by applying the percentages determined by the SFC to each one of the asset and contingent accounts. Starting January 30, 2002, the market risks are also included as a part of the assets weighted per risk

The individual observance is verified each month on the non consolidated financial statements and in June and December of each year on the consolidated financial statements. The Bank's solvency index at December 31, 2010 and 2011 was 13.06% and 14.40%, respectively, according to the following calculations:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| | (millions of COP) | |
| Basic stockholders' equity | 2,696,081 | 3,818,807 |
| Additional shareholders' equity | 953,352 | 1,004,007 |
| Technical shareholders' equity | 3,649,433 | 4,822,814 |
| | | |
| Risk market value | 215,776 | 250,871 |
| Weighted assets per risk levels | 25,556,254 | 30,708,989 |
| | | |
| Solvency index (PT/(APNR+((100/9)*VeR)) | 13.06% | 14.40% |

**Controls of Law**
At December 31, 2010 and 2011 the Bank and its subsidiary complied with the requirements of mandatory reserves, foreign exchange position, minimum capital, solvency ratio and mandatory investment.

**Average Position**
Below is the result of the Bank's position in dollars as of December 31, 2011 (amounts in millions USD):

| | December 31, 2011 | |
|---|---|---|
| | Banco Davivienda S.A. | Confinanciera S.A. |
| Bank's Average Position (PP) | 18 | - |
| Maximum Required: 20% Technical Equity | 414 | 6 |
| Minimum Required: -5% Technical Equity | (104) | (2) |
| | | |
| Bank's average cash position (PPC) | 3 | - |
| Maximum Required: 50% Technical Equity | 1,036 | 15 |
| | | |
| Average gross leverage position (PBA) | 5,493 | - |
| Maximum Required: 550% Technical Equity | 11,394 | 165 |

## NOTE 34 – HIGHLIGHTS

According to Act No. 815 of September 13, 2011, the Board approved the initiation of the merger of Confinanciera S.A. Company Financing with Banco Davivienda S.A., the latter being the acquirer, and authorized the administration to advance all procedures prior to the convening of the general assembly meeting of shareholders in the decision to undergo the merger. This merger is expected to be completed in the second half of 2012.

## NOTE 35 – SUBSEQUENT EVENTS

According to Act No. 825 of January 23, 2012, the Board of Directors approved the acquisition of the operations that the HSBC Group has in Costa Rica, El Salvador and Honduras. The Group consists of three banks, one in each country and two insurance companies (based in El Salvador and Honduras), and other supplementary Financial Services Companies. On January 24, 2012 we signed the Share Purchase Agreement.

This transaction is under review by the appropriate authorities in each country, and we believe it will be completed during 2012.

On May 3, 2012, Banco Davivienda S.A. completed an offering of subordinated bonds for COP 400 billion under its COP 3,000 billion local bond program.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
**AS OF DECEMBER 31, 2011 AND MARCH 31, 2012**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| Assets | Note | | December 31, 2011 | | March 31, 2012 | | March 31, 2012(1) |
|---|---|---|---|---|---|---|---|
| | | | (millions of COP) | | | | (thousands of U.S.$) |
| Cash and cash equivalents: | | | | | | | |
| Cash and due from banks | 3 | COP | 1,406,486 | COP | 2,063,260 | US$ | 1,151,328 |
| Interbank and overnight funds | 4 | | 1,928,630 | | 1,051,994 | | 587,027 |
| Total cash and cash equivalents | | | 3,335,116 | | 3,115,254 | | 1,738,355 |
| Investment securities: | 5 | | | | | | |
| Debt securities: | | | | | | | |
| Trading | | | 3,240,514 | | 3,888,979 | | 2,170,104 |
| Available for sale | | | 1,085,924 | | 995,063 | | 555,259 |
| Held to maturity | | | 332,114 | | 434,280 | | 242,334 |
| Total debt securities | | | 4,658,552 | | 5,318,322 | | 2,967,697 |
| Equity securities: | | | | | | | |
| Trading | | | 1,007 | | 2,901 | | 1,619 |
| Available for sale | | | 117,605 | | 117,530 | | 65,583 |
| Total equity securities | | | 118,612 | | 120,431 | | 67,202 |
| Allowance for impairment | | | (31,337) | | (25,877) | | (14,440) |
| Total investment securities, net | | | 4,745,827 | | 5,412,876 | | 3,020,460 |
| Loans and financial leases: | 6 | | | | | | |
| Commercial loans | | | 15,680,998 | | 15,901,724 | | 8,873,383 |
| Consumer loans | | | 8,605,747 | | 8,699,645 | | 4,854,523 |
| Microcredit loans | | | 92,050 | | 91,780 | | 51,215 |
| Mortgage loans | | | 2,460,173 | | 2,537,542 | | 1,415,984 |
| | | | 26,838,968 | | 27,230,691 | | 15,195,105 |
| Allowance for loans and financial lease losses | 7 | | (1,291,883) | | (1,359,483) | | (758,610) |
| Total loans and financial leases, net | | | 25,547,085 | | 25,871,208 | | 14,436,495 |
| Accrued interest receivable on loans and financial leases, net | 8 | | 384,395 | | 449,238 | | 250,681 |
| Bankers' acceptances and derivatives | 9 | | 125,791 | | 112,489 | | 62,770 |
| Foreclosed assets, net | 10 | | 38,837 | | 44,820 | | 25,010 |
| Premises and equipment under operating leases, net | 11 | | 5,851 | | 5,719 | | 3,191 |
| Premises and equipment, net | 12 | | 393,793 | | 389,882 | | 217,560 |
| Prepaid expenses and deferred charges | 13 | | 226,627 | | 211,569 | | 118,059 |
| Goodwill | 14 | | 1,181,627 | | 1,170,063 | | 652,912 |
| Other assets, net | 15 | | 152,186 | | 152,316 | | 84,995 |
| Reappraisal of assets | 16 | | 520,815 | | 510,037 | | 284,608 |
| Total assets | | COP | 36,657,950 | COP | 37,445,473 | US$ | 20,895,095 |
| Memorandum accounts | 28 | COP | 15,627,705 | COP | 14,883,195 | US$ | 8,305,030 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET (CONTINUED)**
**AS OF DECEMBER 31, 2011 AND MARCH 31, 2012**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| | Note | | December 31, 2011 | | March 31, 2012 | | March 31, 2012(1) |
|---|---|---|---|---|---|---|---|
| | | | (millions of COP) | | | | (thousands of U.S.$) |
| Liabilities | | | | | | | |
| Deposits : | 17 | | | | | | |
| Non-interest bearing: | | | | | | | |
| Checking accounts | | COP | 2,799,865 | COP | 2,560,198 | US$ | 1,428,626 |
| Savings deposits | | | 237,924 | | 238,580 | | 133,131 |
| Other Deposits | | | 241,679 | | 153,882 | | 85,868 |
| Total non-interest bearing deposits | | | 3,279,468 | | 2,952,660 | | 1,647,625 |
| Interest bearing: | | | | | | | |
| Checking accounts | | | 796,564 | | 690,666 | | 385,401 |
| Time deposits | | | 6,688,751 | | 7,346,079 | | 4,099,215 |
| Savings deposits | | | 12,259,480 | | 13,063,782 | | 7,289,772 |
| Total interest bearing deposits | | | 19,744,795 | | 21,100,527 | | 11,774,388 |
| Total deposits | | | 23,024,263 | | 24,053,187 | | 13,422,013 |
| Interbank and overnight borrowing | 18 | | 73,535 | | 163,867 | | 91,440 |
| Borrowings from financial institutions | 19 | | 3,557,095 | | 3,231,726 | | 1,803,348 |
| Long-term debt | 22 | | 3,700,988 | | 3,503,448 | | 1,954,973 |
| Accrued interest payable | | | 146,874 | | 152,126 | | 84,888 |
| Bankers' acceptances and derivative instruments | 9 | | 97,055 | | 111,964 | | 62,477 |
| Accounts payable | 20 | | 779,864 | | 775,543 | | 432,764 |
| Other liabilities | 23 | | 328,856 | | 326,152 | | 181,997 |
| Accrued expenses | 24 | | 120,839 | | 197,822 | | 110,388 |
| Non-controlling interest | 25 | | 33,252 | | 29,972 | | 16,725 |
| Total liabilities | | | 31,862,622 | | 32,545,807 | | 18,161,013 |
| Shareholders' Equity | | | | | | | |
| Subscribed and paid in capital | 27 | | | | | | |
| Non-voting preferred shares | | | 11,569 | | 12,567 | | 7,013 |
| Common shares | | | 43,911 | | 42,916 | | 23,948 |
| Additional paid-in capital | | | 2,246,030 | | 2,255,220 | | 1,258,444 |
| Retained earnings | | | | | | | |
| Appropriated | 27 | | 1,601,087 | | 1,797,771 | | 1,003,181 |
| Unappropriated | | | 377,699 | | 281,347 | | 156,995 |
| Reappraisal of assets | | | 517,119 | | 506,450 | | 282,606 |
| Unrealized net gains (losses) on investments available for sale | | | (2,088) | | 3,395 | | 1,894 |
| Total Shareholders' equity | | | 4,795,328 | | 4,899,666 | | 2,734,082 |
| Total Liabilities and Shareholders' Equity | | COP | 36,657,950 | COP | 37,445,473 | US$ | 20,895,095 |
| Memorandum accounts | 28 | COP | 15,627,705 | COP | 14,883,195 | US$ | 8,305,030 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars, except per share and share amounts)

| | Note | March 31, 2011 | March 31, 2012 | March 31, 2012 (1) |
|---|---|---|---|---|
| | | (millions of COP) | | (thousands of U.S.$) |
| Interest income | | | | |
| Interest on loans | | COP 608,660 | COP 786,868 | US$ 439,083 |
| Interest on investment securities | | 55,522 | 95,803 | 53,459 |
| Interbank and overnight funds | | 927 | 2,330 | 1,300 |
| Financial leases | | 42,066 | 51,593 | 28,790 |
| **Total interest income** | | 707,175 | 936,594 | 522,632 |
| Interest expense | | | | |
| Checking accounts | | 4,385 | 5,553 | 3,099 |
| Time deposits | | 73,083 | 90,977 | 50,766 |
| Savings deposits | | 32,510 | 96,566 | 53,885 |
| **Total interest expense on deposits** | | 109,978 | 193,096 | 107,750 |
| Borrowings from financial institutions | | 18,044 | 34,817 | 19,428 |
| Interbank and overnight borrowing | | 703 | 332 | 185 |
| Repo transaction | | 1,978 | 210 | 117 |
| Long-term debt | | 54,123 | 70,384 | 39,275 |
| **Total interest expense** | | 184,825 | 298,839 | 166,755 |
| **Net interest income** | | 522,349 | 637,755 | 355,877 |
| Allowance for loan, accrued interest losses and other receivables | | (426,540) | (541,443) | (302,132) |
| Recovery of non-performing loans | | 320,498 | 334,656 | 186,743 |
| Allowance for investment and foreclosed assets | | (4,306) | (3,791) | (2,115) |
| Recovery of provision for foreclosed assets and investment | | 1,697 | 9,892 | 5,520 |
| Allowance for other assets | | (10,590) | (2,240) | (1,250) |
| Total allowance, net | | (119,242) | (202,926) | (113,234) |
| **Net interest income after allowance** | | 403,107 | 434,829 | 242,643 |
| Fees, commission and services income | | 184,256 | 198,912 | 110,995 |
| Fees and commission expenses | | (21,259) | (20,909) | (11,667) |
| Non-interest income | 30 | 232,817 | 482,733 | 269,372 |
| Dividends income | | 17,420 | 15,603 | 8,707 |
| **Total non-interest income and dividend income** | | 413,233 | 676,340 | 377,407 |
| Administrative expenses | 32 | 237,293 | 252,127 | 140,690 |
| Operating expenses | | 46,237 | 49,575 | 27,663 |
| Non-interest expenses | 31 | 316,425 | 533,131 | 297,494 |
| **Income before income taxes and non-controlling interest** | | 216,385 | 276,336 | 154,199 |
| Income tax expense | 21 | (43,013) | (58,513) | (32,651) |
| Non-controlling interest | | (1,821) | (2,493) | (1,391) |
| **Net income** | | COP 171,551 | COP 215,330 | US$ 120,157 |
| Net income per share (in Colombian pesos COP) | | COP 420 | COP 485 | US$ 0.271 |
| Weighted average number of subscribed shares | 27 | 408,056,976 | 443,866,625 | 443,866,625 |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

## BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
## FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012

(Stated in millions of Colombian pesos (COP), and thousands of U.S. dollars)

| | Non-voting preferred shares | Common Shares | Additional paid-in capital | Cumulative translation Adjustment, net | Retained earnings: Appropriated | Retained earnings: Unappropriated | Equity inflation adjustments |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | **COP 6,448** | **COP 46,783** | **COP 1,561,632** | **COP (6,723)** | **COP 1,179,623** | **COP 334,922** | **COP (1,802)** |
| Net income | - | - | - | - | - | 171,551 | - |
| Transfer to appropriated retained earnings | - | - | - | - | 188,221 | (188,221) | - |
| Issuance of shares | - | - | 40 | - | - | - | |
| Changes in equity surplus | - | - | - | - | - | - | |
| Other | - | 179 | (18,093) | (1,831) | 19,767 | (12,649) | 1,800 |
| Equity participation of certain Banco Davivienda shareholders in Banco Davivienda subsidiaries | - | (85) | - | - | 129 | 581 | 2 |
| Donation | - | - | - | - | (540) | - | - |
| Dividends declared (March 14, 2011). | - | - | - | - | - | (81,611) | - |
| **Balance at March 31, 2011** | **COP 6,448** | **COP 46,877** | **COP 1,543,579** | **COP (8,554)** | **COP 1,387,199** | **COP 224,572** | **COP -** |
| **Balance at December 31, 2011** | **COP 11,569** | **COP 43,911** | **COP 2,246,030** | **COP -** | **COP 1,601,087** | **COP 377,699** | **COP -** |
| Net income | - | - | - | - | - | 215,330 | - |
| Transfer to appropriated retained earnings | 995 | (995) | 2,197 | - | 192,814 | (195,012) | - |
| Changes in equity surplus | - | - | - | - | - | - | |
| Other | 3 | - | 6,992 | - | 7,894 | (19,019) | - |
| Donation | - | - | - | - | (4,024) | - | - |
| Dividends declared (March 15, 2012) | - | - | - | - | - | (97,651) | - |
| **Balance at March 31, 2012** | **COP 12,567** | **COP 42,916** | **COP 2,255,220** | **COP -** | **COP 1,797,771** | **COP 281,347** | **COP -** |
| **Balance at March 31, 2012 (thousands of US$) (1)** | **US$ 7,013** | **US$ 23,948** | **US$ 1,258,444** | **US$ -** | **US$ 1,003,181** | **US$ 156,995** | **US$ -** |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

## BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012
(Stated in millions of Colombian pesos (COP) and thousands of U.S. dollars)

| | March 31, 2011 | March 31, 2012 | March 31, 2012 (1) |
|---|---|---|---|
| | (millions of COP) | | (thousands of U.S.$) |
| **Net income** | **171,551** | **215,330** | **120,157** |
| Adjustments to reconcile net income to net cash provided in operating activities: | | | |
| Deferred income taxes | 9,012 | 12,218 | 6,818 |
| Allowance for loan, accrued interest losses and other receivables, net | 426,540 | 541,443 | 302,132 |
| Allowance for investment and foreclosed assets | 4,306 | 3,791 | 2,115 |
| Allowance for other assets | 10,590 | 2,240 | 1,250 |
| Depreciation and amortization | 49,662 | 31,428 | 17,537 |
| Recovery of allowance for foreclosed assets, and other assets | (1,697) | (9,892) | (5,520) |
| Gains on sale of loans and financial leases | - | (6,063) | (3,383) |
| Net gains on sale of investments | (5,070) | (14,776) | (8,245) |
| Recovery of non performing loans | (277,102) | (297,922) | (166,245) |
| Gains (loss) on sale of other assets, net | (722) | 407 | 227 |
| Increase in loans and financial leases | (1,260,877) | (754,423) | (420,979) |
| (Increase) Decrease in investment securities in circulation | (68,690) | (567,588) | (316,722) |
| Proceeds from sales of assets held for sale and foreclosed assets | 2,562 | 3,865 | 2,157 |
| Investment valuation, net | (51,959) | (79,765) | (44,510) |
| Withdrawals (additions) of foreclosed assets | (3,221) | (9,478) | (5,289) |
| Net change in other assets and liabilities | (81,922) | 3,413 | 1,905 |
| Severance pay | (2,250) | (2,351) | (1,312) |
| Increase in deposits | 1,829,723 | 1,028,924 | 574,154 |
| **Net cash used in operating activities** | **750,436** | **100,801** | **56,248** |
| | | | |
| **Cash flows from investing activities:** | | | |
| Decrease in other assets | 560 | 411 | 229 |
| Additions of premises and equipment and other assets | (13,959) | (6,661) | (3,717) |
| Proceeds from sales of premises and equipment | 2,230 | 125 | 70 |
| **Net cash used in investing activities** | **(11,169)** | **(6,125)** | **(3,418)** |
| | | | |
| **Cash flows from financing activities:** | | | |
| Proceeds from sales of loans | - | 204,871 | 114,321 |
| (Decrease) Increase in interbank and overnight borrowing | (27,305) | 90,333 | 50,407 |
| Increase (Decrease) in borrowing from financial institutions | 162,308 | (325,370) | (181,561) |
| Increase (Decrease) in long-term debt securities in circulation | 424,977 | (197,541) | (110,230) |
| Donations | (540) | (4,024) | (2,245) |
| Issuance of common shares | 40 | 598 | 334 |
| Increase in non-controlling interest | 51,779 | 14,150 | 7,896 |
| Dividends paid | (82,473) | (97,555) | (54,437) |
| **Net cash provided (used) by financing activities** | **528,786** | **(314,538)** | **(175,517)** |
| | | | |
| Increase (Decrease) in cash and cash equivalents | 1,268,054 | (219,863) | (122,688) |
| Cash and cash equivalents at beginning of period | 1,683,709 | 3,335,116 | 1,861,041 |
| **Cash and cash equivalents at end of period** | **2,951,764** | **3,115,254** | **1,738,355** |

(1) See Note 2, "Translation of foreign currency transactions and consolidated balances—Convenience translation to US dollars."

The accompanying notes form an integral part of these Consolidated Financial Statements.

**BANCO DAVIVIENDA S.A. AND ITS SUBSIDIARIES**
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1 - ORGANIZATION AND BACKGROUND

Banco Davivienda S.A. was incorporated under the laws of the Republic of Colombia on October 16, 1972 under Public Deed No. 3892. The main purpose of Banco Davivienda S.A. is to provide a broad range of general banking services to customers from individuals to major corporations. Banco Davivienda S.A. and its subsidiaries (collectively referred to herein as the "Bank" or "Banco Davivienda S.A.") offer mortgage loans, commercial and consumer loans and banking services and provide other services, including leasing, securities brokerage and asset management services.

By Public Deed No. 3202 of April 30, 2010, Notary Seventy One of the District of Bogotá, registered on May 4, 2010 at the Chamber of Commerce, Banco Davivienda S.A. changed the par value per share from one thousand pesos (COP 1,000) to one hundred twenty five pesos (COP 125).

The most representative bylaw reforms are:

- By means of Resolution 562 dated June 10, 1997, the Colombian Superintendency of Finance (referred to herein as "SFC") approved the transformation from a Savings and Loan Corporation to a Commercial Bank.
- By Public Deed No. 4541, dated August 28, 2000, prepared by Notary Eighteen in the District of Bogotá, Banco Davivienda formalized the acquisition of 100% of the shares of Delta Bolívar S.A. ("Delta Bolívar"). Consequently, Delta Bolívar was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on September 1, 2000, extinguishing Delta Bolívar as a legal entity.
- By Public Deed No. 2369, dated April 27, 2006, prepared by Notary One in the District of Bogotá, Banco Davivienda formalized the absorption by merger of Bansuperior S.A. Consequently, Bansuperior S.A. was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on May 2, 2006, extinguishing Bansuperior S.A. as a legal entity.
- By Public Deed No. 7019, dated August 29, 2007, prepared by Notary Seventy-One in the District of Bogotá, registered on September 3, 2007 in the Chamber of Commerce, Banco Davivienda formalized the absorption by merger of Granbanco S.A. Consequently, Granbanco S.A. was dissolved without liquidation and the company and its stockholders' equity were absorbed by the Bank on September 1, 2007, extinguishing Granbanco S.A. as a legal entity.
- By Public Deed No. 3202, dated April 30, 2010, prepared by Notary Seventy-One in the District of Bogotá, registered on May 4, 2010 in the Chamber of Commerce, Banco Davivienda formalized the change of its nominal share value from one thousand pesos (COP 1,000) to one hundred twenty-five pesos (COP 125). The Bank's authorized capital remains at 480 million shares.

The figures of assets, liabilities, shareholders' equity, and net income in the individual Financial Statements of Banco Davivienda and its Subsidiaries and in the case of net income, for the year and three months ended December 31, 2011 and March 31, 2012, respectively, were as follows:

| | December 31, 2011 (millions of COP) | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Equity | Net Income |
| Banco Davivienda S.A. | 35,183,747 | 30,371,193 | 4,812,554 | 592,813 |
| Confinanciera S.A. | 479,424 | 396,992 | 82,432 | 25,590 |
| Fiduciaria Cafetera S.A. | 80,945 | 9,642 | 71,304 | 7,045 |
| Fiduciaria Davivienda S.A. | 62,364 | 7,132 | 55,232 | 15,514 |
| Davivalores S.A. | 14,770 | 1,991 | 12,779 | 1,983 |
| Bancafé Panamá S.A. | 1,275,914 | 1,097,363 | 178,550 | 21,613 |
| | 37,097,164 | 31,884,313 | 5,212,851 | 664,558 |

| | March 31, 2012 (millions of COP) | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Equity | Net Income |
| Banco Davivienda S.A. | 35,856,955 | 30,943,737 | 4,913,218 | 225,837 |
| Confinanciera S.A. | 493,025 | 414,992 | 78,034 | 6,648 |
| Fiduciaria Cafetera S.A. | 83,720 | 15,160 | 68,560 | 2,253 |
| Fiduciaria Davivienda S.A. | 65,622 | 18,590 | 47,032 | 3,794 |
| Davivalores S.A. | 16,120 | 1,489 | 14,631 | 2,388 |
| Bancafé Panamá S.A. | 1,384,859 | 1,208,080 | 176,779 | 8,483 |
| | 37,900,301 | 32,602,048 | 5,298,254 | 249,403 |

The amounts in the Consolidated Balance Sheet are presented for the year ended December 31, 2011 and for the first quarter ended on March 31, 2012. The amounts in the Consolidated Statements of Income are presented for the three-month period ended March 31, 2011 and 2012.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND FINANCIAL STATEMENTS PRESENTATION

### *Basis of Presentation*

Banco Davivienda S.A. has prepared these individual and consolidated financial statements in accordance with the regulations of the SFC for financial institutions (Resolution 3600 of 1988 and External Circular 100 of 1995) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, or "Colombian GAAP" and, together with such regulations, "Colombian Banking GAAP".

The financial statements of foreign subsidiaries have been adjusted in order to adopt uniform accounting policies as required by Colombian Banking GAAP.

In accordance with its bylaws, the Bank prepares on a semester basis its financial statements at June 30 and December 31, which are consolidated. Such financial statements are presented to shareholders and local regulatory authorities. Additionally, the Bank prepares standalone financial statements on the same semester basis which serve as the basis for dividends and other distributions.

The Bank's significant accounting policies and procedures are described below.


(Continued)

***Banco Davivienda S.A. and its consolidated subsidiaries***

The consolidated financial statements include Banco Davivienda S.A. and its majority-owned subsidiaries in which it holds, directly or indirectly, 50% or more of the outstanding voting shares.

All significant intercompany transactions and balances have been eliminated in consolidation.

The majority interests of Banco Davivienda S.A. as of December 31, 2011 and March 31, 2012 were as follows:

| | | Participation percentage | | |
|---|---|---|---|---|
| Entity | Business purpose | December 31, 2011 | March 31, 2012 | Date of incorporation (I) or Acquisition (A) |
| Fiduciaria Davivienda SA. | Asset management and trust services | 60.00% | 60.00% | December 14, 1992 (I) |
| Davivalores S.A. | Securities brokerage | 79.00% | 79.00% | March 12, 1998 (I) |
| Confinanciera S.A. | Financial services | 94.90% | 94.90% | December 4, 2006 (A) |
| Bancafé Panamá S. A. | Banking | 99.99% | 99.99% | February 16, 2007 (I) |
| Fiduciaria Cafetera S. A. | Asset management and trust services | 94.01% | 94.01% | February 16, 2007 (A) |

***Translation of foreign currency transactions and consolidated balances***

*Translation of financial statements in foreign currency*

The financial statements of Banco Davivienda S.A.'s subsidiaries with functional currencies different from the Colombian peso are translated to Colombian pesos as follows:

Balance sheet accounts are translated to Colombian pesos using the Tasa Representativa de Mercado ("TRM") or market exchange rate applicable at the end of the year, as established by the SFC (except equity accounts which are translated at the historical exchange rate). The market exchange rates at December 31, 2011 and March 31, 2012, were COP 1,942.70 and COP 1,792.07 per US$ 1.00, respectively.

In accordance with instructions of the SFC since December 31, 2011, cumulative translation adjustments are netted against retained earnings, and as a consequence the balance of those accounts as of March 31, 2012 was zero.

*Transactions and balances in foreign currency by Banco Davivienda S.A and its local subsidiaries*

Transactions and balances in foreign currency are translated by Banco Davivienda S.A. and its banking subsidiaries to Colombian pesos using the market exchange rates applicable on the corresponding dates, as established by the SFC. The exchange rates at December 31, 2011 and March 31, 2012 are as stated above. Exchange rate differences arising from the translation of assets and liabilities denominated in foreign currency to Colombian pesos are recorded in the account. Exchange gains on foreign transactions are recorded in non-interest income or as exchange loss on foreign transactions in non-interest expenses on the consolidated statements of income.

*Convenience translation to US dollars*

Banco Davivienda S.A. and its banking subsidiaries maintain their accounting records and prepare their unaudited condensed consolidated financial statements in Colombian pesos. The U.S. dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, dividing the Colombian peso amounts by the exchange rate of COP 1,792.07 per US$1.00, which is the market exchange rate as of March 31, 2012, as published on April 1, 2012, as calculated by the SFC. The use of this methodology in translating Colombian pesos to U.S. dollars is referred to as the "U.S. dollar translation methodology," and should not be construed as a representation that the Colombian peso amounts actually represent, or have been, or could be converted into U.S. dollars at that or any other rate.


(Continued)

***Use of estimates in the preparation of consolidated financial statements***

The preparation of consolidated financial statements, according with Colombian Banking GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

***Real Value Unit rate (UVR) – Mortgage loans***

The transactions that Banco Davivienda S.A. and its subsidiaries carry out with regard to mortgage loans linked to the Real Value Unit (*Unidad de Valor Real* or "UVR") are adjusted on a daily basis based on the daily value of the UVR, as published by the Colombian Central Bank (the "Central Bank"). The values assigned by the Central Bank to the UVR, in Colombian pesos were, at December 31, 2011, COP 198.45; and at March 31, 2012, COP 201.50. The UVR reflects the monthly variance of the Colombian IPC (Colombian Consumer Price Index).

Law 546 of 1999 in its article 3, created the UVR as an account unit that reflects the purchasing power of the currency based exclusively on the variation of the consumer price index certified by the DANE (the Colombian National Bureau of Statistics, in Spanish the *Departamento Administrativo Nacional de Estadística*) which value is calculated in accordance with the methodology adopted by the National Government.

In order to eliminate the distortion generated by the seasonality of inflation in operations, income generated in UVRs must be amortized over a period of one year.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash and amounts due from banks that are highly liquid investments with a maturity of one month or less at the date of acquisition. Interbank and overnight funds, explained in the note below are considered to be cash equivalents for the purposes of this statement.

Under Colombian Banking GAAP there are no special requirements of forms to prepare the Bank's statement of cash flows. The statement of cash flows was prepared using the indirect method.

***Interbank and overnight funds***

This represents the funds directly placed by the Bank and its subsidiaries in other financial institutions with or without investment collateral, using surplus liquidity, with or without a commitment to resell, at terms of up to 30 days. The account also includes overnight deposits with banks abroad using Bank funds deposited outside Colombia.

***Repurchase and resale (repo) transactions***

A repurchase and resale transaction, or "repo transaction" is defined as the acquisition or transfer of securities, in exchange for the delivery of liquid funds (with or without a discount), assuming at that time and by virtue of such action, the commitment to transfer or acquire from the counterparty, on either the same day or at a later date, without at any time exceeding the term of one year, at an established price, the securities subject to the transaction or other securities of similar kind. Under the terms of certain repo transactions, securities may be exchanged for other securities, and restrictions may be imposed as to the transferability of such securities. The value of the securities granted or received to support repo transactions is registered in the "Memorandum accounts." The returns agreed upon for these transactions are based on SFC rules and regulations and are recorded as income (in the case of lending operations) or expense (in the case of borrowing operations) in the consolidated statements of income.

***Simultaneous transactions***

A simultaneous transaction is defined as the acquisition or transfer of securities, regularly conducted by the Bank and/or its subsidiaries, in exchange for the delivery of liquid funds (without a discount), assuming at that time and by virtue of such action, the commitment to transfer or acquire from the counterparty, on either the same day or at a later date without at any time exceeding the term of one year, at an established price, the securities subject to the transaction. Under the terms of simultaneous transactions, securities may not be changed for other securities, and restrictions may not be imposed as to the transferability of such securities. The value of the securities granted or received to support simultaneous transactions is registered in "Memorandum accounts". The returns agreed upon for these transactions are based on SFC rules and regulations and are recorded as income (in the case of lending operations) or expense (in the case of borrowing operations) in the consolidated statements of income.

***Investment securities***

**a) Classification**

Investment securities are classified as "trading," "available for sale" or "held to maturity." The first two of these groups might include investments in debt or equity securities. The third group only includes investments in debt securities.

**1) Trading securities**

Trading securities are those acquired mainly with the purpose of obtaining profits from short-term price fluctuations and are accounted for at fair value through profit and loss.

**2) Available for sale securities**

Available for sale securities are those which do not fall into the other two categories and for which the investor has both a clear intention and legal, contractual, financial and operational capacity to hold for at least one year since the date investments are classified as available for sale. On the first business day after a year has passed since the initial classification of the securities as available for sale, investors decide whether to leave them in this category or reclassify them as trading or held to maturity. If on the day an available for sale security is reclassified as trading, unrealized gains or losses must be recognized as either income or expense in the consolidated statements of income.

Available for sale securities include, in accordance with the Colombian Stock Exchange (*Bolsa de Valores de Colombia*), low liquidity level and unquoted equity securities.

**3) Held to maturity securities**

Held to maturity securities are debt securities acquired with the stated purpose and legal, contractual, financial and operational capacity to hold until maturity. These securities are accounted for at their acquisition cost plus accrued interest using the effective interest rate method and may not be used for liquidity operations, unless they are mandatory investments entered into on the primary market, provided that the counterparty for the transaction is the Central Bank, institutions overseen by the SFC or, in exceptional cases, as otherwise determined by the SFC.

**b) Initial measurement**

Securities are initially accounted for at their acquisition cost. Subsequent measurement depends upon their classification.

**Debt Securities**

Available for sale and trading debt securities are appraised and valued on a daily basis. Banco Davivienda S.A. and its subsidiaries determine the fair value of these securities by using the pricing, reference rates and spreads that "Infoval" (*Información para Valoración,* the entity created as provider of market prices by the Colombian Stock Exchange) calculates and publishes daily.

Held to maturity debt securities are accounted for at their acquisition cost plus accrued interest using the annual internal rate of return calculated on the purchase date.

**Equity Securities**

The SFC mandates that equity investments are to be marked to market on a daily basis. However, in the case of investments in securities that have low liquidity levels, or that are not listed on a securities exchange, and whose only source of valuation are the financial statements of the issuing company, Banco Davivienda S.A. and its subsidiaries regularly conduct valuations of such investments, recording the amounts thus appraised in their consolidated financial statements.The following is the valuation method:

***a. Listed equity securities, issued and traded in Colombia***

Securities are valued daily based on prices published by authorized entities (i.e., the Colombian Stock Exchange). In the absence of a price calculated for the day on which these securities are appraised, the last known valuation price is to be used. In the case of a listed equity security not reporting any trades on the secondary market as of its issue date, and for which there is no indicated market price for its primary issue, it should be appraised based on the guidelines stipulated in paragraph b below.

***b. Non-listed equity securities, issued in Colombia***

Securities are valued based on acquisition cost which is later increased or decreased depending upon the investor's percentage stake in all subsequent changes in the issuer's shareholders' equity.

For this purpose, the issuer's shareholders' equity is calculated based on audited financial statements at the cut-off dates of June 30 and December 31 of each year. However, when more recent audited financial statements are released, such financial statements may be used to calculate the latest changes to the equity of the issuer. Entities have a maximum allowed time of three months, subsequent to the cut-off date of the financial statements, to update the valuations of their investments.

**Securities Denominated in Foreign Currency or in UVR**

Foreign exchange gains or losses resulting from investment in foreign currency securities and UVR Securities are recorded as exchange gains on foreign transactions in non-interest income or as exchange loss on foreign transactions in non-interest expenses in the consolidated statements of income, and interest income, respectively.

**c) Subsequent measurement**

As described above, security investments are initially accounted for at their acquisition cost. Subsequent measurement and recording depend upon how they are classified by the investor as follows:

**Trading securities**

These investments are recorded on a daily basis at fair value and include investments in debt and equity securities acquired for short-term trading purposes. Unrealized gain or losses resulting from differences in fair values are included in the consolidated statement of income for the period.

Trading investments are valued at fair value using referential prices published daily by the Colombian Stock Exchange. Debt investments issued by foreign entities are valued using published reference prices sourced from recognized international price vendors.

**Available for sale securities**

<u>Debt securities</u>

Differences between the present value of future flows of the securities at the valuation date and the last present value calculated and recorded are registered as increases or decreases in the "investment securities" account in the balance sheet and are also accounted for in the consolidated statement of income. Differences arising between the market value and the present value are reported as "gross unrealized gains (losses) on investment available for sale" in shareholders' equity. This procedure is performed on a daily basis.

Equity securities

Changes to the fair value are associated to changes in the equity of the investments and are recorded in accordance with the investment trading volume, as follows:

***Securities with low liquidity levels or securities not listed on a stock exchange***

If the value of the investment, based on the latest audited financial statements available and released by the issuer, exceeds the carrying value of the investment, the difference is recorded as other assets in a special account "reappraisal of assets" with a charge or credit into the stockholders' equity in the account "reappraisal of assets." A decrease in the fair value of the investment below the carrying value cost is recorded as a provision with a charge to the statement of income. This provision could be reversed in the future if the fair value increases in excess of the carrying value.

Dividends received in cash or shares on investment equity securities are recorded as income on an accrual basis.

***Securities with high or medium liquidity levels***

Differences between current and previous mark-to-market valuations of these securities are recorded daily as "Gross unrealized gains or losses on investment available for sale," within the shareholders' equity accounts, and by crediting or debiting the investment securities account.

Dividends received in cash or in kind, including those from capitalizing the equity revaluation account, must be recorded as dividend income.

**Held to maturity securities**

Investments held to maturity are accounted for at acquisition cost plus accrued interest using the effective interest internal rate method. The effective interest rate is the internal rate of return calculated at the time of the purchase of the investment. Interest accruals are recorded as interest income on investment securities in the consolidated statements of income.

**d) Impairment evaluation of investment securities**

The prices of trading and available for sale debt securities that do not have fair exchange prices, those classified as held to maturity equity securities with low or minimum liquidity, or those that are unquoted must be adjusted on each valuation date, based on the credit risk classification.
Debt securities issued or guaranteed by the Republic of Colombia or the Colombian Guarantee Fund for Financial Institutions ("Fogafin") or issued by the Central Bank are not subject to this adjustment.

- Securities Issued abroad or with a foreign ranking

Securities that are rated by a rating firm recognized by the SFC or securities issued by entities that are rated by those recognized international rating firms cannot be registered for an amount that exceeds the following percentages of their nominal net amortization value as of the valuation date:

| Long Term Ranking | Short Term Ranking | Max. Amount % |
|---|---|---|
| BB+, BB, BB- | 3 | Ninety (90) |
| B+, B, B- | 4 | Seventy (70) |
| CCC | 5 and 6 | Fifty (50) |
| DD, EE | 5 and 6 | Zero (0) |

A provision for impairment of investments classified as held to maturity is recorded for the difference between the carrying value and its fair value.

For securities and debt securities without a rating from an external rating agency, the amount of the allowance must be established through the methodology determined by the Bank. Such methodology must be approved by the SFC.

- Securities from issuers without a foreign rating and equity securities

  These securities are rated and classified according to the methodology defined by the Bank and its subsidiaries. The maximum value, as defined by the SFC, at which these investments may be recorded according to their category, is as follows:

| | Category | Max. Registered Amount % (1) | Investment Characteristics |
|---|---|---|---|
| A | Normal | One hundred (100) | Issuer shows sufficient financial capacity for fulfilling both principal and interest related to securities issued. |
| B | Acceptable risk, greater than normal | Eighty (80) | Present factors of uncertainty that could affect the capacity to continue adequately servicing the debt and indicators of weakness that could affect their financial situation. |
| C | Appreciable risk | Sixty (60) | Medium-high probability of non-fulfillment of timely payments of capital and interest which may compromise the recovery of the investment. |
| D | Significant risk | Forty (40) | Non-fulfillment of agreed terms of the security and material deficiencies in their financial situation, the probability of recovering the investment is highly doubtful. |
| E | Unrecoverable | Zero (0) | Recovery highly improbable. |

(1) On the net nominal amortization values as of the valuation date for debt securities or the acquisition cost less allowances for equity securities. Securities or debt securities granted by the state, issued by the Central Bank or Fogafin are not subject to these adjustments.

**Reclassification of investment securities**

The Bank reclassifies investments from available for sale to trading when its main purpose is to obtain gains on short-term price fluctuations.

Investments reclassified from available for sale to trading are subject to accounting and valuation rules and regulations applicable to the trading category. As a result, unrealized gains or losses must be accounted for as either income or expense on the date on which these are reclassified.

***Loans and financial leases portfolio***

These accounts record loans and financial leases made by the Bank and its subsidiaries. They are funded by the Bank's own capital, public deposits and other internal and external sources of funds.

Loans are recorded at their face value, including for acquisition of loans (factoring operations) which are recorded at acquisition cost, and foreign currency operations, which are converted into local currency. The agreed interest rate does not affect the value for which the loans are recorded.

Financial leasing operations are initially recorded as loans equal to the face value of the asset to be leased to the customer and subsequently the loan is amortized when the rental payments are due in the amount of the payment corresponding to principal.

Credit risk evaluation method is set out by enacted regulations, using an ongoing monitoring process and periodic portfolio classification.

Allowances for loan and financial lease losses are established based on requirements issued by the SFC.

**a) Classification loan destination**

Loans and financial lease contracts are classified as follows:

**Mortgage Loans**

Loans granted to individuals for the acquisition of new or used residential units. Loans are denominated in UVRs or Colombian pesos and are backed by a first-priority mortgage on the asset financed. Tenor for amortization must fall between a minimum of five years and a maximum of 30 years. Loans may be fully or partially prepaid at any time without penalty. In the event of partial prepayment, the debtor is entitled to choose whether application is to be made against outstanding capital installments or to a reduction in the tenor of the obligation

**Consumer Loans**

Loans which, regardless of the amount, are extended to individuals for the purchase of consumer goods or payment of services for non-commercial or entrepreneurial purposes and different from those disbursed as microcredit transactions.

**Microcredit Loans**

These are loans granted to microbusinesses (or small businesses), whose total balance outstanding with the Bank does not exceed 25 times the effective legal minimum monthly salary ("SMLVs").

"Microbusiness" means a legal entity focused on entrepreneurial activities related to farming and livestock, industrial, commercial or service activities, owned by an individual or corporate entity, whether rural or urban, whose staff does not exceed ten workers and whose total assets are under 500SMLVs.

**Commercial Loans**

Commercial loans are loans and financial leases that are granted to individuals or companies in order to carry out organized economic activities, and are not classified as microcredit loans.

According to Law 795 issued in 2003, housing leases are also classified as commercial loans. Banco Davivienda S.A. maintains the property rights, and monthly payments received are applied partly to capital and partly to interest at the agreed interest rate. The allowance for housing leases is based on the criteria for commercial loans.

**b) Credit risk evaluation and evaluation frequency**

The Bank analyzes on an ongoing basis the credit risk to which its loan portfolio is exposed considering the terms of the corresponding obligations as well as the level of risk associated with the borrower. This risk evaluation is based on information relating to historical performance data, the particular characteristics of the borrower, collateral, debt service with other entities, macroeconomic factors, financial information, etc. For mortgage and microcredit loans the analysis is performed only on the basis of the past due days of the loans.

The Bank evaluates and subsequently classifies its lending and financial lease operations with its customers in May and November of each year and the results of such evaluations are recorded in June and December of each year.

For commercial loans, the following minimum credit risk ratings are assigned, according to the financial situation of the debtor and/or the past due days of the obligation; additionally, all significant counterparty relationships as well as loans under special supervision are reviewed in detail every six months:

| ***Rating*** | ***Qualitative Factors*** |
|---|---|
| A – *Normal Risk* | Loans and financial leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to the Bank, reflect adequate repayment capacity. |
| B – *Acceptable Risk, Above Normal* | Loans and financial leases in this category are acceptably serviced and guaranty protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts. |
| C – *Appreciable Risk* | Loans and financial leases in this category represent insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations. |
| D – *Significant Risk* | Loans and financial leases in this category are deemed uncollectible. |
| E – *Unrecoverable* | Loans and financial leases in this category are considered impaired loans. |

**c) Write-off Policies**

Loans may be subject to write-offs when all possible collection mechanisms have been exhausted, and when such loans are provisioned for 100 percent of the loan.

Write-offs do not, however, constitute release of the officers' responsibility for approval and administration of the incumbent loan, nor do they eliminate their obligation to continue to engage in collection efforts aimed to accomplish recovery. The recovery of write-off loans is accounted for in the consolidated statements of income.

The Board of Directors of Banco Davivienda S.A. and its subsidiaries is the only administrative body with sufficient authority to approve write-offs of loans deemed uncollectible.

The following table illustrates the number of days after which the internal write-off policies of the Bank and certain subsidiaries engaged in lending require that loans are 100 percent reserved in principal, interest and other concepts:

| Type of Loan | Number of days before 100% provision taken by the Bank and Confinanciera | Bancafé Panama |
|---|---|---|
| Commercial | 570 | Individual assessment |
| Consumer and microcredit | 180 (different from unsecured vehicle) | |
| Mortgage | 540 | |
| Housing Leasing | 540 (commercial loan) | |
| Commercial Vehicle | 360 | |
| Consumer Vehicle | 360 | |
| Microcredit | 180 | |

**Regulations for the guarantees**

The guarantee is an instrument whereby the Expected Loss ("EL") is reduced in the event of non-compliance. The guarantee encompasses the right the Bank is entitled to when the debtor ceases the payment of his/her obligations due to lack of compliance.

The loan approval in the Bank and its subsidiaries should include the guarantee whereby the operation is being authorized.

The analysis of the guarantee is based upon an evaluation of the following characteristics:

- Suitability: According to proscribed legal definitions.
- Legality: Legal interest in the guarantee is documented and perfected in a manner that allows for judicial recourse when enforcing repayment obligations.
- Value: Calculated on the basis of technical criteria and objectives.
- Realization: Collecting upon the guarantee is reasonably possible.

For consumer and commercial loans, whether a guarantee will be permitted is governed by Decree 2360 of 1993.

In the case of mortgages for home loans, guarantees are provided with a first lien, in an unspecified amount in favor of the Bank over the mortgaged property. Mortgages must be perfected through public deed before a notary and registered at the corresponding Public Document Registration Office (*Oficina de Registro de Instrumentos Públicos*).

The value of a guarantee securing a mortgage loan is updated by taking the initial value at which the mortgage is registered, and then performing an adjustment in accordance with the mortgage price index published by the National Planning Department (*Departamento Nacional de Planeación*).

**Alignment Rules**

The Bank performs its internal alignment, or update, process for each borrower monthly, and for such purposes classifies each borrower in the highest risk category for those borrowers that have been granted the same type of loan, absent some reason for lowering the risk associated with a particular borrower, to the extent permitted by applicable rules.

For those customers of the Bank and its consolidated subsidiaries, the same rating is given to the loan as is granted to a borrower, unless there is a basis for classifying the borrower in a lower risk category.

**d) Credit Risk Rating for reports**

For purposes of risk ratings, loans are reported to central management and reported in the financial statements in accordance with their maturity profiles based on the following table:

**Commercial loans**

| Type of risk | Rating reporting | Cluster Rating | Days past due |
|---|---|---|---|
| Normal | AA | A | 0-29 |
| Acceptable | A | B | 30-59 |
| Acceptable | BB | B | 60-89 |
| Appreciable | B | C | 90-119 |
| Appreciable | CC | C | 120-149 |
| Significant Risk | D | D | 150-569 |
| Unrecoverable | E | E | Over 569 |

 (Continued)

**Consumer loans**

| Type of risk | Rating reporting | Cluster Rating | Motor score | Other scores | Credit card score |
|---|---|---|---|---|---|
| Normal | AA | A | 0.2484 | 0.3767 | 0.3735 |
| Normal | A* | A | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | A | B | 0.6842 | 0.8205 | 0.6703 |
| Acceptable | BB | B | 0.81507 | 0.89 | 0.9382 |
| Appreciable | B | C | 0.94941 | 0.9971 | 0.9902 |
| Appreciable | CC | C | 1 | 1 | 1 |
| Significant Risk | D | D | 1 | 1 | 1 |
| Unrecoverable | E | E | 1 | 1 | 1 |

(*) For loans to be recognized in group A, the SFC defines as an additional qualification a range of default between 0 and 30 days to the consumer loan reference model to avoid affecting the portfolio indicators.

**Mortgage and Microcredit loans**

| Risk | Rating | Housing | Microcredit |
|---|---|---|---|
| | | Month delay | |
| Normal | A | 0 to 2 | 0 to 1 |
| Acceptable | B | Above 2 to 5 | Above 1 to 2 |
| Appreciable | C | 5 to 12 | Above 2 to 3 |
| Significant Risk | D | 12 to 18 | Above 3 to 4 |
| Unrecoverable | E | above 18 | Above 4 |

**e) Allowance for loans and financial lease losses**

Banco Davivienda S.A. and its banking subsidiaries adopted the Commercial and Consumer Reference Models ("MRC" and "MRCO"), issued by the SFC for their commercial and consumer loans, respectively:

- General allowance

  As of December 31, 2011 and March 31, 2012, there is general allowance for the microcredit and mortgage loans which is equivalent to 1% of the total gross loan portfolio for these types of loans.

- Individual allowances under reference models

  Allowances that reflect the individual credit rating of each debtor and combine a "pro-cyclical" individual allowance component and "counter-cyclical" individual allowance component. The first component reflects credit risk exposure during regular economic conditions, and the second reflects changes in the credit risk exposure of each debtor as a result of impairment of debt service capacity during future crisis periods. Both the MRC and MRCO Reference Models are used to calculate both components of the allowance. Until March 31, 2010 holding provisions that have a reference model were calculated without considering the individual countercyclical component, accumulation phase.

According to the aforementioned reference models, the allowance for loan losses is estimated according to the following formula for Expected Loss:

**Expected Loss = [Probability of Default] x [Exposure at the time of Default] x [Loss Given Default]**

**Probability of Default ("PD")**: PD corresponds to the probability of the debtors defaulting on their obligations in the next twelve months. PD is defined as a percentage according to the following matrices, established by the SFC.

To estimate the expected losses in the different segments the following level of assets of debtors is applied as follows:

**Commercial loans**

| Company size | Asset level (in terms of SMLV) |
|---|---|
| Large companies | More than 15,000 SMLV |
| Medium companies | Between 5,000 SMLV and 15,000 SMLV |
| Small businesses | Less than 5,000 SMLV |

| Rating | Large companies | | Medium companies | | Small businesses | | Natural persons (2) | |
|---|---|---|---|---|---|---|---|---|
| | Matrix A (1) | Matrix B (1) | 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% |
| Non-compliance | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

(1) As defined by the SFC, Matrix A reflects PD in a growing economic scenario while Matrix B reflects PD in a worsening economic scenario. Matrix A is used to calculate the pro-cyclical component of the individual allowance while Matrix B is used to calculate the counter-cyclical component.
(2) Loans to natural persons mainly refer to sole proprietorships, which are legal entities commonly used in Colombia by individuals with the objective of insulating personal assets from potential business risks.

**Consumer loans**

| Rating | Vehicles General | | Others General | | Credit Card | |
|---|---|---|---|---|---|---|
| | Matrix A | Matrix B | Matrix A | Matrix B | Matrix A | Matrix B |
| AA | 0.97% | 2.75% | 2.10% | 3.88% | 1.58% | 3.36% |
| A | 3.12% | 4.91% | 3.88% | 5.67% | 5.35% | 7.13% |
| BB | 7.48% | 16.53% | 12.68% | 21.72% | 9.53% | 18.57% |
| B | 15.76% | 24.80% | 14.16% | 23.20% | 14.17% | 23.21% |
| CC | 31.01% | 44.84% | 22.57% | 36.40% | 17.06% | 30.89% |
| Non-compliance | 100% | 100% | 100% | 100% | 100% | 100% |

***Exposure to default***

With regard to the MRC and MRCO Reference Models, the exposure value of an asset is the current balance of the principal outstanding, accrued and unpaid interest, and other receivables regarding commercial and consumer loan obligations.

***Loss Given Default ("LGD")***

LGD is defined as a percentage to reflect the credit loss incurred if a debtor defaults.

LGD for debtors depends on the type of collateral and would experience a gradual increase in the percentage of loss according to the amount of days elapsing after being classified in each category. For this purpose, 100% of the collateral value is considered to cover the principal amount.

The LGD applied by the Bank, contemplates the type of guarantee range "without guarantee", and in addition, applies a greater percentage in the first range of failing debtors, as follows:

| Type of guarantee | Year | LGD | Days after Default status | New LGD | Days after Default status | New LGD |
|---|---|---|---|---|---|---|
| Commercial loan, without guarantee | 2011 | 55% | 210 | 80% | 420 | 100% |
| | 2012 | 55% | 210 | 80% | 420 | 100% |
| Consumer loan, without guarantee | 2011 | 75% | 30 | 85% | 90 | 100% |
| | 2012 | 75% | 30 | 85% | 90 | 100% |

Additionally, both commercial and consumer loans portfolio loans classified as D or E are recorded with an allowance of 100%.

Foreign Subsidiaries and branches

For the commercial portfolio of Bancafé Panamá S.A. and Banco Davivienda S.A.'s Miami branch, respectively, the loan loss allowance for clients with economic activities in Colombia, is calculated by applying the Colombian MRC. For clients of foreign subsidiaries with economic activity in other countries (outside Colombia), an internal model is applied in addition to the allowances applied in the country of origin that considers additional factors, such as country risk, which also takes into account the different credit risk categories, write-off experience (previous two years history), as approved by the Colombian regulator. These additional factors do not apply to countries with lower risk than Colombia or for debt collateralized with deposits.

**Mortgage loans**

Individual provisions for credits in all risk categories have at least the following percentages as of December 31, 2011 and March 31, 2012, depending on the percentage covered with guarantees:

| Rating | Minimum required by the standard | | Minimum required by the Bank | |
|---|---|---|---|---|
| | Partly covered | Uncovered part | Partly covered | Uncovered part |
| A | 1.0% | 1.0% | 1.5% | 3.0% |
| B | 3.2% | 100.0% | 5.0% | 100.0% |
| C | 10.0% | 100.0% | 20.0% | 100.0% |
| D | 20.0% | 100.0% | 60.0% | 100.0% |
| E | 30.0% | 100.0% | 100.0% | 100.0% |

**Microcredit Loans**

Individual provisions for the protection of credits in all risk categories have at least the following percentages:

| Rating | Minimum required by the standard | | Minimum required by the Bank | |
|---|---|---|---|---|
| | Principal | Uncovered part | Principal | Uncovered part |
| A | 1.0% | 0.0% | 1.6% | 1.6% |
| B | 2.2% | 1.0% | 4.0% | 5.0% |
| C | 0.0% | 20.0% | 0.0% | 30.0% |
| D | 0.0% | 50.0% | 0.0% | 60.0% |
| E | 0.0% | 100.0% | 0.0% | 100.0% |

**f) The effect of guarantees on allowances**

The Bank does not consider any collateral or guarantees into its calculation of the allowance for loan losses to its commercial and consumer portfolio, in accordance with the rules of the SFC. In the case of microcredit and mortgage loans the guarantees support only the principal and not interest, and accordingly, the outstanding balances of these loans that are covered by qualified guarantees are provisioned first applying the percentage basis of its score, and then applying that percentage to the difference between the outstanding balance and 70 percent of the value of the guarantees.

In the case of the portion of mortgage loans that are unguaranteed, the difference between the value of the outstanding balance and 100 percent of the value of the guarantee has to be booked. For the guaranteed portion, 100 percent of the value of the collateral should be applied.

Depending on the type of credit and the past due loans, the percentage of the total value of the guarantee for provisioning is considered as follows:

For Non-Mortgage loans:

| Past due period | Percentage |
|---|---|
| 0 to 12 months | 70% |
| More than 12 months to 24 months | 50% |
| More than 24 months | 0% |

For Mortgage loans:

| Past due period | Percentage |
|---|---|
| 0 to 18 months | 70% |
| More than 18 months to 24 months | 50% |
| More than 24 months to 30 months | 30% |
| More than 30 months to 36 months | 15% |
| More than 36 months | 0% |

**Troubled loan restructurings**

Loans are restructured when Banco Davivienda S.A. and its subsidiaries grant a concession to a debtor, as a result of economic or legal matters adversely impacting the debtor's financial situation, which Banco Davivienda S.A. and the relevant subsidiaries would not otherwise make.

Loans can be restructured either through the capitalization of interest recorded in memorandum accounts or by writing-off balances (which may include capital, interest, and other items). The amounts capitalized are recorded as "deferred income" under the "other liabilities" line item, and are amortized in proportion to the amounts actually collected and the income is recorded on a cash basis.

Extraordinary restructurings are those based on External Circular 039 of 1999 issued by the SFC. According to the External Circular, reversals of loan loss allowances or improvements of credit risk categories are only acceptable when all the terms of the restructured loan are sufficiently demonstrated. In the event that a debtor with a restructured loan does not comply with each of the agreed terms, its loans are downgraded to the credit risk category that the debtor had prior to the restructuring or to an even higher risk category.

According to Law 550 of 1999, which stipulates restructuring regulations, Banco Davivienda S.A. and its subsidiaries that had restructured loans in accordance with Law 550, are expected to cease accrual of interest on the outstanding loans once the restructuring conditions are agreed upon. Banco Davivienda S.A. and its subsidiaries are required to maintain the same credit risk category on loans pre-restructuring and post-restructuring. The only exception is the case in which prior to the restructuring, the loan was classified as A. In this situation, the financial subsidiaries must downgrade it at least to B and create an allowance of 100% of the debt outstanding. Law 1116 of 2006 ("The Bankruptcy Law") repealed Law 550 of 1999 and stipulated that any debtor that enters into a restructuring agreement is considered in "default".



(Continued)

Pursuant to loan restructurings which adhered to the terms established in the Fiscal and Financial Reform Programs stipulated by Law 617 of 2000 and that are still enacted as of March 31, 2012, Banco Davivienda S.A. and its subsidiaries engage in the application of the following policies set forth below:

***Guarantee of financial obligations with governmental entities***

The Colombian Government guarantees the financial obligations that governmental entities have with financial institutions supervised by the SFC (i.e. Banco Davivienda. S.A. and its subsidiaries) upon fulfillment of all requirements established under Law 617 of 2000. For outstanding loans of governmental entities that have entered into a fiscal adjustment agreement, the Government guarantees up to 100%.

***Suspension of accruals***

The SFC established that interest, income for UVR, lease payments and other items of income cease to be accrued in the consolidated statements of income and begin to be recorded in Memorandum Accounts until effective payment is collected after a loan is in arrears for more than 60 days for mortgage and consumer loans, 90 days for commercial loans, and 30 days for microcredit loans. After the suspension of accruals, interest collected is recorded in the consolidated statements of income on a cash basis.

***Securitized loans***

Until March 31, 2012 and 2011, the Bank has securitized performing mortgage loans indexed to UVRs and at a fixed rate.

The Bank proceeded to completely separate and isolate from its equity the total amount of underlying assets that were securitized, pursuant to Article 2 of Resolution 775 of 2001 issued by the SFC by issuing A, B and C-rated credit securities to finance the building and purchase of housing. A-rated securities were sold to the securitizing party and the B and C-rated securities were recorded as trust rights - investments - pursuant to instructions received from the SFC. All expenses incurred in taking possession of the guarantee are paid for by the Bank; in exchange the Bank receives the amount remaining after paying out the total amount of principal and interest on these securities.

Loan portfolios sold under securitization processes are derecognized at their net book value. Any difference arising between the proceeds of the sale and its book value is recorded as an income or expense, as applicable, in the statement of operations. Loans that are securitized are derecognized as non-recourse credit providing the following conditions are fulfilled:

- Loans are transferred exclusively to a special purpose entity ("SPE") named "Universalidad."
- The disposal or transfer of securitized assets shall not be subject to any type of restriction by the transferor.
- The risks and returns of the loans must also have been totally transferred to the SPE.
- Under no circumstance shall the transferor keep discretionary rights to dispose of, control, limit, encumber, substitute, reacquire, or use the assets thus transferred or disposed of.

***Derivatives***

Banco Davivienda S.A. records the amount of agreements between two or more parties to purchase or sell assets at a future date, whose compliance or settlement is agreed upon more than two business days following the operation initiation date, in order to provide or obtain an economic hedging, in the terms defined by the SFC. Therefore, these agreements create reciprocal and unconditional rights and obligations.

Derivatives are recorded as assets and liabilities at fair value on a net basis, including those derivatives for which the fair value is a liability. Operations are formalized by contract or letter of intent. The Bank has contracts for forwards, options and swaps.

Foreign exchange derivatives are designed to cover exchange exposure risks on structural or traded open positions by setting up a reciprocal operation or synthetic coverage for up to the maximum exposures allowed by the SFC.

Changes in the fair value of such contracts are recognized in the consolidated statement of income.
The difference between rights and obligations is recorded daily as income or expense from forward contracts in foreign currency.

***Swap Contracts***

The fair value of swap contracts is determined using the discounted cash flow method at the interest rates applicable for each cash flow. Interest rate curves are drawn up for each operation based on information sourced from Bloomberg and Infoval.

***Option Contracts***

Options are appraised as stipulated by the SFC using the Black-Scholes/Merton method, which is the model commonly used on an international level.

Accounting treatment

Banco Davivienda S.A. has recognized all of its derivative instruments on its balance sheet as either assets or liabilities depending on the rights or obligations under the derivatives contracts. All derivatives shall be measured at fair value; changes in the fair value are recognized currently in the statement of operations, except that premium received or paid in option contracts and changes in the fair value of swap contracts on their first day are deferred and recognized in the statement of operations on a straight line basis during the life of the contract. SFC accounting rules permit hedge accounting, but the Bank does not use it.

***Foreclosed assets***

Banco Davivienda S.A. and its subsidiaries record foreclosed assets using the following criteria:

- Foreclosed assets represented by real estate properties are recognized based on commercial appraisals technically determined and personal properties; stocks and equity interests are recorded based on market values.
- When foreclosed assets are not in a condition to be immediately liquidated, their cost increases with all those expenses required in order to prepare such assets for sale.
- If the proceeds of the sale are more than the settlement value agreed upon with the debtor, that difference is recorded as accounts payable to the debtor. If the proceeds of the sale are expected to be insufficient to cover the outstanding debt, the difference must be immediately charged as a non-operating expense.
- Personal property received in payment corresponding to investment securities is valued by applying the criteria indicated in this note under "Investment securities," but taking into account provision requirements for the periods referred to below.
- The profits obtained from a credit sale are deferred over the life of the credit, and are realized as the obligation is paid off.
- When the commercial value of the property is lower than its book value, a provision is recorded for the difference.
- Reappraisals of foreclosed assets are carried out every three years and recorded in memorandum accounts.

- Legal term for the sale of foreclosed assets

  Institutions must sell foreclosed assets, in a period no more than two years after the foreclosure date, except when upon the board of directors' request, the SFC extends the term. However, in any event, the extension may not exceed an additional period of two years.

- Assets held for sale

  Banco Davivienda S.A. records as assets held for sale those not used any more for the performance of their corporate objective. Those assets continue to have depreciation applied up to the time of their eventual disposal.

  Once the assets are classified as held for sale, the term for the sale is the same established for foreclosed assets.

- Allowance for foreclosed assets

  With the issuance of the Colombian SFC External Circular 034 of August 2003, supervised banks must design and adopt their own internal models for the calculation of provisions for foreclosed assets, through which expected losses for all types of assets are estimated. The Bank and its subsidiaries do not have their own internal model for calculating provisions for foreclosed assets through which expected losses are estimated by type of asset and approved by the SFC.

Until such model is presented and approved by the SFC, provisions will be made following the parameters set forth below:

- Real estate

  The SFC requires a provision equal to 30% of the value of the asset at the time of receipt be made in proportional monthly installments within the first year following receipt of the asset. This provision will increase an additional 30% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired, the provision must be 100% of the value upon receipt.

- Moveable assets

  The SFC requires a provision equal to 35% of the value of the asset at the time of acquisition be made in proportional monthly installments within the first year following receipt. This provision must be increased an additional 35% in proportional monthly installments within the second year following receipt of the asset. Once the legal term for sale has expired without authorization to extend, the provision must be 100% of the book value of the asset prior to provisions.

***Premises and equipment***

This line item records tangible assets acquired or leased assets, constructed or in the process of importation or construction which are to be used indefinitely in the course of the Bank's business and which have a useful life exceeding one year. Premises, plant and equipment are initially recorded at the cost of acquisition, including direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

Additions, improvements and extraordinary repairs that have a significant increase in the useful life of these assets are capitalized, while maintenance and repairs are expensed as incurred.

Premises and equipment are stated at acquisition cost net of accumulated depreciation and were adjusted for price-level changes from January 1, 1992 to December 31, 2000. Depreciation is calculated on a straight-line basis over the estimated useful lives of the underlying assets.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, except for office equipment, furniture and fixture and computer equipment acquired before December 2006, which are depreciated using the declining balance method. This is a depreciation method that provides for a higher depreciation charge in the first year of an asset's life and gradually decreasing charges in subsequent years. The annual depreciation rates for each asset class are:

| | |
|---|---|
| Buildings | 5% |
| Equipment, office furniture and fittings | 10% |
| Computer equipment | 20% |
| Vehicles | 20% |

The individual net book value of real estate (cost less accumulated depreciation) is compared against market values taken from independent professional appraisals. If the market value is higher, a reappraisal of assets is recorded in "reappraisal of assets" within shareholders equity and if the market value is inferior to the net book value the difference is charged to expenses as provision for other assets for the period if there is not a sufficient balance in the "reappraisal of assets" account to absorb the difference. Valuations must be made at least every three years.

***Prepaid expenses, deferred charges and goodwill***

**a) Prepaid expenses**

Prepaid expenses are payments made by the Bank and its subsidiaries in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services.

Prepaid expenses comprise the following:

- Insurance premiums amortized over the life of the policy using the straight line amortization method; and
- Other concepts that are amortized during a twelve month term.

**b) Deferred charges**

Deferred charges are goods and services received, for which the Bank expects to obtain future economic benefits, and include the following:

- Remodeling expenses, amortized within a term not longer than two years or in the term of the lease agreement, except if the remodeling expenses affect the valuation of the asset.
- Computer programs amortized in a term not longer than three years.
- The deferred income tax asset generated by the effect of temporary differences will be amortized in the terms when the temporary differences giving rise to it are reverted.
- Working clothes or uniforms to employees in a period of twelve months.
- Fee and commissions and advisory over a 60 month period, corresponding to important projects with long term recovery expectation.
- Cost of flight tickets financed to special clients as business strategy over a period of 12 months (loyalty program with clients).
- Equity tax (see note below)

The other concepts are amortized during the estimated period of time of recovering the disbursement or during the period which the benefits are expected.

**c) Equity tax**

Colombian tax regulations have required companies to annually pay a special tax, in addition to income tax, calculated on their net assets, as established for the purposes of calculation of the tax, as of January 1 of each year at the tax statutory rate of 1.2%.

During 2010 new regulations on this matter came into force requiring companies to calculate this tax only once for subsequent years as of January 1, 2011 at the tax rate of 6% and payable in 8 semiannual installments over four years, without interest. The equity tax calculated by the Bank and it subsidiaries amounts to approximately COP 195,889 million in total, which, according to accounting rules in Colombia was recorded as a deferred asset to be amortized against results on a straight-line basis over four years. As of March 31, 2012, the Bank has amortized COP 46,519 million in results.

**d) Goodwill**

The SFC stipulates how to value, where to register and how to amortize goodwill. According to the SFC rules, goodwill is defined as the difference between the amount of capital paid in an acquisition of a business and the book value of equity of the acquired entity. Goodwill is created only after the acquiring company achieves control of the acquired entity.

For the acquisition of Granbanco S.A. allocation of goodwill in business lines is allowed according to the rules of the SFC and amortization is to be charged on a monthly basis over a period of 20 years, unless a financial entity decides to amortize it in a shorter period of time. The methodology proposed by the SFC to amortize goodwill uses an exponential method based on the following formula:

y = ex/20

***Reappraisal of assets***

This account includes reappraisal of investments available for sale with low liquidity levels and properties and equipment; specifically, real estate, vehicles and works of art.

Reappraisal of available for sale equity securities are recorded based on the issuer's changes in equity.

Reappraisal of real estate properties is measured as the difference between the net cost of the assets and the fair estimated value, based upon a commercial appraisal conducted by firms with recognized experience and reputation in these matters. In the event that the fair value is less than the net cost of the property, under a rule of prudence, an allowance is recorded. According to Decree 2649 of 1993, reappraisals of assets should be updated at least once every three years.

***Income taxes***

Income taxes payable are recognized in the financial statements as an amount that approximates the amount due on the respective income generated in the period pursuant to Colombian tax legislation. Deferred income taxes are generally recognized for temporary timing differences mainly relating to goodwill and the valuation of investment portfolios.

***Income received in advance and deferred liabilities***

Interests received in advance correspond to quarterly interest paid by constructors, which are amortized in accordance to the period covered by the payment and capitalized interest on the restructured loans for which income is amortized in proportion to the values collected by capital.

The gain for sale of foreclosed assets sold on installment is recognized as revenue at the time that the installment payments are received based on the accounts receivable collection percentage.

***Estimated Liabilities and Allowances***

Provisions are recorded to cover estimated liabilities related to fines, lawsuits, penalties and demands that may exist when the following conditions are met:

a) There is a right acquired and, consequently, an obligation contracted.

b) The payment is enforceable or probable.

c) The allowance is rationalized, quantifiable and verifiable.

d) In addition, it records the estimated values corresponding to taxes, contributions and enrollments.

e) In accordance with the provisions of Decree 2649 of 1993, which regulates general accounting and issues rules and principles generally accepted in Colombia, the classification of the possible outcome of legal proceedings initiated against the Bank, the provision is made depending on a contingency that is designated as probable, possible or remote and according to this classification, provisioning rates have been defined up to:

| | |
|---|---|
| Probable Contingency | 100% |
| Possible Contingency | 50% |
| Remote Contingency | 0% |

f) Estimated labor liabilities are recorded based on laws and labor agreements in force based on calculations of the amounts that must be paid to employees.

***Contingent and memorandum accounts***

Memorandum accounts record transactions in which Banco Davivienda S.A. and its subsidiaries acquire contingent rights or assume contingent obligations, which are in each case conditioned by possible or remote future events. The non-performing loan portfolio and these accounts also include financial income accrued from the time at which the balance sheet ceases to accrue on the income accounts with regard to the loan portfolio and financial leasing operations.

Possible and remote contingencies are recognized in memorandum accounts; the probable contingencies, including fines, sanctions, litigation and lawsuits are evaluated by each of the Bank and its subsidiaries' legal departments. Estimating loss contingencies necessarily implies exercising judgment and is, therefore, subject to opinion. In estimating loss contingencies regarding pending legal proceedings against each banking subsidiary, each legal department evaluates, among other aspects, the merits of each case, the case law of the courts in question and the current status of the individual proceedings.

If this evaluation reveals the probability that a material loss has occurred and the amount of the liability can be estimated, then it is recorded in the consolidated financial statements. If the evaluation reveals that a potential loss is not probable or the outcome either is uncertain or probable but the amount of the loss cannot be estimated, then the nature of the corresponding contingency is disclosed in a note to the consolidated financial statements along with the probable estimated range of the loss. Loss contingencies that are estimated as being remote are not disclosed.

Memorandum accounts record third-party operations whose nature does not affect the financial situation of Banco Davivienda S.A. and its subsidiaries. This also includes tax memorandum accounts that record figures for drawing up tax returns and internal control or management information accounts.

**Foreign subsidiaries standardization effect**

The Bank approved the account plans and standardization *(homologation)* of the accounting regulations of foreign subsidiaries, to the applicable accounting regulation in Colombia, according to the guidelines established by the SFC, mainly in those that may affect the structure of consolidated financial statements, such as those related to investments, provisions recording, fixed assets, depreciation, etc. For the commercial and consumer portfolio, a Commercial and Consumer Reference Model (MRCO) was applied and the Bank's MRCO for customers with an economic activity in Colombia and for the other customers, an expert model is applied which involves among other variables, the country risk and writing off factor.

The effect in net income of this procedure as of March 31, 2011 and 2012 was the following:

| | 2011 | 2012 |
|---|---|---|
| | (millions of COP) | |
| Total effect of foreign subsidiaries standardization | 3,116 | 154 |

***Earnings per share***

To determine net income per share, the Bank uses the weighted average of the number of shares outstanding during the accounting period. For the three month periods ended March 31, 2011 and 2012 the average shares outstanding were 408,056,976 for 2011 and 443,866,625 for March 31, 2012, and the net earnings per share was COP 420 for 2011 and COP 485 for 2012.

## NOTE 3 - CASH AND DUE FROM BANKS

The balances of cash and amounts due from banks consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Colombian peso-denominated: | | |
| Cash | 796,470 | 860,991 |
| Due from the Colombian Central Bank | 263,680 | 882,151 |
| Due from domestic Banks | 136,005 | 130,971 |
| Remittances of domestic negotiated checks in transit | 38,566 | 59,483 |
| Allowance for cash and due from banks | (464) | (1,926) |
| Total peso-denominated | 1,234,257 | 1,931,670 |
| Foreign currency-denominated: | | |
| Cash | 1,262 | 793 |
| Due from the Colombian Central Bank | 65 | 59 |
| Due from foreign Banks | 170,762 | 129,616 |
| Remittances of foreign negotiated checks in transit | 155 | 1,151 |
| Allowance for cash and due from banks | (15) | (29) |
| Total foreign currency-denominated | 172,229 | 131,590 |
| Total cash and due from banks | 1,406,486 | 2,063,260 |

The central bank in Colombia and other foreign countries where Banco Davivienda S.A. and its subsidiaries operate, require financial institutions to set aside specific amounts of cash as reserves against deposits. These reserves may be held as vault cash in a non-interest bearing account with the central banks. Though one objective of reserve requirements is to safeguard liquidity in the banking system, institutions do not look to their reserves as a primary source of liquidity. Restricted amounts totaled COP 1,848,225 million as of December 31, 2011 and COP 2,013,802 million as of March 31, 2012.

In Colombia, according to Resolution 11 of 2008, reserve requirements are measured bi-weekly and the amounts depend on the type of deposit (11% for checking and saving accounts and, 4.5% for time deposits with a maturity of less than 540 days). No other restrictions exist on cash and due from banks.

**Reconciliations of Transactions in Foreign Currency**

As of December 31, 2011, the Bank had 16 reconciliations for items older than 30 days valued at US$ 13,200. As of March 31, 2012, the Bank had 16 reconciliations for items older than 30 days valued at US$ 13,400.

## NOTE 4 – INTERBANK AND OVERNIGHT FUNDS

The balance of interbank and overnight funds consisted of the following:

| | Rate | December 31, 2011 (millions of COP) | Rate | March 31, 2012 (millions of COP) |
|---|---|---|---|---|
| Colombian peso-denominated banks | 4.62% - 6.50% | 1,914,254 | 5.00% - 5.40% | 1,030,444 |
| Foreign currency banks | 0.030% - 0.350% | 14,376 | 0.010% - 03350% | 21,550 |
| | | 1,928,630 | | 1,051,994 |

## NOTE 5 – INVESTMENT SECURITIES

A summary of investments securities is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Trading debt securities | | |
| *Colombian peso-denominated*: | | |
| Colombian government | 1,751,968 | 2,316,699 |
| Financial institutions | 1,249,510 | 1,400,904 |
| Other | 229,391 | 171,347 |
| Total Colombian peso-denominated | 3,230,869 | 3,888,949 |
| Financial institutions and government entities in foreign currency | 9,645 | 29 |
| Total trading debt securities | 3,240,514 | 3,888,979 |
| Trading equity securities | 1,007 | 2,901 |
| Available for sale debt securities | | |
| Colombian government | 244,660 | 247,343 |
| Financial institutions | 762,281 | 704,314 |
| Other | 78,882 | 43,313 |
| Total local currency denominated | 1,085,823 | 994,970 |
| Foreign governments | 101 | 93 |
| Total available for sale debt securities | 1,085,924 | 995,063 |

Available for sale equity securities

| | December 31, 2011 | | March 31, 2012 | |
|---|---|---|---|---|
| | Ownership % | (millions of COP) | Ownership % | (millions of COP) |
| Corporación Andina de Fomento | 0.004% | 383 | 0.004% | 353 |
| Fondo para el financiamiento del sector agropecuario (Finagro) | 12.67% | 67,985 | 12.67% | 67,985 |
| Compañía de Inv. del Café | 29.54% | 13,441 | 29.54% | 13,441 |
| Cámara de riesgo central de Contraparte S.A | 4.68% | 1,872 | 4.68% | 1,872 |
| Almacenes generals de deposito de café. Almacafé S.A. | 0.01% | 10 | 0.01% | 10 |
| Titularizadora Colombiana S.A. | 21.12% | 14,563 | 21.12% | 14,563 |
| Redeban Multicolor S.A. | 26.04% | 8,230 | 26.04% | 8,230 |
| A.C.H. Colombia S.A. | 18.42% | 1,849 | 18.42% | 1,849 |
| Deceval S.A. | 11.85% | 5,081 | 11.85% | 5,081 |
| Cámara de compensación divisas de Colombia S.A. | 6.38% | 159 | 6.38% | 159 |
| Banco Bilbao Vizcaya Argentaria. BBVA | 0.00% | - | 0.00% | - |
| Bolsa de Valores de Colombia (BVC) | 1.41% | 565 | 1.41% | 514 |
| Fondo de Reposiciòn Fogacol | 0.00% | 305 | 0.00% | 311 |
| Tecnibanca S.A. | 0.94% | 226 | 0.94% | 225 |
| Multiactivos | 21.12% | 2,936 | 21.12% | 2,937 |
| | | 117,605 | | 117,530 |

Dividends received from equity investments amounted to COP 16,687 million and COP 15,603 million for December 31, 2011 and for the three-month periods ended March 31, 2012 respectively.



(Continued)

Held to maturity securities

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Colombian peso-denominated: | | |
| Colombian government | 291,245 | 294,185 |
| Financial institutions | 36,556 | 81,748 |
| Institutions | 4,313 | 58,347 |
| Total held to maturity securities | 332,114 | 434,280 |

An analysis of the activity in the valuation allowance of securities losses during the year ended December 31, 2011 and for the three months ended March 31, 2012 is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 40,954 | 31,337 |
| Allowance for period | 2,089 | 1,265 |
| Recovery of allowance | (11,706) | (6,725) |
| Balance at end of period | 31,337 | 25,877 |

The balance of allowances is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Trading securities | 14,235 | 12,098 |
| Available for sale – equity securities | 13,443 | 13,443 |
| Available for sale – debt securities | 3,474 | - |
| Held to maturity – debt securities | 167 | 336 |
| Balance at end of the period | 31,337 | 25,877 |

An analysis of the activity in the valuation allowance of securities losses for the three month periods ended March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 40,954 | 31,337 |
| Allowance for period | 1,460 | 1,265 |
| Recovery of allowance | (341) | (6,725) |
| Balance at end of period | 42,073 | 25,877 |

The balance of allowances is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Trading securities | 14,551 | 12,098 |
| Available for sale – equity securities | 13,443 | 13,443 |
| Available for sale – debt securities | 13,593 | - |
| Held to maturity – debt securities | 486 | 336 |
| Balance at end of the period | 42,073 | 25,877 |



(Continued)

Detail of the maturity terms of investments

December 31, 2011

| | From 0 to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|
| Available for sale debt securities | 41,257 | 324,153 | 491,486 | 229,028 | 1,085,924 |
| Available for sale equity securities | | | | 117,605 | 117,605 |
| Held to maturity | 33,267 | 264,784 | 33,695 | 368 | 332,114 |
| Trading debt securities | 450,365 | 1,588,445 | 575,166 | 626,538 | 3,240,514 |
| Trading equity securities | 957 | - | - | 50 | 1,007 |
| | 525,847 | 2,177,382 | 1,100,347 | 973,589 | 4,777,164 |

March 31, 2012

| | From 0 to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years | Total |
|---|---|---|---|---|---|
| Available for sale debt securities | 48,796 | 283,700 | 427,964 | 234,603 | 995,063 |
| Available for sale equity securities | | | | 117,530 | 117,530 |
| Held to maturity | 53,122 | 247,062 | 104,743 | 29,353 | 434,280 |
| Trading debt securities | 844,629 | 1,424,808 | 479,504 | 1,140,038 | 3,888,979 |
| Trading equity securities | 1,121 | - | - | 1,780 | 2,901 |
| | 947,667 | 1,955,570 | 1,012,212 | 1,523,304 | 5,438,753 |

Investments available for sale in equity securities

December 31, 2011

| Entity | Adjusted Cost | Reappraisal of Assets | Allowance | Rating | Dividends |
|---|---|---|---|---|---|
| Corporación Andina de Fomento | 383 | 99 | - | A | 9 |
| Fondo para el financiamiento del sector agropecuario (Finagro) | 67,985 | 6,163 | - | A | 7,067 |
| Compañía de Inv. del Café | 13,441 | - | (13,441) | A | - |
| Cámara de riesgo central de Contraparte | 1,872 | (497) | - | A | - |
| Almacenes generales de depósito de café. Almacafé S.A. | 10 | - | 2 | B | - |
| Titularizadora Colombiana S.A. | 14,563 | 15,411 | - | A | 4,829 |
| Redeban Multicolor S.A. | 8,230 | 9,183 | - | A | 1,042 |
| A.C.H. Colombia S.A. | 1,849 | 1,704 | - | A | 958 |
| Deceval S.A. | 5,081 | 2,698 | - | A | 2,689 |
| Cámara de compensación divisas de Colombia S.A. | 159 | 40 | - | A | - |
| Bolsa de Valores de Colombia (BVC) | 565 | 1,034 | - | | - |
| Fondo de Reposiciòn Fogacol | 305 | - | - | | - |
| Tecnibanca S.A. | 226 | 160 | - | A | 94 |
| Multiactivos | 2,936 | 1,286 | - | A | - |
| | COP 117,605 | 37,281 | (13,443) | | 16,687 |

March 31, 2012

| | Adjusted Cost | Reappraisal of Assets | Allowance | Rating | Dividends |
|---|---|---|---|---|---|
| Corporación Andina de Fomento | 353 | 102 | - | A | - |
| Fondo para el financiamiento del sector agropecuario (Finagro) | 67,985 | 1,779 | - | A | 5,574 |
| Compañía de Inv. del Café | 13,441 | - | (13,441) | A | - |
| Cámara de Riesgo Centralde Contraparte S.A. | 1,872 | (509) | - | A | - |
| Almacenes generals de depósito de café. Almacafé S.A. | 10 | - | (2) | B | - |
| Titularizadora Colombiana S.A. | 14,563 | 10,036 | - | A | 6,499 |
| Redeban Multicolor S.A. | 8,230 | 8,572 | - | A | - |
| A.C.H. Colombia S.A. | 1,849 | 1,421 | - | A | 368 |
| Deceval S.A. | 5,081 | 134 | - | A | 3,037 |
| Cámara de Compensación Divisas de Colombia S.A. | 159 | 20 | - | A | 24 |
| Bolsa de Valores de Colombia (BVC) | 514 | 500 | - | | - |
| Fondo de reposición Fogacol. | 311 | - | - | | - |
| Tecnibanca S.A. | 225 | 78 | - | A | 101 |
| Multiactivos | 2,937 | 1,301 | - | A | - |
| | 117,530 | 23,432 | (13,443) | | 15,603 |

## NOTE 6 – LOANS AND FINANCIAL LEASES

The following is a summary of the loans and financial leases by classification:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Commercial loans | | |
| Corporate and construction | 9,100,304 | 8,949,926 |
| Other commercial lines | 4,248,873 | 4,371,436 |
| Credit cards | 268,358 | 291,504 |
| Vehicles | 263,198 | 268,037 |
| Overdrafts | 93,392 | 233,758 |
| Financial leases | 1,706,873 | 1,787,063 |
| | 15,680,998 | 15,901,724 |
| Mortgage loans | 2,460,173 | 2,537,542 |
| Consumer loans | | |
| Credit card | 2,331,193 | 2,407,349 |
| Other consumer lines | 5,116,422 | 5,128,733 |
| Vehicles | 1,109,505 | 1,105,645 |
| Overdrafts | 48,627 | 57,918 |
| | 8,605,747 | 8,699,645 |
| Microcredit loans | 92,050 | 91,780 |
| Total loans | 26,838,968 | 27,230,691 |
| Allowance | (1,291,883) | (1,359,483) |
| Net loans | 25,547,085 | 25,871,208 |

At December 31, 2011 and March 31, 2012, issuances of mortgage bonds guaranteed by housing mortgage loans were as follows (in millions of COP):

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| Issuance III | 30,699 | 29,956 |
| | 30,699 | 29,956 |

**Social interest housing**

The Bank has assigned resources to finance social interest housing in compliance with the provisions of Decrees 1041 of 1995 and 1122 of 1996. During the year ended December 31, 2011, the bank dedicated resources of COP 774,960 million to this program, of which COP 488,871 million consisted of loans to individuals and COP 286,089 million were in the form of construction loans. During the three months ended March 31, 2012, the bank dedicated resources of COP 244,487 million to this program, of which COP 152,431 million consisted of loans to individuals and COP 92,056 million were in the form of construction loans.

The value of social interest housing portfolio is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions COP) | |
| Individuals | 1,649,530 | 1,765,155 |
| Constructors | 173,325 | 191,958 |
| | 1,822,855 | 1,957,113 |

**Loans with subsidized interest rates**

According to Law 1143 of 2009, the Bank must grant a subsidy on the interest rate applicable to certain mortgage loans if specified conditions are met by the debtors during the first seven years of the tenure of the loan. The amount of the subsidy is reimbursed to the Bank by the Central Bank.

In addition, the Bank has offered to these clients and assumed an additional subsidy on the interest rate applicable for the subsequent eight years of the tenure of the loan. For these purposes, the Bank has recorded an allowance to cover this commitment in an amount of COP 11,283 million as of December 31, 2011 and as of March 31, 2012.

As of December 31, 2011 the Bank had disbursed 51,203 mortgage loans under this benefit in the amount of COP 1,768,631 million, and as of March 31, 2012 50,896 mortgage loans under this benefit in the amount of COP 1,796,025 million.

This procedure allows lower interest rates to be charged during the first seven years of each loan and in accordance with established ranges, as follows:

| Property Value as a Multiple of SMLV | Coverage Rate Percentage |
|---|---|
| Public Mortgage Up to 135 | 5% |
| >135 up to 235 | 4% |
| >235 up to 335 | 3% |

The Bank generates a monthly bill to the Central Bank for the implementation of the coverage benefit in accordance with established procedures.

The coverage benefit is intended for:

- Early cancellation of credit or lease contract;
- If the debtor is in arrears exceeding three consecutive months;
- At the request of the credit debtors;
- By credit subrogation;
- By transfer/surrender of the lease; or
- For bringing the deadline forward.

**Loans by economic sector**

The following is a summary of loans outstanding by economic sector:

| | December 31, 2011 | | March 31, 2012 | |
|---|---|---|---|---|
| Sectors | Balance | % of Total | Balance | % of Total |
| | (millions of COP) | | | |
| Agriculture, forestry, cattle breeding, fishing and hunting | 557,820 | 2.08% | 1,053,018 | 3.87% |
| Coal mining explotation, extraction of crude oil and natural gas | 669,315 | 2.49% | 668,424 | 2.45% |
| Metallic and non-metallic mineral extraction | 13,871 | 0.05% | 13,919 | 0.05% |
| Manufacturing of food products | 785,715 | 2.93% | 815,084 | 2.99% |
| Manufacturing of textile products, garments, leathers and related products | 255,996 | 0.95% | 317,782 | 1.17% |
| Manufacturing of paper and its printing and publishing products | 171,764 | 0.64% | 142,872 | 0.52% |
| Manufacturing of chemical substances, chemical products and rubber | 1,037,766 | 3.87% | 931,831 | 3.42% |
| Manufacturing of oil and coal derivate products | 160,035 | 0.60% | 176,746 | 0.65% |
| Manufacturing of mineral products | 137,474 | 0.51% | 253,936 | 0.93% |
| Manufacturing of metallic based and finished products | 302,819 | 1.13% | 216,615 | 0.80% |
| Manufacturing of machinery and equipment | 37,005 | 0.14% | 36,386 | 0.13% |
| Manufacturing of other manufactured products including timber | 26,307 | 0.10% | 31,255 | 0.11% |
| Electricity, gas and water supply | 951,441 | 3.54% | 922,348 | 3.39% |
| Construction | 1,511,618 | 5.63% | 1,724,558 | 6.33% |
| Wholesale and retail trade | 1,443,287 | 5.38% | 1,351,835 | 4.96% |
| Vehicles | 572,920 | 2.13% | 570,975 | 2.10% |
| Hotels and restaurants | 153,845 | 0.57% | 153,791 | 0.56% |
| Transportation and communications | 1,095,649 | 4.08% | 1,088,910 | 4.00% |
| Services rendered to companies | 1,716,529 | 6.40% | 1,735,148 | 6.37% |
| Public administration and defense | 473,231 | 1.76% | 512,301 | 1.88% |
| Health, education, entertainment and cultural services | 388,657 | 1.45% | 401,703 | 1.48% |
| Mortgage loans to individuals and families | 4,172,800 | 15.55% | 4,332,506 | 15.91% |
| Consumer loans to individuals and families | 8,511,754 | 31.71% | 8,589,295 | 31.54% |
| Transportation equipment manufacturing | 4,401 | 0.02% | 4,315 | 0.02% |
| Beverages and cigarettes | 30,590 | 0.11% | 29,459 | 0.11% |
| Others | 1,656,362 | 6.17% | 1,155,679 | 4.24% |
| | 26,838,968 | 100.00% | 27,230,691 | 100.00% |

At December 31, 2011 and March 31, 2012 the Bank qualified 100 percent of its loans, interest and other concepts in accordance with the Basic Circular Letter 100, 1995 from the SFC. The result of such qualification is the following (in millions of COP):

**December 31, 2011**

Commercial loans with suitable guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 3,152,661 | 27,339 | 2,102 | 3,182,102 | 11,318,814 | 68,668 | 780 | 246 |
| B-Acceptable | 146,266 | 2,006 | 455 | 148,727 | 550,876 | 13,652 | 193 | 159 |
| C-Appreciable risk | 31,486 | 666 | 196 | 32,348 | 84,950 | 5,948 | 500 | 176 |
| D-Significant risk | 35,518 | 1,046 | 459 | 37,023 | 90,474 | 33,877 | 1,046 | 498 |
| E-Unrecoverable | 19,264 | 241 | 76 | 19,580 | 58,831 | 19,264 | 241 | 84 |
| Total commercial loans | 3,385,195 | 31,298 | 3,288 | 3,419,780 | 12,103,945 | 141,409 | 2,760 | 1,163 |

Commercial loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 11,830,611 | 100,950 | 6,283 | 11,937,845 | 152,673 | 240,744 | 2,341 | 873 |
| B-Acceptable | 327,669 | 4,672 | 675 | 333,015 | - | 28,925 | 428 | 349 |
| C- Appreciable risk | 35,406 | 753 | 195 | 36,354 | - | 6,048 | 567 | 176 |
| D-Significant risk | 69,936 | 2,158 | 755 | 72,849 | - | 69,710 | 2,153 | 711 |
| E-Unrecoverable | 32,182 | 373 | 72 | 32,627 | - | 32,182 | 373 | 64 |
| Total commercial loans | 12,295,804 | 108,906 | 7,980 | 12,412,690 | 152,673 | 377,609 | 5,862 | 2,173 |
| General allowance | | | | | | 224 | | |
| Total commercial loans | 15,680,998 | 140,203 | 11,269 | 15,832,470 | 12,256,617 | 519,241 | 8,622 | 3,335 |

Consumer loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 923,964 | 9,271 | 2,304 | 935,539 | 2,414,222 | 27,909 | 337 | 119 |
| B-Acceptable | 38,965 | 798 | 138 | 39,901 | 106,693 | 4,723 | 250 | 48 |
| C-Appreciable risk | 23,515 | 481 | 94 | 24,090 | 69,569 | 4,742 | 433 | 84 |
| D-Significant risk | 19,565 | 542 | 106 | 20,213 | 41,296 | 16,525 | 547 | 125 |
| E-Unrecoverable | 25,551 | 513 | 213 | 26,277 | 53,988 | 24,793 | 515 | 232 |
| Total consumer loans | 1,031,560 | 11,605 | 2,855 | 1,046,020 | 2,685,768 | 78,692 | 2,082 | 608 |

Consumer loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 6,636,657 | 66,842 | 16,833 | 6,720,333 | 15,913 | 203,985 | 2,563 | 884 |
| B-Acceptable | 368,873 | 7,600 | 1,203 | 377,676 | - | 46,061 | 2,463 | 448 |
| C-Appreciable risk | 208,996 | 4,163 | 625 | 213,783 | - | 40,665 | 3,767 | 576 |
| D-Significant risk | 263,855 | 7,552 | 1,086 | 272,493 | - | 223,248 | 7,547 | 1,066 |
| E-Unrecoverable | 95,806 | 1,926 | 635 | 98,367 | - | 92,703 | 1,925 | 616 |
| Total consumer loans | 7,574,187 | 88,083 | 20,382 | 8,727,672 | 15,913 | 606,662 | 18,265 | 3,590 |
| General allowance | | | | | | | | |
| Total consumer loans | 8,605,747 | 99,688 | 23,237 | 8,728,672 | 2,701,682 | 685,353 | 20,348 | 4,197 |

Microcredit loans with suitable guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 86,590 | 947 | 412 | 87,948 | 137,924 | 3,606 | 58 | 40 |
| B-Acceptable | 1,547 | 26 | 23 | 1,595 | 3,238 | 211 | 19 | 16 |
| C-Appreciable risk | 1,150 | 10 | 23 | 1,184 | 2,097 | 423 | 7 | 20 |
| D-Significant risk | 370 | 3 | 10 | 384 | 672 | 370 | 3 | 10 |
| E-Unrecoverable | 905 | 11 | 52 | 968 | 1,226 | 905 | 11 | 52 |
| Total microcredit loans | 90,562 | 997 | 520 | 92,079 | 145,157 | 5,515 | 98 | 138 |

Microcredit loans with other guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 1,421 | 13 | 3 | 1,435 | - | 58 | 1 | 1 |
| B-Acceptable | 26 | - | 4 | 31 | - | 6 | - | 4 |
| C-Appreciable risk | 38 | 1 | - | 39 | - | 12 | 1 | - |
| D-Significant risk | 1 | - | - | 1 | - | 1 | - | - |
| E-Unrecoverable | 2 | - | 4 | 6 | - | 2 | - | 4 |
| Total Microcredit loans | 1,488 | 14 | 11 | 1,512 | - | 79 | 2 | 9 |
| General Allowance | | | | | | 920 | | |
| Total Microcredit loans | 92,050 | 1,010 | 531 | 93,591 | 145,157 | 5,594 | 99 | 147 |

Mortgage loans:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 2,313,455 | 11,533 | 9,067 | 2,334,055 | 5,685,856 | 34,823 | 879 | 2,341 |
| B-Acceptable | 97,427 | 232 | 1,251 | 98,910 | 275,098 | 5,082 | 232 | 1,251 |
| C-Appreciable risk | 35,062 | 88 | 627 | 35,777 | 105,220 | 7,044 | 88 | 627 |
| D-Significant risk | 12,526 | 48 | 384 | 12,957 | 38,621 | 7,520 | 48 | 384 |
| E-Unrecoverable | 1,703 | 8 | 103 | 1,815 | 4,899 | 1,703 | 8 | 103 |
| Total Microcredit loans | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 6,109,694 | 56,172 | 1,255 | 4,706 |
| General allowance | | | | | | 24,602 | | |
| Total Microcredit loans | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 6,109,694 | 80,775 | 1,354 | 4,853 |
| Total loans | 26,838,969 | 252,811 | 46,469 | 27,138,248 | 21,213,150 | 1,291,883 | 30,324 | 12,385 |



(Continued)

**March 31, 2012**

Commercial loans with suitable guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 3,321,191 | 36,404 | 2,288 | 3,359,883 | 11,638,303 | 74,794 | 918 | 241 |
| B-Acceptable | 153,562 | 2,468 | 479 | 156,509 | 426,218 | 13,832 | 230 | 176 |
| C- Appreciable risk | 29,479 | 782 | 188 | 30,449 | 85,979 | 5,879 | 569 | 166 |
| D-Significant risk | 44,050 | 1,414 | 560 | 46,024 | 106,959 | 42,281 | 1,409 | 558 |
| E-Unrecoverable | 18,527 | 244 | 50 | 18,821 | 54,268 | 18,527 | 244 | 50 |
| Total | 3,566,809 | 41,312 | 3,565 | 3,611,686 | 12,311,727 | 155,313 | 3,369 | 1,191 |

Commercial loans with other guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible other guarantee | Principal | Interest | Other |
| A-Normal | 11,893,823 | 130,824 | 6,559 | 12,048,206 | 152,272 | 256,289 | 2,880 | 794 |
| B-Acceptable | 296,390 | 4,624 | 650 | 301,665 | - | 25,668 | 433 | 325 |
| C-Appreciable risk | 43,945 | 1,211 | 246 | 45,402 | - | 7,976 | 880 | 219 |
| D-Significant risk | 69,105 | 2,303 | 764 | 72,172 | - | 68,992 | 2,302 | 762 |
| E-Unrecoverable | 31,651 | 408 | 102 | 32,161 | - | 31,651 | 408 | 102 |
| Total | 12,334,915 | 139,371 | 8,321 | 12,499,609 | 152,272 | 390,577 | 6,904 | 2,202 |
| Total commercial loans | 15,901,724 | 180,683 | 11,886 | 16,111,294 | 12,463,999 | 545,890 | 10,273 | 3,393 |

Consumer loans with suitable guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible guarantee | Principal | Interest | Other |
| A-Normal | 919,042 | 9,724 | 2,481 | 931,247 | 2,399,947 | 27,293 | 362 | 126 |
| B-Acceptable | 44,978 | 959 | 161 | 46,097 | 120,229 | 5,263 | 187 | 52 |
| C-Appreciable risk | 21,875 | 410 | 84 | 22,369 | 55,726 | 4,286 | 358 | 73 |
| D-Significant risk | 20,796 | 599 | 111 | 21,506 | 45,443 | 18,264 | 598 | 111 |
| E-Unrecoverable | 30,274 | 662 | 235 | 31,171 | 58,778 | 29,883 | 662 | 235 |
| Total | 1,036,965 | 12,354 | 3,072 | 1,052,390 | 2,680,123 | 84,989 | 2,167 | 597 |

Consumer loans with other guarantees:

| | | | | | | Allowance | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Admissible other guarantee | Principal | Interest | Other |
| A-Normal | 6,660,171 | 70,851 | 18,336 | 6,749,358 | 18,328 | 201,340 | 2,701 | 920 |
| B-Acceptable | 404,956 | 8,753 | 1,399 | 415,109 | 0 | 48,388 | 1,734 | 455 |
| C-Appreciable risk | 187,977 | 3,582 | 623 | 192,181 | 0 | 35,698 | 3,164 | 577 |
| D-Significant risk | 282,826 | 8,095 | 1,129 | 292,050 | 0 | 249,216 | 8,094 | 1,129 |
| E-Unrecoverable | 126,750 | 2,803 | 852 | 130,404 | 0 | 125,066 | 2,803 | 852 |
| Total | 7,662,680 | 94,083 | 22,339 | 7,779,103 | 18,328 | 659,708 | 18,496 | 3,933 |
| General allowance | - | - | - | - | - | 257 | - | - |
| Total consumer loans | 8,699,645 | 106,437 | 25,411 | 8,831,493 | 2,698,451 | 744,954 | 20,663 | 4,531 |

Microcredit loans with suitable guarantees:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 86,015 | 907 | 388 | 87,311 | 140,461 | 3,592 | 59 | 39 |
| B-Acceptable | 1,615 | 18 | 23 | 1,657 | 3,335 | 203 | 13 | 19 |
| C-Appreciable risk | 1,257 | 14 | 35 | 1,307 | 2,547 | 449 | 13 | 31 |
| D-Significant risk | 325 | 4 | 9 | 336 | 558 | 323 | 4 | 9 |
| E-Unrecoverable | 1,047 | 14 | 71 | 1,132 | 1,555 | 1,047 | 14 | 71 |
| Total | 90,259 | 957 | 526 | 91,743 | 148,456 | 5,614 | 103 | 169 |

Microcredit loans with other guarantees:

| | Principal | Interest | Others | Total | Admissible other guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 1,417 | 13 | 3 | 1,433 | - | 58 | 1 | - |
| B-Acceptable | 73 | 1 | 1 | 74 | - | 11 | 1 | 1 |
| C-Appreciable risk | 19 | - | - | 19 | - | 6 | - | - |
| E-Unrecoverable | 12 | - | 6 | 18 | - | 12 | - | 6 |
| Total | 1,521 | 14 | 10 | 1,544 | - | 87 | 2 | 7 |
| General allowance | | | | | | 918 | | |
| Total microcredit loans | 91,780 | 971 | 536 | 93,287 | 148,456 | 6,619 | 105 | 177 |

Mortgage loans:

| | Principal | Interest | Others | Total | Admissible guarantee | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| A-Normal | 2,391,509 | 12,064 | 9,165 | 2,412,738 | 5,803,822 | 24,072 | 979.7 | 2,422.9 |
| B-Acceptable | 96,631 | 221 | 1,224 | 98,076 | 267,749 | 3,935 | 220.4 | 1,224.4 |
| C-Appreciable risk | 35,749 | 120 | 582 | 36,451 | 101,566 | 3,630 | 120.2 | 582.3 |
| D-Significant risk | 12,366 | 37 | 312 | 12,715 | 36,605 | 3,720 | 37.0 | 312.0 |
| E-Unrecoverable | 1,288 | 4 | 83 | 1,375 | 4,098 | 1,288 | 3.7 | 83.4 |
| Total | 2,537,542 | 12,446 | 11,367 | 2,561,355 | 6,213,840 | 36,644 | 1,361.0 | 4,625.0 |
| General allowance | - | - | - | - | - | 25,375 | - | - |
| Total mortgage loans | 2,537,542 | 12,446 | 11,367 | 2,561,355 | 6,213,840 | 62,020 | 1,361 | 4,625 |
| Total Portfolio | 27,230,691 | 300,537 | 49,201 | 27,597,430 | 21,524,747 | 1,359,483 | 32,401 | 12,726 |

The following is a detail of the loan portfolio by geographic area (expressed in millions of COP).

**December 31, 2011**

Commercial loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Guarantees | Principal | Interest | Other |
| Bogotá | 7,289,072 | 65,611 | 4,684 | 7,359,369 | 6,591,424 | 231,589 | 3,406 | 1,811 |
| Antioquia | 3,238,584 | 29,466 | 2,874 | 3,270,924 | 2,395,846 | 111,870 | 1,985 | 388 |
| Nororiental | 2,497,987 | 25,612 | 2,451 | 2,526,049 | 2,055,481 | 104,961 | 2,270 | 734 |
| Suroccidental | 1,663,953 | 14,891 | 1,260 | 1,680,104 | 964,490 | 53,983 | 872 | 403 |
| Panama | 795,487 | 3,229 | - | 798,716 | 247,525 | 14,063 | 71 | - |
| Miami | 195,915 | 1,394 | - | 197,308 | 1,851 | 2,776 | 18 | - |
| Total commercial | 15,680,998 | 140,203 | 11,269 | 15,832,470 | 12,256,617 | 519,242 | 8,622 | 3,335 |

Consumer loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Guarantees | Principal | Interest | Other |
| Bogotá | 4,334,985 | 52,051 | 12,399 | 4,399,435 | 1,517,252 | 367,774 | 11,737 | 2,317 |
| Antioquia | 1,310,395 | 13,935 | 3,279 | 1,327,610 | 385,723 | 88,670 | 2,249 | 465 |
| Nororiental | 1,812,726 | 21,035 | 4,600 | 1,838,361 | 496,656 | 144,797 | 4,072 | 904 |
| Suroccidental | 1,125,248 | 12,370 | 2,959 | 1,140,577 | 284,576 | 84,014 | 2,283 | 511 |
| Panama | 22,393 | 296 | - | 22,690 | 17,475 | 98 | 6 | - |
| Total consumer | 8,605,747 | 99,687 | 23,237 | 8,728,672 | 2,701,682 | 685,353 | 20,348 | 4,197 |

Mortgage loans:

| | | | | | Allowance | | | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Others | Total | Guarantees | Principal | Interest | Other |
| Bogotá | 1,704,665 | 8,087 | 7,470 | 1,720,224 | 4,127,156 | 39,701 | 861 | 3,100 |
| Antioquia | 220,655 | 1,108 | 1,193 | 222,955 | 639,696 | 4,650 | 116 | 446 |
| Nororiental | 296,983 | 1,545 | 1,993 | 300,521 | 790,951 | 6,666 | 177 | 863 |
| Suroccidental | 236,911 | 1,165 | 776 | 238,852 | 550,166 | 5,140 | 101 | 297 |
| Panama | 959 | 4 | - | 962 | 1,725 | 15 | - | - |
| General allowance | - | - | - | - | - | 24,602 | - | - |
| Total Mortgage | 2,460,173 | 11,909 | 11,432 | 2,483,514 | 6,109,694 | 80,774 | 1,255 | 4,706 |

Microcredit loans:

| | Principal | Interest | Others | Total | Guarantees | Allowance Principal | Allowance Interest | Allowance Other |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 91,813 | 1,007 | 528 | 93,348 | 144,805 | 6,456 | 98 | 145 |
| Antioquia | 3 | - | - | 3 | - | 1 | - | - |
| Nororiental | 234 | 3 | 3 | 240 | 352 | 58 | 2 | 2 |
| Total microcredit loans | 92,050 | 1,010 | 531 | 93,591 | 145,157 | 6,515 | 100 | 147 |
| Total loans | 26,838,968 | 252,811 | 46,469 | 27,138,248 | 21,213,150 | 1,291,883 | 30,325 | 12,385 |

**March 31, 2012**

Commercial loans:

| | Principal | Interest | Others | Total | Guarantees | Allowance Principal | Allowance Interest | Allowance Others |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 7,362,900 | 85,791 | 4,910 | 7,470,602 | 6,513,405 | 238,942 | 4,006 | 1,845 |
| Antioquia | 3,098,476 | 43,067 | 3,029 | 3,144,573 | 2,518,790 | 117,145 | 2,440 | 427 |
| Nororiental | 2,566,637 | 27,321 | 2,693 | 2,596,651 | 2,215,072 | 110,409 | 2,740 | 768 |
| Suroccidental | 1,775,137 | 18,045 | 1,254 | 1,794,437 | 966,756 | 54,869 | 906 | 353 |
| Panama | 1,098,573 | 6,459 | - | 1,105,032 | 249,976 | 24,525 | 180 | - |
| Total Commercial | 15,901,724 | 180,684 | 11,886 | 16,111,294 | 12,463,999 | 545,890 | 10,273 | 3,393 |

Consumer loans:

| | Principal | Interest | Others | Total | Guarantees | Allowance Principal | Allowance Interest | Allowance Others |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 4,352,820 | 55,539 | 13,486 | 4,421,846 | 1,492,592 | 398,820 | 11,636 | 2,431 |
| Antioquia | 1,356,064 | 15,103 | 3,615 | 1,374,783 | 392,532 | 96,804 | 2,380 | 524 |
| Nororiental | 1,823,360 | 22,526 | 5,079 | 1,850,964 | 505,703 | 156,616 | 4,209 | 988 |
| Suroccidental | 1,141,748 | 12,986 | 3,231 | 1,157,965 | 286,787 | 92,300 | 2,433 | 588 |
| Panama | 25,653 | 283 | - | 25,935 | 20,837 | 157 | 6 | - |
| General allowance | - | - | - | - | - | 257 | - | - |
| Total Consumer | 8,699,645 | 106,437 | 25,411 | 8,831,493 | 2,698,451 | 744,954 | 20,663 | 4,531 |

Mortgage loans:

| | Principal | Interest | Others | Total | Guarantees | Allowance Principal | Allowance Interest | Allowance Others |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 1,789,437 | 8,647 | 7,554 | 1,805,638 | 4,262,445 | 26,051 | 930.9 | 3,029.5 |
| Antioquia | 216,259 | 1,105 | 1,131 | 218,496 | 626,528 | 2,912 | 113.8 | 426.6 |
| Nororiental | 287,988 | 1,493 | 1,911 | 291,392 | 766,283 | 4,401 | 192.7 | 845.4 |
| Suroccidental | 242,998 | 1,199 | 772 | 244,968 | 557,288 | 3,267 | 123.6 | 323.5 |
| Panama | 860 | 2 | - | 862 | 1,295 | 13 | - | - |
| General allowance | - | - | - | - | - | 25,375 | - | - |
| Total Mortgage | 2,537,542 | 12,446 | 11,368 | 2,561,355 | 6,213,840 | 62,020 | 1,361 | 4,625 |

Microcredit loans:

| | Principal | Interest | Others | Total | Guarantees | Allowance Principal | Allowance Interest | Allowance Others |
|---|---|---|---|---|---|---|---|---|
| Bogotá | 91,534 | 968 | 531 | 93,032 | 148,076 | 5,642 | 102 | 173 |
| Antioquia | 2 | - | - | 2 | - | 2 | - | - |
| Nororiental | 244 | 3 | 5 | 252 | 380 | 57 | 1 | 4 |
| General allowance | | | | | | 918 | | |
| Total Microcredit | 91,780 | 971 | 536 | 93,287 | 148,456 | 6,619 | 103 | 177 |
| Total Loans | 27,230,691 | 300,537 | 49,201 | 27,596,430 | 21,524,747 | 1,359,483 | 32,401 | 12,726 |

The following is a summary of the maturity profile of the loan portfolio (expressed in millions of COP).

December 31, 2011

| | From 0 to 1 years | From 1 to 5 years | From 5 to 10 years | Above 10 years | Total |
|---|---|---|---|---|---|
| Commercial loans | 4,576,862 | 5,356,225 | 4,046,226 | 1,701,685 | 15,680,998 |
| Consumer loans | 1,567,591 | 5,944,233 | 1,015,537 | 78,386 | 8,605,747 |
| Microcredit loans | 8,939 | 83,081 | 30 | - | 92,050 |
| Mortgage loans | 39,181 | 119,455 | 456,194 | 1,845,343 | 2,460,173 |
| Total | 6,192,573 | 11,502,994 | 5,517,987 | 3,625,415 | 26,838,968 |

March 31, 2012

| | From 0 to 1 years | From 1 to 5 years | From 5 to 10 years | Above 10 years | Total |
|---|---|---|---|---|---|
| Commercial loans | 4,565,362 | 5,573,145 | 3,912,961 | 1,850,256 | 15,901,724 |
| Consumer loans | 1,614,962 | 5,911,091 | 1,078,122 | 95,470 | 8,699,645 |
| Microcredit loans | 4,794 | 86,952 | 34 | - | 91,780 |
| Mortgage loans | 35,955 | 113,131 | 456,240 | 1,932,216 | 2,537,542 |
| | 6,221,074 | 11,684,319 | 5,447,357 | 3,877,942 | 27,230,691 |

The following is a summary of loan portfolio, providing detail of those loans that have been restructured, or in the process of being restructured (Concordats), provisioned and those which have guarantees per classification (expressed in millions of COP):

December 31, 2011

| | Restructured | Concordats | Allowance | Guarantee |
|---|---|---|---|---|
| Commercial loans | 194,281 | 178 | 52,513 | 337,748 |
| Consumer loans | 652,010 | 17 | 163,662 | 84,109 |
| Microcredit loans | 1,094 | - | 865 | 2,135 |
| Mortgage loans | 83,389 | - | 9,969 | 254,884 |
| | 930,775 | 195 | 227,009 | 678,876 |

March 31, 2012

| | Restructured | Concordats | Allowance | Guarantee |
|---|---|---|---|---|
| Commercial loans | 196,354 | 141 | 53,488 | 330,627 |
| Consumer loans | 733,982 | 17 | 192,447 | 81,475 |
| Microcredit loans | 921 | - | 365 | 2,042 |
| Mortgage loans | 85,558 | - | 5,828 | 256,382 |
| | 1,016,815 | 158 | 252,128 | 670,526 |

The following shows restructured loans according to their rating:

December 31, 2011 March 31, 2012

| | No. of Loans | Restructured (million of COP) | No. of Loans | Restructured (million of COP) |
|---|---|---|---|---|
| Commercial | | | | |
| A-Normal | 1,380 | 79,411 | 1,407 | 81,553 |
| B-Acceptable | 605 | 40,932 | 606 | 39,059 |
| C-Appreciable risk | 440 | 23,492 | 397 | 23,091 |
| D-Significant risk | 695 | 42,283 | 729 | 45,155 |
| E-Unrecoverable | 78 | 8,164 | 78 | 7,496 |
| | 3,198 | 194,282 | 3,217 | 196,354 |
| Consumer | | | | |
| A-Normal | 24,125 | 362,329 | 26,237 | 411,400 |
| B-Acceptable | 4,057 | 65,382 | 4,657 | 74,187 |
| C-Appreciable risk | 4,775 | 85,414 | 4,714 | 83,327 |
| D-Significant risk | 5,295 | 91,629 | 5,634 | 106,054 |
| E-Unrecoverable | 2,751 | 47,256 | 3,209 | 59,014 |
| | 41,003 | 652,010 | 44,451 | 733,982 |
| Mortgage | | | | |
| A-Normal | 2,170 | 37,120 | 2,257 | 38,621 |
| B-Acceptable | 992 | 21,067 | 984 | 20,273 |
| C-Appreciable risk | 979 | 17,823 | 943 | 19,133 |
| D-Significant risk | 361 | 6,739 | 366 | 6,941 |
| E-Unrecoverable | 36 | 640 | 32 | 590 |
| | 4,538 | 83,389 | 4,582 | 85,558 |
| Microcredit | | | | |
| | No. of Loans | Restructured (million of COP) | No. of Loans | Restructured (million of COP) |
| A-Normal | 19 | 268 | 16 | 198 |
| B-Acceptable | 17 | 310 | 15 | 266 |
| C-Appreciable risk | 19 | 376 | 18 | 269 |
| D-Significant risk | 6 | 56 | 6 | 105 |
| E-Unrecoverable | 4 | 84 | 5 | 84 |
| | 65 | 1,094 | 60 | 921 |
| Total for entire loan portfolio | 48,804 | 930,775 | 52,310 | 1,016,815 |

Restructured loans by geographic zone:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Commercial | | |
| Bogotá | 63,494 | 61,159 |
| Antioquia | 43,574 | 46,661 |
| Nororiental | 69,371 | 71,523 |
| Suroccidental | 17,843 | 17,010 |
| | 194,282 | 196,354 |
| Consumer | | |
| Bogotá | 334,874 | 381,095 |
| Antioquia | 92,755 | 103,414 |
| Nororiental | 130,210 | 145,816 |
| Suroccidental | 94,171 | 103,657 |
| | 652,010 | 733,982 |
| Mortgage loans | | |
| Bogotá | 63,877 | 66,478 |
| Antioquia | 5,376 | 5,152 |
| Nororiental | 8,148 | 7,893 |
| Suroccidental | 5,988 | 6,036 |
| | 83,389 | 85,558 |
| Microcredit | | |
| Bogotá | 1,094 | 921 |
| | 1,094 | 921 |
| Total | 930,775 | 1,016,815 |

**Shareholders and employees loan portfolio**

The loan portfolio includes the following loans to shareholders and employees:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Stockholders | 1,921,845 | 1,902,933 |
| Consumer and commercial employees | 115,127 | 124,384 |
| | 2,036,972 | 2,027,317 |

The annual effective interest rates on loans and individual credits to shareholders and employees for the year ended December 31, 2011 and March 31, 2012 were the following:

| December 31, 2011 | March 31, 2012 |
|---|---|
| Between 3.5% and 28.63% | Between 1.10% and 32.60% |

The term for loans to shareholders and employees is between 1 and 15 years.

**Securitization of loans**

The following is a breakdown of the securitization for the year and three months, respectively, ended December 31, 2011 and March 31, 2012:

December 31, 2011

| Issue | Date | Number | Rate | Principal | Interest | Other | Total | Gain |
|---|---|---|---|---|---|---|---|---|
| Pesos N-2 | Sep 16, 2011 | 1,719 | 13.24% | 148,603 | 780 | (66) | 149,318 | 3,715 |
| Pesos N-3 | Nov 11, 2011 | 1,926 | 13.19% | 193,446 | 1,068 | 226 | 194,739 | 5,804 |
| | | 3,645 | | 342,049 | 1,848 | 160 | 344,057 | 9,519 |

March 31, 2012

| Issue | Date | Number | Rate | Principal | Interest | Other | Total | Gain |
|---|---|---|---|---|---|---|---|---|
| Pesos N-4 | Feb 17, 2012 | 2,123 | 13.21% | 185,875 | 1,141 | 213 | 187,229 | 6,063 |
| | | 2,123 | | 185,875 | 1,141 | 213 | 187,229 | 6,063 |

**Sale of non-performing loans**

The following is the detail of the purchase and sale of loans as of December 31, 2011 under the securitization process (in millions of COP):

| | Year ended December 31, 2011 | | | |
|---|---|---|---|---|
| Sales | Principal | Interest | Other Allowance | Total |
| Gerc 2011 | 83,046 | 6,532 | 1,851 | 91,428 |
| New Credit (COVINOC) | 156,614 | 7,231 | 1,430 | 165,274 |
| RF Soluciones S.A.S | 274,708 | 11,245 | 1,778 | 287,732 |
| | 514,368 | 25,008 | 5,059 | 544,434 |

There were no sales of non-performing loans during the three months ended on March 31, 2012 under the securitization process.

On August 5, 2011, we sold a portfolio of non-performing loans totaling a nominal amount of COP 256,702 million to Gerc 2011 and New Credit (Covinoc) for COP 18,442 million, and the payments were agreed in the following installments:

| Date | Value (millions of COP) |
|---|---|
| August 18, 2011 | 1,016 |
| August 26, 2011 | 8,946 |
| September 1, 2011 | 4,000 |
| Balance in favor * | 4,480 |

* This amount was paid December 27, 2011 and was recorded as advanced income, according to SFC rules, which require that these gains be recognized on a cash basis.

On December 29, 2011, we sold a portfolio of non-performing loans totaling a nominal amount of COP 287,732 million to RF Solutions SAS for COP 13,405 million, of which we received COP 2,500 million on December 29, 2011, leaving a balance of COP 10,905 million, which was canceled during the first quarter of 2012 and is recognized as deferred income. There were no purchases of non-performing loans at December 31, 2011 or during the three months ended March 31, 2012.

## NOTE 7 - ALLOWANCE FOR LOANS AND FINANCIAL LEASE LOSSES

An analysis of the activity in the allowance for loan losses during the year ended on December 31 and on March 31, 2012 is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Balance at beginning of the period | 1,167,115 | 1,291,883 |
| Allowance for loan losses | 1,619,765 | 513,973 |
| Write-offs | (561,214) | (162,595) |
| Reclassification – Securitization | (1.097) | (1,610) |
| Recovery of allowance | (932,686) | (282,168) |
| Balance at end of year | 1,291,883 | 1,359,483 |

An analysis of the activity in the allowance for loan losses during the three-month periods ended on March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Balance at beginning of the period | 1,167,115 | 1,291,883 |
| Allowance for loan losses | 406,264 | 513,708 |
| Write-offs | (94,420) | (162,595) |
| Reclassification – Securitization | (286) | (1,345) |
| Recovery of allowance | (259,447) | (282,168) |
| Balance at end of year | 1,219,226 | 1,359,483 |

## NOTE 8 - ACCRUED INTEREST RECEIVABLE ON LOANS, AND FINANCIAL LEASES, NET

Accrued interest receivable on loans and finance leases consists of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Commissions | 3,466 | 3,532 |
| Accrued interest receivable on loans and financial leases | 253,051 | 300,585 |
| Payment on behalf of clients | 50,646 | 52,418 |
| Advances to contractors | 14,494 | 23,240 |
| Account receivable for assets sold | 336 | 287 |
| Other receivables | 182,485 | 158,606 |
| Total | 504,478 | 538,668 |
| Allowance for accounts receivable | (120,083) | (89,430) |
| Accrued interest receivable on loans and financial leases net | 384,395 | 449,238 |

An analysis of the activity in the allowance for accrued interest receivable on loans and finance leases and accounts receivable losses during the year ended December 31,2011and on March 31, 2012, is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of year | 71,292 | 120,083 |
| Allowance for the period | 119,279 | 28,097 |
| Write-offs | (25,632) | (42,857) |
| Reclassifications | 2,050 | (188) |
| Recovery of allowance | (46,904) | (15,706) |
| Balance at end of the period | 120,083 | 89,430 |

An analysis of the activity in the allowance for accrued interest receivable on loans and finance leases for the three-month periods ended March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of year | 71,292 | 120,083 |
| Allowance for the period | 20,276 | 27,735 |
| Write-offs | (4,096) | (42,848) |
| Reclassifications | 798 | 166 |
| Recovery of allowance | (17,651) | (15,706) |
| Balance at end of the period | 70,619 | 89,430 |



(Continued)

## NOTE 9 – BANKERS' ACCEPTANCES AND DERIVATIVES

The Bank enters into transactions involving derivative instruments; particularly foreign exchange contracts, as part of its asset and liability management, and in acting as a dealer in order to satisfy its clients' needs. The notional amounts of these contracts are carried off-balance sheet.

Foreign exchange forward contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These contracts are generally standardized contracts, normally for periods between 1 and 180 days and are not traded in a secondary market; however, in the normal course of business and with the agreement of the original counterparty, they may be terminated or assigned to another counterparty.

When the Bank enters into a forward exchange contract, it analyzes and approves the credit risk (the risk that the counterparty might default on its obligations). Subsequently, on an ongoing basis, it monitors the possible losses involved in each contract. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, enters into master netting agreements whenever possible and when appropriate, obtains collateral.

The Bank's rights and commitments from customer acceptances and derivative operations were as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| Assets | (millions of COP) | |
| Bankers' acceptances | 472 | 3,882 |
| Assets Derivatives | | |
| Spot transactions | 22 | 15 |
| Forward contracts | 123,649 | 106,502 |
| Swaps | 212 | 318 |
| Options | 1,436 | 1,772 |
| Total assets derivatives | 125,319 | 108,607 |
| Total bankers' acceptances and derivative assets | 125,791 | 112,489 |
| Liabilities | | |
| Bankers' acceptances | 472 | 3,882 |
| Liabilities derivatives | | |
| Forward contracts | 86,828 | 87,155 |
| Swaps | 196 | 282 |
| Options | 3,158 | 2,352 |
| Coverage swaps | 6,400 | 18,293 |
| Total liabilities derivatives | 96,582 | 108,082 |
| Total Bankers' acceptances and derivative liabilities | 97,055 | 111,964 |
| Net asset (liability) position of bankers' acceptances and derivatives (*) | 28,737 | 525 |

(*) The Bank recognized all of its derivatives instruments on its balance sheet as either assets or obligations depending on the rights or obligations under the derivatives contracts.

**Swaps contracts in purchase of Granbanco and issuance of IFC bonds**

The Bank entered into three Cross Currency Swap ("CCS") contracts for coverage of interest rates and exchange rates in financing the purchase of Granbanco S.A.The terms of these agreements were CCS Libor – fixed rate and CCS Libor – variable rate for an amount of US$ 415,000,000 for a term of seven and three years, respectively.

As of March 31, 2012, the Bank was party to two swap contracts of interest rates related to currency swaps issued in February 2007, for coverage of the issuance of IFC bonds for US$ 165,000,000.

The following is the detail of the swap contracts for the year ended December 31, 2011 and the three month period ended March 31, 2012 (in millions of COP):

| Period | Description | Term (years) | Initial Date | Ended Date | Rights | Obligations | Net |
|---|---|---|---|---|---|---|---|
| 2011 | Swap Coverage Bonds IFC | 7 | Feb.07.07 | Feb.07.14 | 321,193 | 327,593 | (6,399) |
| 2012 | Swap Coverage Bonds IFC | 7 | Feb.07.07 | Feb.07.14 | 296,463 | 314,755 | (18,292) |

## NOTE 10 - FORECLOSED ASSETS, NET

Foreclosed assets consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Housing | 10,017 | 7,537 |
| *Other than housing* | | |
| Real estate | 26,543 | 25,940 |
| Properties | 19,167 | 22,039 |
| Other | 2,336 | 3,228 |
| Total | 58,063 | 58,744 |
| Allowance | (19,226) | (13,924) |
| Foreclosed assets, net | 38,837 | 44,820 |

A foreclosed asset analysis according to the date when the asset was foreclosed is as follows (in millions of COP):

| | Less than 1 year | Between 1 and 5 Years | Between 5 and 10 years | More than 10 years | Total | Allowance |
|---|---|---|---|---|---|---|
| As of December 31, 2011 | | | | | | |
| Real estate | 13,309 | 35,989 | 4,025 | 860 | 54,183 | 17,222 |
| Movable assets | 2,224 | 546 | 1,092 | 19 | 3,880 | 2,004 |
| | 15,533 | 36,535 | 5,117 | 879 | 58,063 | 19,226 |
| As of March 31, 2012 | | | | | | |
| Real estate | 19,644 | 31,405 | 2,952 | 159 | 54,160 | 11,976 |
| Movable assets | 2,981 | 436 | 1,149 | 19 | 4,584 | 1,948 |
| | 22,625 | 31,841 | 4,101 | 178 | 58,744 | 13,924 |

The changes in allowances for foreclosed assets during the year ended December 31, 2011 and on March 31, 2012 were as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Balance at beginning of year | 19,989 | 19,226 |
| Allowance | 8,928 | 2,527 |
| Write-offs | (355) | (4,634) |
| Reclassifications | (169) | - |
| Sales | - | (27) |
| Recovery of allowance | (9,168) | (3,168) |
| Balance at the end of year | 19,226 | 13,924 |

The changes in allowances for foreclosed assets during the three month periods ended March 31, 2011 and 2012 were as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (in millions of COP) | |
| Balance at beginning of year | 19,989 | 19,226 |
| Allowance | 2,846 | 2,527 |
| Write-offs | (98) | (4,634) |
| Sales | - | (27) |
| Recovery of allowance | (1,355) | (3,168) |
| Balance at the end of year | 21,382 | 13,924 |

## NOTE 11 - PREMISES AND EQUIPMENT UNDER OPERATING LEASES, NET

Operating leases, where the subsidiary Confinanciera S.A. act as lessors consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Machinery, equipment and vehicles | 11,606 | 11,857 |
| Accumulated depreciation | (5,693) | (6,078) |
| Allowance | (62) | (60) |
| | 5,851 | 5,719 |

## NOTE 12 - PREMISES AND EQUIPMENT, NET

Property, plant and equipment consisted of the following as of December 31, 2011 and March 31, 2012.

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Property, plant and equipment | | |
| Land and buildings | 433,510 | 434,443 |
| Furniture, equipment, fixtures and vehicles | 102,141 | 102,803 |
| Computer equipment | 222,391 | 214,433 |
| Total | 758,042 | 751,679 |
| Less accumulated depreciation | (355,989) | (353,796) |
| Allowance for impairment | (8,260) | (8,001) |
| Property, plant and equipment, net | 393,793 | 389,882 |


(Continued)

An analysis of the activity in the allowance for impairment losses during the year ended December 31, 2011 and on March 31, 2012 is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 8,055 | 8,260 |
| Allowance for the period | 9,805 | - |
| Reclassification of allowance | 506 | - |
| Recovery of allowance | (10,106) | (259) |
| Balance at end of period | 8,260 | (8,001) |

An analysis of the activity in the allowance for impairment losses during the three-month periods ended March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 8,055 | 8,260 |
| Allowance for the period | 9,615 | - |
| Reclassification of allowance | 506 | - |
| Recovery of allowance | (3,969) | (259) |
| Balance at end of period | 14,207 | (8,001) |

At December 31, 2011 and March 31, 2012 the Bank had insurance policies to cover the risks of theft, fire, earthquake, disturbance, mutiny, explosion, volcanic eruption, low tension, properties, loss or damages to offices and vehicles.

At December 31, 2011 and March 31, 2012 the Bank's premises and equipment were free of any restriction or guarantees.

The depreciation charged to expenses for March 31, 2011 was COP 10,130 million and for March 31, 2012 was COP 10,552 million.

## NOTE 13 - PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Prepaid expenses: | | |
| Insurance premiums | 15,636 | 9,098 |
| Other | 2,127 | 4,846 |
| Total prepaid expenses | 17,762 | 13,944 |
| Deferred charges: | | |
| Remodeling expenses | 31,966 | 25,177 |
| Computer programs | 7,167 | 7,064 |
| Leasehold improvements | 2,779 | 1,506 |
| Deferred income tax asset (1) | 23,178 | 18,622 |
| Equity tax | 142,728 | 131,427 |
| Other | 1,046 | 13,829 |
| Total deferred charges | 208,864 | 197,625 |
| Total prepaid expenses and deferred charges | 226,627 | 211,569 |

(1) Deferred income tax assets relates to the following temporary differences:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Deferred income tax asset | | |
| Estimated liabilities | 3,520 | 6,862 |
| Bankers' acceptances and derivatives | 2,112 | 6,037 |
| Loans | 7,906 | 4,458 |
| Investments | 4,107 | - |
| Other | 5,534 | 1,265 |
| Total deferred income tax asset | 23,178 | 18,622 |

An analysis of the prepaid expenses and deferred charges during the three-month period ended March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of year | 96,676 | 226,627 |
| Additions | 275,136 | 62,164 |
| Amortizations | (81,083) | (77,222) |
| Balance at end of year | 290,729 | 211,569 |

## NOTE 14 – GOODWILL

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Granbanco S.A. Bancafe | 1,181,627 | 1,170,063 |
| | 1,181,627 | 1,170,063 |

Granbanco S.A. – Bancafé

Goodwill resulted from the acquisition of 99.62% of the shares of Granbanco S.A. – Bancafé. The purchase was authorized by Resolution 0139 of January 31, 2007 of the SFC.

According to External Circular 034 of 2006, the goodwill should be valued by an expert, who must be an independent professional with no conflict of interest with the Bank and with the accredited experience.

The following are the main characteristics considered in the evaluation of goodwill:

- Definition and determining of business lines was a process performed jointly by the management of both Banco Davivienda S.A. and Granbanco S.A., in which both entities identified the cash flow sources independent from lines of business.

- According to the above, the two business lines of Banco Davivienda S.A. and Granbanco S.A. were merged considering synergies that were assessed at the time. Therefore, goodwill was assigned to the following six business lines with a valuation of fair market value and based on the figures at December 31, 2006 for Davivienda and January 31, 2007 for Granbanco: (i) consumer, (ii) commercial, (iii) small and medium enterprises (SME), (iv) credit cards, (v) mortgages and (vi) affiliates (Panama and Miami).

- Overall criteria to define the previous business lines were: characteristics of the business lines (average placement rate, average balance by client/product, customer profile, growth of accounts receivable and expense assignation); feasibility of independent valuation and international accounting standards.

- Once the business lines are defined and the related assets identified, the statements of income and balance sheet by business line is determined based on the global statements of income and balance sheet and each entity's information system. This is for a projected period of 10 years.

The business lines are detailed as follows:

Consumer Line

Relates to the business of granting credit to individual persons, (other than credit included under the Credit Card line) including credit to finance the acquisition of consumer goods or the payment of services for non-commercial or entrepreneurial services.

Commercial Line

Relates to the business of granting credit to companies, official (or governmental) and solidarity sectors, except for small and medium companies (which are included in the small and medium enterprises or SME line), for the purpose of financing commercial or enterprise activities.

Small and Medium Enterprises (SME) Line

Granting of credit to small and medium enterprises (not included in the commercial line) to finance commercial or enterprise activities.

Credit Card Line

Relates to the business of granting credit for the acquisition of goods and services, specifically through the use of credit cards.

Mortgage Line

Credit line granted to persons to finance the purchase of new or used housing or the construction of housing. The assets purchased provide a guarantee of the credit.

Affiliate Line

Includes all the business developed by the affiliate entity in Panama and in our Miami branch.

Valuation Methodology

The valuation by business line was made by using the dividend flow methodology, discounted at the shareholders' financing rate; according to experts this is the most adequate to value financial institutions and it is broadly used by first level investment banks. This methodology consists in projecting the flow of available dividends during 10 years plus a terminal value and discounted at an appropriate rate.

The methodology of discounted dividends allows dividing the total flow to value in various flows and valuing each independently. The sum of these valuations is equal in terms of value and total flow valuation, assuming the same discount rate.

A summary of the goodwill acquired for each business line, the accumulated amortization and the amount as of December 31, 2011 and March 31, 2012 consisted of the following:

As of December 31, 2011

| Business line | Participation | Goodwill recorded | Accumulated Amortization | Balance |
|---|---|---|---|---|
| | | (millions of COP, except percentages) | | |
| Consumer | 21.3% | 292,103 | 40,615 | 251,488 |
| Commercial | 43.8% | 600,872 | 83,547 | 517,325 |
| SMEs | 6.9% | 95,195 | 13,236 | 81,959 |
| Credit Card | 16.2% | 222,395 | 30,923 | 191,473 |
| Mortgage | 11.2% | 153,150 | 21,294 | 131,856 |
| Affiliate | 0.6% | 8,743 | 1,216 | 7,526 |
| Total | 100.0% | 1,372,458 | 190,831 | 1,181,627 |

As of March 31, 2012

| Business line | Participation | Goodwill recorded | Accumulated Amortization | Balance |
|---|---|---|---|---|
| | | (millions of COP, except percentages) | | |
| Consumer | 21.3% | 292,103 | 43,076 | 249,027 |
| Commercial | 43.8% | 600,872 | 88,610 | 512,262 |
| SMEs | 6.9% | 95,195 | 14,038 | 81,157 |
| Credit Card | 16.2% | 222,395 | 32,796 | 189,599 |
| Mortgage | 11.2% | 153,150 | 22,585 | 130,565 |
| Affiliate | 0.6% | 8,743 | 1,289 | 7,453 |
| Total | 100.0% | 1,372,458 | 202,395 | 1,170,063 |

## NOTE 15 - OTHER ASSETS, NET

Other assets consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Employee loan portfolio (1) | 125,392 | 120,439 |
| Deposits | 7,147 | 3,550 |
| Rights under trust agreements | 23,117 | 17,415 |
| Receivables from tax authorities | 9,368 | 22,319 |
| Total other assets | 165,024 | 163,724 |
| Allowance for other assets | (12,838) | (11,407) |
| Other assets, total | 152,186 | 152,316 |

(1) The classification of employee loan portfolios by credit risk according to SFC rules is as follows (in millions of COP):

December 31, 2011

| | Housing | Suitable Guarantee | Allowance |
|---|---|---|---|
| A - Normal | 125,298 | 364,835 | 1,886 |
| B - Acceptable | 93 | 226 | 5 |
| | 125,392 | 365,061 | 1,891 |

March 31, 2012

| | Housing | Suitable Guarantee | Allowance |
|---|---|---|---|
| A -Normal | 120,208 | 364,835 | 1,209 |
| B -Acceptable | 227 | 226 | 10 |
| | 120,435 | 365,061 | 1,219 |

The loans granted to employees for housing and vehicles are supported by suitable guarantees.

An analysis of the activity in the allowance for the employee's loan losses during the year ended December 31, 2011 and on March 31, 2012 is as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 13,893 | 12,838 |
| Allowance for the period | 1,555 | 110 |
| Reclassifications | (506) | - |
| Recovery of allowance | (2,105) | (1,541) |
| Balance at end of the period | 12,838 | 11,407 |

An analysis of the activity in the allowance for the employee's loan losses for the three-month periods ended March 31, 2011 and 2012 is as follows:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Balance at beginning of period | 13,893 | 12,838 |
| Allowance for the period | 216 | 111 |
| Reclassifications | (605) | - |
| Recovery of allowance | (219) | (1,542) |
| Balance at end of the period | 13,285 | 11,407 |

## NOTE 16 – REAPPRAISAL OF ASSETS

The following table details the reappraisals of assets as of December 31, 2011 and March 31, 2012:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Asset revaluations | | |
| Investments | 37,777 | 23,941 |
| Reappraisal of property, plant and equipment | 479,920 | 482,992 |
| Impairment of investments | (496) | (509) |
| Total reappraisal assets | 517,201 | 506,424 |
| Other assets | 3,614 | 3,614 |
| Total assets reappraisal | 520,815 | 510,037 |

## NOTE 17 - DEPOSITS

The following is a detail of deposits and corresponding interest rates as of December 31, 2011 and at the end of March 31, 2012.

| | Interest rate | December 31, 2011 (millions of COP) | Interest rate | March 31, 2012 (millions of COP) |
|---|---|---|---|---|
| **Non- interest bearing** | | | | |
| Checking accounts | 0.0% - 0.96% | 2,799,865 | 0.0% - 0.96% | 2,560,198 |
| Saving deposits | | 237,924 | | 238,580 |
| *Other deposits* | | | | |
| Banking services | | 2,185 | | 1,741 |
| Special deposits | | 255 | | 2,097 |
| Payables for banking services | | 232,332 | | 142,162 |
| Affiliated establishments | | 6,907 | | 7,881 |
| Total other deposits | | 241,679 | | 153,882 |
| Total non-interest bearing deposits | | 3,279,468 | | 2,952,660 |
| **Interest bearing** | | | | |
| Checking accounts | | 796,564 | | 690,666 |
| *Time deposits* | | | | |
| Less than 6 months | 4.10%-5.60% | 1,717,733 | 4.50%-5.80% | 1,893,740 |
| Between 6 and 12 months | 4.15%-5.80% | 1,715,291 | 4.75%-6.10% | 1,949,343 |
| Between 12 and 18 months | 4.20%-6.10% | 1,064,076 | 4.90%-6.30% | 992,809 |
| Greater than 18 months (*) | 4.35%-6.95% | 2,191,651 | 5.05%-7.25% | 2,473,407 |
| Time deposits | | 6,688,751 | | 7,309,299 |
| *UVR term deposits* | | | | |
| Between 6 and 12 months | | 0 | UVR+ 1.45 | 36,780 |
| Time deposits net | | 6,688,751 | | 7,346,079 |
| *Savings deposits* | | | | |
| Common savings | 0.00% - 4.25% | 12,210,411 | 0.00% - 4.35% | 13,016,107 |
| Special savings | | 49,069 | | 47,675 |
| Total savings deposits | | 12,259,480 | | 13,063,782 |
| Total interest bearing | | 19,744,795 | | 21,100,527 |
| | | 23,024,263 | | 24,053,187 |

**Reserve on deposits**

As of December 31, 2011 and March 31, 2012, a reserve on deposits was held in accordance with External Resolution 11 of October 2008, and External Resolution 3 of 2000 of the Central Bank.

## NOTE 18 - INTERBANK AND OVERNIGHT BORROWING

Interbank borrowings, primarily denominated in U.S. dollars, are summarized as follows as of December 31, 2011 and March 31, 2012:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Overnight | 61,535 | 120,248 |
| Repos | 12,000 | 43,619 |
| | 73,535 | 163,867 |

Short-term interbank borrowings, obtained from other banks for liquidity purposes, are unsecured and generally have maturities ranging from 90 to 180 days.

## NOTE 19 – BORROWINGS FROM FINANCIAL INSTITUTIONS

The Colombian government has established programs to promote the development of specific sectors of the economy. These sectors include foreign trade, agriculture, tourism and many other industries. These programs are under the administration of various Colombian government entities.

Under these programs, the Bank receives a loan request from an applicant operating in a designated economic sector. The Bank then performs a full credit analysis of the applicant based on its normal credit criteria. If the criteria are met, the Bank applies to the appropriate government agency for funding. The government agency reviews the loan application to determine compliance with the policy and objectives and may also perform an independent credit analysis of the applicant. Upon approval, the agency disburses funds to the Bank. The Bank, in turn, disburses the loan to its customer and assumes all credit risk.

Loan maturities vary depending on the program (ranging from one to ten years). Loans to customers are in the same currency and maturity as the borrowings from the agencies.

Borrowings from domestic development banks received from certain Colombian government agencies consisted of the following as of December 31, 2011 and March 31, 2012:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Peso denominated | | |
| Banco de Comercio Exterior de Colombia ("Bancoldex") | 84,498 | 80,056 |
| Financiamiento del Sector Agropecuario ("Finagro") | 261,849 | 260,301 |
| Financiera de Desarrollo Territorial ("Findeter") | 1,100,095 | 1,087,102 |
| Other | 50,507 | 30,296 |
| | 1,496,949 | 1,457,755 |
| Dollar denominated | | |
| Banco de Comercio Exterior de Colombia ("Bancoldex") | 272,522 | 246,906 |
| Financiera de Desarrollo Territorial ("Findeter") | 79,651 | 73,475 |
| Foreign Banks | 1,704,784 | 1,453,211 |
| Other | 3,189 | 379 |
| | 2,060,146 | 1,773,971 |
| | 3,557,095 | 3,231,726 |

Maturities of borrowings from domestic development banks and other as of December 31, 2011 and March 31, 2012 were as follows:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Less than 1 year | 1,795,878 | 1,791,058 |
| Between 1 and 5 years | 504,078 | 970,296 |
| Between 5 and 10 years | 1,027,256 | 317,311 |
| More than 10 years | 229,883 | 153,061 |
| Total borrowings from domestic development banks and other | 3,557,095 | 3,231,726 |



(Continued)

## NOTE 20 - ACCOUNTS PAYABLE

The following is a detail of accounts payable:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Equity tax | 142,958 | 142,921 |
| Other taxes | 66,858 | 52,428 |
| Suppliers | 169,029 | 106,969 |
| Withholding taxes and other taxes | 43,217 | 45,103 |
| TES law 546 of 1999 | 95,016 | 91,246 |
| Collections agreements with third parties | 15,415 | 22,481 |
| Dividends payable | 3,024 | 8,785 |
| Uncashed drafted checks | 13,954 | 14,657 |
| Purchase agreements | 3,637 | 3,464 |
| Collection for third parties | 36,108 | 19,040 |
| Payment an other to be settled | 13,496 | 21,087 |
| Tax on consumer withdrawals | 17,144 | 18,085 |
| Treasury orders | 20,612 | 20,406 |
| Various creditors | 55,281 | 56,711 |
| Prepaid cards | 9,520 | 10,444 |
| Value added tax | 6,547 | 9,804 |
| Taxes on premises and equipment | 5,377 | 72,014 |
| Fees and Commissions | 4,292 | 4,092 |
| Insurance Premiums | 796 | 362 |
| Payroll | 216 | 56 |
| Forward operations | 13,277 | 9,565 |
| Others | 44,090 | 45,823 |
| | 779,864 | 775,543 |

## NOTE 21 - INCOME TAX EXPENSES

Income tax regulations applicable to the Bank provide the following:

Consolidated income tax reporting is not permitted under Colombian tax regulations and as a result losses incurred by any consolidated subsidiary may not be used to offset taxable income from another consolidated subsidiary. For consolidated domestic subsidiaries, the applicable tax rate in 2011 and 2012 was 33%.

Other income tax matters in Colombia are follows:

a) The consolidated rate is an average, since the legal rate for Fidudavivienda S.A., Fiducafetera S.A., Confinanciera S.A. are 33% and the rate for Bancafe Panamá S.A. is 30%.

b) The basis upon which income tax is determined cannot be lower than 3% of the Company's net tax equity on the last day of prior taxable year.

c) Excesses of imputed taxable income over ordinary taxable income arising in any year from 2003 may be set off against ordinary taxable income within the subsequent five years. In all cases excesses of imputed taxable income over regular taxable income are adjusted for inflation.

Income tax expense from continuing operations under Colombian Banking GAAP for March 31, 2011 and 2012 was comprised of the following components:



(Continued)

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Current Income Tax Expense | 34,001 | 46,294 |
| Deferred Income Tax Expense | 9,012 | 12,220 |
| Total Income Tax Expense | 43,013 | 58,513 |

Income taxes for the year ended on December 31, 2010 are currently under review by the tax authorities. The bank management and its legal advisors believe that no significant liabilities in addition to those recorded will arise from such a review.

## NOTE 22 – LONG-TERM DEBT

Long-term debt relates to bonds issued by the bank used to finance mortgage loans. The issuer has the option to prepay the principal amount of this debt.

The following is a summary of long-term debt as of December 31, 2011 and March 31, 2012:

| Type of Issuance | Issuance Date | Offer Amount (millions COP) | Series | Term (months) | Yield | Maturity | Book Value December 31, 2011 | Book Value March 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (millions of COP) | |
| **Mortgage Bonds** | | | | | | | | |
| Guarantee: Mortgage Loans rated "A" and prepayment option for issuer every 3 months. | | | | | | | | |
| Issuance | Jun-06 | 60,173 | G | 84 | UVR + 0.75 | Jun-13 | 1,509 | - |
| Total Mortgage Bonds | | | | | | | 1,509 | - |
| **Subordinated Bonds** | | | | | | | | |
| Issuance Bonds in US dollars Guarantee: Mortgage Loans rated "A" and prepayment option for issuer every 3 months. | Feb-07 | 368,641 | G | 84 | Libor6 + 2.75 | Feb-14 | 321,194 | 296,463 |
| Issuance no-Guarantee | Feb-08 | 147,777 | C | 84 | IPC + 6.65 | Feb-15 | 147,777 | 147,777 |
| Issuance no-Guarantee | Feb-08 | 151,577 | D | 84 | UVR + 6.65 | Feb-15 | 176,986 | 179,712 |
| Issuance no-Guaranteed | Feb-10 | 138,497 | C7 | 84 | IPC + 5.25 | Feb-17 | 138,497 | 138,497 |
| Issuance no-Guaranteed | Feb-10 | 111,503 | U10 | 120 | UVR + 5.50 | Feb-20 | 118,472 | 120,297 |
| Total Subordinated Bonds | | | | | | | 902,926 | 882,746 |
| **Common Bonds (No-Guarantee)** | | | | | | | | |
| Issuance | Aug-08 | 170,570 | G | 60 | IPC + 6.24 | Aug-2013 | 170,570 | 170,570 |
| Issuance | Feb-09 | 89,800 | E3 | 36 | DTF + 1.35 | Feb-2012 | 89,800 | - |
| Issuance | Feb-09 | 121,800 | F5 | 60 | TF 10.40% | Feb-2014 | 121,800 | 121,800 |
| Issuance | Feb-09 | 123,433 | G | 84 | IPC + 5.50 | Feb-2016 | 123,433 | 123,433 |
| Issuance | Jul-09 | 73,000 | E3 | 36 | TF 7.89% | Jul-2012 | 73,000 | 73,000 |
| Issuance | Jul-09 | 215,000 | G5 | 60 | IPC + 4.79 | Jul-2014 | 215,000 | 215,000 |
| Issuance | Feb-10 | 215,062 | C5 | 60 | IPC + 3.98 | Feb-2015 | 215,062 | 215,062 |
| Issuance | Feb-10 | 86,051 | T2 | 24 | DTF + 0.95 | Feb-2012 | 86,051 | - |
| Issuance | Feb-10 | 101,837 | B3 | 36 | IBR + 1.36 | Feb-2013 | 101,837 | 101,837 |
| Issuance | Oct-10 | 120,150 | C5 | 60 | IPC + 3.14 | Oct-2015 | 120,150 | 120,150 |
| Issuance | Oct-10 | 196,050 | C7 | 84 | IPC + 3.63 | Oct-2017 | 196,050 | 196,050 |
| Issuance | Oct-10 | 91,550 | B2 | 24 | IBR + 1.10 | Oct-2012 | 91,550 | 91,550 |
| Issuance | Oct-10 | 92,250 | B3 | 36 | IBR + 1.31 | Oct-2013 | 92,250 | 92,250 |
| Issuance | Mar-11 | 244,211 | B30 | 30 | IBR + 1.35 | Sep-2013 | 244,211 | 244,211 |
| Issuance | Mar-11 | 86,482 | C39 | 39 | IPC + 2.80 | Jun-2014 | 86,482 | 86,482 |
| Issuance | Mar-11 | 76,055 | C84 | 84 | IPC + 3.88 | Mar-2018 | 76,055 | 76,055 |
| Issuance | Mar-11 | 193,252 | C120 | 120 | IPC + 4.19 | Mar-2021 | 193,252 | 193,252 |
| Issuance | Aug-11 | 90,000 | B27 | 27 | IBR + 1.68 | Jun-2013 | 90,000 | 90,000 |
| Issuance | Aug-11 | 90,000 | C48 | 48 | IPC + 3.60 | Mar-2015 | 90,000 | 90,000 |
| Issuance | Aug-11 | 159,230 | C90 | 90 | IPC + 3.99 | Sep-2018 | 159,230 | 159,230 |
| Issuance | Aug-11 | 160,770 | C126 | 126 | IPC + 4.23 | Sep-2021 | 160,770 | 160,770 |
| Total Common Bonds | | | | | | | 2,796,553 | 2,620,702 |
| Total Current Bonds | | | | | | | 3,700,988 | 3,503,448 |



(Continued)

| Bonds by currency | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Colombian pesos | 3,082,827 | 2,906,976 |
| Foreign currency | 321,194 | 296,463 |
| Denominated in Colombian pesos - UVR | 296,968 | 300,009 |
| | 3,700,988 | 3,503,448 |
| Bonds by maturity | | |
| Less than 1 year | 430,401 | 254,550 |
| Between 1 & 5 years | 2,228,261 | 2,204,747 |
| Between 5 & 10 years | 1,042,327 | 1,044,151 |
| | 3,700,988 | 3,503,448 |

## NOTE 23 - OTHER LIABILITIES

Other liabilities consisted of the following as of December 31, 2011 and March 31, 2012:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Accrued benefit obligation to employees | 36,713 | 27,506 |
| Unearned income | 7,660 | 6,824 |
| Deferred credits | 41,166 | 40,729 |
| Letter of credit deferred payment | 6,812 | 1,886 |
| Deferred income tax (1) | 165,098 | 172,761 |
| Credits for applied | 29,340 | 34,249 |
| Surpluses in exchange | 108 | 77 |
| Surpluses in cash | 5,778 | 6,721 |
| Deposit accounts cancelled | 31,992 | 32,197 |
| Others | 4,189 | 3,202 |
| | 328,856 | 326,152 |

(1) Deferred income tax liability relates to the following temporary differences:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Banker's acceptances and derivatives | 11,594 | 6,210 |
| Investments | 60 | 1,519 |
| Goodwill | 152,022 | 164,538 |
| Other | 1,428 | 494 |
| | 165,098 | 172,761 |

## NOTE 24 - ACCRUED EXPENSES

The following is the detail of estimated liabilities and allowances:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Labor liabilities | 3,483 | 13,771 |
| Income tax | 3,195 | 46,381 |
| Interest payable of TES Law 546, 1999 | 171 | 329 |
| Contributions and affiliations | 6 | 57 |
| Penalties and fines from the SFC | 410 | 410 |
| Penalties and fines, litigations, indemnifications and lawsuits (Note 26) | 86,886 | 87,375 |
| Industry and trade tax | - | 5,263 |
| Others | 26,688 | 44,236 |
| | 120,839 | 197,822 |

## NOTE 25 – NON CONTROLLING INTEREST

Non controlling interest in subsidiaries is calculated as the participation (% of minority interest) in each of the equity accounts of the subsidiary as of the date of consolidation (before any elimination of reciprocal operations or adjustments for consolidation effects).

The following is the detail of the minority interest, at December 31, 2011 and March 31, 2012:

December 31, 2011

| | Equity | % Minority Interest | Minority Interest |
|---|---|---|---|
| | | (millions of COP) | |
| Fiduciaria Davivienda S.A | 55,232 | 40.00% | 22,093 |
| Davivalores S.A. | 12,779 | 21.00% | 2,683 |
| Confinanciera S.A. | 82,432 | 5.10% | 4,204 |
| Bancafé Panamá S.A. | 178,550 | 0.0007% | 1 |
| Fiduciaria Cafetera S.A. | 71,304 | 5.99% | 4,271 |
| | | | 33,252 |

March 31, 2012

| | Equity | % Minority Interest | Minority Interest |
|---|---|---|---|
| | | (millions of COP) | |
| Fiduciaria Davivienda S.A | 47,032 | 40.00% | 18,813 |
| Davivalores S.A. | 14,631 | 21.00% | 3,073 |
| Confinanciera S.A. | 78,034 | 5.10% | 3,980 |
| Bancafé Panamá S.A. | 150,992 | 0.0007% | 1 |
| Fiduciaria Cafetera S.A. | 68,560 | 5.99% | 4,107 |
| | | | 29,972 |



(Continued)

## NOTE 26 - COMMITMENTS AND CONTINGENCIES

Fines and sanctions from legal actions

Legal proceedings generating contingent liabilities as of March 31, 2012 were as follows:

### A. LITIGATION COVERED BY FOGAFÍN

These are the proceedings related to Granbanco S.A., Fiduciaria Cafetera S.A., Bancafé Panamá S.A. and Bancafé International Corporation, existing at January 31, 2007 and those for which notice was provided after February 16, 2007, which are in effect and specifically guaranteed by Fogafín.

### B. BANK'S LITIGATION

These correspond to the remaining proceedings generating contingent liabilities for the Bank and not covered by Fogafín. Following is a summary of the proceedings, as of December 31, 2011 and March 31, 2012:

December 31, 2011

| Type of process | Number of Proceedings | Allowance Value | Claim Value |
|---|---|---|---|
| | | (millions of COP) | |
| Litigation covered by the Guarantee Contract of Fogafín | 473 | 14,225 | 63,512 |
| Bank litigation: | | | |
| Fines and sanctions (other administrative authorities) | 18 | 58,993 | 92,278 |
| Labor lawsuits | 66 | 1,355 | 3,707 |
| Ordinary proceedings | 1,061 | 12,312 | 87,427 |
| | 1,618 | 86,886 | 246,924 |

March 31, 2012

| Type of process | Number of Proceedings | Allowance Value | Claim Value |
|---|---|---|---|
| | | (millions of COP) | |
| Litigation covered by the Guarantee Contract of Fogafín | 448 | 14,223 | 62,462 |
| Bank litigation: | | | |
| Fines and sanctions (other administrative authorities) | 18 | 58,985 | 92,278 |
| Labor lawsuits | 65 | 1,446 | 4,224 |
| Ordinary proceedings | 1,003 | 12,721 | 81,602 |
| | 1,534 | 87,375 | 240,567 |

A 15% allowance has been provided for legal proceedings covered by the Guarantee Contracts of Fogafín considering the guarantee coverage on the value of the corresponding contingency in conformity with its rating and only for ordinary and special proceedings. A 10% allowance is provided for labor proceedings.

Other legal proceedings to which the Bank and its subsidiaries are party are as follows:

**Criminal proceedings**

This refers to all criminal proceedings linking the Bank as a civilly liable-third party. As of December 31, 2011 and as of March 31, 2012, the balances of the claims related to these proceedings do not exceed COP 70 million at issue.

**Ordinary civil, special, administrative and labor proceedings**

As of December 31, 2011 there were 1,618 proceedings which claims amounted to approximately COP 246,924 million, and as of March 31, 2012 there were 1,534 which claims amount to approximately COP 240,567 million.

These types of proceedings generate contingent liabilities for the Bank regardless of the procedural course required for each case; in general, given its potential civil, contractual or extra-contractual liability, and due to the fines or sanctions applied by the competent bodies in the execution of their duties, each proceeding has an individual rating and provision, if necessary.

Following is a detail of the legal proceedings that might generate the most significant economic impact for the Bank:

**Tax proceedings**

Income tax for taxable year 2003

1. Nullity appeal and restoration of rights against resolution of February 2007 and the official settlement of the review of March 2006 for COP 6,861 million; this proceeding is pending resolution of the appeal filed by the Bank against the first instance verdict that was adverse to its interests. The Bank's position is fully supported by legal basis; however, the contingency for the Bank is considered as eventual.

2. Nullity appeal and restoration of rights against resolution of June 2006 and the resolution of August 2005 for COP 3,046 million. This proceeding has been interrupted due to preliminary judgment until the second instance of the proceeding has been ruled upon. The contingency for the Bank is considered as eventual.

3. Nullity appeal and restoration of rights against resolution of October 2006 and the decision solving the reconsideration appeal of June 2007. The process concerns a penalty for improper refunds amounting to COP 3,814 million. On January 25, 2010, the case was filed at the Office of the State Council. In the opinion of the tax advisor, the contingency for the Bank is remote.

Regarding the items that do in fact become a contingent liability, these are rated as eventual and are covered by Fogafín; therefore, the allowance provided by the Bank corresponds to 15% of the claim, or COP 306 million. On this same subject there are two additional proceedings in course, one is a judicial proceeding involving nullity appeal filed by the Bank against an administrative decision issued by the Colombian National Tax and Customs Authority (*Dirección de Impuestos y Aduanas Nacionales,* or "DIAN"), prior to the one in reference, in which a refund is sought for the amount that the Bank should have paid on concept of income taxes for 2003; however this proceeding does not constitute a contingent liability for the Bank.

Income tax for taxable year 2004

The Bank filed with the Administrative Court of the Province of Cundinamarca (Tribunal Administrativo de Cundinamarca) a nullity appeal and restoration of rights against the Administrative Acts by means of which the DIAN set forth the amount payable on concept of income tax for 2004, the proceeding is stayed while the State Council rules on an appeal by the Bank against an adverse first instance ruling. Although the tax advisor considers the contingency to be remote, at March 31, 2012 COP 38,847 million has been reserved for this proceeding.

Tax on transactions (4x1000) year 2005

DIAN issued a reviewed liquidation for January 2007 onwards, weeks 01 through 52, proposing a modification of the tax payable along with an inaccuracy penalty, as it included overdrafts in checking accounts as taxable operations. The amount under discussion is COP 5,815 million, comprised of a greater tax value of COP 5,760 million and the inaccuracy penalty equivalent to COP 11,973 million.

- Regarding weeks 3, 4 and 9, the Bank's claim was ruled adversely by the Administrative Court of Cundinamarca and is on appeal before the State Council.

- Regarding weeks 31, 34, 35 and 36, the Administrative Court of Cundinamarca also ruled against the Bank and is on appeal before the State Council.

- Regarding weeks 37, 38, 39, 40, 41 and 42, a second instance ruling is pending after the first decision was against Banco Davivienda S.A.'s interests.

- The nullity appeal and restoration of rights initiated with respect to weeks 32, 33, 46 and 49 was ruled adversely by the Administrative Court of Cundinamarca, and the decision was appealed.

- Finally, regarding weeks 43, 44, 45, 47, 48, 50, 51 and 52 of 2005, the proceeding is pending first instance decision.

For all cases, the opinion of the tax advisor is that the contingency for the Bank is remote.

Adverse actions filed by the DIAN against the Bank – Tax on equity for year 2007

The Tax Administration filed two claims against the Bank in connection with the refund of the tax on equity corresponding to taxable year 2007 for an amount of COP 4,485 million.

The first claim was admitted on February 12, 2010, but it was notified only until September 12, 2010. On July 16, 2010 the answer to the petition was filed, and a decision is pending to accumulate both claims.

The second claim was admitted on January 22, 2010 and notified on February 23, 2010. The answer to the petition was filed on March 25, 2010. On December 2, 2010 the procedure was stayed awaiting a decision on the accumulation of both claims.

In the opinion of the Bank's tax advisor, the contingency for the Bank is eventual, and an amount of COP 6,947 million has been reserved.

**Guarantee Contract for Contingent Liabilities entered into with Fogafín**

Due to the privatization of Granbanco S.A., on December 12, 2006 a guarantee contract for contingent liabilities was entered into with Fogafín; the contract is effective as of February 16, 2007.

Pursuant to such contract, and under the terms and conditions thereof, Fogafin guarantees the Bank payment of certain contingent liabilities expressly set forth in the document. Coverage corresponds to 85%, and exceptionally to 90%, in connection to labor and pension obligations from Banco Cafetero S.A.- in Liquidation -.

The contract foresees the existence of a contingency account comprised by the provisions held by Granbanco S.A. Bancafé and its subsidiaries at January 31, 2007, which amounted to COP 21,067 million. Any amount or fine guaranteed by Fogafin is to be deducted first from such account until the funds are entirely used. Upon exhaustion of the funds, Fogafin is committed to refund the Bank with the corresponding net effect under the terms of the said contract The existence of the account in reference with the provisions held at that moment determined that eventual losses in guaranteed judicial proceedings do not affect the Bank's Statement of profit and losses.

At December 31, 2011 and March 31, 2012, the number of proceedings covered by Fogafín are 473 and 448, respectively, with a provision of COP 14,225 million and COP 14,223 million and claims for COP 63,512 million and COP 62,462 million, respectively.

Based on the above, the Bank structured several accounts that reflect not only the reality of its contingent liabilities with the contract entered into with Fogafín, but also others that include matters not guaranteed by Fogafín, which must be borne in full by the Bank.

**Processes generating contingent liabilities with significant impact for the Bank.**

1. By means of a people's legal action, the Bank was sued by Alberto Botero Castro to make the Bank return to the Public Treasury the money that, in the plaintiff's view, the Bank owed when making overstated charges to the Nation on concept of the relief provided by Law 546 of 1999. The procedure is in the evidentiary stage. The claim is undetermined but in conformity with the petition, it may correspond to an amount exceeding COP 5,000 million. Due to lack of evidence, the contingency was rated as remote.

2. Mercedes López Rodríguez initiated a people's legal action against the Bank arguing that the Bank and other financial entities had not returned the TES securities in conformity with the requirements of Law 546 of 1999. The process is lodged at Civil Court No. 4 of Bogotá and notification to the remaining defendants is pending. The contingency is rated as remote, and the amount may not be determined, but it is estimated to exceed the COP 1,000 million.

3. The National Committee Association for UPAC - UVR Users, along with other individuals, filed a class action suit against Banco Davivienda S.A. and other financial entities seeking a ruling to have the TES securities arising from wrongful liquidations and refusal to retrieve relief be returned to the Public Treasury. The claim is at the Administrative Court of Cundinamarca, and the defendants were served with process. The Court is reviewing a motion to dismiss the suit filed by Davivienda on June 29, 2011. Although the amount of the claim is not stated in the suit, it is estimated to exceed COP 5,000 million, and the contingency is rated as remote.

4. Among the significant proceedings due to the amount of the contingency, the following class actions existing at the moment shall be taken in into account, considering that each of these proceedings may cover a large number of petitioners, as per the provisions of the claim, which in turn may increase the value of the demands to significant amounts. At March 31, 2012 the following cases are in effect:

   - Class action initiated by Mr. Álvaro Bocarejo Romero and other debtors of Concasa, of which the Bank is a successor, due to the alleged unlawful charge of interests in mortgage loans; the procedure is held at the Civil Court No. 37 of Bogotá and it is pending of a personal notification of the writ of admission. The amount is undetermined and no provision is held as the contingency is deemed remote.

   - Oscar Zambrano Parada and others filed a petition at Civil Court No. 31 of Bogotá claiming for the recognition of damages from the alleged unlawful charge of commissions for financial and banking services. The process is in the evidentiary stage. The amount is undetermined and the contingency has been rated as eventual.

   - Rosmery Roa Sarmiento initiated a group action filed at the Civil Court No. 20 of Bogota arguing the alleged unlawful charge of financial services rendered by the Bank; this process is in the evidentiary stage. The amount claimed is undetermined and the contingency has been rated as remote. There is a similar group action initiated by José Guillermo T. Roa at Civil Court No. 5° of Bogotá, which is in the evidentiary stage, and the same considerations are applied.

   - A class action is in course at Civil Court No. 7 of Bogotá and initiated by Aida Acero and others arguing excessive charges of UPAC in mortgage loans granted at the time. The procedure is pending of a definition of prior exceptions presented by the Bank. The amount is undetermined and the contingency is rated as remote.

   - At the Administrative Court No. 14 of Barranquilla, a class action is in course and initiated by Silvana Heredia and others claiming the relocation of the people who acquired social interest housing in a sector of that city that has experienced increasing problems in the foundations. The process is pending a first instance verdict. The Bank is linked to the procedure for having granted the mortgage loans. The contingency is rated as remote.

   - Ana Rocío Murcia Gómez and others sued the Bank and other entities due to the geology faults shown in the land where the houses in the development at Parques del Sol I in the Municipality of Soacha were built. The lawsuit has been processed at the Administrative Court No. 29 of Bogotá and is in the evidentiary state. The amount is undetermined and the contingency has been rated as remote.

   - Mr. Henderson Sepúlveda and others brought a class action to the Civil Court No. 5 of Bogotá against the Bank due to excessive charge of interests in operations with credit cards. The procedure is in the evidentiary stage and there are no valid bases to determine the amount of the claim. The contingency is rated as remote.

   - Clara Cecilia Murcia and others brought a class action to the Administrative Court No. 5 of Bogotá against the Courts that did not abide the provisions of Law 546 regarding termination of the corresponding executive procedures. The Bank is linked to the process for having lodged the corresponding executive claims at the moment. The process is pending to resolve the prior exceptions presented by the Bank. The contingency has been rated as remote.

- Cornelio Villada Rubio and others brought a class action to the Administrative Court No 7 of Ibagué claiming compensation for the damages derived from having been reported to credit risk bureau without their authorization. The last event reported in the process was the answer to the petition by the Bank. The amount of the litigation is undetermined, and the contingency is rated as remote.

- Martha Luz Sanz Borja brought a class action against the Bank and other entities demanding compensation for damages derived from cracks and damages suffered by houses located in the development at Altos del Campo. The procedure is pending the decision of preliminary objections. The amount claimed is undetermined, and the contingency has been rated as remote.

- Fredy Alarcón and others brought a class action demanding compensation for alleged excessive charges made to the debtors of mortgage loans granted in UPAC. The claim is in process at the Civil Court No. 31 of Bogotá and is pending the resolution of the relief petition presented by the plaintiff. The amount is undetermined, and the contingency is rated as remote.

- Pedro Antonio Chaustre and Claudia Patricia Vasquez brought a class action against the Bank and Promociones y Cobranzas Beta S.A. claiming that the Bank, on an improper basis and without prior consultation, was charging preliminary collection costs to its Diners Card holders. The claim is in process at the Civil Court No. 30 of Bogotá, and a judicial reconciliation hearing is pending. The contingency is considered remote.

- Nohora Beatriz Santos Quiroga and others living at the development "Quintas del Sur" brought a class action against the Bank because, according to them, the Bank is responsible for damages suffered due to the deficiencies of the buildings of such complex. This claim is in process at the Administrative Court No. 29 of Bogotá, pending notification by the remaining defendants. The claims amount to COP 2,995 million plus any interest. The contingency was rated as remote.

- Mrs. Adriana Rocío Mantilla and others brought a class action against the Bank before the Administrative Court No. 2 of Cúcuta demanding compensation for damages suffered due to the failures of the buildings at the Vista Hermosa complex. The lawsuit was answered on November 11, 2010. The amount of the claim is undetermined, and the contingency is rated as remote.

**Bancafé Panamá S.A., Fiduciaria Davivienda., Confinanciera S.A. and Fiduciaria Cafetera S.A.**

Following analysis of the litigation to which the Bank's subsidiaries Bancafé Panamá S.A., Fiduciaria Davivienda S.A., Confinanciera S.A. and Fiduciaria Cafetera S.A. are a party, the Bank has determined that none of this litigation currently is deemed to represent a significant equity risk.

**Fiduciaria Cafetera S.A.**

In case that claims are for the payment of interests in arrears arising from the alleged omission of Consorcio Fidufosyga 2005 in complying with its legal and contractual duties by paying reimbursements in arrears, the contingency is deemed eventual, and so Consorcio Fidufosyga 2005 has made a provision of 50% of the total amount claimed.

Similarly, the first instance rulings in five of the proceedings brought against Consorcio Fidufosyga 2005 and/or Fisalud were favorable; therefore the claims of the suit were dismissed. Such proceedings are pending second instance rulings.

Fiducafé SA has a 9.86% interest in Consorcio Fidufosyga 2005 and a 17% interest in Consorcio Fisalud.

In the past, and as at the reporting date of March 31, 2012, Fiduciaria Cafetera S.A. has been sued in several proceedings, the most significant of which, by the amount at issue, are listed below.

Some of these proceedings, depending upon the date on which the facts giving rise to the cause of action occurred, are guaranteed under agreements with Fogafin related to the sale of shares of Granbanco Bancafé S.A. and Banco Davivienda S.A. Under the terms of this guarantee, Fogafín covers up to 85% of the penalty amount, as well as court expenses and attorneys' fees.

Such proceedings are as follows:

- Salud Total S.A. brought Direct Reparation Action (2007-0065) against the Social Protection Ministry (*Nación - Ministerio de Protección Social*) and Consorcio Fidufosyga 2005, in which Fiducafé takes part (9.86%). The sum amounts to COP 2,120 million plus commercial interests. Regarding this matter, a first instance ruling against Fiducafé's interests is currently under review. The contingency is rated as probable, however, no contingency has been reserved as any damages would likely be paid by Fosyga, and would not be payable by members of the consortium to which Fiducafé is a party.

- Tax Responsibility Proceeding (50100-0078/08) filed by the District Comptroller's Office of Bogotá against Fiducafé and Fiduprevisora, members of Consorcio FPB, with the purpose of finding the tax officials responsible for identifying pensions lacking the requirements entirely filled in. Such proceeding is currently in the evidentiary stage and amounts to COP 287 million. The contingency has been rated as probable, and the provision for litigation amounts to COP 8 million.

- Similarly, there are more than 91 Direct Reparation lawsuits against Consorcio Fidufosyga 2005, which also include lawsuits against the Social Protection Ministry for amounts ranging from COP 1,000 million to COP 9,000 million.

## NOTE 27 - SHAREHOLDERS' EQUITY

Common Shares

As of December 31, 2011 and March 31, 2012, the Bank's capital consisted of 480,000,000 authorized shares, of which 443,866,625 were issued and outstanding at December 31, 2011 and at March 31, 2012, with a COP 125 nominal value per share as of each date.

The subscribed and paid-in capital is the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Common Shares | 43,911 | 42,916 |
| Non-voting preferred shares | 11,569 | 12,567 |
| | 55,480 | 55,483 |

Amendments to the Bank's bylaws at Articles 5, 8, 9 and 15, were unanimously approved by the Bank's shareholders on April 28, 2010, and formalized by Public Deed No. 3202 of April 30, 2010, by Notary Seventy-One. The Bank's shares are registered capital, and may be: (a) normal or (b) with a preferential dividend and non-voting, although the latter may not represent more than 50 percent of the Bank's subscribed capital.

Issuance of Shares:

In August 26, 2011 an increase in the number of shares subject to the program was authorized for issuance of up to 96,000,000 preferred shares.

The Meeting of Shareholders held on September 16, 2011 established that the first 16,000,000 shares were to be offered first to existing preferred shareholders and the rest to the general public.

In November 25, 2011 the Bank issued 35,809,649 preferred shares at a subscription price per share of COP 20,000, in accordance with the authorization given by shareholders on August 26, 2011. Consequently there was an increase of equity capital of COP 4,476 million and premium in the placement of shares for COP 711,717million that increased the Bank's equity by COP 716,193million.

At December 31, 2011 the remaining 29,886 preferred shares issued that were not paid generate a subscribed capital receivable equivalent to COP 3.7 million and a corresponding COP 594 million attributable to premium in the placement of shares preferential charge.

 (Continued)

Dividend:

The General Assembly of Shareholders held on September 16, 2011, approved the payment of a dividend of COP 220 per share for a total of COP 89,773 million payable to the holders of the Bank's outstanding 408,056,976 common and preferred shares.

The General Assembly of Shareholders held on on March 8, 2011, approved a dividend payment of COP 200 per share, for a total of COP 81,611 million payable to the holders of the Bank's outstanding 408,056,976 common and preferred shares.

The General Assembly of Shareholders held on on March 15, 2012, approved a dividend payment of COP 220 per share, for a total of COP 97,651 million payable to the holders of the Bank's outstanding 443,866,625 common and preferred shares.

Conversion of shares:

The General Assembly of Shareholders held on December 31, 2010, also authorized minority shareholders that are not related to Group Bolívar, to convert up to 50% of the common shares they hold to preferred shares with a preferential dividend and no right to vote. Such conversion of common to preferred stock would be performed so that no conversion would trigger a modification of the Bank's paid-in capital, or the number of shares held by such shareholder. This conversion was approved by the SFC on September 8, 2010. The number of shares converted from common to preferred shares amounted to 25,586,704.

Appropriated retained earnings

Pursuant to Colombian law, 10% of the net income of the Bank and its Colombian subsidiaries in each year must be appropriated through a credit to a "legal reserve" until its balance is equivalent to 50% of the subscribed and paid capital. This legal reserve may not be reduced to less than the indicated percentage, except to cover losses in excess of undistributed earnings.

Appropriated retained earnings consisted of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Legal reserve | 39,145 | 36,925 |
| Statutory and voluntary reserves | 1,561,942 | 1,760,846 |
| Total | 1,601,087 | 1,797,771 |

Unappropriated retained earnings

Unappropriated retained earnings essentially determine the amount of dividend that will be paid to shareholders.

 (Continued)

## NOTE 28 - MEMORANDUM ACCOUNTS

Memorandum accounts were composed of the following:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Commitments | | |
| Unused credit card limits | 7,834,746 | 7,879,162 |
| Unused credit limits | 4,168,269 | 3,879,415 |
| Other | 590,945 | 481,212 |
| Securities repurchase | 1,712,318 | 771,792 |
| Securities received in repo transactions and simultaneous | 1,071,650 | 1,699,022 |
| Issued by the entity | 226,955 | 169,051 |
| Confirmed by the entity | 1,239 | 3,541 |
| Account payable nation law 546 of 1999 | 21,583 | - |
| | 15,627,705 | 14,883,195 |

## NOTE 29 - RELATED PARTY TRANSACTIONS

The following are considered related parties to the Bank:

- Sociedades Bolívar S.A. its subsidiaries and subordinates.
- Shareholders or actual beneficiaries of 5% or more of the equity of the Bank.
- Legal entities in which the Bank is a real beneficiary of 10% or more of the equity.
- Administrators of Sociedades Bolívar S.A., the Bank and other members of the Grupo Empresarial Bolívar.
- Officers and members of the board.

The Bank may enter into transactions, agreements or contracts with related parties on the understanding that any such operations are carried out with reasonable values, taking into account the following criteria among others:

- the conditions and prevailing market rates in the sector where the transaction is conducted;
- the activity of the companies involved; and
- growth prospects of the respective businesses.

Significant balances and transactions with related parties were as follows (in millions COP):

| | As of December 30, 2011 | | | | March 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Shareholders | Investment in entities with participation higher than 10%(1) | Bank's officers and board of directors | Related Companies | Shareholders | Investment in entities with participation higher than 10%(1) | Bank's officers and board of directors | Related Companies |
| Balance | | | | | | | | |
| Accounts receivable | - | 1,633 | 260 | 1,122 | - | 17,350 | 229 | 6,114 |
| Investments | - | 258,423 | - | - | - | 389,478 | - | - |
| Appraisals | - | 36,421 | - | - | - | 23,214 | - | - |
| Premises and equipment | - | - | - | 2,478 | - | - | - | - |
| Other assets | - | 31 | 1 | 13,531 | - | 31 | 1 | 1,871 |
| Loans | - | 2,786 | 24,658 | 220,164 | - | 2,551 | 23,650 | 215,688 |
| | - | 299,294 | 24,918 | 237,295 | - | 432,624 | 23,879 | 223,673 |
| Deposits | 5,390 | 123,947 | 5,637 | 66,688 | 13,743 | 52,229 | 5,701 | 139,830 |
| Borrowings from banks and others | - | 272,349 | 243 | 4,169 | - | 262,301 | - | 4,230 |
| Accounts payable | - | 19,802 | 53 | 10,238 | - | 15,544 | 57 | 5,920 |
| Other liabilities | - | - | - | 1 | - | - | - | 8 |
| | 5,390 | 416,098 | 5,933 | 81,097 | 13,743 | 330,073 | 5,757 | 149,988 |
| Incomes | | | | | | | | |
| Interests | 18,704 | 167,387 | 1,922 | 73,636 | - | 41,437 | 752 | 23,141 |
| Non-interest income | - | 112 | 19 | 1,053 | - | 43 | 5 | 273 |
| | 18,704 | 167,499 | 1,941 | 74,689 | - | 41,479 | 757 | 23,414 |
| Expenses | | | | | | | | |
| Interests | 207 | 80,230 | 1,280 | 43,139 | 75 | 19,466 | 318 | 9,724 |
| Non-interest expenses | - | 2,437 | 352 | 288 | - | 469 | 53 | 14 |
| | 207 | 82,667 | 1,632 | 43,428 | 75 | 19,936 | 372 | 9,737 |

## NOTE 30 - NON-INTEREST INCOME

The following table summarizes the components of non interest income for the three-month periods ended March 31, 2011 and 2012:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Exchange gain on foreign transactions | 59,522 | 71,598 |
| Gain on derivatives valuation | 103,783 | 340,083 |
| Gain on sales on loans | - | 6,063 |
| Gain on sales on investments securities | 12,288 | 24,930 |
| Non-operating income | 20,323 | 15,842 |
| Recovery of provisions on assets | 33,084 | 20,376 |
| Others | 3,817 | 3,841 |
| | 232,817 | 482,733 |

## NOTE 31 - NON-INTEREST EXPENSES

The following table summarizes the components of Non Interest Expenses for the three-month periods ended March 31, 2011 and 2012:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Exchange loss on foreign transactions | 47,011 | 47,790 |
| Loss on derivatives valuation | 141,659 | 367,593 |
| Loss on sales on investments securities | 7,217 | 10,153 |
| Depreciation | 10,130 | 10,552 |
| Amortization | 39,532 | 20,877 |
| Amortization of excess investment cost over book value | 2,846 | - |
| Non operating expenses | 20,269 | 25,777 |
| Taxes | 32,498 | 31,931 |
| Deposits insurances | 13,665 | 17,300 |
| Other | 1,597 | 1,158 |
| | 316,425 | 533,131 |

## NOTE 32 – ADMINISTRATIVE EXPENSES

The following table summarizes the components of Administrative Expenses for the three-month periods ended March 31, 2011 and 2012:

| | March 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Fees | 21,746 | 19,152 |
| Contributions and membership | 11,602 | 12,505 |
| Maintenance and Repairing | 4,794 | 5,397 |
| Office Arrangements | 3,159 | 3,684 |
| Utilities, cleaning and security service | 20,633 | 23,631 |
| Advertising | 12,254 | 13,139 |
| Stationery | 3,588 | 3,411 |
| Employee Expenses | 146,277 | 154,707 |
| Insurance | 11,917 | 15,008 |
| Others | 1,322 | 1,493 |
| | 237,293 | 252,127 |

## NOTE 33 - MINIMUM SHAREHOLDERS´ EQUITY REQUIREMENTS

The Banks shareholders' equity in Colombia, in line with the Basel Agreement, estimated according to the Colombian rules under Decree 1720 of 2001 cannot be lower than 9% of the local and foreign currency assets weighted per level of risk.

The classification of the risk assets in each category is made by applying the percentages determined by the SFC to each one of the asset and contingent accounts. Starting January 30, 2002, the market risks are also included as a part of the assets weighted per risk

The individual observance is verified each month on the non consolidated financial statements and in June and December of each year on the consolidated financial statements. The Bank's solvency index at December 31, 2011 and March 31, 2012 was 14.40% and 14.26%, respectively, according to the following calculations:

| | December 31, 2011 | March 31, 2012 |
|---|---|---|
| | (millions of COP) | |
| Basic stockholders' equity | 3,818,807 | 4,044,162 |
| Additional shareholders' equity | 1,004,007 | 873,333 |
| Technical shareholders' equity | 4,822,814 | 4,917,495 |
| Risk market value | 250,871 | 267,587 |
| Weighted assets per risk levels | 30,708,989 | 31,508,992 |
| Solvency index (PT/(APNR+((100/9)*VeR)) | 14.40% | 14.26% |

**Controls of Law**
At December 31, 2011 and March 31, 2012 the Bank and its subsidiary complied with the requirements of mandatory reserves, foreign exchange position, minimum capital, solvency ratio and mandatory investment.

**Average Position**
Below is the result of the Bank's position in dollars as of March 31, 2012 (amounts in millions USD):

| | March 31, 2012 | |
|---|---|---|
| | Banco Davivienda S.A. | Confinanciera S.A. |
| Bank's Average Position (PP) | 8 | - |
| Maximum Required: 20% Technical Equity | 565 | 9 |
| Minimum Required: -5% Technical Equiy | (141) | (2) |
| Bank's average cash position (PPC) | 11 | - |
| Maximum Required: 50% Technical Equity | 1,413 | 23 |
| Average gross leverage position (PBA) | 6,759 | - |
| Maximum Required: 550% Technical Equity | 15,547 | 257 |

## NOTE 34 – HIGHLIGHTS

According to Act No. 815 of September 13, 2011, the Board approved the initiation of the merger of Confinanciera S.A. Company Financing with Banco Davivienda S.A., the latter being the acquirer, and authorized the administration to advance all procedures prior to the convening of the general assembly meeting of shareholders in the decision to undergo the merger. This merger is expected to be completed in the second half of 2012.


(Continued)

## NOTE 35 – SUBSEQUENT EVENTS

According to Act No. 825 of January 23, 2012, the Board of Directors approved the acquisition of the operations that the HSBC Group has in Costa Rica, El Salvador and Honduras. The Group consists of three banks, one in each country and two insurance companies (based in El Salvador and Honduras), and other supplementary Financial Services Companies. On January 24, 2012 we signed the Share Purchase Agreement.

This transaction is under review by the appropriate authorities in each country, and we believe it will be completed during 2012.

On April 25, 2012, Banco Davivienda S.A. launched an offering of subordinated bonds for COP 400 billion under its COP 3,000 billion local bond program, which closed on May 3, 2012.

## ANNEX A:

## SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN COLOMBIAN BANKING GAAP AND IFRS

Banco Davivienda S.A. has prepared the individual and consolidated financial statements contained herein in accordance with the regulations of the SFC for financial institutions (Resolution 3600 of 1988 and External Circular 100 of 1995) and, on issues not addressed by these regulations, generally accepted accounting principles in Colombia, or "Colombian GAAP" Significant measurement and disclosure differences exist between Colombian Banking GAAP and the International Financial Reporting Standards ("IFRS"), and those differences might be material to the financial information contained herein. A summary of the significant differences between Colombian Banking GAAP and IFRS relating to Banco Davivienda are presented below.

This summary should not be taken as exhaustive of all the differences between Colombian Banking GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in the Financial Statements, including the notes thereto.

**Deferred Income Taxes**

Under Colombian Banking GAAP, deferred income taxes are generally recognized due to timing differences. However, for financial institutions, the SFC has restricted the inclusion of timing differences related to the amortization of fiscal losses and the excess of presumed income over ordinary income as a deferred tax asset. Accordingly, the Bank has registered no such assets; other deferred tax assets are recognized. Deferred tax liabilities are recognized for temporary timing differences mainly relating to goodwill and valuation of investments portfolio.

Under IFRS, specifically IAS 12, deferred tax assets or liabilities must be registered for all temporary differences between the financial and tax basis of assets and liabilities. Deferred tax assets and liabilities are included in the financial statements at currently enacted or substantively enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled as prescribed in IAS 12 "Income taxes". Deferred tax assets are recognized when it is considered probable (defined as "more likely than not") that sufficient taxable profits shall be available to utilize the temporary difference or unused tax losses. Valuation allowances are not allowed to be registered. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income, except to the extent that the tax arises from a transaction or event that is recognized, in the same period or a different period, either in other comprehensive income or directly in equity or from a business combination. IFRS requires presentation of deferred tax as non-current on the balance sheet.

IFRS provides guidance on interest and penalties, accounting in interim periods, disclosure and transition. There is no such guidance under Colombian Banking GAAP.

**Fixed Assets**

Under Colombian Banking GAAP depreciation rates are applied to fixed assets, and are based on those provided by the fiscal authorities for tax purposes. Under IFRS depreciation rates must be based on the useful lives of the applicable assets, and it also requires estimation on the assets' residual value as well as an appraisal when there is evidence of impairment in the fixed assets.

**Inflation Accounting**

Under Colombian Banking GAAP there is currently no requirement to adjust balances of nonmonetary assets and liabilities, equity, and profit and loss were adjusted for inflation based on the variation in the local consumer price index (IPC), as it was the case between January 1, 1992 and December 31, 2000. Prior to January 1, 1992 nonmonetary assets and liabilities and equity accounts were not adjusted to reflect the effects of inflation.
Under IFRS, financial statements are prepared on the basis of historical costs. Financial statements are adjusted for inflation under IFRS when an entity operates in a hyperinflationary environment. Colombia was considered a highly inflationary country between the 1960's until January 1, 1992.

**Asset Reappraisals**

In accordance with Colombian Banking GAAP, reappraisals of a portion of our premises and equipment, equity investments and other non-monetary assets are made periodically and registered in the Balance Sheet under the item “Reappraisal of assets” and in the stockholders’ equity item “Reappraisals of assets”, for the difference between the appraisals or valuations and the book value of such assets; however if appraisals are lower than the book value of the assets, an allowance is registered in profit and losses for such difference. The reappraisals for foreclosed assets are registered only in memorandum accounts.

Under IFRS, for intangible assets, property, plant and equipment and investment property, there is an accounting policy that allows an entity to choose between the cost model and the revaluation (fair value) model of accounting.

**Allowance for Loan Losses and Financial Leases**

As established by the SFC, the methodology for evaluating loans and financial leases under Colombian Banking GAAP is based on their inherent risk characteristics and serves as a basis for recording loss allowances based on loss percentages estimated or established by the SFC. Under Colombian Banking GAAP, the loan loss allowance is determined and monitored on an ongoing basis. This exercise is based on an analysis of the credit risk to which the loan portfolio is exposed, considering the terms of the corresponding obligations as well as the level of risk associated with the specific borrower. This risk evaluation for commercial loans is based on information relating to the historical performance data, the particular characteristics of the borrower, collateral, debt service with other entities, macroeconomic factors, financial information, etc. For consumer, mortgage and small business loans the analysis is performed only on the basis of the past due days of the loans. The loss allowance loan is calculated with percentages of Probability of Default (PD) and Loss Given Default (LGD) estimated or established by the SFC. The Bank evaluates and subsequently classifies its lending and financial lease operations with its customers in May and November of each year and the results of such evaluations are registered in June and December of each year.

For larger non-homogeneous loans, specific allowances are calculated when it is probable that the bank could not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms.

Under Colombian Banking GAAP off balance sheet credit instruments such us standby letters of credit, bank guarantees and letter of credits are registered in memorandum accounts and are not provisioned.

Under IFRS an estimated loss should be accrued at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. First, an assessment is made of whether objective evidence of an impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment The amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The amount of the loss is recognized using an allowance account and recognized in the statement of income.

When appropriate, the calculation of the present value of the estimated future cash flows of a collateralized loan and receivable asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location; guarantee type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty’s ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, and are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Under IFRS the Loss Identification Period (LIP), which is the time lag between actual loss event and observation of loss event by lender should be documented with objective evidence

**Foreclosed Assets**

Under Colombian Banking GAAP, the SFC requires us to record an allowance equal to 30% in the first year and an additional 30% on the second year for foreclosed real estate, and 35% in the first year and an additional 35% in the second year for other foreclosed assets, in each case based on the carrying value of the asset at the time it was received, and the allowance must be recorded in proportional monthly installments within the two years since it was received. Once the legal term for sale has expired, the provision must be increased to 100%. If there is an extension of the term within the period to sell the asset is granted by the SFC, this increase may be registered on a monthly basis within the new term.

Under IFRS, foreclosed assets are recorded as assets held for sale, when the sale of the asset foreclosed is expected within a year at the lower of the carrying amount of the loan or fair value of assets less their cost to sell. Gains or losses from the realization of foreclosed assets are included in the Statement of Operations. in the period in which certain criteria established in the standard are met.

**Loan Origination Fees and Costs**

Under Colombian Banking GAAP, we recognize as income, commissions (origination fees) on loans, lines of credit and letters of credit when collected and record related direct costs (credit risk evaluations, primarily staffing costs) when incurred.

Under IFRS, loan origination fees and certain incremental direct loan origination costs that are required to be recognized as a yield adjustment over the life of the related loans are recognized by the interest method, except for certain loan agreements, such as revolving lines of credit and credit cards, which are recognized on a straight-line basis over the period of the revolving line of credit or for which the credit cards is active.

**Deferred Charges**

For Colombian Banking GAAP purposes, deferred charges for certain remodeling and other assets from which future economic benefits expected are recognized during the estimated period of time of recovering the disbursement or during the period which the benefits are expected.

Under IFRS, remodeling costs are amortized in two years or in the term of the lease agreement, except if the remodeling cost affects the valuation of the asset.

**Long Term Debt**

Under Colombian Banking GAAP, the cost of issuance of bonds is registered in profit and loss as incurred.

Under IFRS, the cost of issuance of bonds must be amortized over the life of the bonds using the effective interest method.

**Investment Securities and Derivatives**

*Fair value adjustment on trading and available for sale investment securities*

Fair value of investment securities under Colombian Banking GAAP is established in a similar manner used under IFRS. However, under Colombian Banking GAAP, the fair value of certain debt investment securities classified as "trading" or "available for sale" are established at amortized cost or in a different way than IFRS. Investments securities are valued using published reference prices sourced from recognized local and international price vendors. The bank must hold the available for sale securities at least for a year.

*Impairment of investments*

Under Colombian Banking GAAP, an entity should review the ratings issued by rating agencies, and if any security in its portfolio has been classified below B, then apply the "maximum registered amount rate" established by the SFC.

If the amount calculated is less than the carrying amount, the carrying amount of the investment is reduced to the fair value net of the amortizations registered multiplying by that percentage. A provision for impairment of investments classified as held to maturity is registered for the difference between the carrying value and its fair value in the Statements of Operations.

For equity securities and debt securities without a rating from an external rating agency or those issued by entities that do not have a rating, the amount of the allowance must be established through the methodology determined by the investor. Such methodology must be approved in advance by the Superintendency that controls the related entity. Currently the assignment of an internal qualification and the allowance is estimated with a rating table provided by the SFC.

Under IFRS, at each reporting date the entity should assess whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's book value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The book value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. If available for sale or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Under IFRS, when a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to statement of operation as a reclassification adjustment even though the financial asset has not been derecognized.

IFRS requires that impairment losses recognized in statement of operation for an investment in an equity instrument classified as available for sale shall not be reversed through statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in statements of operation, the impairment loss shall be reversed, with the amount of the reversal recognized in statements of operation.

There is a new guidance under IFRS to financial instruments, IFRS 9, "Financial Instruments", which is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. This standard is mandatory from 1 January 2015.

*Fair value adjustment on derivatives instruments*

Under Colombian Banking GAAP, the fair value measurement of derivative instruments is similar to the current guidance under IFRS, except for the fact that Colombian Banking GAAP does not consider in the determination of fair values own credit risk and counterparty risk. However IFRS 13, "Fair value measurement" was issued in May 2011. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other Standards within IFRS. The effective date to annual reporting periods beginning on or after 1 January 2013.

**Investments in Affiliates**

Under Colombian Banking GAAP, investments in affiliates where the investor has the ability to exercise significant influence are registered at cost and subsequently reappraised using the financial statements as a reference included as an adjustment to equity. Those investments are classified as available for sale.

Under IFRS, investments where the investor has the ability to exercise significant influence are registered using the equity method.

**Lessor Accounting**

Our subsidiary "Confinanciera", acts as lessor of assets to third parties under non-cancelable lease arrangements. These lease arrangements involve machinery and equipment, and automobile and their terms range between three and five years.

Under Colombian Banking GAAP, for financial entities, leases are classified as either financial leases within the commercial portfolio or operating leases, according to the terms of the lease agreements. Goods provided through leases to third parties are registered in the loan portfolio depending on the maturity of the lease. Goods provided through operating leases are registered as property, plant and equipment. For both types of leasing, their initial measurement represents the value to be financed of the good to be leased (that is, the acquisition or construction cost) and the value of the improvement and expenses that can be capitalized, which represent a greater value of the lease operation to be financed.

Under IFRS, assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are transferred under a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognized as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognized as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. The leased assets are included within property, plant and equipment on the balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognized on a straight-line basis over the period of the lease unless another systematic basis is more appropriate the useful life of the asset and the lease term.

**Securitization**

Under Colombian Banking GAAP, the securitization of performing and non-performing residential mortgage loans is registered as sales of financial assets and, therefore, securitized loans are removed from our balance sheet. Additionally it´s recognized in the statement of income at the moment of the operation for the difference between the book value of the securitized portfolio and the value received.

Under IFRS, financial assets are discharged when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the entity should test control to ensure that continuing involvement on the basis of any retained powers of control does not prevent a a discharge).

**Foreign Currency Translation Adjustment**

Under Colombian Banking GAAP, for purposes of consolidation, the income accounts of foreign currency financial statements are converted to Colombian pesos using the average exchange rates, the exchange difference originated in the consolidated statement of operations accounts are registered as foreign exchange gain (loss) in results.

Under IFRS, the translation adjustments shall be reported as a component of stockholders' equity, in other comprehensive income.

**Non-Controlling Interest**

The non-controlling interest corresponds to the proportional adjustments to the stockholders' equity and net income originated by the subsidiaries where we hold less than 100% of participation.

Under Colombian Banking GAAP, non-controlling interest is presented as minority interest and presented as a separate line within total liabilities, outside stockholders' equity. For IFRS purposes, the non-controlling interest in subsidiaries should be classified as a separate component of stockholders' equity in the consolidated financial statements. Additionally, consolidated statements of income and comprehensive income are reported with separate disclosure of the amounts attributable to the controlling entity and to the non-controlling interest.

**Goodwill**

Under Colombian Banking GAAP, the SFC stipulates how to value and amortize goodwill. According to SFC rules, goodwill is defined as the difference between the amount of capital paid in an acquisition of an entity and the book value of the net assets acquired. Goodwill is created only after the acquiring entity achieves control of the acquired entity. The bank amortizes goodwill using an exponential method based on a formula established by SFC, over a period raging between 72 months and 20 years, depending on the subsidiary that registered the goodwill.

Under IFRS, goodwill is not amortized but tested for impairment at least annually and is defined as the difference between the fair value of consideration transferred in an acquisition of an entity and the fair value of net assets acquired. IFRS provides the option to measure the non-controlling interest using either fair value method or proportionate share method on each transaction. This option is on a transaction-by transaction basis. Additionally IFRS requires an entity to recognize contingent liabilities at fair value if fair value can be measured reliably. If not within the scope of IAS 39, measure subsequently at higher of the amount initially recognized and best estimate of the amount required to settle (under IAS 37). Contingent assets are not recognized.

**Consolidation**

Under Colombian Banking GAAP an entity is required to financially consolidate its subsidiaries in which it owns, directly or indirectly, more than 50% of the common stock. However there is no guidance related to consolidation issues involving Special Purpose Entities (“SPEs”).

Under IFRS, currently SIC-12 Consolidation, Special Purpose Entities is the guidance that the entity has to follow, which establish:

a) An entity may be created to accomplish a narrow and well-defined objective (eg to effect a lease, or a securitisation of financial assets). Such SPE, may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE.
b) The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (“capital providers”) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.
c) SPEs frequently operate in a predetermined way so that no entity has explicit decision-making authority over the SPE's ongoing activities after its formation (ie they operate on “autopilot”). Virtually all rights, obligations, and aspects of activities that could be controlled are predefined and limited by contractual provisions specified or scheduled at inception. In these circumstances, control may exist for the sponsoring party or others with a beneficial interest, even though it may be particularly difficult to assess, because virtually all activities are predetermined.

There is a new guidance under IFRS, IFRS 10, and “Consolidated financial statements”, which its effective date is on January 1, 2013, its main objective is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities (an entity that controls one or more other entities, including Special Purpose Entities) to present consolidated financial statements, which defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee.

**Earnings per share**

Under Colombian Banking GAAP, earnings per share (“EPS”) are calculated by dividing Net Income by the weighted average number of common shares outstanding for each period presented.

IFRS requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS computation to the diluted EPS computation. Basic EPS is calculated by dividing Net Income available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period.

**Other comprehensive income**

IFRS introduces the components related to the "income and expenses not made" as part of a separate statement. Other changes in equity are disclosed in the notes or presented in the statement of changes in the equity. Under Colombian GAAP, this concept does not apply.

**Statement of Cash Flows**

Under Colombian Banking GAAP there are no special formal requirements to prepare the Bank's statement of cash flows. The statement of cash flows was prepared using the indirect method.

Under IFRS, guidance exists to prepare the statements cash flow, IAS 7, "Statement of cash flows" and IAS 29 "Financial Reporting in Hyperinflationary Economies" requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period. All items in the statement of cash flows are, therefore, restated by applying the relevant conversion factors from the date on which the transaction originated. There is no detailed guidance for this complex area.

**First-time adoption of IFRS**

An entity moving from Colombian GAAP to IFRS should apply the requirements of IFRS 1. It applies to an entity's first IFRS financial statements and the interim reports presented under IAS 34, "Interim financial reporting", that are part of that period. The basic requirement is for full retrospective application of all IFRSs effective at the reporting date. However, there are a number of optional exemptions and mandatory exceptions to the requirement for retrospective application.

The exemptions cover standards for which the IASB considers that retrospective application could prove too difficult or could result in a cost likely to exceed any benefits to users. The exemptions are optional. Any, all or none of the exemptions may be applied.

The optional exemptions relate to:

- Business combinations.
- Deemed cost.
- Employee benefits.
- Cumulative translation differences.
- Compound financial instruments.
- Assets and liabilities of subsidiaries, associates and joint ventures.
- Designation of previously recognized financial instruments.
- Share-based payment transactions.
- Insurance contracts.
- Fair value measurement of financial assets or financial liabilities at initial recognition.
- Decommissioning liabilities included in the cost of property, plant and equipment.
- Leases.
- Service concession arrangements.
- Borrowing costs.
- Investments in subsidiaries, jointly controlled entities and associates.
- Transfers of assets from customers.
- Extinguishing financial liabilities with equity instruments.
- Severe hyperinflation.

The exceptions cover areas in which retrospective application of the IFRS requirements is considered inappropriate. The following exceptions are mandatory, not optional:

- Hedge accounting.
- Estimates.
- Non-controlling interests.

Comparative information is prepared and presented on the basis of IFRS. Almost all adjustments arising from the first-time application of IFRS are against opening retained earnings of the first period that is presented on an IFRS basis.

Certain reconciliations from previous GAAP to IFRS are also required.

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