

MANAGEMENT REPORT  
BOARD AND PRESIDENT  
BANCO GNB SUDAMERIS S.A.  
2018

## Content

1. MACROECONOMIC SITUATION .....	3
1.1. ECONOMIC PERFORMANCE .....	3
1.2. BANKING SYSTEM .....	8
2. RELEVANT TOPICS .....	9
2.1. RATING .....	9
2.2. MARKET MAKER .....	9
2.3. LOAN PORTFOLIO .....	9
2.4 IFRS ADOPTION .....	9
2.5. PRODUCTS AND SERVICES .....	10
2.6 NETWORK AND BRANCHES .....	11
2.7 CORPORACIÓN FINANCIERA GNB SUDAMERIS .....	11
3. 2018 RESULTS .....	11
3.1. FINANCIAL MANAGEMENT .....	11
3.2. STRATEGIC PROJECTS AND OBJECTIVES .....	13
4. SUBSIDIARIES .....	14
5. RISK MANAGEMENT .....	15
5.1. CREDIT RISK - SARC .....	16
5.2. MARKET RISK-SARM .....	21
5.3. LIQUIDITY RISK - SARL .....	25
5.4 OPERATIONAL RISK - SARO .....	28
5.5 ANTI MONEY LAUNDERING AND COUNTER TERRORISM FINANCING RISK MANAGEMENT SYSTEM- SARLAFT .....	31
COMMON REPORTING STANDARD (CRS) .....	33
6. CORPORATE GOVERNANCE .....	33



7. SYSTEMS AND ORGANIZATION.....	33
8. EVALUATION OF THE FINANCIAL CONSUMER ATTENTION SYSTEM - SAC.....	37
9. IMPORTANT POST CLOSING FINANCIAL YEAR EVENTS .....	39
10. BANCO GNB SUDAMERIS' EXPECTED DEVELOPMENT.....	39
11. SPECIAL REPORT OPERATIONS BETWEEN RELATED PARTIES.....	40
12. OPERATIONS WITH SHAREHOLDERS AND ADMINISTRATORS.....	40
13. DISCLOSURE AND CONTROL SYSTEMS PERFORMANCE EVALUATION.....	40
14. INTERNAL CONTROL SYSTEMS EVALUATION.....	41
15. INFORMATION UNDER ART. 446.3 OF THE COLOMBIAN COMMERCIAL CODE .....	41
16. INTELLECTUAL PROPERTY AND COPYRIGHT LEGAL COMPLIANCE.....	41
17. FREE INVOICES CIRCULATION LEGAL COMPLIANCE.....	41
18. ASSERTIONS VERIFICATION.....	42
19. LEGAL SITUATION .....	42
20. FINAL CONSIDERATIONS.....	42
21. RECOGNITION.....	42

The Board of Directors and the President of the Bank present their Management Report for the financial year 2018, which contains an explanation of the macroeconomic circumstances, the evolution of business and the general situation of Banco GNB Sudameris, in economic, legal and administrative matters, and other issues raised by current regulations.



## 1. MACROECONOMIC SITUATION

### 1.1. ECONOMIC PERFORMANCE

In 2018, the Colombian economy had a mild recovery compared to the preceding year's dynamic. The discreet performance was related to factors like the currency volatility that caused a strong peso devaluation, the decrease of oil prices, the change in the global financial conditions, and the uncertainty on the recovery speed of the local economy, which, without a question, are some of the most pertinent facts that marked the trend of the country's economic behaviour.

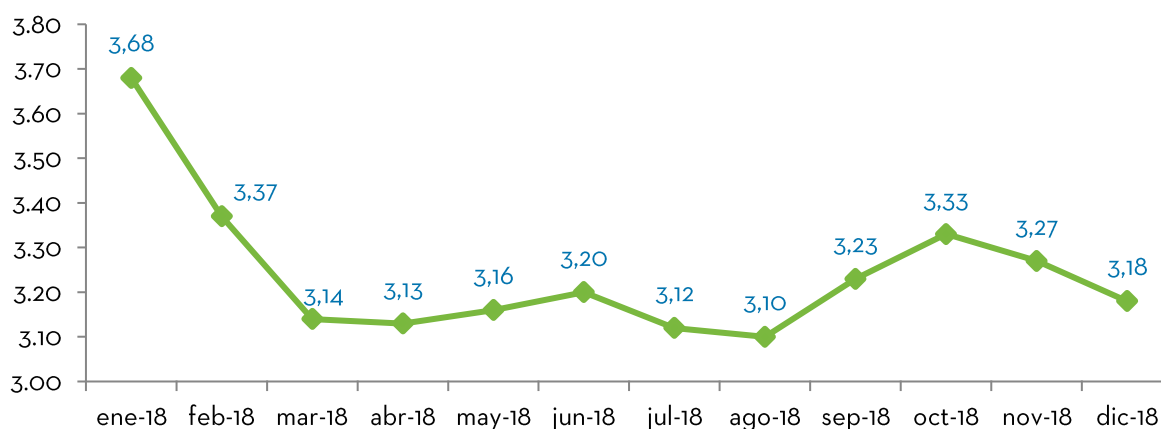
The Consumer Price Index (CPI) for year 2018 closed at 3.18%, within the range proposed by the Central Bank (between 2% and 4%), and lower by 0.91 pb than the figure in the preceding year, when it was 4.09%. The expense groups with the biggest contributions to the annual CPI variation corresponded to housing, food and transportation, which contributed with 2.51% of the total variation.

Housing, the expense group with the biggest weight in the family market basket, had an annual variation of 4.13% and a contribution of 1.27% compared to the preceding year, explained mainly due to a higher expense in gas and public utilities items.

On the other hand, the second group with more weight in the basket was food, which showed an annual variation of 2.43% and a contribution of 0.71% compared to 2017, explained mainly due to the increase in fruits prices.

Transportation had an annual variation of 3.73% and a contribution of 0.53%, explained mainly due to the increase in the price of public transportation group.

**Graphic 1: Consumer Price Index annual variation %**



Source: DANE

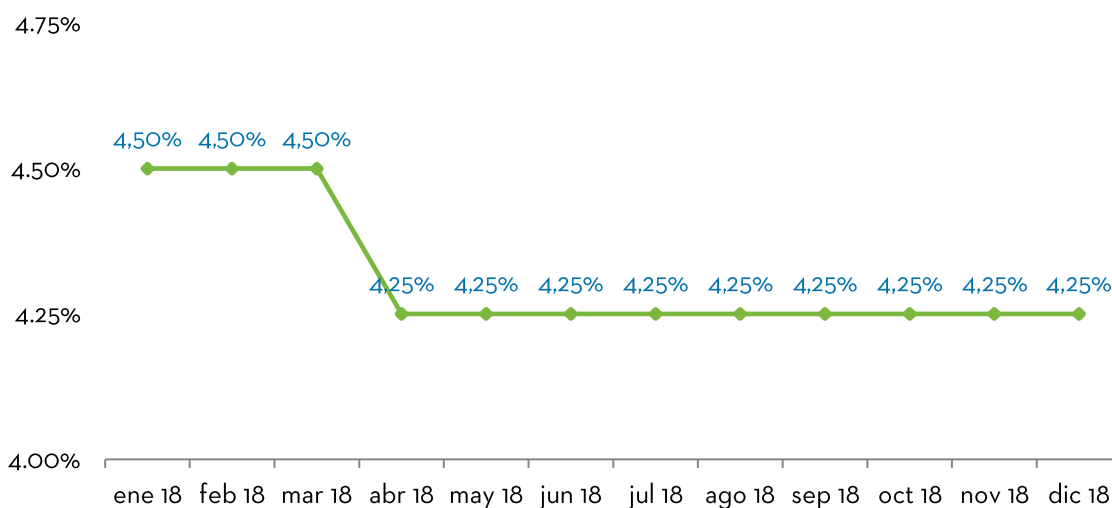
Elaborated: Unidad de Planeación



The Central Bank made only one adjustment to the monetary policy's intervention rate during 2018, falling 25 pb, by moving from 4.50% in January 2018 to 4.25% in April, which was maintained until the end of year 2018. This was supported by the inflation stability of each period, close to 3% and its convergence to the expected goal, due to weakness of the economic activity, the recovery speed uncertainty, and the effects on the Colombian economy derived from the changing international financial conditions<sup>1</sup>. Despite the market inflation expectations at the end of the years 2018 and 2019 were 3.4% and 3.8% respectively, the Central Bank maintained the goal in a range from 2% to 4%.

The Central Bank's intervention rate's perspectives for 2019 indicates that it should remain stable, even though the conditions in terms of inflation maintained inside the goal range.

**Graphic 2: Banco de la República Monetary Policy Rate**



Source: Banco de la República  
Elaborated: Unidad de Planeación

The monetary base closed at \$98.08 tln in December 2018, an increase of \$9.2 tln compared to the same month of 2017, when it amounted \$88.81 tln.

The 90 -day deposit rate (DTF) ended at 4.54% annual effective, showing a reduction of 67 pb compared to December 2017, when it was 5.21%. The 360-day DTF closed at 5.16%, with 75 bp reduction compared to the same period of the previous year.

The Interbanking Rate closed December at 4.25% annual effective, 47 pb below from the recorded at December 2017's closing. The real interest rate closed December at 1.32%, 24 bp above the recorded one year before, when it was 1.08%.

<sup>1</sup>Source: Central Bank, Colombia.

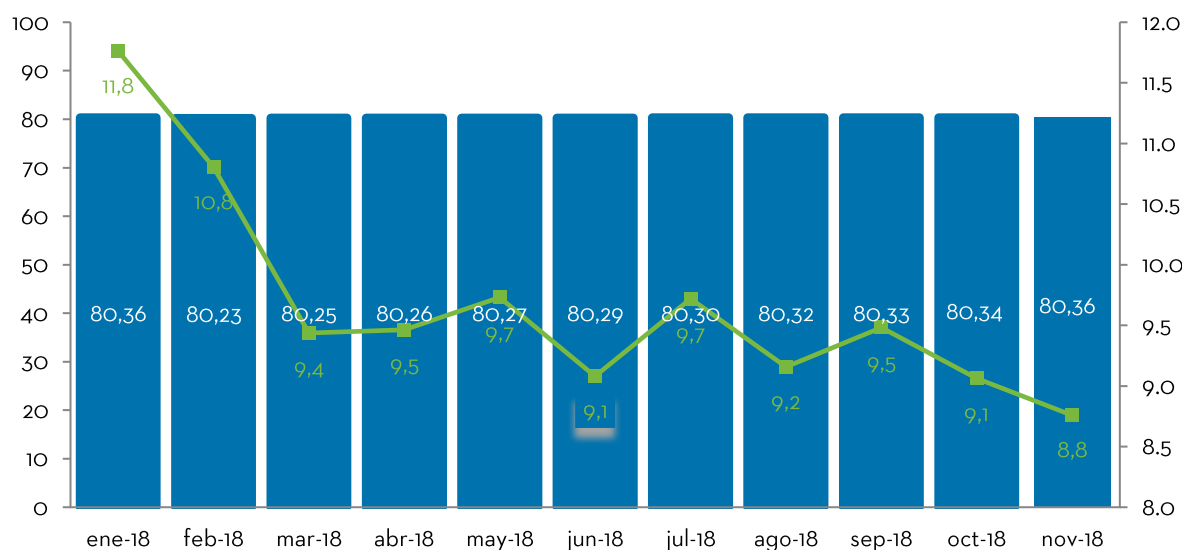




At December 2018, the fixed-rate public debt securities (TES) recorded valuation gains along the curves. In the short part of the curve between December 2018 and December 2017, the market rates showed a 7 bp decrease, closing at 5.62%. Regarding the middle segment of the curve, they decreased by 8 bp in respect to the same period in the preceding year and closed December 2018 at 5.10%. Finally, the long segment of the curve at 10 years, increased 28 bp by December 2018 in respect to December 2017, closing at 6.75%.

Unemployment rate showed a declining trend, with 8.8% (by Nov- 18) compared to 9.4% for 1Q18, 9.1% for 2Q18 and 9.5% for 3Q18. (Population: 48 mln)

Graphic 3: Unemployment Rate %



Source: DANE

Elaborated: Unidad de Planeación

■ % Población en edad de trabajar    —■ % Tasa desempleo

Standard & Poor's Global Ratings (S&P) maintained Colombia's foreign debt rating at BBB- with a stable perspective (in force since December 2017). This rating is expected to remain stable, leveraged by the positive investment perspectives, policies in line with the economic growth and the ability to absorb the external shocks.

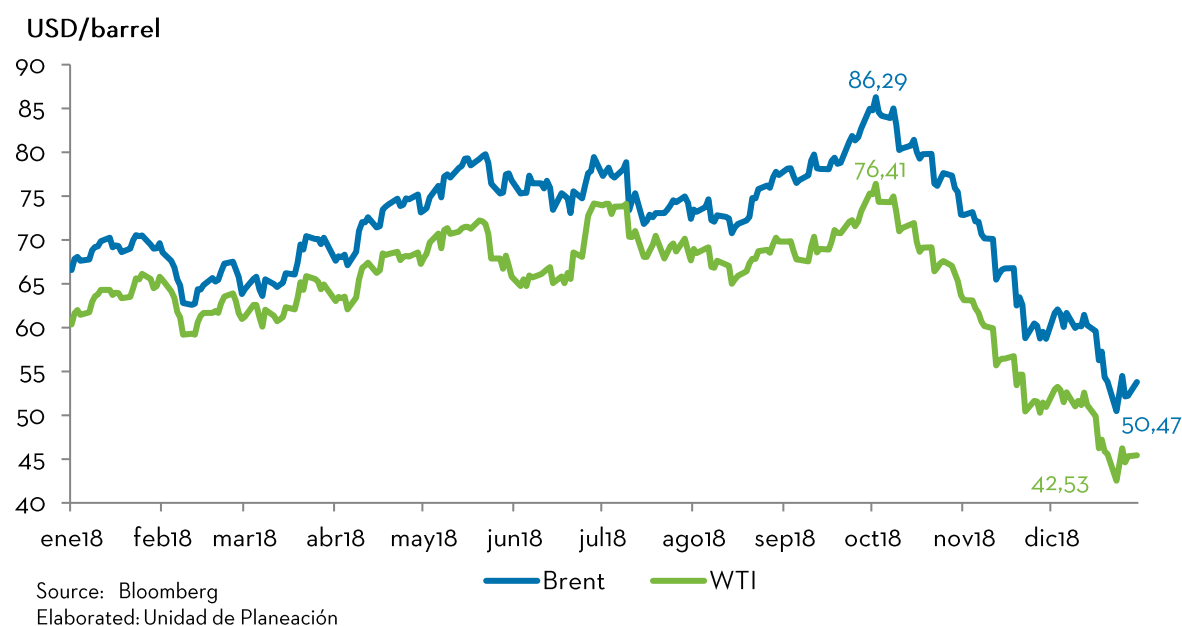
On the other hand, Moody's Rating Agency granted in February 2018 the investment-grade for Colombia on Baa2 with a negative perspective.

In November 2018, Fitch Ratings Agency maintained the investment-grade on BBB with a stable perspective, justified by the country's reasonable and conscious economic policies, that have supported the macro-economic and financial stability.



Commodities exports in dollars (oil and oil-based products, coffee, coal and nickel) performed well, mainly due to higher volumes and better prices. Non-traditional exports did not achieve any important growth. Dollar showed an upward trend, and in the second semester of the year, maintained positive levels. Oil prices had a favourable performance during most of 2018, reaching maximum prices in October. The Brent reference reached USD\$86.29 /bbl and the WTI USD\$76.41 /bbl. As from November, prices showed sudden drops and reached their minimal quotation in the year; Brent at USD\$50.47 and WTI USD\$42.53.

Graphic 4: Oil Price Evolution



The financial sector performed well in 2018, with figures available as of November 2018 from the Financial Superintendence of Colombia. Profits showed an increase of 32.91% compared to the same period of the preceding year, and the loan portfolio increased by 5.8%.

By the end of 2018, the financial sector was surprised with the approval of the 'Financing Law' by the Congress. This law has set a 4% surtax on income for the banking sector, above all other companies. This surcharge will be in force like this: 37% for 2019, 35% for 2020, and it will end on 34% for 2021.

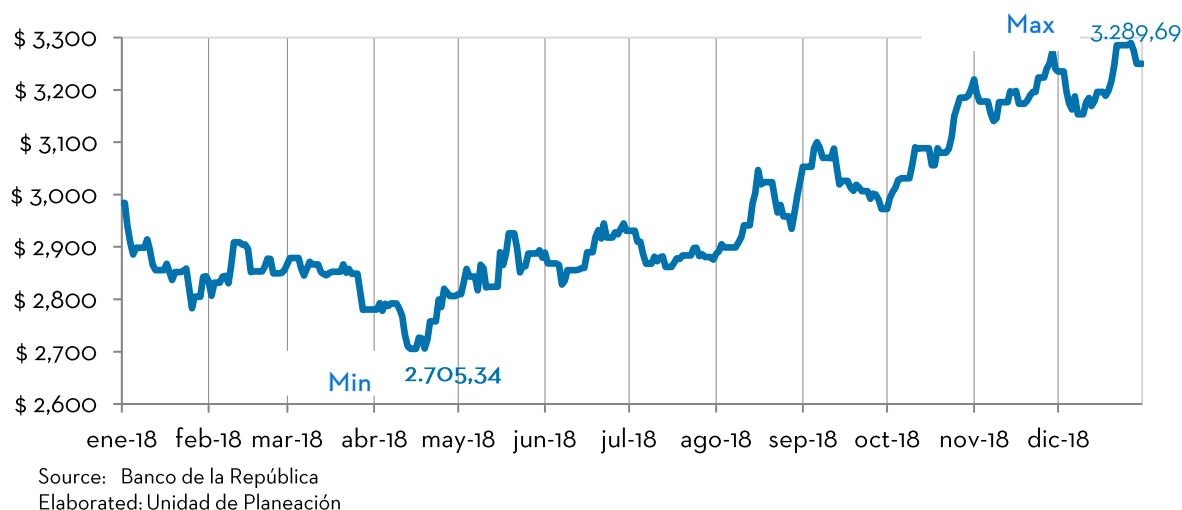
In 2018, the Colombian peso had a devaluation trend as from May, in line with the behaviour of all other emerging and Latin American countries currencies, as a result of the following factors: i) international oil prices' variations; ii) the demand of dollars by



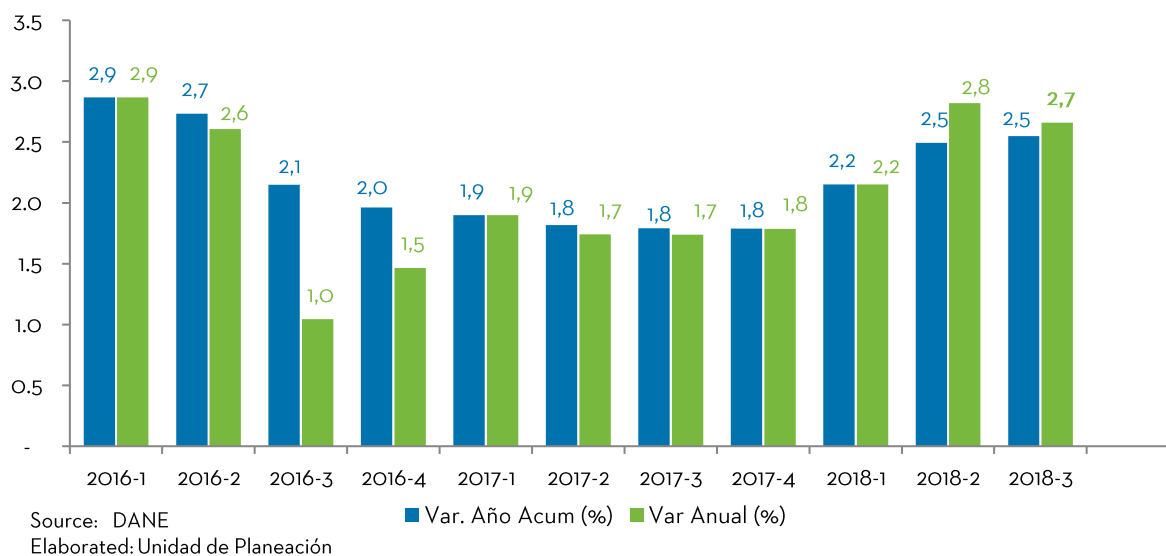
foreign investors, specifically for the reimbursement of profit to foreign investors and institutional investors; and iii) the uncertainty generated by the geopolitical stress and worldwide economic growth conditions.

The best moment for the Colombian peso was on April 14 at COP \$2,705.34. The weakest was in I in December at COP \$3,289.69. The year closed with an exchange rate of COP \$3,249.75.

Graphic 5: Exchange Rate Behavior



Graphic 6: GDP growth (%) Annual Variation and Annual Accumulation



In the third quarter of 2018 Gross Domestic Product (GDP) grew by 2.7% yoy. The activities that contributed to that result were: public management and defence, affiliation to social security, education, and services, among others.

On the other hand, the GDP growth for 2018 was 2.5% yoy.

The year 2018 was an electoral year, mainly marked by presidential elections, whose result generated tranquillity and confidence for investors and the international community.

The economy has been forecasted to grow 3% in 2019, leveraged by the Government's expense on investment and infrastructure. The effort in the adjustment of the Fiscal Framework is discreet for 2019; however, this result is expected to be aligned with the Fiscal Rule.

## 1.2. BANKING SYSTEM

The most recent information from the Financial Superintendence (SFC) by Nov-18, date of writing this report, suggests that the banking sector may have made around COP 8.4 tln profit in 2018, a 32.9% increase compared to 2017.

Assets placed at COP \$619.4 tln, 6.6% higher than the year before, with an 8.1% increase in equity, from COP \$75.1 tln to COP \$81.2 tln, and ROE of 12.8%, higher than that reported a year ago, around 10.5%. The system maintains adequate capital ratios, 15.7%, slightly lower than that reported a year ago, around 15.9%, and controlled risk levels, with a 4.8% loan-portfolio quality ratio, increasing from 4.4% a year ago, and a provision coverage of 128.2%.

Considering some economic aspects, particularly consumer prices, Banco de la República cut the intervention rate in 2018, which in November 2018 was at 4.25%, keeping that level until the end of 2018.

In concordance with the measures taken by the Central Bank, the system's deposits increased 5.5% yoy at November 2018, at COP \$394.32 tln.

Further, loans grew 5.8% yoy, from COP \$417.1 tln in November 2017 to COP \$441.5 tln in 2018. Commercial loans continued to be the most important segment by volume, accounting for 54.9% of total loans, growing close to 3.1% yoy, while consumer loans grew 8.5% yoy.



## 2. RELEVANT TOPICS

---

### 2.1. RATING

In September 2018, Value & Risk Rating Agency, made its annual review of short and long-term debt for Banco GNB Sudameris S. A., deciding to maintain the Triple-A (AAA) rating for long-term debt, and VRrR 1+ for short-term debt, - the highest ratings according to its methodologies. This endorses the high credit quality of our Bank's operations, and the strong capacity the Bank has to comply commitments and obligations, which will not be affected by variations in industry or the economy.

This rating agency highlights the Bank's positioning through policies that allow it to keep adequate profitability and liquidity levels with a minimal exposure to risk and the best operative efficiency, ensuring the Entity's stability and growth in time.

In respect to International Ratings Fitch Ratings and Moody's ratified the rating given to the Bank and highlighted the Entity's assets quality and adequate risk control as its credit strengths, which is reflected in delinquency and coverage ratios, as well as in the optimal liquidity indicators.

### 2.2. MARKET MAKER

During 2018, Banco GNB Sudameris played an active role in public debt auctions as an aspirant in the Market Maker Program. In December, the Bank ranked 7th in the Market Maker's general ranking, and second in the secondary ranking which measures management in the SEN transactional system.

The Bank will continue to play its part as a market maker in 2019.

### 2.3. LOAN PORTFOLIO

The Bank continued with the strategy of replacing payroll instalment loan purchases from third-party originators with direct placement, reducing loans from originators by 61.1% between December 2017 and 2018, growing direct placement by 23.6%. Currently, the payroll-loan portfolio has a 99.6% direct-origination ratio, while originators ratio is 0.4%.

### 2.4 IFRS ADOPTION

As of December 31, 2018, the Bank prepared its financial statements comparable with 2017 figures, in accordance with Colombian Financial Reporting Standards (FULL- IFRS, except for loans, foreclosed assets and investments, which will continue to be handled using the SFC Basic Accounting Circular 100/1995).



Likewise, also as of December 31, 2018, and following SFC Circular 038/2016, the Bank presented its Consolidated Financial Statements with controlled investments in Colombia and abroad, comparable with December 2017. During 2018, consolidated financial statements were transmitted quarterly using the XBRL taxonomy.

The Bank has complied with individual or separate financial statements reports transmissions to SFC, on the forms required, corresponding to the first three quarters of 2018, thus fully complying with SFC requirements.

As from January 1, 2018, the Bank adopted the IFRS 15 - Revenue from Contracts with Customers, which determines the accounting treatment to recognize and measure the contracts with clients. As most of the Bank income is obtained by managing the credit and investment portfolios, no significant impact was generated for the Bank, since these concepts have different accounting treatments.

Additionally, the Bank has assessed the impacts in the financial statements by applying the IFRS 16 - Leases, whose effective application is as from January 1, 2019.

The most significant impact will be recognizing and measuring operative lease contracts' assets and liabilities, of properties used for branches' operation. From its application, the lease expense shall change to a depreciation expense and financial expense of assets and liabilities, respectively. The Bank does not expect an effect in the accumulated profit due to the application of this new standard.

## 2.5. PRODUCTS AND SERVICES

In 2018, the Bank implemented new products and technological innovation projects through Electronic Banking services with the highest quality and security standards:

- **Mobile Banking:** the Bank launched its Mobile banking technological platform, an electronic channel that allows its clients to do consultations and transactions in an easy and safe manner through a mobile device.
- **Payments Portal:** system that allows to collect through Internet, the funds generated by sales of products or services (schools, residential condominiums, taxes, and social security, among others), charged to any financial institution affiliated to ACH. By the end of 2018, 60 establishments had active service.
- **Contactless Technologies:** the subsidiary 'Servibanca' began the installation of devices with Contactless technology in its ATM network, so that users of the Integrated Public Transport System (SITP in Spanish) in Bogotá and nearby municipalities can recharge their "tu llave" card using debit or credit cards of any Entity.



- **Real Estate Private Capital Fund:** the subsidiary 'Servivalores' launched the "Fondo de Capital Privado Inmobiliario", which aims to manage Real Estate Assets, offering its investors a profitable and competitive alternative compared to similar products in the market.

## 2.6 NETWORK AND BRANCHES

During 2018, and in line with the Entity's growth strategy, the branches network was expanded nationwide to cities like Ibagué, Tunja, Sincelejo, Floridablanca, Envigado and Riohacha, achieving a total coverage for customers and users in 23 main cities in Colombia, serving a population of over 797 cities and towns through more than 2,670 ATM's of the Servibanca network.

## 2.7 CORPORACIÓN FINANCIERA GNB SUDAMERIS

By Resolution No. 1028 of August 3, 2017, the Financial Superintendence of Colombia authorized the incorporation of "Corporación Financiera GNB Sudameris S.A." with COP \$35,000 mln capital, and 94.99% majority share held by the Bank.

Through Resolution No. 0875 of July 10, 2018, the Financial Superintendence of Colombia authorized the operation (Certificate of Authorization) of Corporación Financiera GNB Sudameris S.A., to operate and develop throughout the national territory, its corporate purpose activities. In accordance with what is authorized by law to financial corporations.

# 3. 2018 RESULTS

---

## 3.1. FINANCIAL MANAGEMENT

In regards to the economy, the country had better dynamics in 2018 compared to the previous year, and Banco GNB Sudameris maintained its growth and exhibited a final positive result.

At the end of 2018 the Entity closed with COP \$210,037 mln net profit, equivalent to a 12.75% ROE. Equity continued to grow, 8.9% yoy, closing at COP \$1.7 tln, compared to COP\$1.6 tln at December, 2017. That meant that it was able to maintain its solvency ratio at 23.17%, far higher than the minimum regulatory required by the Financial Superintendence of Colombia <sup>2</sup>.

---

<sup>2</sup> Source: Financial Superintendence of Colombia  
Calculations: Banco GNB Sudameris' Planning Unit



## Assets

Assets closed 2018 at COP \$25.4 tln, growing 12.7% yoy (vs COP \$22.6 tln in 2017). Loans accounted for 33.8% of assets, with COP \$8.6 tln, with good quality and coverage levels, 1.85% and 186.1% respectively, compared to those reported for the Banking sector at November 2018, 4.8% and 128.1% respectively.

As of December 2018, total investments increased in COP \$2,1 tln compared to December 2017, to COP 8.0 tln. Net placements increased in COP \$1,0 tln, to COP \$8.6 tln compared to the same period 2017, when they stood at COP \$7.5 tln.

## Liabilities

In December 2018, the Bank exhibited COP \$14.8 trillion in deposits, with COP \$2.2 tln increase compared to December 2017.

Bank borrowings were approximately COP \$1.5 tln, up COP \$502,283 mln compared to December 2017, when they closed at COP \$1.0 tln. Interbank and overnight repos ended at COP \$4.7 tln, up COP \$537,923 mln, compared to preceding year, when they finished at COP \$4.2 tln. As of December, 2018, Banco GNB Sudameris held senior and subordinate debt securities for USD \$659 mln (COP \$2.1 tln), decreasing USD \$309 mln compared to 2017. The last was related to the maturity of Ordinary Bonds denominated in dollars, process that took place in May, 2018.

## Intermediation Margin

As of December 2018, accumulated intermediation margin was COP \$498,236 mln, representing a COP \$121,126 mln increase since December 2017, when it was COP \$377,110 mln. This was explained by higher income from the peso intermediation margin.

## Financial Margin

Accumulated financial margin was COP \$704,899 mln, increasing COP \$136,651 mln compared to 2017, when it was COP \$568,249 mln.

## Expenses

Total accumulated expenses were COP \$324,991 mln, up COP \$39,538 mln compared to December 2017, when they were COP \$285,453 mln.

## Operating Margin

Accumulated operating margin was COP \$379,908 mln, increasing COP \$97,112 mln compared to 2017.





## Leading Indicators

In 2018, certain indicators such as administrative efficiency and loan-portfolio quality, were particularly distinguished, and continued occupying top places within Colombian banking system. The Bank also exhibited a good solvency level, product of obtained results and the shareholders support, based on investments and lending growth. As a result, the Bank has maintained a favourable position within the banking system.

According to November 2018's SFC published information, the Bank remains in first place<sup>3</sup> in terms of competition internal analysis.

The administrative efficiency ratio<sup>4</sup> places Banco GNB Sudameris on the top of the list with the lowest indicator of 1.41%, compared to the local banking sector as a whole, which was 3.86% at November, 2017.

As of December, 2018, the loan-portfolio quality ratio (Past Due Loans / Total Loans) was 1.85%, and the loan coverage ratio (Provisions / Past-Due Loans) was 186.11%, compared to the financial sector as a whole, which reported 4.8% and 128.1% respectively at November 2017.

Regarding to assets evolution, the Bank showed a 15.0% yoy growth, compared to the sector's 6.6%.

The Bank ranked third in the Banking system regarding to capital ratio, which was 22.06% in November 2018, compared to the 15.70% of the sector. This is clear evidence of the Entity's equity support and strengthening.

On the other hand, the Sector's<sup>5</sup> complaints and claims indicator places Banco GNB Sudameris in third place between the lowest number of complaints as of November, 2018.

## 3.2. STRATEGIC PROJECTS AND OBJECTIVES

Compliance with strategic objectives and plans within the Bank's business plan allowed a short and medium term steady and gradual growth. The Board of Directors followed up progress on these objectives and plans regularly throughout the year.

During 2018, strategic projects and objectives were implemented, among which are highlighted: the strengthening of the risk and audit systems, the office network optimization; the implementation technological innovation projects such as Mobile

<sup>3</sup> Internal calculations and analysis Banco GNB Sudameris' Planning Unit

<sup>4</sup> Calculated as: Total Expenses / Productive Assets

<sup>5</sup> Calculations: Banco GNB Sudameris' Planning Unit

Complaints and claims indicator: (calculated with monthly figures): Total deposits value + total portfolio value / number of complaints and claims during the period



Banking and payment options; the Bank's participation in the Market Makers Program ('Creadores de Mercado'), the IBR Management Committee membership, the start-up of the Corporación Financiera's operation and the start-up of the Real Estate Private Capital Fund, among others.

Coordinated work will continue towards these strategic objectives during 2019, as provided for in the three-year financial plan.

## 4. SUBSIDIARIES

---

As complementation and deepening of the relation between the Bank and its Subsidiaries in one of the strategic objectives, throughout 2018 there was constant follow-up of their main management indicators performance.

### Banco GNB Perú

At the end of 2018 assets stood at USD \$1,650 mln, and final accumulated results to December were USD \$15.3 mln. Equity was USD \$196.2 mln.

### Banco GNB Paraguay

There was a positive accumulated result of USD \$22.7 mln, growing 5.1% yoy (USD \$21.6 mln in 2017). Assets were USD \$1,057 mln, and loans USD \$840.8 mln. Equity was USD \$143.6 mln.

### Survitrust GNB Sudameris

The trust company reported COP \$6,173 mln on accumulated results. Assets closed at COP \$58,094 mln. Equity was COP \$52,852 mln, and return on equity averaged 11.94%.

### Servibanca

This company continued to grow strongly, broadening its coverage and updating its ATM network, reaching 797 cities and towns, with 164 more machines than the preceding year. Transactions level, nationwide and abroad, was strengthened with important revenues for the company. There was a remarkable 10.1% increase in profits, COP \$31,613 mln and compared to COP \$28,711 mln for 2017. Further, assets closed at COP \$153,428 mln, compared to COP \$158,740 mln in 2017. Equity closed at COP \$118,844 mln, compared to COP \$115,250 mln in 2017, with a 29.10% return on equity.

### Servivalores GNB Sudameris

The securities broker reported positive results with COP \$4,363 mln profit, compared to



COP \$2,354 mln in 2017.

The company has maintained its position among the top 10 entities in the sector in terms of results. Assets totaled COP \$50,712 mln, equity COP \$36,766 mln and ROE 12.60%.

### Corporación Financiera GNB Sudameris

With the beginning of the operation of the 'Corporación Financiera' during the year 2018, the company, at the end of the year, showed a positive result with a profit of COP \$14,438 mln. Its assets amounted COP \$619,683 mln, and the Entity closed with COP \$614,083 mln on equity, generating an 8,12% ROE.

### Servitotal GNB Sudameris

This subsidiary was created to provide technological services. It is part of 2019's strategic technology planning.

## 5. RISK MANAGEMENT

---

During 2018, the Bank maintained permanent control and monitoring of risks, through the various bodies involved, particularly the Board, the President, the Risk Management Department, other areas involved, and the control entities, verifying at all times compliance with current regulations, policies and procedures adopted by the Bank, ensuring that there were no excesses, and that limits set by the Bank were observed. Entity Recommendations were made where necessary, to mitigate the occurrence of possible events.

The following were the most important matters arising in 2018, in each of the risks associated.

- As part of its institutional projects for 2018, the Bank included the project related to the Strengthening of the Risk Systems.
- As the parent company, the Bank's Board of Directors defined a conservative risk appetite for the Conglomerate, and approved in April, the Manual of General Governance Risk Policies for the Conglomerate.
- Risk limits were redefined for each risk management system (SARM, SARL, SARO and SARC), which shall be annually reviewed.
- The Board of Directors approved the Declaration of Risk Appetite in May.
- The Bank's Risk Committee Regulation was updated to align it to the Manual of General Risk Governance Policies.
- The Manuals of Policies and Procedures were updated for each Risk Management System.



## 5.1. CREDIT RISK – SARC

### Credit exposure limits and tolerated losses

Credit exposure limits and tolerated losses had an optimal performance, complying with the Board's definitions. The following were the limits as of December 31, 2018:

BANCO GNB SUDAMERIS			
CREDIT RISK			
EXPOSURE LIMITS AND TOLERATED LOSS			
COP Mln	Dec-17	Dec-18	LIMITS
<b>Credit Exposure</b>			
Commercial Portfolio	51,64%	48,48%	50,00%
Consumer Portfolio	48,36%	51,52%	50,00%
<b>Risk Indicators</b>			
<b>Commercial Portfolio</b>			
Default index	0,47%	1,85%	4,00%
Risk index (2)	5,07%	8,19%	6,98%
<b>Consumer Portfolio</b>			
Default index	1,72%	1,85%	4,91%
Risk Index	2,74%	3,25%	6,61%
<b>Total Portfolio</b>			
Default index	1,08%	1,85%	
Risk Index	3,95%	5,64%	
<b>Tolerated Loss</b>			
Commercial Portfolio (3)	19.399	-1.054	61.197
Consumer Portfolio (4)	6.599	8.089	91.796

(1) 15 Points Tolerance Range



(2) Surpassing the Risk Limit for the commercial portfolio at December 31, 2018, corresponds to the re-rating applied to Grupo Económico Eisenband, where FEDCO and INVERSIONES EILAT S.A. are part of, with a total capital balance of COP \$72,000 mln, by moving from “A” to “C”, as a result of the Semester Rating process and the entrance to Law 1116 by Fedco S.A. and other clients.

(3) Limit = 2% of the Computable Capital

(4) Limit = 3% of the Computable Capital

The Bank is actually developing credit risk management stages (measurement, identification, monitoring and control), following guidelines established by SFC regulations.

## Reference models

Commercial and consumer reference models (MRC and MRCO) continue to operate according to SFC's Basic Accounting and Financial Circular guidelines, Chapter II, Annexes 1-5, which provide regulations related to the Commercial Risks Management System (SARC), provisions' calculation and risk specifications for customers in both portfolio-loans. These models have been object of review by the Financial Superintendence of Colombia, the Statutory Audit and the Bank's Internal Audit, with satisfactory results.

## Granting and Monitoring Models and Rating Model

Colombia's Commercial Portfolio Granting and Monitoring Models and Rating Model, operate in accordance with the latest update approved by the Board of Directors in June 2018, which included a qualitative variable for the Follow Up Rating Model, called current situation and credit behaviour of operations with extensions.

During the last quarter of the year, the review and calibration process took place for the Follow-up Rating Model, which was duly approved by the Board of Directors of December 2018.

These models have been classified as a very useful decision making tool for the Credit and Loans Committees, to the extent that they allow improving the predictability related to the probability of default by the credit clients and their corresponding rating.

## Internal Regulation

Credit Risk Management System - SARC Manual, and Credit Risk Area Procedure Manual, are both duly updated as of December, 2018.

## External Regulations

At the close of 2018's fourth quarter, the Financial Superintendence has not issued



regulations that modify or include new issues related to the Credit Risk Management System.

### Behaviour, Concentration and Forecast of Possible Risks by Economic Sector

The growth forecasts and perspectives related to the various economic sectors are an important tool in decision-making, as they allow reducing the uncertainty and foresee possible adverse situations that may affect the regular behaviour of the Bank's commercial portfolio. Given the foregoing, an analysis of the Bank's commercial portfolio is presented under two approaches, such as:

#### Retrospective Analysis

The Bank's Commercial Portfolio, as of December 31, 2018, does not present significant concentrations in any of the economic sectors, the main ones being: various activities (services to companies), general trade activities, financial brokerage, and education activities, that altogether comprise 55.23% of the total commercial loan-portfolio, which shows the same trend when compared to the same period in the previous year.

In relation to these same sectors, the performance of the credit risk management indicators was as follows: Indicator of the Past Due Portfolio closed at 0.16%, 7.60%, 0.00% and 0.00%, respectively and the Portfolio at Risk Indicator was 4.01%, 10.30%, 1.61% and 2.31%, respectively. In this regard, the indicator of greatest impact is given in the 'general trade activities' sector, by the client Fedco S.A., who has been admitted to a restructuring process under Law 1116/2006.

The following table presents the portfolio distribution in the various economic activities:

RATING / ECONOMIC ACTIVITY	Dec-17				Dec-18			
	CAPIT BAL ANC E	IP D (1)	IP R (2)	IC RS	CAPIT BAL ANC E	IP D (1)	IPR (2)	ICR S Sep .18
A - AGRICULTURE, HUNTING AND FISHING	171.72 6	0,0 0%	4,0 8%	18, 04 %	185.45 0	3,6 5%	17,34 %	19,3 9%
B - EXTRACTIVE INDUSTRIES	1.334	0,0 0%	0,0 0%	19,3 2%	1.760	0,0 0%	0,0 0%	35,5 6%
C - INDUSTRY OF FOOD, DRINKS, TOBACCO, AND CONCENTRATES	201.91 2	2,1 4%	2,2 4%	5,9 4%	203.3 74	1,5 2%	3,05 %	6,30 %
D - INDUSTRY OF FABRICS, LEATHER AND SHOES	109.8 93	3,1 0%	10, 07 %	5,9 4%	127.02 2	13, 26 %	19,0 7%	6,30 %



E - INDUSTRY OF WOOD, CARDBOARD, PAPER, PACKING AND PRINTING	28.55 0	0,0 0%	19,9 6%	5,9 4%	26.46 6	0,0 0%	21,54 %	6,30 %
F - MANUFACTURE OF OIL DERIVATIVES, FERTILIZERS, CHEMICALS, PLASTICS AND RUBBER	129.65 0	0,0 0%	14,7 0%	5,9 4%	73.925	0,0 0%	30,9 9%	6,30 %
G - MANUFACTURE OF PHARMACEUTICAL PRODUCTS AND MEDICAL CHEMICAL SUBSTANCES	65.79 3	0,0 0%	0,0 0%	5,9 4%	47.99 0	0,0 0%	0,0 0%	6,30 %
H - MANUFACTURE OF MINERAL AND METALLIC PRODUCTS	65.914	0,0 0%	16,6 9%	5,9 4%	98.06 3	0,0 0%	10,8 0%	6,30 %
I - MANUFACTURE OF MACHINERY, ENGINES, ACCESSORIES FOR VEHICLES AND OTHER INDUSTRIES	38.06 7	2,3 7%	40, 73 %	5,9 4%	44.62 9	6,2 1%	48,6 8%	6,30 %
J - PRODUCTION AND DISTRIBUTION OF ELECTRICITY, GAS AND WATER	61.806	0,0 0%	0,0 0%	12,4 4%	76.32 0	0,0 0%	0,0 0%	11,39 %
K - CIVIL CONSTRUCTION WORKS	343.7 47	0,5 9%	21,6 4%	18,2 3%	381.46 3	1,15 %	21,76 %	18,6 7%
L - TRADE OF NEW AND USED VEHICLES, SPARE PARTS AND MAINTENANCE	77.766	0,0 0%	5,7 4%	4,7 2%	69.98 8	0,0 2%	6,41 %	13,0 7%
M - GENERAL TRADE	471.161	0,2 9%	2,2 4%	4,7 2%	504.3 88	7,6 0%	10,3 0%	13,0 7%
N - HOTELS AND RESTAURANTS	24.84 9	0,0 0%	0,0 0%	4,3 0%	38.45 2	0,0 0%	0,0 0%	13,0 7%
O - TRANSPORT OF CARGO AND PASSENGERS, AND RELATED ACTIVITIES	182.28 8	2,9 7%	17,9 2%	27, 98 %	160.41 7	3,5 6%	17,26 %	13,0 7%
P - TELECOMMUNICATIONS SERVICES	51.460	0,0 0%	3,7 3%	2,1 0%	47.37 0	0,0 0%	6,59 %	3,32 %
Q - FINANCIAL BROKERAGE ACTIVITIES	356.9 62	0,0 0%	0,0 2%	2,2 0%	438.5 51	0,0 0%	1,61 %	2,38 %
R - PUBLIC ADMINISTRATION	50.57 6	0,0 0%	0,0 0%	3,4 9%	49.08 3	0,0 0%	0,0 0%	5,10 %
S - ACTIVITIES OF SOCIAL SECURITY, SOCIAL SERVICES, AND HEALTH	352.12 4	0,0 0%	0,0 0%	3,4 9%	164.83 9	0,0 0%	0,0 0%	5,10 %
T - EDUCATION ACTIVITIES	288.7 57	0,0 0%	0,0 0%	3,6 9%	381.95 1	0,0 0%	2,31 %	5,10 %
U - ACTIVITIES OF AMUSEMENT, CULTURE AND SPORTS ORGANIZATIONS OR ASSOCIATIONS	66.87 4	0,0 0%	0,0 0%	2,7 0%	27.427	0,0 0%	0,0 0%	2,55 %
V - MISCELLANEOUS ACTIVITIES	786.9 94	0,0 4%	0,6 2%	2,3 8%	1.054. 987	0,1 6%	4,01 %	10,31 %
W - EMPLOYEES AND RENTERS	91.527	1,13 %	1,13 %	0,1 7%	105.48 9	0,0 0%	0,98 %	5,15 %
<b>TOTAL</b>	<b>4.019. 729</b>	<b>0,4 7%</b>	<b>5,0 7%</b>	<b>9,8 6%</b>	<b>4.309 .403</b>	<b>1,8 5%</b>	<b>8,19 %</b>	<b>10,7 1%</b>

(1) IPD = Indicator of Portfolio in Default

(2) IPR = Indicator of Portfolio at Risk

The economic sectors presented correspond to the version 4.0 of the International Uniform Industrial Classification (CIIU in Spanish) of all activities, issued by the National Administrative Department of Statistic (DANE in Spanish).



## Prospective Analysis

For the following four quarters, the different economy sectors at GDP are expected to present the following behaviour:

Banco GNB Sudameris			Financial sector		Projections		
Concept	Portfolio at Risk	Risk Indicator	Portfolio at Risk	Risk Indicator	GDP % Sep. 2018 <sup>3</sup>	Proj. GD P % Sept 2019 <sup>4</sup>	Evolut ion <sup>5</sup>
<b>Total</b>	<b>352.978</b>	<b>8,19</b>	<b>20.081.912</b>	<b>10,71</b>	<b>2,8</b>	<b>3,0</b>	
Agriculture, cattle, hunting, forestry and fishing	32.152	17,34	987.278	19,39	5,9	2,8	
Mining and quarries	-	-	807.292	35,56	-	2,7	- 3,0
Manufacturing industries	91.364	14,70	2.163.694	6,30	3,7	1,5	
Supply of electricity, gas, vapor and air conditioning; distribution of water, evacuation and treatment of waste water, management of waste, and environmental cleaning activities	-	-	1.868.502	11,39	2,3	2,0	
Construction	83.011	21,76	5.664.754	18,67	-	7,6	7,3
Wholesale and retail trade; repair of automotive vehicles and motorcycles; transportation and storage; lodging and food services	84.095	10,88	5.770.345	13,07	3,6	3,2	
Information and communications	3.123	6,59	150.684	3,32	2,3	3,8	
Financial and insurance activities	7.067	1,61	393.391	2,38	2,7	3,3	
Real estate activities	30.736	6,87	686.004	10,31	2,1	2,6	
Professional, scientific and technical activities; activities of administrative and support services	11.578	1,91	689.076	7,85	6,6	3,2	
Public and defense administration; compulsory affiliation social security	8.821	1,48	818.572	5,10	5,3	3,5	





plans; education; attention activities to human health and social services						
Artistic activities of entertainment and recreation and other service activities; activities of individual homes acting as employers; activities non-differentiated from individual homes as producers of goods or services for their own use	-	-	39.898	2,55	3,4	5,0
Employees and Rentiers	1.031	0,98	42.419	5,15	-	-

1. Total Commercial Portfolio for December 2018 Banco GNB Sudameris
2. Total Commercial Portfolio Financial System per Risk Rating for September 2018, Superintendency of Finance of Colombia, <https://www.superfinanciera.gov.co/>
3. Annual economic growth at September 2018 DANE <http://www.dane.gov.co/>
4. Own forecasts
5. Evolution is calculated based on the annual projection and the average quarter behavior for the last 5 years

## Semester Follow - Up to the Financial System Concentration of the Main Bank's Portfolio Exposures

The important clients in the financial system correspond to debtors with big exposures in specific sectors that may have a positive or negative impact on the financial entities. For this reason, and in consideration that the Bank's risk appetite is conservative, it is necessary to run a semester monitoring that allows identifying if any of the clients with higher exposure in the Bank may be considered as a "Systemic Client".

Therefore, and after the assessment carried out within the Credit Risk Direction, as of December 31, 2018, it has been concluded that the Bank has no clients with big exposures that may affect the entire financial system.

## 5.2. MARKET RISK-SARM

The Bank uses the SFC standard methodology to measure market risks, as defined in Chapter XXI's Basic Accounting and Financial Circular, Annex 1. At the same time, it has an EWMA internal VaR model, using historical data with decreasing weighting over time.

The Bank has implemented a Market Risk Management System which complies with the SFC's Basic Accounting and Financial Circular regulations, Chapter XXI and its annexes.

The system comprises risk management policies and procedures, limits and authority levels definitions, established by types of operation, mainly supported by the Risk Management Division and the Risk Committee, as a control and compliance body.



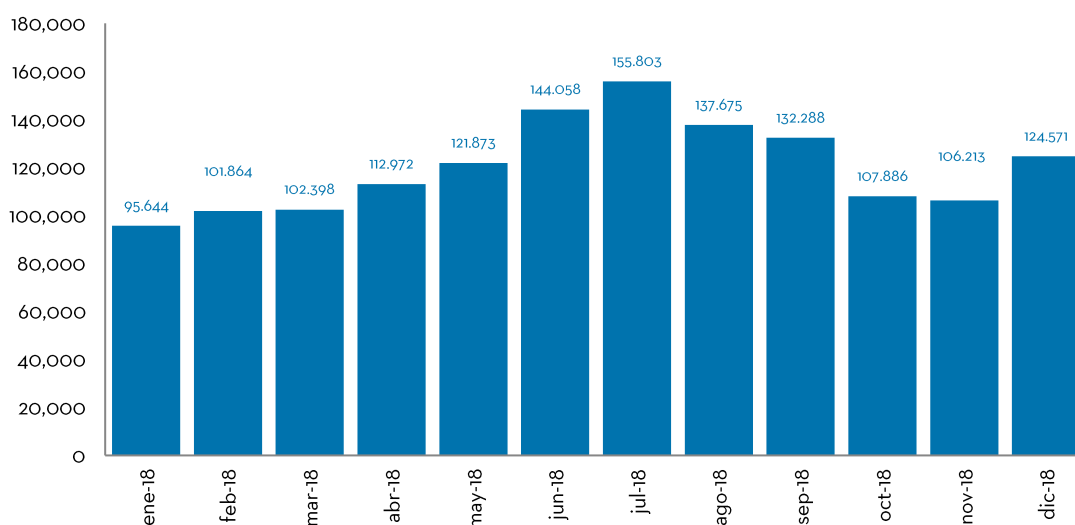
In the area of market risk, VaR limits were approved according to portfolio structure and managed business, with financial and real sectors counterpart risks limits, and authority levels for operations and trading.

### VeR Evolution

As of December 31, 2018, regulatory VeR was \$COP 124,571 mln, increasing COP \$36,413 mln compared to 2017. The variation obeys mainly to the COP \$5,998 mln interest rates VeR increase, Collective Investment Funds' VeR for COP \$31,021 mln, added to the COP \$605 mln exchange rate's VeR reduction.

The maximum VeR in December 2018 was COP \$133,590 mln, and the minimum COP \$105,941 mln. The maximum VeR in 2018 was COP \$171,344 mln, and the minimum was COP \$101,864 mln. The maximum monthly VeR in 2018 was COP \$155,803 mln, and the minimum COP \$95,644 mln.

Graphic 7: VeR Evolution 2018



As of December 31, 2018, the measurement of Value at Risk for its different modules gave the following figures:



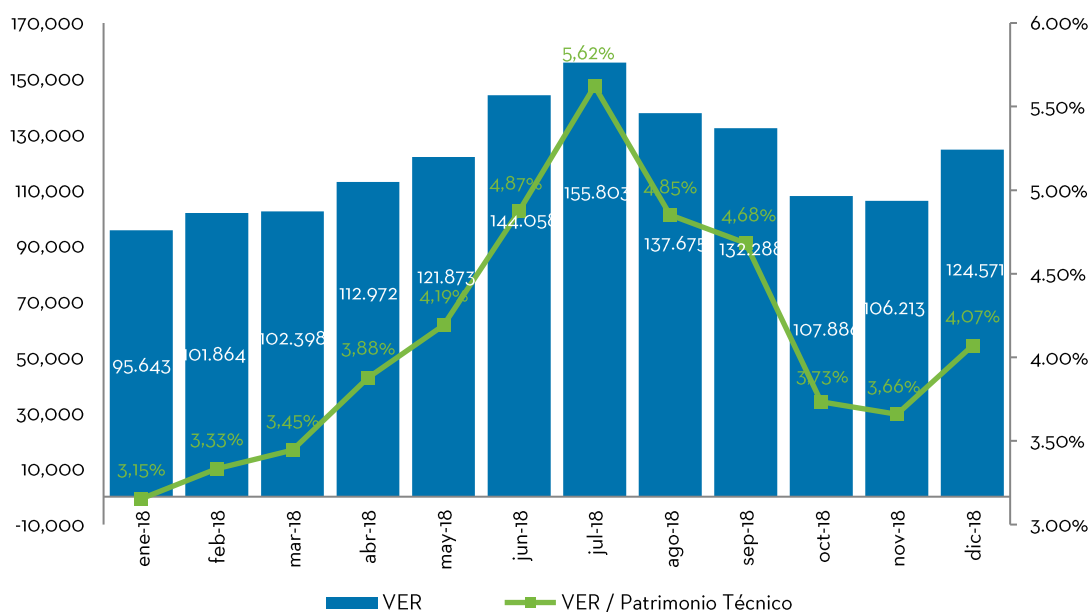
Figures in COP mlns

2018	
VALUE AT RISK PER MODULES	
RISK	AMOUNT
Interest Rate	93.194,5
Exchange Rate	188,62
Shares Price	69,68
Collective Investment Fund	31.118,58
<b>VALUE AT RISK</b>	<b>124.571,45</b>

### VeR Impact on Technical Equity

Capital committed to Investments represented, during 2018, an average of 4.09% of Technical Equity, having registered its highest level in the last five years, comparable with the months of January and February, 2014, when it closed at 6.73%. In December 2018 it was 4.07%.

Graphic 8: VeR Relation/Solvency Ratio



### VaR Evolution

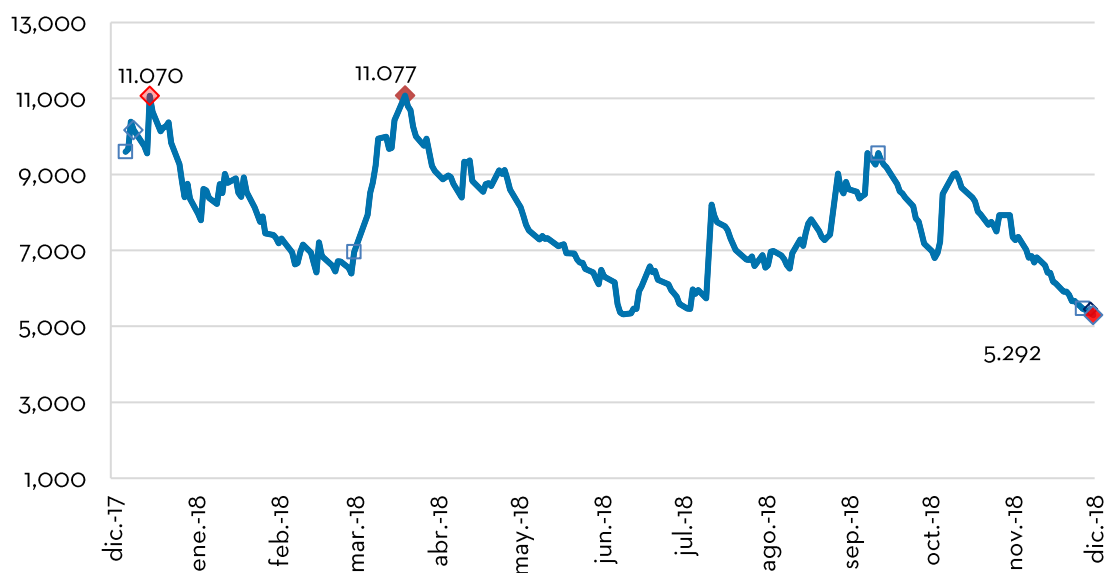
According to results obtained through the internal Value-at-Risk model (VaR), which uses historical series weighting towards the most recent data, a confidence level of 95%, 1.65 standard deviations and a decadence factor of 94%, the VaR performance in 2018 was as follows:



According to the Bank's Risk Appetite Statement, the following are the VaR limits applied during 2018:

Date	VaR Limit
Up to May 2018	5,62%
From June 2018	1,06%

Graphic 9: VaR Evolution 2018



	Investment Portfolio	VaR 10 days	Term
<b>Average</b>	5.060.831	7.754	0,97
<b>Maximal</b>	5.693.415	11.077	1,29
<b>Minimal</b>	4.391.160	5.292	0,75

During the evaluation period, no VaR limits were exceeded, as approved by the Bank's Board of Directors.

### Internal Regulations

In respect to the Manual of the Market Risk Management System, it is duly updated as of December, 2018.



## External Regulations

In regards to the Market Risk Regulation, the Bank respects and complies with all the provisions of Chapters 18 and 21 of the Basic Accounting and Financial Circular Letter of 1995, and other regulations that add or modify it. As of this date, it complies with all matters defined by the control entities on Market Risk.

### 5.3. LIQUIDITY RISK - SARL

During 2018, the Bank complied with SFC Basic Accounting and Financial Circular 100/1995, on liquidity risk management, having no excess on the internal or regulatory limits, and keeping high liquidity levels.

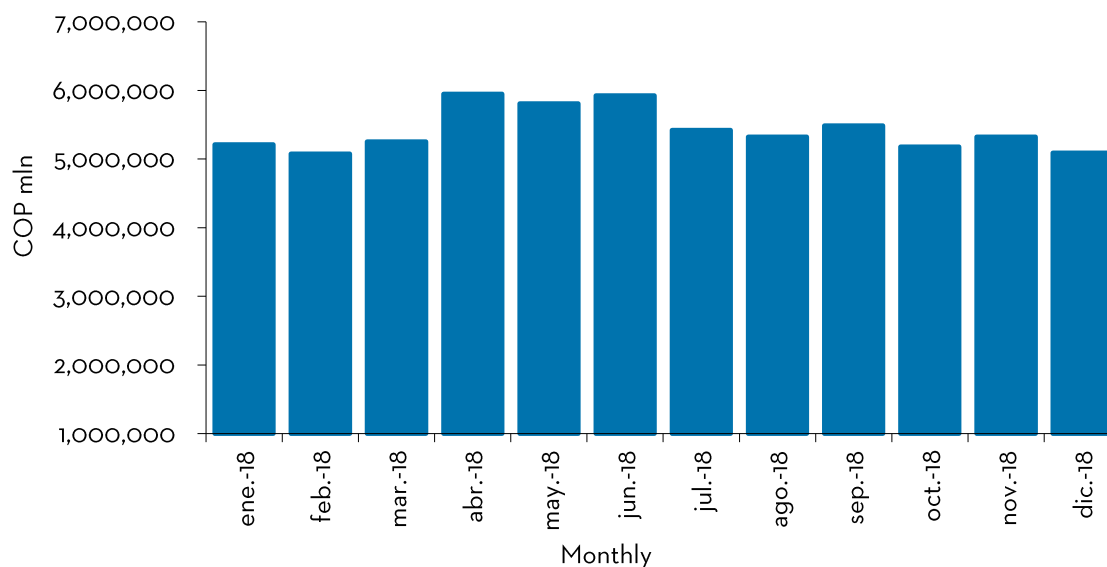
In 2018, the Bank created the Liquidity Risk Direction, separating it from the Financial Risk Direction.

#### Liquidity Risk Indicator

During the period, the Bank maintained a positive and favorable Liquidity Risk Indicator (LRI), as a consequence of appropriate strategies, through a high-liquidity structural portfolio that allows to cover any eventuality.

In 2018, the 7-day LRI performed as follows:

Graphic 10: IRL Evolution 7 days



## Liquidity Risk Internal Measurements

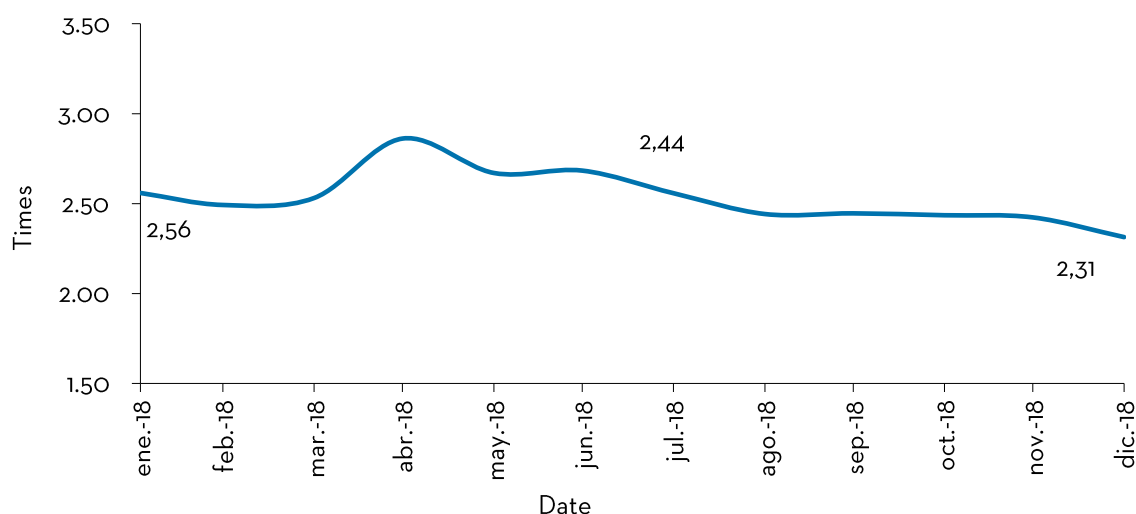
### Liquidity Coverage Indicator (LCI)

This indicator measures the relation between the high-quality liquid assets fund (assets level 1, 2A and 2B) versus the net deposit withdrawals, over a 30 days' horizon in a normal scenario.

To determine the impact, it is assumed that sight deposit balances are reduced in the calculation of 30-day volatility, and no term deposits are renewed over the analyzed horizon, which is the maximum probable normal withdrawal over seven days (MPNW 30). This indicator must remain above 100% (more than 1),  $LCI = (ALM+ACM) / MPNW\ 30$ .

The monthly evolution of this indicator in 2018 remain above the limit, 2.53 (253%) in average, a 2.86 (286%) maximum, and a 2.31 (231%) minimum, closing at 2.31 (231%).

Graphic 11: Liquidity Coverage Indicator (LCI)



### Stressed Liquidity Coverage Indicator (LCI)

This indicator measures the ratio between high-quality liquid assets fund (assets level 1, 2A, 2B), against deposits net withdrawals over a 30 days' horizon, in a stressed scenario.

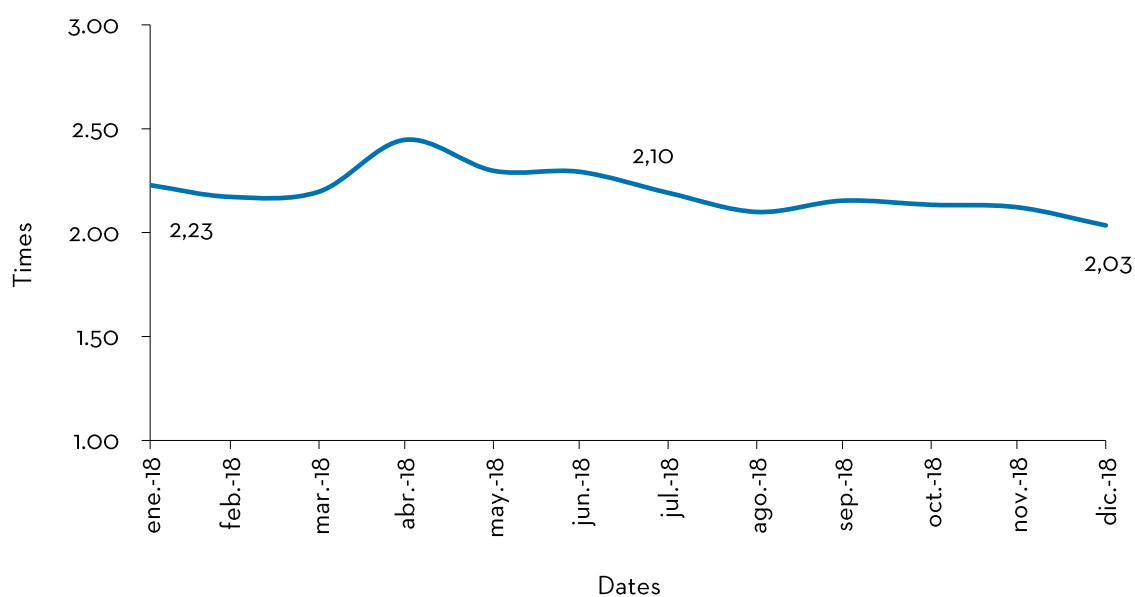
This period is assumed as the necessary time for the Entity or the supervisor to take the action required to maintain an orderly execution of contingency liquidity plans.



In order to determine the impact of the stress situation, it is assumed that sight deposits volatility is under stress, and that no term deposit is renewed over the analysed horizon. This is the maximum probable withdrawal in 30 days (MPWS 30s). This indicator must be kept at above 100%,  $LCI = (ALM / ACM) / MPWS_{30s}$

The monthly evolution of this indicator in 2018 stood above the limit, at 2.20 (220%) in average, a 2.45 (245%) maximum and a 2.03 (203%) minimum, closing at 2.03 (203%).

Graphic 12: Stressed Liquidity Coverage Indicator (LCI)



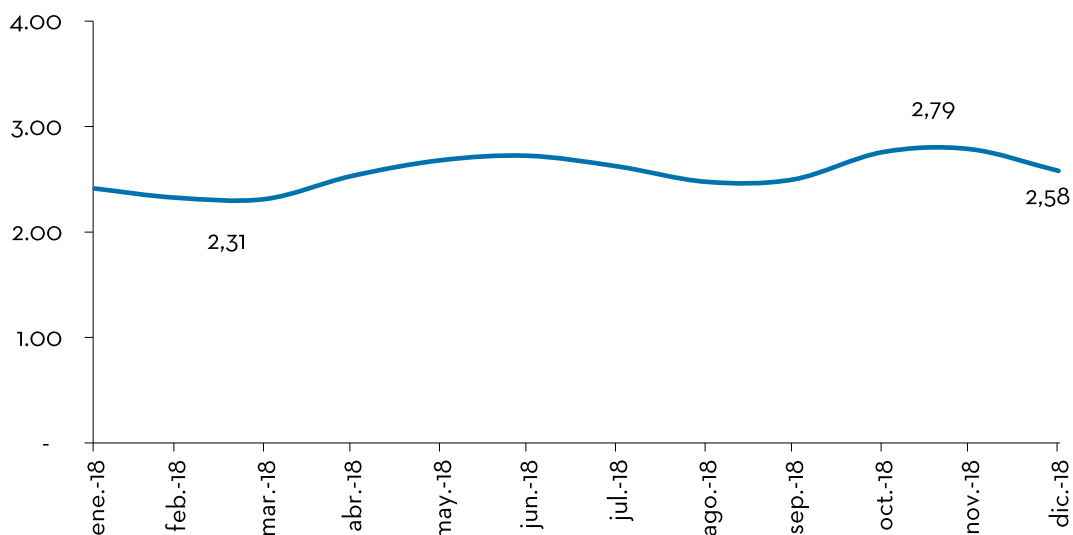
### Excess Deposits / Deposit Indicator (EDD).

This indicator measures the Bank's capacity to maintain liquid assets. It is generated by deposits excess after funding loans with own resources, divided among total demand accounts. It must be kept above the 30-day net liquidity requirement.

During 2018, the EDD remained above the 30-day net liquidity requirement, 2.56 (256%) in average, a 2.79 (279%) maximum, a 2.31 (231%) minimum, and closing at 2.58 (258%).



Graphic 13: Excess Deposits/Deposit Indicator (EDD)



LIQUIDITY RISK INDICATOR	
(Figures in COP mln) Last 12 months	
	LRI 7 days
Maximal	5.946.965
Minimal	5.074.285
Average	5.420.961
Last	5.091.968

### Internal Regulations

The Bank's Liquidity Risk Management Manual has been updated, including the organizational changes and new regulations.

### External Regulations

The Bank complied with provisions of Circular Letter No. 54 of September 2018, regarding the requirement of financial information related to the net stable financing ratio.

## 5.4 OPERATIONAL RISK - SARO

The Bank complies with all legal provisions for Operating Risk Management, as established in SFC's Circular 41/2007, Chapter XXIII, "Rules on Operating Risk Management", in the Basic Accounting and Financial Circular 100/1995.





In order to guarantee proper risk management, the Bank has developed and maintained an Operating Risk Management System - SARO -, which allows it to effectively identify, measure, control and monitor this risk, and keep it constantly under review.

Risk factors associated with operations are covered by the system and defined controls are applicable, and are aligned to treatment plans for risk mitigation, under internal policies and procedures.

Management Operating Risk has a fundamental role the Bank, and constant monitoring is exercised on the range of events which might or might not imply future losses from failures in internal processes, human resources and/or systems, or derived from external circumstances.

### Operating Risk Unit

Throughout 2018, the Operating Risk Unit, which is part of the Banking Risks Department, reporting to the Risk Management Department, continued to manage operating risks in compliance with current regulations, and advancing in the following activities amongst others:

- The Operating Risk Management of the Bank and its subsidiaries was consolidated and strengthened, through the approval of a new organizational structure that has specialized professionals to reinforce activities development comprised by SARO stages.
- The development of GNB SARO was completed, a new technological tool, that allows the management and follow-up of operating risks, event reports, and monitoring the treatment plans set in the areas. The application is available for all the Bank's employees since September, 2018. As an important part of the Bank's apps production, and the risk culture strengthening, in-house face to face training sessions were held for all collaborators through practical exercises that allowed reinforcing the operating risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.
- Together with respective areas, review and update of the risk evaluation matrix was completed for the Bank's processes and/or those with synergies with the Colombian subsidiaries. In this way, the risks to which the Entity is exposed were determined and identified, along with the controls to mitigate them, keeping the exposure levels within tolerable limits. On the other hand, with the support of the Bank's areas, the identification of critical processes/activities was completed by updating the Business Impact Analysis (BIA), verifying they are aligned to the Business Continuity Plan.
- The Bank attended the Statutory Auditor requirements related to SARO with satisfactory results.



- The Financial Superintendence visited the Bank in October, in regards to the application of the SARO management policies. The corresponding report from that Entity is expected. In regards to the participation in the new projects, products, and services; the Operating Risk Management Unit prepared the risk matrix for Mobile Banking, Electronic Billing, Assistance Plan to Retirees - 'Colpensiones', Coverage Service, and Funds Transfer - Centralizing Account.
- Regular face-to-face and virtual training were carried out, to reinforce SARO basic concepts to more easily identify operating risk events, and to incentive the active participation of all the Bank's collaborators in the report of events that occur in their areas. The corresponding assessment was applied, in order to have feedback on the degree of understanding on this topic.
- During this period, the Conglomerate continued strengthening the Business Continuity Plan through functionality tests to the internal contingency infrastructure, as well as the externally contracted infrastructure defined by the Conglomerate's continuity strategy. Such tests included the active participation of all areas involved in these processes, which have certified the connectivity and functionality of services and applications.
- Additionally, functional operative tests have been carried out at the Alternate Computing Center (ACC) facilities and the Contingency Operation Center (COC). Participating users considered that transaction performance times in applications and processes were successful, determining the improvement opportunities in each case.

## Operating Risk Events

In 2018, operating risk events with impact on financial statements totalled COP \$376 mln; 75% of cases due to processes' execution and management, and 82% from external fraud (mainly due to fraudulent transactions, through the use of credit and debit cards), but no specific treatment plans were required.

Type B and C events occurred, mainly associated to the "Processes Performance and Administration" that were timely corrected and do not require treatment plans.

## Operative Risk Profile

The Bank's operating risk appetite is conservative, and has been updated by the Board of Directors by moving from 0.5% to 0.053% of the Entity's computable capital, amount that easily covers the type "A" events that occurred in 2018.

The operating risk events during 2018 show that the Bank's residual risk level is LOW.

## Internal Regulations

The Board of Directors approved the update of the Bank's Operating Risk Management



Regulation, which included the Bank's tolerance level definitions and the new operating risk appetite's limit, as well as the methodology to do the BIA (Business Impact Analysis), the methodology to verify the controls, the Operating Risk Direction's responsibility related to the support and assessment to identify the risks in the new projects, products, channels or services, and the modifications in the procedures for the GNB SARO tool implementation.

### External Regulations

During 4Q18, the Financial Superintendence of Colombia has not issued any regulation that modifies or includes new topics related to the Operational Risk Management System.

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

The Bank is aware that money laundering and the financing of terrorism may be present to some extent in the business environment, representing a serious threat to the financial system stability. The Bank complies strictly with Articles 102 of the Financial System Statute, Part 1, Title IV, Chapter IV of the SFC Basic Legal Circular (Circular 055/2016), and international recommendations from the Financial Action Task Force on Money Laundering (FATF); and all complementary rules or recommendations related to money laundering and the financing of terrorism's risks.

As an Entity subject to SFC control and supervision, the Bank adopted appropriate and adequate control measures, designed to prevent it from being used to give the appearance of legality to assets which might proceed from criminal activity, or to channel resource funds towards terrorist activity.

In conformity with the above, the Board, with the President and the Compliance Officer support, has defined adequate policies and procedures for Money Laundering Management Risk and Terrorist Financing (SARLAFT), which allows those risks to be identified, measured, evaluated, controlled and monitored.

Implemented SARLAFT covers all the Bank's activities in the course of its principal business, and provides for procedures and methodologies to protect it from being used directly - that is, through its shareholders, management and other related parties - as an instrument for the for money-laundering or funds channelling towards terrorist activity, or where there is an intention to conceal assets which are the proceeds of those activities. The Bank has a number of instances which are part of the control and risk management ML/TF's process, including the Compliance Unit, led by the Compliance Officer; the General Audit and the Statutory Auditor, who are responsible for ensuring that the Risk Management System works as intended, according to the compliance evaluation with policies set up by the Bank, and to promote the corrective actions adoption as necessary



to improve them.

The Bank has an annual training program led by the Human Resources National Direction and the Compliance Officer, intended to promote SARLAFT culture, which is addressed to all staff. The most recent training cycle was held in September 2018, reinforcing aspects related to SARLAFT General Governance Policies for the Bank.

Control mechanisms and instruments for money laundering and terrorist financing prevention are found in SARLAFT Procedure Manuals, and Code of Conduct, all approved by the Board.

The Bank, in compliance with the Financial Information and Analysis Unit (UIAF) requirements, prepares the legal reports related to Cash Operations, Foreign Currency Transactions, Exempt Clients, Political Campaigns Report and Suspicious Transactions.

SFC'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 Superintendence and UIAF. As a result, the Bank continues to handle information with total confidentiality and at the highest management level.

In respect to the economic effect derived from the application of the prevention policies on money laundering and terrorism financing, the Bank has not been affected in equity due to facts that involve these activities.

### Risk Profile Evolution

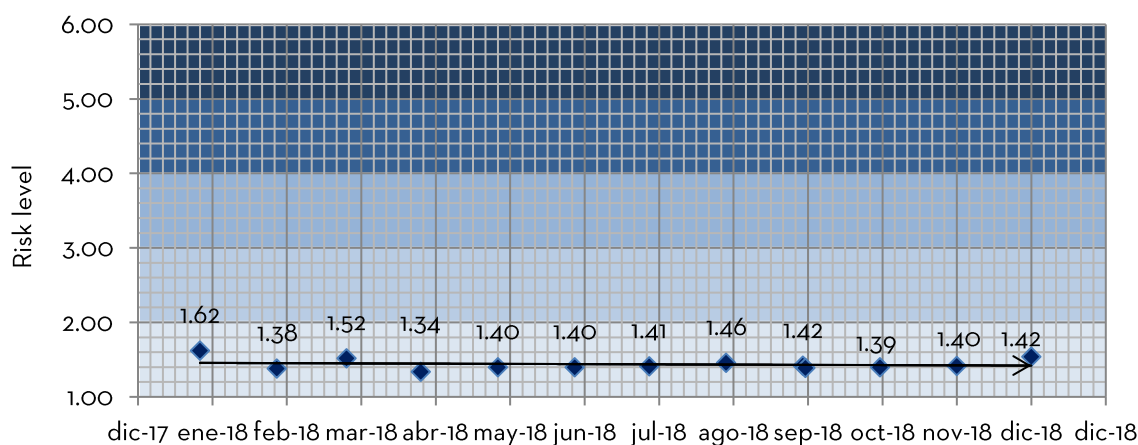
According to the Bank's risk management, including a risk evolution review according to identified risk factors and associated risks and controls based on an evaluation as of December 31, 2018, it was concluded that 6% of residual risks are classified as "medium, 88% as "low", and 6% as "very low".

Regarding risk factors' segmentation, for which criteria established on Circular 55/2016, section 4.2.2.3.2 must be taken into account, whereby individual customer profiles are defined, consolidated average risk level for 2018 was -notably- only 1.44. Since risk levels are scaled between 1 and 5 (being 5 the highest risk), it is clear that the general risk profile of the Bank is low.

The following is a detail of the monthly risk evolution, between January and December 2018:



Graphic 14: Banco GNB Sudameris' Customer Risk Profile



## COMMON REPORTING STANDARD (CRS)

During 2018, the Bank complied with all legal requirements related to the automatic information exchange for tax purposes, in accordance with OECD standard (CRS), and transmitted its related report to the Colombian Tax and Customs Authority DIAN.

## FATCA

During 2018, the Bank complied with all legal requirements related to FATCA (Foreign Account Tax Compliance Act) purposes, and transmitted the related report to DIAN.

## 6. CORPORATE GOVERNANCE

In compliance with the 28/2014 Superintendence's Circular requirements, the Bank presented its Best Corporate Practices report for 2018, informing the January-December 2018 situation (**Attachment 1**).

## 7. SYSTEMS AND ORGANIZATION

During 2018 the Bank engaged in a range of activities designed to secure and optimize its operating processes, and to strengthen and increase efficiency, quality and productivity levels, in particular, the following:



## Processes

### *Internal Processes' Assurance and Improvement*

Among the most important issues in this area during 2018 are:

As part of Implementation Project for the new version of the Payroll System, the associated operating processes were reviewed to guarantee a better customer service, reduce response times and costs in the different stages, as follows:

- Design, elaboration, and implementation of the Risk Governance Policy Manuals, SARLAFT and Audit, respectively, for the Conglomerate.
- Redesign of the organizational structure and functions of each area.
- Definition and implementation of committees, methodologies and tools for the assurance of the processes.
- Implementation of Cybersecurity policies and procedures as foreseen in Circular Letter 007/18 issued by the Financial Superintendence of Colombia.
- Assurance of the execution and control attention scheme of foreclosures and lifted foreclosures issued by judicial or administrative entities, through the definition, documentation and implementation of policies and procedures for their due attention through the different channels available: National Branches Network and Processing Centers.

Mechanisms were implemented in the Entity to guarantee the timeliness and quality in the attention and compliance with the measures determined, and to identify the unseizability condition of customer's funds.

As part of the new version of the Payroll - Based Loan System's implementation Project, the associated operating processes were reviewed to guarantee better customer service, reduce response times and costs in the different stages, as follows:

- Standardization of affiliation formats for the new Payroll-Based Loan process (regulation for the use of financial products and Payroll-Based Loan services, Application for Free Investment Payroll-Based Loan, Authorization of Deduction and Disbursement).
- Optimization and adjustment of operative processes, considering that the new digitalization process of the Payroll-Based Loan documents eliminates the use of paper in the various process stages.
- Update of the regulatory documentation for all areas involved in the Payroll-Based Loan process.

Definition and implementation of the electronic invoice for the Bank and its local subsidiaries, in compliance with the provisions of Decree 2242 of 2015 that requires the generation, reception, acceptance and preservation in electronic means and formats of



invoices, that support the transactions of the same and purchase of goods and/or services.

### ***Processes' Optimization***

The following are among the most important topics in this area: the study, analysis and identification of measures that allow optimizing resources and reducing the costs related to topics, such as: printing formats, office supplies, cleaning supplies, and management of physical files.

### ***Regulatory documentation***

- During 2018, the internal regulations associated with the assurance, improvement and optimization of processes previously indicated, and those affected by external regulations or changes reported in internal processes, were drafted and/or updated.
- The institutional regulatory documentation was updated along with the manual of some of the Bank's areas and its subsidiaries.

## **Technology**

The Bank has worked permanently on the review and supervision levels strengthening of information systems with general controls and applications, to guarantee the information integrity and promptness, considering security, process quality and confidentiality, amongst other factors. Business Continuity Plans were tested in order to evaluate and secure the processes' execution in each area of the Bank.

The Organization continues working on strengthening the automation levels, channels availability, computer security and compliance to the control entities, in order to generate higher effectiveness, quality, security and integrity in the processes, and thus, the development and implementation and/or formalization of the following improvements and assurance were supported, highlighting the following:

- SWIFT's security arrangements services for funds transfer abroad and within the country, updating the software authorization module, security, parameter-setting and the Sanctions Screening system implementation in compliance with SARLAFT.
- Refining the protecting credit cards' process in information exchange process with third parties, in order to guarantee card numbers information confidentiality, and to mitigate fraud-related risks.
- SFC's Circular 026/2017 implementation, on refinancing loans process, in accordance with customer needs and based on the Bank's policies and regulatory guidelines.
- Queries and transactions implementation for Servivalores GNB Sudameris' Rentaval Collective Fund, in customer service channels, such as e-banking, offices, ATMs and sales points (using debit cards), based on the network use agreement.





- Bank's systems adjustments to attend paymaster accounts, following SFC's regulations and Government instructions.
- Improvements in the credit card management system, following mandatory requirements of MasterCard and Visa franchises.
- Improvements in e-banking and PSE systems, to enable new functions and enhance logical security aspects.
- Monitoring servers process' improvements with special tools for business services presentation and its related technological architecture.
- Policies review and improvement of logical security parameters setting for the AS400 platform, supporting the Bank's main Core System.
- Enabling the PSE Payment Button production on the Bank's website, from which own and external customers can make payments of different agreements, as well as payment of obligations with the Bank.
- Implementation of the new Mobile Banking channel, which has services for Personal Banking customers to make inquiries and transactions of their products from their mobile phones.
- Adjustments to the platform to support the online collection of customs national taxes for DIAN, according to the technological and security guidelines issued by the Entity.
- Adjustments to the PSE platform on messaging and re-certification of the site before ACH, for the payment of Bogota's district taxes with credit cards under the framework of the Payment Button for the District Secretary of Public Finance.
- Implementation of the Customer Transaction Monitoring System for SARLAFT, through the acquisition and installation of the Effidetec AML, application system considering the Financial Superintendence's requirements.
- Automation of processes and improvements in the technological tools of the Operating Risk Management - SARO, in order to generate greater efficiency and establish the necessary controls in operating risk events.
- Advances in the migration project of the secure information transfer schemes with the SecureFile tool among clients, entities and transporters, and the upload of files to Virtual Banking, among others.
- Acquisition of the software solution of General Auditing in order to ensure and centralize the information on work execution, and monitoring and control activities in the areas of the Bank and its subsidiaries.
- Strengthening and improvement of office automation equipment, such as workstations and IP telephony for the Audit, Risk and Compliance areas.
- Technological support in the opening of new offices in Cañaveral, Sincelejo, Riohacha, Envigado, Tunja and Ibagué, in the start-up of technological services, work stations, communications links and IP telephony.
- Renewal of the Bank and subsidiaries central storage system, and advances in the migration of information to the new technological infrastructure.
- Advances in the modernization of the technological architecture (software, hardware, telecommunications), and the technology operation services that





support the Payroll-Based Loan product, ensuring quality improvements, opportunity, productivity, efficiency, and security in the processes related to commercial, sale, operations and finance of the Commercial and Sales Force.

- Update of the Bank's Core Technological Platform and its subsidiaries, storage, telecommunications equipment and information backup infrastructure, improving processing levels, capacity, availability and reliability of data.
- Progress in the implementation of the National Payment System (SNP in Spanish) for Colpensiones' Pensioners.
- Advances in the observance of the Circular Letter 054 of the Financial Superintendence of Colombia, corresponding to the requirement of financial information related to the Net Stable Funding Ratio (NSFR).
- Implementation of IFRS 9, a new accounting standard whose main purpose is to enhance the financial stability as a formula to avoid future crisis, requires a more truthful presentation of the credit risk, and calculate the provisions for insolvency following an expected loss model (vs. loss incurred with the previous standard).
- Implementation of the High Availability Content Filtering System for financial users that trade via the Internet.

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

---

In 2018, SAC management administered the various stages of the Financial Consumer Attention System at the level of policies, structure and procedures defined by the Entity, oriented to the offer and assurance of the due attention, protection and respect to the Financial Consumers.

Similarly, the statistical behaviour and indicators received a periodic follow-up in regards to the cases of Complaints or Claims, and follow-up and assurance activities were carried out on the typologies that showed an increase at each quarter.

### Assurances and optimization

- Assurance of the customer retention process for 'Payroll-Based Loan' product at the National Branch Network and Attention Lines, establishing protocols to support the commercial strategy to build client's loyalty.
- Execution of activities to improve the quality of the information reported by the Bank to the Financial Information Centers.
- Implementation of the delivery of text messages to the clients of Payroll-Based Loans, notifying the loans disbursement as from January 2018.
- Expansion of the face-to-face attention channel, through the following opening of new Bank branches and attention points during 2018.



NEW OFFICE IN 2018	BRANCH OFFICE NAME	OPENING DATE
Bucaramanga	Cañaveral office	April 9, 2018
Riohacha	Riohacha office	April 23, 2018
Sincelejo	Sincelejo office	April 30, 2018
Ibagué	Bolivar Square office	May 7, 2018
Envigado	Envigado office	October 5, 2018
Tunja	Tunja office	October 22, 2018
Bogotá	'Gas Natural' points (3)	February 26, 2018

- Implementation of the Bank's mobile banking, on August 14, 2018, expanding virtual channels for clients.
- Adjustments to the 'Telelibranzas' functionalities, "Línea de Atención para Clientes de Convenios de Libranzas", considering topic-based consultation options in order to reduce call losses and improve the attention indicators.
- Definition of protocols for Preferential Attention to GNB Premier Clients, which will be implemented during 2019.
- Adjustments to the Call Center operations, in order to improve attention indicators in respect to the Financial Consumers.

### Training plan

During the first quarter of 2018 the Bank held a Customer Service System (SAC) training plan, addressed to Managers and Coordinators of the payroll loan sales force and main cashiers of the principal collection points, to raise awareness of the due attention to financial consumers.

Likewise, a virtual training on SAC was held through the National Human Resources Management, directed to all the Entity's employees, to reinforce the concepts on the Due Attention to the Financial Consumer in disability.

Furthermore, the National Human Resources Management organized training sessions on SAC aspects, as part of the induction process to the employees that entered the Bank during 2018.

During the last quarter of the year, a training was coordinated with the Financial Consumer Dr. Luis Humberto Ustáriz, directed to the Sales Force Coordinators, on the SAC generalities, highlighting the importance of providing due attention to the Financial Consumer, which includes the full knowledge of the Entity's processes.



## Financial Education Program

During 2018, the National Product Development and Marketing Department carried out the Financial Education Program addressed to financial consumers, using the Bank's website and Mailings as the main communication channels, addressing the following topics:

TOPICS
<ul style="list-style-type: none"> <li>• Knowledge on Financial Information Agencies</li> <li>• Information on how the "Revolving Credit" product works</li> <li>• Information on savings accounts types' differences</li> <li>• Saving tips</li> <li>• Audio-response concept and information on its benefits.</li> <li>• Knowledge on Internet banking.</li> <li>• Routine tips on expenses for youngsters.</li> <li>• Extension concept for Term Deposit Certificates</li> <li>• Concept of consumer-loan, mortgage-loan and micro-loan</li> <li>• Best practice habits on personal finance.</li> <li>• Security recommendations for the use of credit cards in Christmas.</li> <li>• Concept of electronic transfers.</li> </ul>

Likewise, information was sent about the channels disposed by the Entity for taxes payments.

## 9. IMPORTANT POST CLOSING FINANCIAL YEAR EVENTS

---

There are no post-closing 2018 events to be mentioned.

## 10. BANCO GNB SUDAMERIS' EXPECTED DEVELOPMENT

---

In 2019, the Bank expects a dynamic economic environment. Work will continue on guidelines for growth, maintaining market niches and enhancing current business lines, all within the context of an adequate profitability margins' policy, with a minimum exposure to risk, in order to maintain appropriate levels of loans and capital, to secure the Bank's growth in the long-term.



## 11. SPECIAL REPORT OPERATIONS BETWEEN RELATED PARTIES

---

As of December 31, 2018, Banco GNB Sudameris S.A. reported operations with related parties, all within the legal framework that regulates its activity. Associated information can be found in Financial Statements and related Notes.

## 12. OPERATIONS WITH SHAREHOLDERS AND ADMINISTRATORS

---

In compliance with Article 47 of Law 222/1995's terms, amended by Law 603/2000, we state that, as for December, 2018, operations undertaken by Banco GNB Sudameris with its shareholders were in accordance with the Bank's general policy, and all within the law framework that regulates its activity. Also, operations undertaken with managers, in staff loans form, were executed in accordance with the Bank's policies and procedures, and related details are available to the SFC.

We note that regarding to direct or indirect operations with related parties, contract conditions were in line with negotiations standard criteria, with normal risk criteria and market rates, or eventually, with operations conditions undertaken with other customers, following the rules and exceptions provided for in the law, and with the relevant authorization.

## 13. DISCLOSURE AND CONTROL SYSTEMS PERFORMANCE EVALUATION

---

In compliance with Article 47 of Law 964/2005 terms', we inform that Banco GNB Sudameris has an adequate Disclosure and Control, which makes it possible to engage in permanent follow-up of results, as well as the various risks to which the Bank is exposed. This implies that established plans and budgets' fulfilment is efficiently controlled, and opportune decisions can be taken in case of any eventuality.

There is permanent verification of controls operability and consolidation processes, construction and transmission's reviewing of the Bank's financial information reports, in accordance with the structure and timing established internally, or according to external supervision and control entities' requirements. Management reports are produced related to own position, balances, results, and treasury operations results, in order to keep Management informed and allow proper analysis and decision-making.



## 14. INTERNAL CONTROL SYSTEMS EVALUATION

---

Regarding the Internal Control System evaluation, an independent section is presented in which the performance assessment of the of the ICS is reported for each of the elements indicated in Circular 029/2014, including a system effectiveness assessment for the Bank's subsidiaries (affiliates).

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

---

All information indicated in the Commercial Code's Section 446-3 was presented to the Ordinary General Assembly of Shareholders, and will be available at the Bank General Secretary's office.

## 16. INTELLECTUAL PROPERTY AND COPYRIGHT LEGAL COMPLIANCE

---

Banco GNB Sudameris has acquired the software it uses legally, and holds related licenses in accordance with Law 603/2000 on Intellectual Property and Copyright. It has also designed, regulated and documented control mechanisms for acquisition, development and maintenance of that software. Additionally, there is documentation that shows that the software installed and in use has the corresponding licenses.

In compliance with the SFC's Circular Letter No. 16/2011, the document issued by the Bank's General Auditor, attached to this document as (Annex 3), records that the software used by the Bank has been legally acquired and that it has the corresponding licenses, in accordance with provisions of Law 603 of 2000 on Intellectual Property and Copyright.

## 17. FREE INVOICES CIRCULATION LEGAL COMPLIANCE

---

In compliance with the law and in particular, the terms of Law 1676 August 20, 2013, supplementing Article 7 of Law 1231/2008, the Bank has not retained any invoices or performed any act which would impede the free circulation of invoices issued by its suppliers or vendors.



## 18. ASSERTIONS VERIFICATION

---

Banco GNB Sudameris' Board of Directors and President, in the terms established in Section 2.3.7 of Chapter IX of SFC Circular 100/1995, place it expressly on record that the Management has complied with the terms of Article 57 of Decree 2649/1993 on the verification of affirmations.

## 19. LEGAL SITUATION

---

The Bank complies with current provisions of law regulating its activities, and its Articles. During 2018, it had no knowledge of cases or actions of an administrative or judicial nature of material importance that would affect the Bank's activities development during the period reported.

## 20. FINAL CONSIDERATIONS

---

Regarding legal matters, there were no situations which would affect the Bank's normal operations course, and no circumstances arose which would be a real or objectively determinable threat to the continuity of the business.

## 21. RECOGNITION

---

The Bank's Board and President are grateful for the staff's highly committed support in achieving 2018 objectives.

THE BOARD

CAMILO VERASTEGUI CARVAJAL  
President



## ANNEX 2 OF THE MANAGEMENT REPORT

### EVALUATION OF THE INTERNAL CONTROL SYSTEM - ICS -

#### BANCO GNB SUDAMERIS AND ITS SUBSIDIARIES YEAR 2018

During 2018, the Bank and its subsidiaries carried out activities aimed at meeting the objectives of efficiency and effectiveness, adequate management of risks, reliability and timeliness of information, risk events prevention and mitigation and compliance with external regulations. They have also managed to achieve the objectives of the Internal Control System allowing its consolidation, as concluded by the independent evaluations made to the ICS, in which no significant deficiencies have been detected, in this sense, the main activities developed are listed below:

#### ➤ ENVIRONMENT CONTROL MANAGEMENT

During 2018, Banco GNB Sudameris carried out various activities aimed at the assurance and optimization of its operating processes, in order to strengthen and/or increase the level of efficiency, quality and productivity of the entity, among which the following are highlighted:

As part of the Project for Strengthening Risk Systems, Audit and SARLAFT, the structures and processes of the areas that administer them were reviewed and adjusted: National Risk Management, Compliance Unit and Internal Audit; which considered:

- ✓ Design, elaboration and implementation of the Conglomerate's manuals for the Risk Governance Policy, SARLAFT and Audit.
- ✓ Redesign of the organizational structure and functions of each area.
- ✓ Definition and implementation of Committees, methodologies and tools for the assurance of processes.
- ✓ Cybersecurity policies and procedures implementation, as foreseen in External Circular 007 of 2018 of the Financial Superintendence of Colombia.

Assurance of the attention scheme, execution and control of seizures and release of seizures proffered by judicial or administrative entities, through the definition, documentation and implementation of policies and procedures for their due attention through the different available channels: National Branches Network and Process Centers.

Likewise, mechanisms have been implemented within the Entity to guarantee opportunity and quality in the attention and compliance with the decreed measures and for the identification of Clients' resources condition of immunity from seizure.

As part of the project to implement the new version of the Payroll System, the associated operating processes were reviewed to guarantee a better customer service, reduce response times and costs in the different stages, as follows:

- ✓ Unification of linking forms for the new payroll process (Products and Financial Services of Payroll-loan Usage's Regulation, Request for Free Investment Payroll, Authorization of Discount and Disbursement).
- ✓ Optimization and adjustment in the operative procedures considering that the new payroll digitization process of documents, eliminates the use of paper in the different stages of the process.
- ✓ Normative documentation update for all the areas involved in the payroll process.

Electronic invoicing was defined and implemented for the Bank and the National Subsidiaries, in compliance with the provisions of Decree 2242/15, through which it is obliged to generate, receive, accept and keep in electronic media and forms, invoices that support sale and purchase of goods and/or services' transactions.

In Process Optimization, stand out the study, analysis and identification of measures that optimize resources and reduce associated costs in areas such as: printing forms, office supplies, cleaning supplies and physical file management.

The internal regulations associated with the assurance, improvement and optimization processes indicated above, and those affected by external regulations or changes reported in internal processes, were drafted and/or updated.

The update of the institutional normative documentation and Manuals of some of the Bank and Subsidiaries areas was performed.

The entire organization was kept informed about progress in the achievement of the objectives, general information and strategic direction, which was disclosed in a general way through communications issued by the Presidency and through internal meetings.

During the year, the organization received intermediate level training, related to the following topics: Internal Control System ICS, Anti Money Laundering and Counter Terrorism Financing Risk Management System SARLAFT, Operational Risk Management System SARO, and the Financial Consumer Attention System SAC, and on Information Security.



## ➤ RISK MANAGEMENT

Through the permanent management of risk systems, the organization constantly identifies the threats it faces, assesses the risks in the processes, measures the probability of its occurrence, establishes and evaluates the controls and their effectiveness in reducing these risks and in general, it manages them in an integral way to keep them at tolerable levels. Likewise, it measures, assesses and reports the loss events that may occur due to the risks materialization, establishing improvement and/or assurance plans as part of the monitoring process and evaluating such risks. Regarding risk management, during 2018, Banco GNB Sudameris developed, among others, the following activities:

- The Bank's Board of Directors, as parent company, approved the Manual of General Risk Governance Policies of the Conglomerate, which is part of the Entity's Internal Control System.
- The Bank's Board of Directors approved the risk appetite declaration in which the limits for the market, liquidity, credit and operating managing systems were redefined, and a conservative risk appetite was established. In addition, the Bank's Risk Committee Regulations were adjusted in line with the General Policies of Risk Governance Manual of the Conglomerate.
- Updating of Procedure Regulations of the Market, Liquidity, Credit and Operating Risk Managements were carried out.
- In June, 2018, a surpass was presented at commercial loan risk indicator limit, which was duly reported to the Board of Directors of the following period (July 2018). The other limits established for each of the risk management systems, were not surpassed.
- Compliance with the provisions of Circular Letter No. 54 of September 2018 issued by the Financial Superintendence of Colombia, regarding the requirement of financial information related to the net stable financing ratio (CFEN).
- The development of the GNB SARO technological tool was finalized, which allows the management and monitoring of operational risks, event reporting and treatment plans established within the Bank's areas and national and international subsidiaries.
- In conjunction with the respective areas, the revision and updating of risk processes assessment matrices and the BIA (Business Impact Analysis) of the Bank was completed. In this way, the risks to which the Entity is exposed and the controls that allow mitigating them were determined and identified, maintaining the exposure levels within tolerable limits, as well as the Entity's critical processes.
- The annual training of the Operational Risk Management System SARO, Information Security and Cybersecurity, and Market Risk were carried out.
- Within the Business Continuity Plan, tests were performed on the infrastructure functionality in internal contingency, as well as that contracted externally and defined in the continuity strategy of the Entity. These tests included the active participation of all the

areas involved in these processes, who certified the connectivity and functionality of services and applications.

Additionally, operational functional tests were carried out, developed in the Alternate Computing Center (ACC) and the Contingency Operation Center (COC) facilities. The participating users considered that the transactions execution times, applications and processes were successful, determining the opportunities for improvement for each of the cases.

#### ➤ MANAGEMENT CONTROL ACTIVITIES

The Bank and its subsidiaries continued to work on strengthening review and supervision levels, information systems with general and application controls to guarantee the quality and timeliness of the information, physical facilities of the Entities with controls and access limitations to some areas, considering the processes security, the employees, the assets, the confidentiality and protection of the information and the assets of third parties.

Given the above, the following activities and assurances were carried out among others:

- ✓ Continuous search for new suppliers that meet the parameters required by the organization for the fulfillment of the proposed goals.
- ✓ Support in the implementation and generation of documentation of the new linkage and operation scheme of the Real Estate Private Capital Fund that Servivalores GNB Sudameris manages for its Clients through the arranged channels (Business Promoters, the Bank's National Network of Branches, Virtual Banking, ATMs, Expanded Network).
- ✓ Verify and eliminate unnecessary printing supported by electronic preservation of the required supports.
- ✓ Review and unify reports' generation.

#### ➤ INFORMATION AND COMMUNICATION MANAGEMENT

- The Bank and its Subsidiaries use the communication channels established within them, to disseminate significant information related to policies, regulations and procedures necessary for their functioning and operation, and also institutional information of transcendence for compliance with the strategic objectives.
- Towards the outside of the Entities, the dissemination of information of general interest to Clients, users and third parties was carried out through the websites. The information of products and services to Clients was communicated through the electronic channels and telephone service lines, after complying with the controls established for their access.
- The annual information classification process was finalized, and the review and update process began for the 2018-2019 period.

## ➤ MONITORING MANAGEMENT

- Adjustments and/or updates of the organizational structure were made, of roles assigned to each area and of the position's functions, corresponding to the Bank and its Subsidiaries, considering the continuous in real time supervision by the area managers, to guarantee the authenticity, consistency, quality and timeliness of the processes and operations under its responsibility.
- The risk management systems, through their different stages, identify, measure, control and monitor the different situations of events that may or may not involve economic losses resulting from failures in the execution of internal processes, human resources, technological system and infrastructure, that support the operation of the Bank.
- The frequency of monitoring is determined by the consideration of the critical risks involved in the processes, the periodicity and the nature of changes in operational management.
- The Internal Audit carried out periodic evaluations of the different areas and processes of the Bank and its Subsidiaries, according to the plan of activities foreseen for the 2018 period. The deficiencies of internal control or opportunities for improvement that were eventually detected were considered for correction and/or implementation in the different action plans.

## ➤ INDEPENDENT EVALUATIONS MANAGEMENT

- The Statutory Auditor and the Internal Audit carried out independently, the periodic evaluation of the effectiveness of the Internal Control System of the Bank and its Subsidiaries.

## ➤ MANAGEMENT - SPECIAL AREAS - ACCOUNTING

- As of December 31, 2018, the Bank prepared its financial statements in accordance with the Colombian Financial Reporting Standards (full IFRS with the exception of the Loan-Portfolio, Goods Received in Payment and Investments, which will continue to be managed under Basic Accounting Circular 100 of 1995), comparable with December, 2017.
- As of January 1, 2018, Banco GNB Sudameris adopted the financial reporting standard IFRS 15 - income from contracts by clients and determines the accounting treatment for the recognition and measurement of contracts with clients. Due to the fact that most of the Bank's income is obtained through the management of the loan and investment portfolios, no significant impact was generated for the Bank, since the previous concepts have a different accounting treatment.

- In addition, the Bank has carried out an evaluation of the impact of the application of the financial reporting standard IFRS 16 - Leases, on the financial statements, which is effective as of January 1, 2019.
- The most significant impact will be the recognition and measurement of assets and liabilities of operating lease contracts, properties used in the operation of branches and administrative offices. From the moment of application, the lease expense will change to depreciation expense and to financial expense of the asset and liability, respectively. The Bank does not expect an effect on accumulated earnings from the application of this new standard.

#### ➤ SPECIAL AREAS MANAGEMENT – TECHNOLOGY

During 2018, the Vice Presidency of Technology's standards, policies and procedures were reviewed and updated with the objective of providing optimal solutions related to information systems, infrastructure, informatics security and technological services that allow to provide effective, efficient, integrated and protected information, ensuring its availability when required, guaranteeing the support of the Bank and its subsidiaries' business objectives.

Additionally, the following are the main changes in information and communication technologies made in 2018, whose main objective was the fulfillment of the business objectives and requirements of the different areas, which required among other activities, the mitigation of risks, errors, fraud or other situations that could affect the operation of the Bank and its subsidiaries:

- Refinement of the credit card masking process in the processes of exchange of information with third parties in order to guarantee the confidentiality of card number information and mitigate risks associated with fraud.
- Adjustments in the Bank's systems to attend the master payment accounts in accordance with the regulations established by the Financial Superintendence of Colombia and the National Government.
- Adaptations in the platform to support online national taxes collection for DIAN, according to the technological and safety guidelines issued by the entity.
- Implementation of the SARLAFT Client Transaction Monitoring System, developments in the Effidetec AML application, taking into account the requirements issued by the Financial Superintendence of Colombia.
- Automation of processes and improvements in the technological tools of the Operational Risk Management – SARO, in order to generate greater efficiency and establish the necessary controls in the operational risk events.
- Advances in the migration project of the secure information transfer schemes with the SecureFile tool among clients, entities and transporters, upload files in the Virtual Banking, among others.

- Acquisition of the General Auditing software solution, in order to ensure and centralize the information on work execution, monitoring and control activities in the areas of the Bank and its subsidiaries.
- Strengthening and improvement of office automation equipment, such as workstations and IP telephony for Audit, Risk and Compliance areas.
- Securing Swift services for the transfer of funds within and outside country, by updating the software at the level of the authorizations, security, parameterization and implementation module of the Sanctions Screening system for compliance with SARLAFT.
- Swift Assurance Process to ensure the Swift Alliance Access (SAA) platform's integrity, reliability and availability.
- Implementation of controls over the Swift services in operations' authorizations and Corporates modules, used to carry out transfers' authorizations, client extracts' transmissions and payment files receipt through the Swift secure network.
- Improvements in the Virtual Banking and PSE system to enable new functionalities and strengthen logical security aspects.
- Improvement of the server monitoring process with specialized tools, for the presentation of business services and their technological architecture involved.
- Policy review and improvement of the logical security parameterization of the AS / 400 platform that supports the Bank's Core.
- Implementation of IFRS or NIIF 9 new accounting regulations, with the main objective of enhancing financial stability as a formula to avoid future crises, requires a more faithful reflection of credit risk and calculation of provisions for insolvencies following an expected loss model (vs. loss incurred with the previous norm).
- Implementation of High Availability Content Filtering Service (ASN for Financial Users that trade through the Internet).
- UP Grade OS and Domain Controller Version that manages the business directory and user access to the network of the Bank and its Subsidiaries.
- Advance in the assurance Servers and Retirement Local Users Administrators, improvements in the implementation of administration templates are applied.
- Advances in the User's recertification, right of use and profiles of users of the different areas of the Bank and its Subsidiaries in business applications.
- Implementation of Bank entities and their subsidiaries in the new secure information transfer system - Secure File.
- Implementation AD RMS (IRM) Information Security for the Office 365 documents permits and email's management.
- Ethical Hacking 2018's execution. Security tests in critical servers, Virtual Banking and Mobile Banking channels.

For the subsidiaries, activities were carried out that covered the following fronts:

#### Servibanca S.A.

- Advances in the Servibanca ATMs' software update.
- ATM Checker security. Advances in the implementation of the security suite in ATMs with scope in Boot Protection, White Lists, Device Control, Disk Encryption, User Administration.
- Digital locks for ATMS. Advance in the implementation of servers in a development environment to carry out laboratory tests.
- Implementation of the Proview System - Replacement Servibanca's Gasper Monitoring System.
- Change number of BIN entities - Compensation and Routing.
- ATM Encryption Keys with RKL. Advances in the implementation of the generation, loading and administration of encryption keys for ATMs.

#### Servitrust GNB Sudameris S.A.

- Update of the Midas system version - Servitrust Investment Management GNB Sudameris.

#### Servivalores GNB Sudameris S.A. - Comisionista de Bolsa

- Migration of the Servivalores GNB Sudameris' Private Capital Real Estate Fund to the new Makers Solutions system for Servivalores GNB Sudameris subsidiary.

#### Corporación Financiera GNB Sudameris S.A.

- Corporación Financiera GNB Sudameris' information systems activation, taking into account the internal control policies.

During the period ended December 31, 2018, no material deficiencies were detected in the entity, and the effectiveness of the internal control could be concluded, without having found facts that show risk situations that affect the financial statements of the entity.

**CAMILO VERASTEGUI CARVAJAL**

President

Banco GNB Sudameris S.A.

Febrero de 2019