

MANAGEMENT REPORT  
THE BOARD OF DIRECTORS AND PRESIDENT  
BANCO GNB SUDAMERIS S.A.  
2016

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The Board of Directors and President of the Bank present the Management Report for the financial year 2016, with comments on economic situation, business evolution and the general economic, legal and administrative situation of Banco GNB Sudameris, and other current legislation issues.



## 1. MACROECONOMIC SITUATION

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### 1.1. ECONOMIC PERFORMANCE

2016 was a year of high volatility in international markets, with two important events: United Kingdom decision for Brexit, and the US presidential elections. This has contributed to a situation in which the performance of the advanced economies has been worse than expected. In Colombia growth for 2016 is estimated below 2%, lower than the estimate one year ago.

Colombia economic slowdown is due to a set of factors, including declining oil prices, also increasing fiscal and external deficit. Economic activity pace has slowed, due to poor performance in mining, oil and gas, agriculture and trade, which amongst other things were affected by midyear transport strike, and by El Niño phenomenon effect on food crops. Nonetheless, construction and finance sectors had a positive impact.

The upward pressure on inflation in the first half of the year was moderated in the second, thanks to corrections on food prices and exchange-rate pass-through. The central bank increased its intervention rate from 5.75% to 7.75% by the end of the year, with expectations of more moderate inflation, it decided to reduce rates a further 25 basis points.

On the fiscal front, given the lower revenues due to the fall in oil prices and in general, lower economic dynamic, the Government has been adjusting public spending and achieved the tax reform approval in Congress, seeking to stabilize public finances, comply with the fiscal rule and the 2016 3.9% fiscal deficit goal.

Colombia is expected to grow moderately in 2017, based on a gradual reactivation of economic activity, which should occur with a more favorable inflation scenario than that of 2016, allowing the central bank to continue relaxing monetary policy, encouraging consumption and credit. Also a possible agreement among OPEC countries to limit oil production, greater dynamism in the execution of 4G infrastructure works and in the Government housing programs, could help to boost the Colombian economy. On the other hand, there would be some risks on the external front that could affect Colombian economic growth in 2017; these include lower global growth and softer external demand, sustained increases in FED interest rates, and protectionist policies which will come into play in the wake of the arrival of the new US government.

### 1.2. BANKING SYSTEM

The most recent information reported by the Colombian Financial Superintendency, for November 2016, date of preparation of this report, shows that the Banking System has achieved good results, with 14.05% annual growth and COP10.3 billion in profits.

Also by November 2016 system assets were COP553.7 billion, 10.2% higher than a year ago and with equity strengthening by 8.5%, from COP65.8 billion to COP71.5 million, and average ROE of 16.1% compared to last year's figure of 15.6%. The system maintains an adequate solvency level of 15.31%, higher than the 14.75% a year ago, controlled risk levels, a loan quality indicator of



3.34%, higher than a year ago (3.01%), and a coverage ratio of 2.3%.

The Central Bank considered certain aspects of the economy, in particular, consumer price index, falling in oil prices, the peso devaluation amongst others, and during 2016 adjusted its policy rate upwards to 7.5% by the end of the year.

According to Central Bank measures, the system deposits grew 11.4% by November 2016 compared to November 2015, making a total of COP353.72 billion.

Banking system loans grew 12.6%, from COP350.5 billion in November 2015 to COP394.6 billion at November 2016. Commercial loans continue to be the most important segment by volume, accounting for 51% of total loans and growing 12.2%. On the other hand, consumer loans grew 13% annualized.

## 2. RELEVANT TOPICS

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### 2.1. RATING

In September 2016, Value and Risk Rating made its annual review of Banco GNB Sudameris' short and long-term debt ratings, deciding to maintain it at VrR1+ for Short-Term Debt, and AAA for Long-Term Debt.

### 2.2 MARKET MAKER

During 2016, the Bank participated actively in public debt auctions as market maker. Under 4705 Ministry of Finance Resolution of December 30, 2016, by which the designation makers and aspirants of the program takes place, Banco GNB Sudameris will continue to participate as an aspirant to Market Maker in 2017.

### 2.3. LOAN PORTFOLIO

The Bank continued with its strategy of replacing payroll-loan portfolio purchases from originators with direct placement, reducing the originator portfolio by 48.39% between 2015 and 2016. The replacement continued during the year, and growth in this area was 14%.

### 2.4. IFRS ADOPTION

By December 31, 2016 the Bank provided financial statements under FULL-IFRS financial reporting standards in Colombia, except for loans, assets as payment and investments, which will continue to be accounted under Superintendency's Circular 100/1995), comparable with 2015 figures.



Furthermore, as required by Superintendency's Circular 38/2015, the Bank presented its consolidated financial statements with controlled entities in Colombia and abroad, at December 31, 2016, comparable to December 31, 2015. During 2016, quarterly consolidated financial statements were transmitted under XBRL accountant taxonomy.

For the first three quarters of 2016 the Bank has complied with individual or separate financial statements transmission under Superintendency's required standard forms, fully complying with all the established by that control entity.

### 3. 2016 RESULTS

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#### 3.1. FINANCIAL MANAGEMENT

In 2016 Colombian economy continued with the same trend of economic downturn as for the previous year in; the Bank continued to grow and achieved a positive final result.

In 2016 profits were COP171.474 million, with a ROE of 12.57% and solvency ratio of 17.91%.

Assets ended the year at COP19.9 trillion, with a modest growth of 1.3% over the year (COP19.6 trillion). Loans accounted for 36.5% of assets (COP7.3 trillion), maintaining good levels of quality and coverage, of the order of 1.81 and 190.4 percent respectively; these compared to the Banking system average in November, of 3.34% and 142.3%, respectively.

The Bank ended 2016 with deposits and liabilities for COP109 trillion, compared to COP11.2 trillion in 2015. The Bank continued with the equity strengthening strategy, growing in capital 12.3% compared to the previous year. At the end of 2016, equity was COP1.4 trillion, compared to COP1.25 trillion in December 2015, maintaining a capital ratio of 17.9%.

#### 3.2. STRATEGIC PROJECTS

Inside the business plan, the Bank projects targets and strategic goals seeking to achieve gradual and sustained growth in the short and medium term. Over the year, the Board made regular track on progress towards these plans and targets. In 2016, there were certain outstanding indicators, such as administrative efficiency and loan quality, which continued to occupy first place in the Banking system. The Bank also had a good capital ratio as a consequence of obtained results and the shareholders support over investments and loan growth, allowing it to maintain good position within the system.

During 2017 the Bank will continue working in coherence with goals and strategic projects contained in its three-year financial plan.



## 4. SUBSIDIARIES

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One of these strategic objectives is to work on deepening and complementary relations between the Bank and its subsidiaries; during 2016 there was constant follow-up of main management indicators.

**Banco GNB Peru.** Assets of USD1,491 million by the end of the year; US 14.9 million as a final result, growing 19.2% compared to 2015, up USD12.5 million; equity at USD191.09 million

**Banco GNB Paraguay.** USD19 million as final result, 20% up compared to 2015, (USD15.5 million). Total assets were USD91.9 million, USD63.21 million in loans and USD103.7 million in equity.

**Servitrust GNB Sudameris.** COP6,780 million in profits as of December 2016, compared to COP5,602 million the previous year. Assets at COP9,499 million, equity for COP53,518 million and average ROE of 13.56%.

**Servibanca** continued to strengthen, broadening and updating its ATMs network, reaching more than 691 cities and towns, with 2336 machines installed, 54 more than last year. The level of transactions in Colombia and abroad also rose and generated important income for this subsidiary. To December 2016 profits grew by 40.2% or COP24,990, compared to COP17.814 million in December 2015. The year ended with COP140,089 million on assets compared to COP124,494 million at December 2015. Equity increased 9.6% to COP109,453 million, from COP84,456 million in 2015, while ROE was 25.91%.

**Servivalores GNB Sudameris.** This brokerage firm reported a 19.75% growth in profit for year-end, with COP2,137 million compared to COP1,784 million in 2015, maintaining among the top 10 in its business category in terms of results. Assets totalled COP44,904 million, equity of COP33,884 million and ROE of 6.61%. As of December 31, 2016 the Rentaval portfolio reported a balance of COP 28,518, growing 29.9% compared to the previous year (COP21,953 million).

**Servitotal GNB Sudameris,** created to provide technology services, is still on strategic planning stage for 2017.



## 5. RISK MANAGEMENT

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During 2016, the Bank maintained permanent risks control and monitoring through different bodies, particularly the Board of Directors, the CEO's office, the Risk Management Department, other areas involved and control entities. They reviewed regulations, policies and procedures, ensuring that there were no excesses and in compliance with limits set by the Bank, recommending the necessary measures to mitigate the occurrence of any possible event of risk.

The following is a report of the most important aspects related to each kind of risk.

### 5.1 CREDIT RISK – SARC

#### Credit exposure limits and tolerable loss

In general terms, credit exposure and tolerated losses, as defined by the Board, performed adequately during the year within established limits, except for the commercial loan risk indicator which in December was 7.1, exceeding the 6% tolerance approved. The situation was caused by Electrificadora del Caribe SA ESP's debtor reclassification, following Household Public Services Superintendency's intervention.

Following the limits for December 31, 2015 and 2016:



**BANCO GNB SUDAMERIS**  
**CREDIT RISK**  
**EXPOSURE LIMITS AND TOLERATED LOSS**

Million COP	Dec 2015	Dec 2016	LIMITS
<b>Credit Exposure (1)</b>			
Commercial Loan	58,36%	55,90%	50,00%
Consumer Loan	41,64%	44,10%	50,00%
<b>Risk Indicators</b>			
Commercial Loan			
Due Loan Index	1,08%	0,54%	4,00%
Risk Index	4,46%	7,10%	6,00%
Consumer Loan			
Due Loan Index	2,37%	3,39%	5,00%
Risk Index	3,22%	4,44%	7,00%
<b>Total Loan</b>			
Due Loan Index	1,63%	1,81%	
Risk Index	3,95%	5,92%	
<b>Tolerated Loss</b>			
Commercial Loan (2)	-413	6.752	36.666
Consumer Loan (3)	4.713	3.387	54.998

(1) 15 Points Tolerance Range

(2) There is an overshoot to the risk limit, given the the client's reclassification Electrificadora del Caribe S.A ESP. passed from "A" to "C", as a result of the alignment with the Financial Sector

(3) Limit = 2% of the Solvency Ratio

(4) Limit = 3% of the Solvency Ratio

Furthermore, consumer quality and risk indicators were affected by the classification into past-due and high-risk loans, bought from Estraval S.A., a company which was intervened by the Superintendency of Companies, and forced into liquidation.

### Reference models

Regarding to reference models' functionality for commercial loans (MRC) and consumer loans (MRCO), they continue to operate in accordance with parameters set by the Superintendency (Circular 35/2010, Annexes 1-5, Chapter II, Circular 100), which regulate issues related to provisions calculations and risk classification for customers of both portfolios.

### Provisions classification and calculation's equivalence model for subsidiaries abroad

The Bank designed and implemented a model for loan provisions classification and calculation equivalence for the overseas subsidiaries (Peru and Paraguay), based on historical performance



for each type (commercial, consumer and mortgage), in order to comply with Superintendency's regulations related to the financial conglomerate's consolidated financial statements .

The provisions calculation process for the subsidiaries abroad continues functioning under the methodology approved by the Board, which consists of determining the probability of default (PD) for each type of loan. Quarterly, a transition matrix is updated for each country so the methodology for calculation of provisions is permanently updated.

Regarding to loss given default (LGD), the Superintendency's factors continue to apply, because all the issues related to evaluation, valuation and guarantees management have similar recognition from legal and commercial points of view, as for Colombian and each country (Peru and Paraguay) legislation.

### **Model for loan provisions construction under IFRS in Colombia and subsidiaries abroad**

The Bank designed and implemented an internal model to calculate incurred losses (loan provisions) for Colombia, Peru and Paraguay, to comply with IFRS.

The calculation of the probability of default (PD), updated quarterly, was made on the basis of loans historical performance for each Bank's loan modality. In order to have information for Colombian loss given defaults, the Bank reconstructed internally its commercial and consumer loan-portfolios information, for the last five and two years respectively. For Peru and Paraguay, the Colombian Superintendency's factors also apply, considering that in all matters related to evaluation, valuation and guarantees management have similar recognition, from legal and commercial points of view in both countries legislation, as well as in Colombia. This means that the incurred loss could be calculated based on the Bank's own portfolio information and variables.

### **Granting Qualification and Monitoring Models, and Rating Model**

Granting qualification and monitoring models, and Rating Model for commercial loans in Colombia, operates under new methodology designed in improvements process setting ahead the first quarter of 2016 and approved by the Board.

The method maintains high quality standards, because it has historical and robust statistical mathematical information. During the fourth quarter the model was subject to calibration; customers' financial statements were updated, also financial indicators of economic sectors and financial sector portfolio-loan information by productive sectors were refreshed.

### **Internal regulations**

The Credit Risk Management System (SARC) manual, and the credit risk management procedure manual have been appropriately updated.

### **External regulation**

The Colombian Superintendency's Circular 47/2016 issued in November, to introduce a new factor known as "Term Adjustment", is applicable for expected losses calculations used in the



reference model for consumer loans (MRCO). As a result, the Bank made all necessary arrangements from the technological point of view to comply with this requirement.

## 5.2 MARKET RISK – SARM

As required by regulators, the Bank has implemented a Market Risk Management System, fulfilling existing regulation on the matter contained in Chapter XXI of the Superintendency's basic accounting and financial circular/100.

The system contains risk management policies and procedures, as for limits definitions and attributions for different types of operation. It is supported by the Risk Management Department and the Risk Committee, as the organ of control and compliance.

As for market risk, VaR limits are approved depending on the portfolio structure and operated business, financial and real sectors counterparty limits, operations and trading attributions.

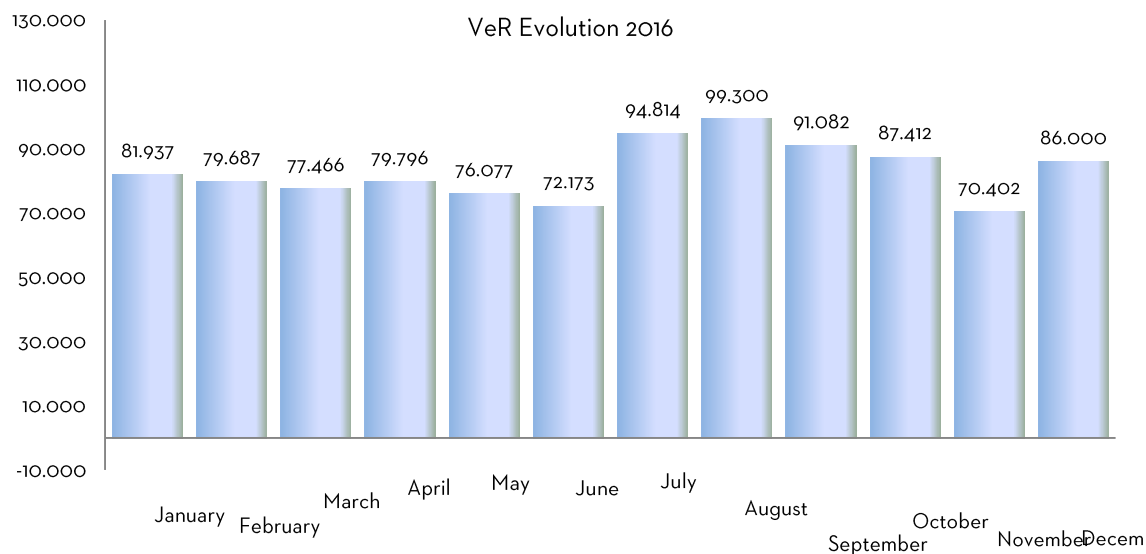
The Bank uses the Superintendency's standard method for measuring market risk, as defined in Annex 1 – Chapter X's Basic Circular. It also has an EWMA internal model for VaR, which uses historic data and with decreasing weightings over time.

### VeR Evolution

As of December 31, 2016, regulatory VeR was COP86,000.2 million, with a COP31,334.16 reduction compared to the previous year. The decrease is due to COP41,595.78 million decline on interest rates' VaR.

The maximum VeR for December's 2016 was COP117,454.78 million while the minimum COP102,038.59 million. The maximum for 2016 was 117,454.78 million and the minimum COP72,712.87 million. The maximum VeR for 2015 was COP117,334.36 while the minimum was COP76,717.06 million.





Risk-factors measurement as of December 31, 2016 (Form 386), shows the following figures:

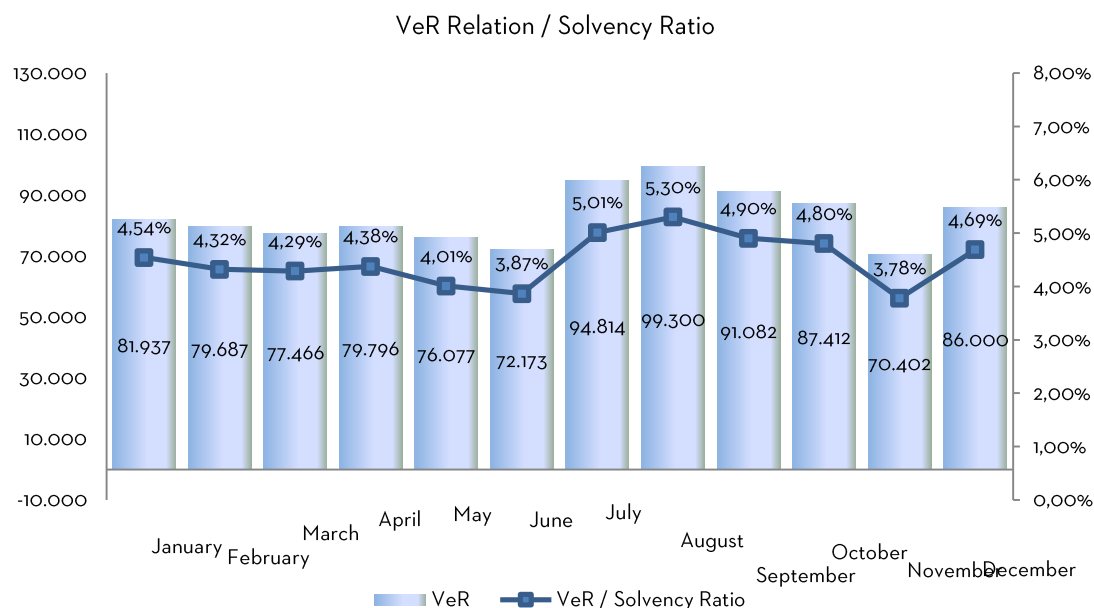
2016 VALUE AT RISK MODULES	
RISK	VALUE
Interest Rate	75,038
Exchange Rate	10,798
Share Price	70
Funds	95
<b>TOTAL VALUE AT RISK</b>	<b>86,000</b>

Million COP

### VaR Impact on Computable Capital

Investment capital represents 4.69% of computable capital, the highest level not seen since January and February 2014, when it reached 6.73%. As for December 2015, it stood at 6.49%.





## VaR Evolution

According to VaR internal model's obtained results, which uses historical series overweighting most recent data confidence level at 95%, 1.65 standard deviation, and a Lambda decaying factor of 94%, the VaR performance as of 2016 was as follows:



	Investment Portfolio	VaR 10 days	Duration
Average	\$ 5.002.625,20	\$ 14.048,57	0,96
Maximum	\$ 5.647.280,91	\$ 19.463,69	1,23
Minimum	\$ 4.382.979,65	\$ 9.981,00	0,74

### 5.3. LIQUIDITY RISK - SARL

During 2016, the Bank complied with Chapter VI of Superintendency's Circular 100 which regulates liquidity risk management.

The Superintendency issued the Regulatory Circular 42 as of November 3/26, 2016, with instructions related to own position, spot position, gross leveraged position, exchange risk indicators and short-term exposure indicators for intermediaries in the exchange market.

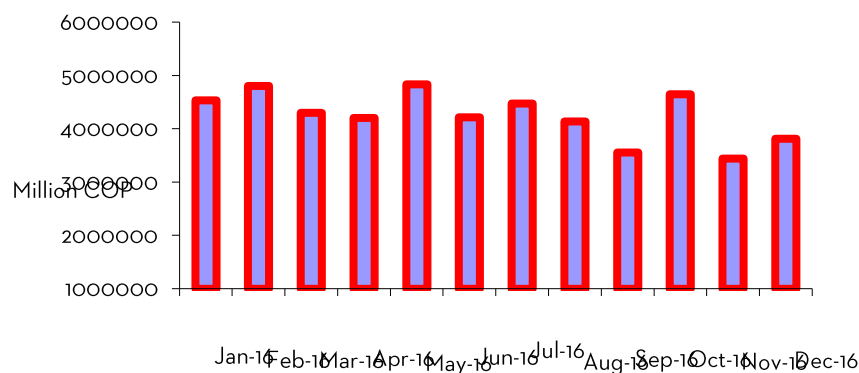
The Circular added limits for positive and negative exchange risk indicators, and also incorporated individual and consolidated short-term indicators. The reports will be sent fortnightly to the Superintendency.

During this period, the liquidity IRL indicator remained positive and favorable as a result of an appropriate strategy, explained by keeping a highly liquid structural portfolio to cover any eventuality.

In 2016, the Bank's seven-day liquidity risk IRL indicator performed as follows:



## IRL EVOLUTION 7 DAYS

**LIQUIDITY RISK INDICATOR**

Million COP Last 12 months

**RISK**

Maximum

Minimum

Average

Last

**IRL 7 Days**

4.832.498

3.443.002

4.245.384

3.812.479

**Liquidity risk internal measurements****Liquidity Coverage Indicator (ICL)**

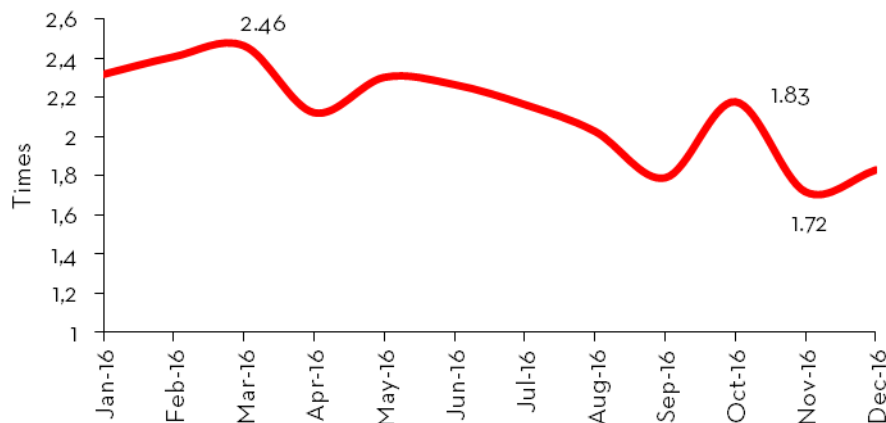
This ratio measures the relationship between high-quality liquid assets (level 1, 2A and 2B assets) and net deposit outflows, on 30 day time horizon in a normal scenario.

The impact is determined by assuming that overnight deposits are reduced for 30 day in the volatility calculation, and that no term deposit is renewed during the analyzed horizon. This is the maximum probable withdrawal in seven days (MRPN 30). The indicator should be maintained over 100% or above one.

$$ICL = (ALM+ACM)/MRPN_{30}.$$

The monthly evolution of this indicator during 2016 was above the limit, averaging 2.13 (or 213%), with a maximum of 2.46 (or 246%), and a minimum of 1.72 (or 172%), finally ending at 1.83 (or 183%).





### Stressed ICL Liquidity Coverage Indicator,

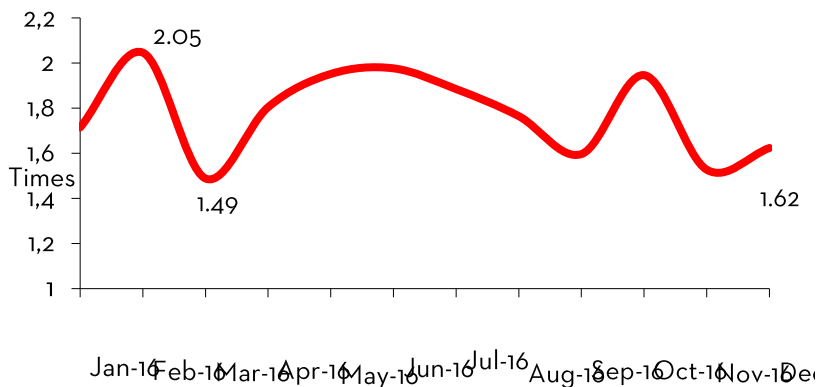
This indicator measures the ratio between high-quality liquid assets (level 1, 2A and 2B assets) and net deposit withdrawals in a time horizon of 30 days, under a stress scenario.

This time is assumed to be the necessary for the Bank or its supervisor to take actions required to execute liquidity contingency plans in an orderly manner.

In order to determine the stress situation's impact, it is assumed that overnight deposits volatility is under stress, and that no term deposit is renewed during the analyzed time horizon. This represents the maximum probable 30 day withdrawal (MRPS 30). The indicator must sustain above 100%

$$ICL = (ALM + ECM) / MRPS_{30} "S".$$

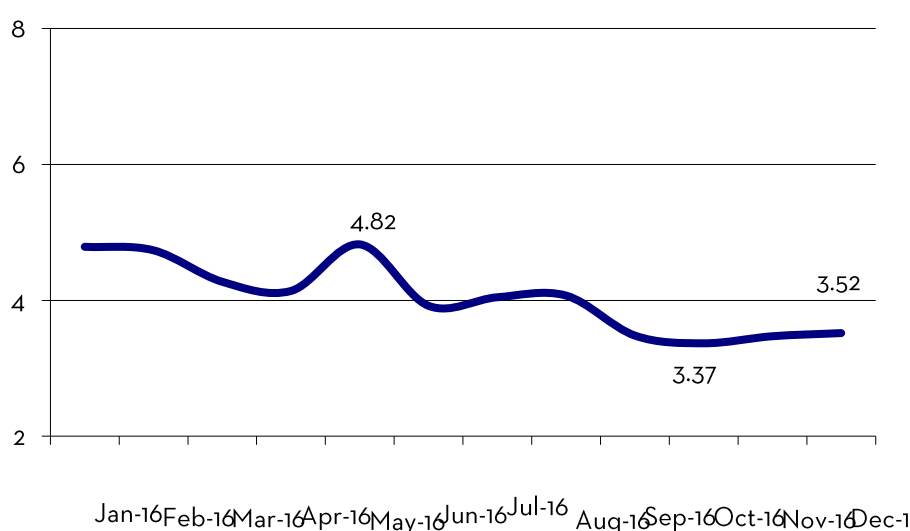
During 2016 this monthly indicator stated above the limit, averaging 1.78 (or 178%), with a maximum of 2.05 (or 205%), a minimum of 1.49 (or 149%), finally ending at 1.62 (or 162%).



## Excess deposits/deposits (EDD) indicator

This indicator measures the capacity of the Bank to maintain liquid assets and results from the amount of exceeding deposits after funding loans with own funds, divided into the total liabilities. It must be above the 30-day net liquidity requirements.

During 2016, the EDD indicator sustained above the 30 days net liquid requirement averaging 4.05 (or 405%), with a maximum of 4.82 (or 482%), a minimum of 3.27 (or 327%) and finally ending at 3.52 (or 352%).



## 5.4. OPERATIONAL RISK - SARO

The Bank continues to comply with all regulatory operational risk management's requirements established in Chapter XXIII, Superintendency's Circular 41/2007, "Rules on operating risk management", and in the Basic Circular 100/1995.

The Bank has developed and maintained the Operational Risk Management System - SARO to identify, measure, control and monitor this risk type effectively, reviewing it permanently.

The system covers the risk factors associated with operations, and established controls are applicable and aligned with risk mitigation plans, under established internal policies and procedures.

The operational risk has a fundamental role within the Bank's management, permanently monitoring potential events which may or may not imply losses, resulting from internal processes' failures, human or system errors derived from external circumstances.



During 2016, Operational Risk management, assigned to the Banking Risk Unit and reporting to the Risk Management Department, in compliance with current regulations, continued managing issues related to operational risk and developing the following activities amongst others:

- Regular on-site and virtual training, to reinforce SARO's basic concepts and to make it easier to identify operational risk events. This has made it possible to strengthen even further the whole staff commitment in playing an active role reporting adverse events for the Bank, to determine the cause and manage them accordingly, in order to reduce or avoid losses.
- Operational risk management improvement tools, especially related to event reporting, as well as determination of risks to which the Bank is exposed, identifying controls to mitigate them, also to evaluate residual risks and maintaining risk exposure within tolerable limits.
- The risk processes evaluation matrices have been reviewed and updated for the Bank's, adjusting them to determine the risks to which the Bank is exposed.
- The Business Impact Analysis (BIA) was made with a change in methodology, to make its application easier and faster, analyzing only critical processes aligned to the business continuity plan.
- Third-party training guidelines were also reviewed, and its leaflet was updated.
- Regular reports for the Board of Directors, the Legal Representative and the Audit Committee were reviewed and adjusted regarding to statistical charts.

In 2016 the Bank continued working on the Business Continuity Plan strengthening, carrying out functionality tests on externally contracted contingency infrastructure, also defined within the continuity strategy. These activities had support and active participation of all those involved in the processes, who have certified services and applications' connectivity and functionality.

In addition, operational functional tests have been developed in the Alternate Computer Center and in the Contingency Operations Center (COC). Participating users considered as normal transaction the execution run-times on applications and processes. Technology area concluded that the Bank's infrastructure defined in the business continuity strategy meets defined terms to support functionality in the event of a prolonged outage or major disaster.

During 2016, there were type "A" operational risk events, duly registered on the Bank's financial statements, worth in COP879,733,256, of which 73% were mainly due to execution and processes management. In addition, there were recoveries of COP13,372,910 due to the payment for wrong execution of a procedure worth in COP7,491,049, value returned by the insurance company and corresponding to three events reported in May, related to fraudulent transactions with credit cards.

A review of the operational risk events during this period shows that the Bank's residual risk is



very low, with insignificant impact and occurrence probability, which is also very low for all processes.

## 5.5. ANTI MONEY-LAUNDERING AND COUNTER TERRORISM FINANCING RISK MANAGEMENT SYSTEM – SARLAFT

The Bank is aware that money-laundering and terrorist financing may be present to some extent in its business environment, and that they represent a major threat to the financial system stability. The Bank complies strictly with Article 102 terms of the Financial System Organic Statute; Part I, Title IV, Chapter IV of the Basic Legal Circular (55/2016); FATF recommendations; and all complementary rules and recommendations related to money-laundering risk and terrorist financing.

As an entity subject to the Superintendency's control and monitoring, the Bank has adopted appropriate and sufficient control measures, aimed at preventing it from being used to give the appearance of legality to assets derived from criminal activities, or for channeling funds towards terrorist activities.

In accordance with the above, the Board of Directors, the CEO and the Compliance Officer have consequently defined appropriate policies and procedures for money-laundering and terrorist financing risk -SARLAFT- management, making it possible to identify, measure, evaluate, control and monitor these risks.

The SARLAFT system covers all Bank activities in the course of its principal business, and provides procedures and methodologies which protect the Bank from being used directly, that is, through its shareholders, administrators, and other stakeholders, as instrument for money-laundering and channeling funds towards terrorist activities, or when it is intended to withhold assets derived from those activities.

The Bank has a number of different instances that form part of control and risk management process for money-laundering and terrorist financing, such as the Compliance Unit led by the Compliance Officer, the General Audit, and the Financial Audit, all of whom are responsible to ensure SARLAFT proper functioning, in accordance with the Bank's compliance policies evaluation, and promoting the adoption of corrective measures necessary for its improvement.

The Bank has a training program addressed to all staff and managed by the Compliance Officer, whose purpose is to promote the SARLAFT culture. The most recent of these processes was conducted in August 2016, reinforcing aspects related to money-laundering and terrorist financing risks (factors, stages, elements, associated risks, etc), organizational structure, ethics code, Customer Knowledge, warning signs, unusual and suspect operations, and sanctions for non-compliance with SARLAFT, amongst others.

Mechanisms and instruments of control for money-laundering prevention and terrorist financing are contained in SARLAFT Procedures Manual and in the Ethics and Conduct Code, both approved by the Board of Directors.



The Bank complies with the Financial Information and Analysis Unit (UIAF) requirements, sending reports required for cash operations, foreign currency operations, exempted customers, political campaigns' reports, and suspect operations' reports.

Superintendency's Circulars 109/2015 and 110/2015 reiterated the obligation to keep confidentiality of suspect operations reported to the UIAF, explain matters related to the administrative agreement between the Ministry of Foreign Affairs, the Attorney-General's Office, the Financial Superintendency and UIAF. As a result, the Bank continues to handle information with total confidentiality and at the highest management level.

The Bank has not been patrimonially affected by any events regarding to SARLAFT implementation policies' economic effects.

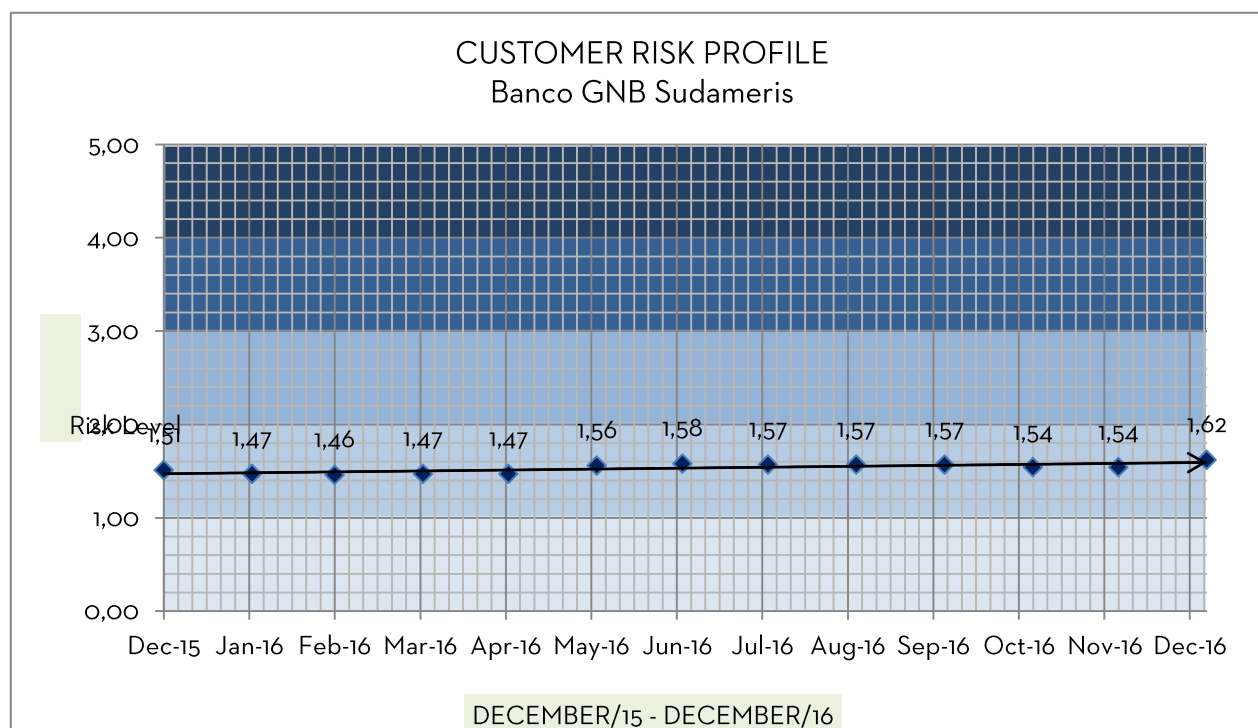
### **Risk profile evolution**

According to the Bank's risk management, including a risk evolution review according to identified risk factors and associated risks and controls based on an evaluation made at December 31, 2016, it was determined that 100% of residual risks are classified as low probability and low impact.

Regarding risk factors' segmentation, for which criteria established on Circular 55/2016, section 4.2.2.3.2 must be taken into account, whereby the customer individual profile is defined. It is noted that 2016 average consolidated risk level was 1.54. Since risk levels are rated between 1 and 5, five being the highest level of risk, it is evident that the Bank's general risk profile is low. Below is the evolution of the comparative monthly risk between January 1, 2016 and December 30, 2016:



### Customer risk profile – Banco GNB Sudameris: Risk Level, 2016



#### 5.5.1. Circular 55/16 Implementation

With the December 26/2016 Superintendency's Circular 55 issuance, additional guidelines' strength was given to anti-money-laundering system. The Bank is carrying out a process to implement and execute regulatory changes, related to identification and validation of final beneficiaries restrictive lists' for, identification and control of individual and corporate customers from countries catalogued as high risk by FATF, and the extension of politically exposed person customers (PEP) classification, by their marital relationship consanguinity and/or affinity. The new regulations come into force on 1 April, 2017.

#### 5.5.2. FATCA

During 2016 the Bank complied with all legal requirements for the Foreign Accounts Tax Compliance Act of the USA, FATCA, and also transmitted related reports to DIAN in Colombia.

## 6. CORPORATE GOVERNMENT

In compliance with the 28/2014 Superintendency's Circular requirements, the Bank presented its Best Corporate Practices report for 2016, informing the January-December 2016 situation (Attachment 1).



## 7. SYSTEMS AND ORGANIZATION

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The Bank has constantly worked on strengthening levels of review and supervision, applicable information systems with general controls to secure integrity and opportunity input information, considering safety, quality and confidentiality of processes, amongst other factors.

The updating of internal regulatory documentation continues to make progress, ensuring that all processes are properly documented. Likewise, work has also continued with proposals implementation for control and improvement, with support activities that allow to improve the quality and facilitate process management. Among the most relevant issues, the following are particularly important:

- Banco GNB Sudameris' Code of Corporate Governance
- Banco GNB Sudameris' Internal Control Policies Manual
- Banco GNB Sudameris and subsidiaries' Policy Manual for the Financial Conglomerate Management
- Code of Ethics and Conduct for treasury activities and other securities market activities
- Risk management system policy manual.

Controls for operations in central and non- presential channels were optimized, in order to increase transactions security and to continue with the strategy of strengthening security mechanisms and good practices to manage fraud and improve complaints and claims customer levels.

Updating existing standing customer information policy has been maintained within the Organization.

Business continuity plans tests were made to assess and ensure execution processes in each area of the Bank.

The required support was provided to carry out the stabilization process of Servitrust GNB Sudameris, after the merger with GNB Fiduciaria was formalized.

The organization continued to work on strengthening review and supervision levels, to generate greater effectiveness, quality and processes integrity, which is why the Organization supported the following development, implementation or formalization of the following improvements and assurances:

- ✓ Processes assurance of Corporate, Institutional and Consumer banking customers' complaints, claims, suggestions and requests, by segment, with assignment of a responsible person to attend internal module to control and respond requests.
- ✓ Customers' complaints, claims, suggestions and requests system optimization, associated to different types of payroll-loan product.
- ✓ Additional parameters' definition and implementation to provide financial consumer's adequate attention, in compliance to the Financial Superintendence's External Circulars 018/2016 and 048/2008.
- ✓ Restructuring and transfer of the payroll-loan corporate checks' delivery and payment



process, from the National Sales Force Management to the Incorporations and Conciliation Unit for legal person, and to the National Offices' Network for Natural Person.

- ✓ Restructuring and transfer of regularization process, from National Sales Force Management to the Credit Fabric Unit.
- ✓ Consulting processes' strengthening of the National Offices' Network through updating the customer service guide on the intranet.
- ✓ Assurance agreements defined between the Bank and its subsidiaries, for products, service and operation management, through the use of Banco GNB Sudameris' Network.
- ✓ Definition and implementation's guidelines to execute financial consumers' operations through different channels, and to provide necessary information, in case of events occurrences that interrupt its availability.
- ✓ Revision and adjustment of control and activation's policy process, to reduce fraud events at most risky dates.
- ✓ Monitoring process implementation over high-risk events, for users with special privilege on AS400 Platform, which supports the Bank's Main Core.
- ✓ Review and reinforcement of controls established for telephone validation in high risk customers' operations through Electronic Banking.

## 8. EVALUATION OF THE FINANCIAL CONSUMER ATTENTION SYSTEM - SAC

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During 2016 all matters related to SAC management were conducted and satisfied in terms of policies, procedures, structure and infrastructure defined by the Bank, designed to offer and guarantee proper attention, protection and respect for financial consumers, through different attention channels provided by the Bank, with the following activities:

### Control and optimization

- Plan of activity's execution related to implementation and administration of customer files in digital media, as well as the procedure for sending responses to requests for complaints and claims through email.
- Implementation of activities designed to control the information custody process, managed by the Customer Attention Department.
- Implementation of new activities related to the treatment and assurance plan for delivery timely statements.
- Implementation of the new process for settling petitions, claims, complaints and requests presented by financial consumers, through different attention channels, as part of the treatment plan addressed to assure customer care indicators.
- Treatment plan and accounting activities implementation, designed to optimize customer care process to financial consumers through helplines.



- Implementation of new activities aimed to ensure the correct use of the “evident identification score”, by customer helpline advisers, strengthening security and control processes related to customer requirements attention.
- Execution of activities designed to optimize attention to requests, complaints, claims and petitions made by financial consumers, to integrate the Service Information Center for payroll-loan agreements, into the Customer Service Centre (SAC), in order to improve and fulfill customer-care indicators.
- Implementation of a new treatment plan and activities designed to ensure the updating data process through authorized channels.
- Integration of the Information Center and Payroll-loan Agreements Unit (CIS) with the Customer Care Center (CAC) to resume and optimize established customer-care indicators, to address financial consumers petitions, complaints, claims and requests.
- Execution of an emergency plan to reduce the volume of pending claims and requests for the payroll-loan product, achieving a 63% reduction on pending cases by fourth quarter end.
- Centralization of the Bank’s phone-lines administration (76th Street, 71th Street, 26th Street), coordinated by a Bank leader in the Customer-Care Center, to centralize and provide proper attention and orientation to both external and internal customers.
- The Customer Care Center continued to develop activities that optimize and improve service indicators during the fourth quarter, established previously in treatment plans, with the purpose to contribute to be within the Banks with less number of complaints and claims
- Centralization of operation and reporting management for Bank's clients commercial information, at the Customer Service Center, to report to creditor bureaus Datacredito and Transandino/Cifin.
- Customer retention process implementation for credit and revolving credit products, providing a customer helpline with specialist advisers "GNB Sudameris Experience Line".

### Training program plan

During 2016, there was virtual training addressed to all staff, of due attention to financial consumers.

There was also presential training addressed to customer helplines advisers, National Office Network staff, support areas involved in attention to petitions, complaints, claims and requests, and Customer Attention Center back-office staff, on the following topics:

- Collections general policy
- Central and general points in financial information



- Prescribed and unresolved operations on Information Centers
- Loan procedures
- Banking- insurance
- Credit cards

There was also face-to-face training addressed to the National Office Network staff on the following topics:

- Certification of checks and security concepts
- New banknotes family characteristics
- New process for Payroll-loans payment
- Function operating processes
- New process for the reception of petitions, complaints, claims and requests made by financial consumers
- Paychecks security characteristics
- Graphology, dactyloscopy and Colombian identity cards
- Cash operations and office cash balancing
- Cash regulations
- Paychecks certification
- Operating processes under the cashier control at collection points
- Cashier1 operating processes
- Dollar and Euro security features.

### Financial education program

During 2016 the Financial Education Program, addressed to financial consumers, continued with the design of ongoing plans and programs, using the website as the principal channel and in particular, highlighting matters such as:

- Term deposits (TDs)
- Virtual banking benefits of
- Annual cost report
- Entries and searches in internet banking without a token
- Tax calendar
- Property tax payment
- Banking-insurance
- Concepts associated with credit cards
- Deposit insurance-FOGAFIN
- Steps to know the new COP100,000 note
- Revolving credit general information
- Information on current-account overdraft limits
- Benefits of using the token
- Debt control information
- Risk reduction using paychecks
- Investment in term deposits (TDs) information
- Difference between current and penalty interest on credit cards
- Security tips



### Customer service stages administration

As part of management actions during 2016 in different stages of customer service, there was ongoing follow-up and monitoring of statistical performance and indicators, related to attended complaints and claims, developing new activities and strategies designed to meet the Bank's objectives.

## 9. IMPORTANT POST-CLOSING FINANCIAL YEAR EVENTS

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There are no post-closing 2016 events to be mentioned.

## 10. EXPECTED DEVELOPMENT

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By 2017 the Bank expects a dynamic economic environment, and will continue with its growth guidelines, maintaining market niches, and strengthening current business lines; all of the above framed in a policy of adequate profitability margins, with minimum risk exposure, in order to maintain appropriate loans and capital levels, and secure the Bank's sustainability and growth in the longer term.

## 11. SPECIAL REPORT OPERATIONS BETWEEN RELATED PARTIES

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By the close of 2016 financial period, the Bank registered operations with related parties, all within legal framework that governs its activity, and its support is contained in financial statements and related notes.

## 12. OPERATIONS WITH SHAREHOLDERS AND ADMINISTRATORS

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Pursuant to Article 47 of Law 222/1995 amended by Laws 603/2000, Banco GNB Sudameris S.A. certifies that to December 2016 the operations carried out with its shareholders were in line with the Bank's general policies and within the legal framework that regulates its activity. Operations were carried out with Directors, employee loans, which were conducted in accordance with Bank's policies and procedures; its details are available to the Superintendency.

Concerning to operations with directly or indirectly related parties, contract terms were approved using normal business criteria, normal risk criteria, and market rates, or eventually, following similar operations conditions with other customers, according to rules and exceptions provided in law and with appropriate authorizations.



## 13. DISCLOSURE AND CONTROL SYSTEMS PERFORMANCE EVALUATION

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Pursuant to Article 47 of Law 964/25 2005, Banco GNB Sudameris has an adequate disclosure and financial control information system, which allows to follow-up results and control risks. It uses this system to control established plans and budgets fulfillment efficiently, to make timely decisions to face any situation. Functionality of controls is permanently verified and consolidation processes reviewed; reports and financial information are constructed and remitted, in accordance with the structure and schedules established by internal and external supervision and control organs; also, in order to keep the Board informed regarding to the Bank's operations and facilitate analysis and decision-making, the Bank elaborates reports related to own position, balance sheet, profit and loss statement and treasury operations results.

## 14. INTERNAL CONTROL SYSTEMS EVALUATION

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Related to Internal Control System evaluation, there is an independent section which reports internal controls performance assessment on each element appearing in Circular 29/2014, including an evaluation of the efficacy of internal controls in the subsidiaries (Annex 2).

## 15. INFORMATION UNDER ART. 446.3 OF THE COLOMBIAN COMMERCIAL CODE

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All information indicated in Section 446.3 of the Colombian Commercial Code will be presented to the Annual General Shareholders Meeting, and will be available in the office of the Bank's Secretary.

## 16. INTELLECTUAL PROPERTY AND COPYRIGHT LEGAL COMPLIANCE

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Banco GNB Sudameris has legally acquired the software it uses, with related licenses, in accordance with the terms of Law 603/2000 (intellectual property and copyright). It has also designed, regulated and documented control mechanisms for the acquisition, development and maintenance of these items. In addition, there is documentation to show that the software installed and used has the related licences.

On this point, and in compliance with Superintendency Circular 16/2011, we attach to this report Annex 3, a certificate from the Bank's Auditor, certifying that the software used by the Bank has been legally acquired, and that the Bank has the related licenses as required by Law 603/2000, on intellectual property copyright.



## 17. FREE INVOICES CIRCULATION LEGAL COMPLIANCE

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In compliance with the law in force and in particular Law 1676 of August 20/2013, which added Article 7 of Law 1231/2008, the Bank has not withheld any invoice and has not performed any act to impede the free circulation of invoices issued by suppliers or vendors.

## 18. ASSERTIONS VERIFICATION

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The Board of Directors and the President of GNB Sudameris, as required by Sections 2.3.7 of Chapter IX of External Circular 100/1995, expressly certifies that the Administration is complying with all the terms of Article 57 of Law 2649/1993, on the verification of assertions.

## 19. LEGAL SITUATION

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The Bank complies with all provisions of law that regulate its activities, as well as with the by-laws, and during 2016 it was not aware of any material importance process or action of an administrative or judicial nature that might have affected the course of its activities in the reported exercise.

## 20. FINAL CONSIDERATIONS

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In the legal field, there were no situations that affected the normal development of the Bank's operations, nor did circumstances arise that constituted a real or objectively-determinable threat to the Bank's continuity.

## 21. RECOGNITION

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The Board of Directors and the President of the Bank express their gratitude for the decided support and highly committed staff, to achieve our objectives in 2016.

THE BOARD

CAMILO VERÁSTAGUI CARVAJAL  
President.

