

**BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIAS**  
**Notes to the Consolidated Financial Statements**  
**(For the periods ended on December 31, 2018 and 2017)**

**NOTE 1. - REPORTING ENTITY**

Banco GNB Sudameris (the 'Bank'), as the parent or controlling entity of a financial conglomerate conformed by the local affiliates: Servitrust GNB Sudameris, Servivalores GNB Sudameris, Servibanca S.A., Servitotal GNB Sudameris, Corporación Financiera GNB Sudameris S.A., and Fondo de Capital Privado Inmobiliario Servivalores GNB Sudameris (structured controlled entity), in addition to the international affiliates Banco GNB Perú and Banco GNB Paraguay, report the consolidated financial statements detailed as follows:

**Banco GNB Sudameris S.A.** is a private stock corporation incorporated by Public Deed 8067 of December 10, 1976 of Notary Fifth of Bogota D.C., with a term set out by the Articles of Incorporation until January 1, 2076, which may be dissolved or extended prior to such term. The Bank's corporate purpose is to enter into contracts and carry out all the operations, acts and contracts related to banking entities, subject to the legal provisions in force on such matter in Colombia.

Resolution No. 3140 of September 24, 1993 of the Superintendency of Finance of Colombia (the 'Superintendency') granted the ultimate renewal of the operation permit.

The last reform to the articles was legalized by means of Public Deed 3506 of Notary 13 of Bogota, D.C., of July 25, 2018, that modified the articles to raise the Bank's authorized capital to One Hundred Thousand Million Pesos, and articles 5, 19 and 46 for the annual closings, and the articles of association were compiled.

The Bank's Parent is the partnership Gilex Holding S.à.r.l with registered domicile in Luxembourg.

At December 31, 2018, the Bank had 1,618 employees directly hired, 52 temporary employees and 3 interns.

The consolidated financial statements and the accompanying notes were authorized for their issue by the Board of Directors and the Legal Representative on February 26, 2019, to be presented to the General Shareholders' Meeting for their approval, which may approve or modify them.

**Servivalores GNB Sudameris S.A. Comisionista de Bolsa** is a commercial partnership incorporated as per Public Deed No. 0767 of March 14, 2003 of Notary 11 of Bogota, which corporate purpose is the execution of the brokerage contract for the purchase and sale of securities listed in the Colombia Stock Exchange (BVC as per its acronym in Spanish), according to Resolution 133 of March 11, 2013 of the Superintendency of Finance of Colombia. In addition, it may do proprietary trading, manage contracting parties' securities, act as a broker in the placement of securities, fund the acquisition of securities, among others.

**Servitrust GNB Sudameris S.A.** is a private financial services partnership incorporated by means of Public Deed 3873 of July 10, 1992 of Notary 18 of the Circle of Bogota; its corporate purpose is the celebration and performance of all acts, contracts, services and operations related to financial services companies of the trust companies type allowed to such financial entities, subject to the faculties, requirements, restrictions and limitations set out by the laws of the Republic of Colombia.

**Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A. – Servibanca S.A.** – is a Colombian stock corporation which corporate purpose is the automation and modernization of the banking and financial services and of operations of supply, provision, payment and offsetting of cash.

**Servitotal GNB Sudameris S.A.** is a commercial partnership incorporated by means of Public Deed 7177 of December 26, 2011 of Notary 13 of Bogotá, which corporate purpose is the performance of activities related to technical and administrative services, like informatics services, such as the definition, analysis, design, construction, configuration, certification, testing, implantation, support and maintenance of software and hardware for information and communications technologies.

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**Corporación Financiera GNB Sudameris S.A.** is commercial partnership incorporated by means of Public Deed 6428 of September 26, 2017 of Notary 13 of Bogota D.C. which corporate purpose is the celebration and performance of all operations, acts and contracts related to financial entities, subject to the legal provisions that regulate such matters in Colombia. At December 31, 2018, the Corporation has the following two (2) affiliates: Hoteles Charleston Santa Teresa S.A.S. (domiciled in Colombia) and Charleston Hotels Group Inc. (domiciled in Panama).

- **Hoteles Charleston Santa Teresa S. A. S.**, was incorporated according to the Colombian laws on October 23, 2015, through a private document of the Shareholders' Meeting. The entity's corporate purpose is the performance of activities related to the hotel business in Colombia; therefore, the Company is authorized to operate hotels, acquire shares in companies with hotel operations, lease any kind of assets related to the hotel activity, and in general any other activity that may correspond to the hotel activity in Colombia; the main domicile is located in Bogota on Carrera 7 No 71-52 Torre B Office 1902. The entity owns 100% of the following affiliate:

- **Hoteles Charleston S.A.S.**, was incorporated according to the Colombian laws of July 1, 1997, by means of public deed No. 1099 of Notary 44 of Bogota. The entity's corporate purpose is the management and operation of the commercial store like Hotel Charleston Cartagena under the terms of the administration regulation and operation signed by each one of the stores; its main domicile is located in the city of Bogota on Cra. 7 # 71-52 Torre B Office 1902, and the Term of the company will expire on February 10, 2050.

- **Charleston Hotels Group Inc (Panama)**, is a company incorporated in conformity with the laws of the Republic of Panama on September 18, 2017, duly recorded in the public registrar, mercantile section in file 828957. This entity owns a branch in Colombia that was established in accordance with the laws of Colombia on July 16, 1997 by means of Public Deed No. 3499 of Notary Forty-Two of Bogota. The entity's corporate purpose is the performance of activities related to the hotel business in Colombia; therefore, the Branch is authorized to operate hotels, acquire shares in companies with hotel operations, sale or lease any kind of assets related to the hotel activity, and in general any other activity that may correspond to the hotel activity in Colombia. Its main domicile is located in the city of Bogota, Colombia, on Cra. 71 – 52 Torre B Office 1902. The Branch owns 100% of the following affiliate:

- **Hoteles Charleston Bogotá S.A.S.**, was incorporated in accordance with the laws of Colombia on December 10, 2014 by means of a private document recorded at the Chamber of Commerce of Bogota as per registration No. 02526236. The Entity's corporate purpose is the management and operation of the commercial stores Hotel Four Seasons Casa Medina and Hotel Four Seasons Bogota, in conformity with the provisions of the joint accounts contract for the joint operation of the hotels with Charleston Hotels Group Inc Sucursal Colombia.

**Fondo de Capital Privado Inmobiliario Servivalores GNB Sudameris**, managed by Servivalores GNB Sudameris S.A. Comisionista de Bolsa, started its operations on May 9, 2018. This type of entity requires no authorization by the Superintendency of Finance of Colombia for its incorporation. The fund's purpose is to invest its funds in Real Estate Assets, intending to build a diversified portfolio that gives access to the real estate market in Colombia, allowing them higher profitability compared to similar operations. The contributions are supported by the real estate assets that may be part of the portfolio generating the profitability intended by the management and/or administration activities and the price variation of these real estate assets.

Affiliates in Colombia have 154 employees directly contracted, 8 temporary employees and 1 intern.

### **Subsidiaries out of Colombia**

Through communication with filing number 2013002611-080 dated July 8, 2013, the Superintendency of Finance of Colombia granted the authorization to Banco GNB Sudameris S.A., the Parent, to acquire the shares of HSBC Bank Peru S.A. and HSBC Bank Paraguay S.A. Similarly, the Superintendency of Banking, Insurance and Private Administrators of Pensions (hereinafter SBS) of the Republic of Peru by means of Resolution S.B.S No. 5378-2013 of September 6, 2013, and the Central Bank of Paraguay, by means of Resolution No. 19 of minutes No. 74

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dated October 24, 2013 and explained through Note SB.SG. No. 01484/2013 of November 7, 2013, authorized the acquisition of the shares of HSBC Bank Peru S.A. and HSBC Bank Paraguay S.A., respectively.

Therefore, on October 4 and November 29, 2013, Banco Sudameris S.A. acquired from HSBC Bank Peru S.A. (nowadays Banco GNB Peru S.A.) and HSBC Bank Paraguay S.A. (nowadays Banco GNB Paraguay S.A.) a total of 670,551,999 and 3,016 shares and a (1) provisional certificate, equivalent to 99.99% and 99.96% of the total number of outstanding shares, respectively.

**Banco GNB Perú S.A.**

It is a financial institution incorporated by means of Public Deed 22 of November 30, 2006 authorized by Public Notary Zumilda A. Narvaja, registered with No. 11877589 of the Legal Pensions account in Lima's Public Register. The bank was authorized to operate as a multiple service bank through Resolution SBS No. 537-2006, issued on April 28, 2006.

The bank's legal domicile is Calle Begonias No. 415, floor 22, Urbanización Jardín, Distrito San Isidro, province and department of Lima. To perform its activities, at December 2017, the Bank operated through a Main Office and 12 agencies located in Lima and its provinces. Similarly, at December 31, 2018, the bank has 505 employees directly hired and 3 temporary employees.

**Banco GNB Paraguay S. A.**

Banco GNB Paraguay S.A is a Paraguayan corporation that started operating in 1920 as the first international bank branch of the Bank of London and Rio de la Plata. In 1985, the bank changed its name to Lloyds TSB Bank Sucursal Paraguay, and later, in year 2000, to Lloyds Bank Sucursal Paraguay. In May 2007, the bank was acquired by HSBC group, and changed its name to HSBC Bank Paraguay S.A.

By means of Resolution No. 19, dated October 24, 2013, Paraguay's Central Bank authorized the change of name from HSBC Bank Paraguay S.A. to Banco GNB Paraguay S.A. Such change was agreed in Minutes No. 12 of the Extraordinary Shareholders' Meeting, dated November 29, 2013.

To perform its activities, on December 31, 2018, the Bank operated through a (1) Main Office and 6 agencies located in Asuncion and its provinces and had 195 direct employees and 79 outsourced employees.

In regards to the entities abroad, there are no restrictions for dividends remittance to Colombia.

As of December 31, 2018 and 2017, the assets, liabilities, equity and income of the Bank and its Subsidiaries, and the Bank's interests in them, were as follows:

<b>December 2018</b>	<b>Share</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
Banco GNB Sudameris		25,579,623	23,661,446	1,918,177
Servitrust S.A.	94.99%	56,445	3,482	52,963
Servibanca S.A.	88.49%	146,385	27,333	119,052
Servivalores S.A.	94.99%	50,862	13,045	37,817
Servitotal	94.80%	537	-	537
Corporación Financiera	94.99%	701,726	92,058	609,668
Real Estate Fund	99.86%	374,144	1,444	372,700
Banco GNB Paraguay	99.96%	3,463,783	2,967,177	496,606
Banco GNB Perú	99.99%	5,417,250	4,728,413	688,837
Write-offs		(2,572,232)	(347,487)	(2,224,745)
Consolidate		33,218,523	31,146,911	2,071,612

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<b>December 2017</b>	<b>Share</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
Banco GNB Sudameris		22,789,171	21,027,863	1,761,307
Servitrust S.A.	94.99%	63,136	5,171	57,966
Servibanca S.A.	88.49%	159,091	43,606	115,485
Servivalores S.A.	94.99%	47,298	11,991	35,306
Servitotal	94.80%	537	2	535
Corporación Financiera	94.99%	34,807	68	34,739
Banco GNB Paraguay	99.96%	3,190,967	2,806,353	384,614
Banco GNB Peru	99.99%	5,125,272	4,467,883	657,389
Write-offs		(1,372,340)	(182,175)	(1,190,165)
Consolidate		30,037,938	28,180,762	1,857,176

**NOTE 2. - PREPARATION BASIS OF THE FINANCIAL STATEMENTS**

**a. Statement of Compliance**

The accompanying consolidated financial statements of the Bank and its Subsidiaries have been prepared in accordance with the Accounting and Financial Information Standards Accepted in Colombia (AFIS), which are based on the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that became effective and were officially translated to Spanish at December 31, 2016, except for the application of IFRS 9 of July 24, 2014 for the classification and measure of financial instruments and IAS 39 for the purposes of impairment; the Superintendency of Finance requires the direct record in Other Comprehensive Income (OCI) of the difference between the impairment losses of loans calculated through the application of IAS 39 (for periods ended on December 31, 2017) and IFRS 9 (for periods as from January 1, 2018), and the impairment provision required for the separate financial instrument based on the Superintendency's specific rules.

Colombian law required the Bank and its subsidiaries to prepare separate and consolidated financial statements. The separate financial statements are used as the basis for the shareholders to decide on dividend distribution and other appropriations, while consolidated financial statements are presented for information purposes only.

**b. Presentation of Financial Statements**

The following observations apply to the presentation of the attached consolidated financial statements:

- The Statement of Financial Position presents the assets and liabilities, based on their liquidity, since it provides reliable and relevant information, as required by the International Accounting Standard (IAS 1 "Presentation of Financial Statements").
- The Income Statement and Other Comprehensive Income are presented separately in two different statements as permitted by IAS 1 "Presentation of Financial Statements". Furthermore, the Income Statement is presented according to the nature, as it provides reliable and relevant information.
- The Statement of Cash Flows is prepared based on the indirect method, where the net flows from operating activities is determined by adjusting the net profit before tax, changes due to the effects of items that do not generate cash flows, net changes in assets and liabilities derived from operating activities and any other item which effects are derived from operating activities and any other item which effects are from investment or financing activities. Income and expenses due to interests received and paid are part of the operating activities.

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**c. Consolidation of Controlled Entities**

According to the International Financial Reporting Standard (IFRS) 10, the Bank prepares consolidated financial statements with the entities it controls. The Bank controls another entity, if and only if, it complies with the following conditions:

- Power over the investee that grants the Bank the ability to direct pertinent activities that affect its performance.
- Exposure or right to variable earnings from its involvement in the investee.
- Ability to use its power over the investee to influence on the earnings amount of the investor's revenues.

In the consolidation process, the Bank and its Subsidiaries combine the assets, liabilities and results of the entities in which control has been determined, after standardizing the accounting policies and translation into Colombian pesos of the figures of the entities controlled abroad. This process involves the elimination of reciprocal transactions and realized profit between them. Non-controlling interests in the subsidiaries' equity is presented in the consolidated equity separately from the equity of the controlling interests.

In regards to the financial statements of subsidiaries abroad, to consolidate their financial statements, their assets and liabilities in a foreign currency are translated to Colombian pesos at the closing exchange rate, the income statement at the average exchange rate for the year, and equity accounts at the historic exchange rate. The net adjustment resulting from the translation process is taken to equity as "financial statements translation adjustment" in the account of 'Other Comprehensive Income (OCI).

**d. Functional and Presentation Currency**

The functional currency of the Bank and Subsidiaries has been determined by reference to the definition of the functional currency used to present reports, considering that their operations are basically related to lending activities. The main activities of the Bank and its Colombian Subsidiaries are to grant loans to customers in Colombia, investments in securities issued by the Republic of Colombia or national entities, whether or not registered in the National Registry of Securities and Issuers (RNVE as per its acronym in Spanish), in Colombian pesos; and to a lesser extent, granting of loans to Colombian residents in a foreign currency and the investment in securities issued foreign banking entities, securities issued by foreign companies in the real sector which shares are listed in one or several world renowned stock markets and bonds issued by multilateral lenders or state entities. Such loans and investments are mainly funded with customer deposits and financial obligations in Colombia, also in Colombian pesos. The performance of the Bank and its subsidiaries in Colombia is measured and reported to the shareholders and the general public in Colombian pesos. Consequently, the Bank's Management and its Subsidiaries determined the Colombian peso as the currency that most faithfully represents the economic effects of operations, events and underlying conditions of the Bank and its Subsidiaries. Therefore, the functional and presentation currency defined to prepare the consolidated financial statements is also the Colombian peso. Abroad Subsidiaries have different functional currencies.

**e. Transactions in a Foreign Currency**

The transactions in a foreign currency are translated to the functional currency at the exchange rate on the date of the transactions. Monetary assets and liabilities in a foreign currency are translated to the functional currency using the prevailing exchange rate at the date of the Statement of Financial Position. Non-monetary assets and liabilities in a foreign currency in terms of the historical cost are measured using the exchange rate at the date of the transaction. Financial instruments measured at fair value are translated using the exchange rate of the date when the fair value is determined. Any profit or loss as a result of the translation is taken to the income statement.

Unless the financial liabilities are used as a hedge instrument for an investment in operations abroad, they are taken to equity in the account of Other Comprehensive Income.

As of December 31, 2018 and 2017, the market representative exchange rates calculated and certified by the Superintendency of Finance were COP\$3,249.75 per US\$1,00, and COP\$2,984 per US\$1,00, respectively.

**NOTE 3. ACCOUNTING POLICIES**

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**a) Cash and Cash Equivalents**

Cash and cash equivalents include the cash at hand, deposits in banks and other short term investments in active markets with maturity of three months or less. For a financial investment to be classified as "cash equivalent" it must be held in order to comply with the short-term payment commitment, and not for investment purposes; it must be readily convertible into a specific cash amount, it must be subject to an insignificant risk of change in value.

**Revenues**

**Until December 31, 2017**

Income is measured at the fair value of the compensation received or to be received, and represent amount receivable for the goods or services delivered, net of discounts, returns, and the value added tax. The Bank and its Subsidiaries recognize income where their amount can be reliably measured, where it is probable that future economic benefits will flow to the entity, and where the specific criteria for each of the activities of the Bank and Subsidiaries have been met.

**i. Net Interest Income**

Interest income are recognized when it is probable that economic benefits are received in regards to the financial asset and that they may be reliably measured.

**ii. Provision of Services**

The Bank and its subsidiaries provide a range of services. Recognition of income for the services rendered is done in the accounting period when they are provided, by reference to the completion stage of the specific transaction, and evaluated on the basis of the actual service provided as a proportion of the total services to be provided. Where services are provided through an undetermined number of actions over a specific period of time, income for ordinary activities is recognized on a linear basis, throughout the agreed period of time.

**iii. Revenue from commissions**

Commissions are taken to income for the period, as follows:

- a) Commissions for banking services, when services are rendered;
- b) Annual commissions from credit cards are booked and amortized on a straight line basis during the period they correspond to.

**As from January 1, 2018**

**1. Assets of contracts**

A contract's asset is the Group's right to receive a payment in exchange for goods or services transferred by the Group to a client when such right is subject to a factor different from the passage of time (for example, invoicing or delivery to other items that are part of the contract). The Group earns the assets in contracts as current assets, as they are expected to be realized in the regular operation cycle.

Contract costs eligible for capitalization as incremental costs when a contract is obtained, are recognized as an asset of a contract. Costs for the subscription of contracts are capitalized when incurred if the Group expects to recover such costs. Costs for the subscription of contracts represent non-current assets, to the extent economic benefits are expected to be received on such assets in a period higher than twelve months. Contracts are amortized in a systematic and consistent manner with the transfer of the services to the client, once the corresponding income is recognized. Capitalized costs on the subscription of costs impair if the client withdraws or if the book value of the asset overcomes the projection of the discounted cash flows that are related to the contract.

**2. Liabilities of contracts**

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Liabilities of contracts represent the Group's obligation to transfer goods or services to a client, where the Group has received a payment by the final client or if the amount is in default. They do also include the deferred income related to goods or services to be delivered or provided in the future, which are invoiced to the client in advanced, but are not in default, yet.

### 3. Revenue from Contracts with Customers

The group recognizes the revenues from contracts with customers, based on a five-step model set out by IFRS 15:

Step 1. Identification of contracts with customers: A contract is defined as an agreement between one or more parties, which created enforceable rights and obligations and sets criteria that must be complied with each contract. Contracts may be written, oral, or implicit, through the corporate practices used by a company.

Step 2. Identification of the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer an asset or a service to the latter.

Step 3. Determination of the transaction price: The transaction price is the consideration the group expects to have a right in exchange for the transfer of assets and services promised to a client, regardless of the amounts received in representation of third parties.

Step 4. Assignment of the transaction price to the performance obligations in the contract: In a contract with more than one performance obligation, the Group distributes the transaction price among the performance obligations in amounts that represent the consideration the Group expects to have a right to in exchange for complying with each performance obligation.

Step 5. Recognition of revenue when (or to the extent that) the Group complies with a performance obligation.

The Group complies with a performance obligation and recognizes the revenue in time, if any of the following criteria are met:

- The Group's performance does not create an asset with an alternative use for the Group, and the Group has an enforceable right on the payment for the performance completed as of that date.
- The group's performance creates or improves an asset controlled by the client while it is created or improved.
- In the meantime, the client receives and consumes the benefits resulting from the Group's performance to the extent it works.

In the case of the performance obligations where none of the conditions listed is met, the revenue is recognized when the performance obligations is met.

When the Group complies with a performance obligation by delivering the goods or services promised, it creates a contractual asset for the consideration amount obtained from the performance. When the consideration amount received from a client is higher than the revenue recognized, this generated a contractual liability.

The revenue is measured based on the consideration specified in the contract with the client and excludes the amounts received in representation of third parties. The Group recognizes revenue when the control over an asset or service is transferred to a client. Revenue is recorded net of the value added tax (VAT), reimbursements and discounts, and after eliminating the sales in the Group.

The Group assesses its revenue plans based on specific criteria to determine whether it acts as principal or agent.

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Revenue is recognized to the extent it is probable that economic benefits flow to the group and if it is possible to reliably measure the income and costs, if any.

Below appears a description of the main activities through which the Group generates revenues from contracts with customers:

**(i) Banking (Financial Services):**

In general, the Bank signs contracts that cover several different services. Such contracts may include components that are in or out of the scope of IFRS 15. Thus, the banks apply only IFRS 15 indications when all or part of their contracts are out of the scope of IFRS 9.

Income sources obtained by the bank through contracts with customers, are as follows:

- Credit cards: Exchange fees, general fees (annual, quarterly, monthly), awareness schemes

There are contracts with enforceable rights and obligations between the bank and card holders or business people, under which the bank generally provides services in exchange for annual fees or other types. Below appear some of the services there may be in the contract with the card holder:

- Issue of awareness points (options to acquire goods/services free of charge or at a discount in the future), which are usually based on the monetary volume of card transactions.

- Service for payment processing.
- Insurance, where the bank is not an insurer.
- Fraud protection, and
- Processing in certain transactions, such as purchases in foreign currencies and cash withdrawals.

The transaction price is assigned to each performance obligation based on the sale prices related to the goods or services provided to the client. The assignment of the transaction price to each individual performance obligation is not entirely necessary when there is more than one performance obligation, but all are met at the same time or equally during the period.

• **Commissions:**

The bank receives insurance commissions when new clients are sent to third parties that sale insurance, when the bank is not the policy insurer. Such commissions are usually paid in a periodic manner (e.g. monthly) to the banks, based on the volume of new policies (and/or the renewal of current policies), generated with clients presented by the bank. The transaction price may include a consideration that is variable or is subject to the result of future events, such as the cancellation of the policy, and such item is estimated and included in the transaction price based on the most probable amount to include it in the transaction price only when it is very probable that the solution of such uncertainty will not include the revenue's significant reversal.

Covenant fees are within the scope of IFRS 15 when it is hardly probable that a specific loan agreement is generated and that such covenant is not measured at fair value through income.

The Group receives commissions on the trust contracts and stand-alone shares that correspond to performance obligations agreed with the client from the beginning of the contract and are included in the commission's amount generated every month during the contract's term.

In addition, the Group receives commissions for technical and administrative services carried out with a low-value payment system which is an increase of the interbanking and collection financial transactions for the transactions' commissions made through the network of the group's ATMs. The offsetting is made on a daily basis and therefore,

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the commission's income is recognized to the extent of the compliance with the execution obligation carried out by the system.

• **Savings accounts and current accounts:** Transactional and account charges

Generally, contracts of savings and current accounts allow clients to access a series of services that include processing electronic transfers, use of ATM's to withdraw cash, issue of debit cards, and the generation of account statements. Other benefits are sometimes included. Charges are periodically made and give the client access to the bank services and additional services.

(ii) Clients Awareness Programs

The Bank manages awareness programs where the clients accumulate points for their purchases entitling them to redeem such points under the policies and the awards plan in force at the date of redemption. Reward points are recognized as an identifiable component separate from the revenue for the services provided, at fair value. Revenue for awareness programs is deferred and taken to the income statement when the entity has complied with its obligations to provide products under the program terms or when it is not probable that the points will be redeemed under the program rules. A contractual liability is recognized until the points are redeemed or expired.

The Bank acts as the principal in a clients' awareness program if it obtains the control of the goods or services of another party in advance, or if it transfers the control over such goods or assets to a client. The Bank acts as an agent if its performance obligation is to coordinate that the other party provides the goods or services.

**c) Financial Instruments**

**Until December 31, 2017**

**1) Definition**

A financial asset is any asset may be defined as cash, an equity instrument, a contractual right to receive cash or another any other financial asset of another entity to exchange financial assets in favorable terms, or a contract which may be traded using the entity's equity securities.

**2) Classification**

The Bank and its Subsidiaries classify its investment financial assets as debt securities. Considering the business model used by management and the characteristics of the contractual flows, the financial assets are separated into two groups: a) at fair value, with adjustment to income, or b) at amortized cost.

In the case of loans, the Bank and its Subsidiaries consider that their main activity is the placement and collection of loans at contracted terms, and as such, they are classified at amortized cost. The evaluation considers that the loans meet the contractual conditions that give rise to specific dates for cash flows consisting only of capital and interest payments on the outstanding balances.

**3) Initial Recognition**

Routine purchase and sale of investments are recognized on the date when the Bank and its Subsidiaries undertake the purchase or sell of securities. Financial assets at fair value from income are initially recognized at fair value, and the transaction costs are recorded as an expense when incurred.

The financial assets classed at amortized cost, are recorded at their acquisition or grant at the transaction value in the case of investments, or at their face value in the case of loan portfolio which, unless otherwise evidenced, match their fair value, plus the transaction costs directly attributable to their acquisition or grant, less the commissions received.

**4) Subsequent recognition**

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After initial recognition for all financial assets classified and measured at fair value, changes in fair value are taken to the income statement. However, in the case of a previous decision for equity instruments, variations in fair value may be included in Other Comprehensive Income (OCI).

In turn, financial assets classified at amortized cost after their initial record are adjusted taken to income based on the effective interest rate method.

The effective interest rate method is a procedure to calculate the amortized cost of an asset or liability and to allocate the interest income or cost during the pertinent period. The effective interest rate is exactly equal to the future cash payments or collections estimated during the expected useful life of the financial instrument, or, when appropriate, in a shorter period, for the asset's net carrying value at the beginning of the period. In order to calculate such effective interest rate, the Bank and its Subsidiaries estimate the cash flows considering the contractual terms of the financial instrument, except for the future credit losses, and considering the balance at the beginning of the period, the transaction costs, and premiums granted, less commissions and discounts received, that are part of the effective rate.

### **5) Fair Value Measurement**

In accordance with IFRS 13 'Fair Value Measurement', the fair value is the consideration that would be received for the sale of an asset or paid to transfer a liability in an arm's length transaction between stakeholders at the date of measurement.

Based on the foregoing, valuations at fair value of financial assets are made as follows:

- For high-liquidity investments, the price is used as supplied by the Price Providers duly authorized by the Superintendency of Finance, calculated based on the average prices taken on the last trading day at the cutoff date of the financial statements.
- The fair value of the financial assets not quoted in an active market is determined using valuation techniques. The Bank and its Subsidiaries use a variety of methods and make assumptions, which are based on market conditions in force at each reporting date. The valuation techniques used include the use of comparable recent transactions under similar conditions, reference to other instruments which are substantially equal, analysis of discounted cash flows, models of price options and other valuation techniques commonly used by the stakeholders, using the market data at a maximum.

### **6) Impairment Provision for Financial Assets**

According to the rules of the Superintendency of Finance related to the preparation of separate financial statements, the Bank and its Subsidiaries use a provision model established by the Superintendency. Such models require the classification of loans per credit risk levels according to the following categories:

Category A and AA - "Normal Risk" Loans and financial leases in this category are attended to satisfaction. The debtor's financial statements or his forecasted cash flows, as well as other information available to us, reflect an adequate payment ability.

Category B and BB - "Acceptable risk, above normal": Loans and financial leases in this category are attended to satisfaction and protected under a guarantee, but there are weaknesses that may potentially affect in a transitory or permanent manner, the debtor's payment ability and his protected cash flows, to the extent that, if not timely correctly, they may affect the regular collection of loans or contracts.

Category C and CC - "Appreciable Risk": The loans and financial leases in this category have debtors with insufficient payment ability or address projects with insufficient cash flows, which may compromise the regular collection of the obligations.

Category D\* - "Significant Risk": Loans and financial leases in this category have the same deficiencies as the loans of Category C, but with a higher degree; therefore, the collection probability is highly unlikely.

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Category E\* - "Non-recoverability Risk": Loans and financial leases in this category are considered as uncollectible:

(\*) Categories D and E are loans considered as "in default" to calculate the provision on commercial and consumer loans.

For mortgages and micro-credits, the preceding classification per risk levels is made on a monthly basis considering the number of days in default.

Then, the loans classification per credit risk levels, the provisions on loans impairment are calculated and taken to income using the following formula:

$$\text{Expected Loss} = [\text{Exposure to Default "ED"}] \times [\text{Probability of Default "PD"}] \times [\text{Loss Given Default "LGD"}]$$

ED is an asset in the current balance of outstanding payment plus interests accumulated and not paid and other accounts receivable.

PD corresponds to the probability of debtors in default with their obligations in a period of twelve months. PD is defined as a percentage according to the following matrix established by the Superintendency of Finance of Colombia:

**Commercial Portfolio**

Classification	Matrix A (1)				Matrix A (2)			
	Companies			Personnel	Companies			Personnel
	Big	Medium	Small		Big	Medium	Small	
AA	1.53%	1.51%	4.18%	5.27%	2.19%	4.19%	7.52%	8.22%
A	2.24%	2.40%	5.30%	6.39%	3.54%	6.32%	8.64%	9.41%
BB	9.55%	11.65%	18.56%	18.72%	14.13%	18.49%	20.26%	22.36%
B	12.24%	14.64%	22.73%	22.00%	15.22%	21.45%	24.15%	25.81%
CC	19.77%	23.09%	32.50%	32.21%	23.35%	26.70%	33.57%	37.01%
Default	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**Consumer Portfolio**

Classification	Matrix A (1)			Matrix A (2)		
	Vehicles	General purpose (2)		Vehicles	General purpose (2)	
		Credit Card	Credit Card		Credit Card	Credit Card
AA	0.97%	2.10%	1.58%	2.75%	3.88%	3.36%
A	3.12%	3.88%	5.35%	4.91%	5.67%	7.13%
BB	7.48%	12.68%	9.53%	16.53%	21.72%	18.57%
B	15.76%	14.16%	14.17%	24.80%	23.20%	23.21%
CC	31.01%	22.57%	17.06%	44.84%	36.40%	30.89%
Default	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(1) According to the definition by the Superintendency of Finance of Colombia, Matrix A reflects the DP in a growing economic scenario, while Matrix B reflects the DP in a worse economic scenario. Matrix A is used to calculate the procyclical component of the individual assignment, while Matrix B is used to calculate the countercyclical component.

(2) "General purpose" addresses all consumer loans, except for the vehicle loans, vehicles and credit cards.

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**Microcredit and loans per housing mortgage**

Risk Category	Micro-credit	Housing	
	Provision as % of capital	Provision as % of the capital covered by the guarantee	Provision as % of the capital not covered by the guarantee
A	1.0%	1.0%	1.0%
B	3.2%	3.2%	100.0%
C	20.0%	10.0%	100.0%
D	50.0%	20.0%	100.0%
E	100.0%	30.0%	100.0%

LGD is defined as a percentage to reflect the credit loss incurred, if an obligated party is in default.

Debtors LGD depends on the type of collateral and would suffer a gradual increase in the loss percentage according the number of days passed after the classification in each category. For that purpose, it has been considered that 100% of the collateral amount covers the amount of capital. LGD is calculated using the following tables:

**Commercial Portfolio**

Type of Guarantee	Days in default	LGD	Days in default	LGD	Days in default	LGD
Non-admissible guarantee	1-269	55%	270-359	70%	540 or more	100%
Subordinated debt	1-269	75%	270-359	90%	540 or more	100%
Admissible financial guarantee	-	0 - 12%	-	-	-	-
Commercial and residential real estate properties	1-539	40%	540-1079	70%	1080 or more	100%
Assets under real estate lease	1-539	35%	540-1079	70%	1080 or more	100%
Assets in leasing modalities different from the real estate lease	1-359	45%	360-719	80%	720 or more	100%
Other types of guarantees	1-359	50%	360-719	80%	720 or more	100%
Collection Rights	1-359	45%	360-719	80%	720 or more	100%
With No Guarantee	1-209	55%	210-419	80%	420 or more	100%

**Consumer Portfolio**

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<u>Type of Guarantee</u>	<u>Days in default</u>	<u>LGD</u>	<u>Days in default</u>	<u>LGD</u>	<u>Days in default</u>	<u>LGD</u>
Non-admissible guarantee	1-209	60%	210-419	70%	420 or more	100%
Admissible financial guarantee	-	12%	-	-	-	-
Commercial and residential real estate properties	1-359	40%	360-719	70%	720 or more	100%
Assets under real estate lease	1-359	35%	360-719	70%	720 or more	100%
Assets in leasing modalities different from the lease	1-269	45%	270-539	80%	540 or more	100%
Other types of guarantees	1-269	50%	270-539	70%	540 or more	100%
Collection Rights	1-359	45%	360-719	80%	720 or more	100%
With No Guarantee	1-30	75%	31-90	85%	91 or more	100%

In order to prepare the consolidated financial statements, the provisions in impairment of loans are calculated according to IAS 39 Financial Instruments: Recognition and Measure. However, according to the instructions by the Superintendency of Finance, the difference between the provisions made in the separate financial statements in each entity, calculated on the basis of the Superintendency rules described above, and the provision for impairment losses of loans made according to the terms in this section, are registered and taken to OCI in the equity section, and not to income as per IAS 39.

In accordance with 39, the Bank and its Subsidiaries evaluate the existence of objective evidence that a financial asset or group of financial assets measured at amortized cost, have been impaired. This objective evidence includes: important financial difficulties related to the issuer; default or delays in the payment of interests and capital; restructuring or a loan; or acceleration of the terms where the Bank and its Subsidiaries do not believe a lender or issuer is in bankruptcy; disappearance of the active market or observable data in respect to assets, such as adverse changes in the lenders' payment conditions or in the local economic conditions that are correlated to default in the payment of the Bank assets. If there is objective evidence of impairment, a provision is calculated; however, according to the instructions by the Superintendency of Finance, the difference between the provisions made in the separate financial statements in each entity, calculated on the basis of the Superintendency rules described above, and the provision for impairment losses of loans made according to the terms in this section, are registered and taken to OCI in the equity section, and not to income as per IAS 39.

The Bank and its Subsidiaries individually assess the financial assets as investments and loans considered as significant, analyzing each debtor's profile, the guarantees delivered, and the reports of the credit agencies. Financial assets are considered as impaired when, based on the current and passed information and events, it is likely that that the Bank and its Subsidiaries do not recover all amounts owed under the original contract, including the interests and commissions agreed. When a financial asset is identified as impaired, the of loss is measured as the difference between the present value of future expected cash flows according to the debtor conditions, discounted at the original contracted rate initially agreed, or the present value of the collateral that guarantees the loan, less the estimated sale cost, when the basic collection cost of the loan is determined in the guarantee, and the carrying value of the loan.

In the case of loans not individually considered as significant, and of the loans portfolio individually significant, not considered as impaired in the individual analysis described above, the Bank and its Subsidiaries make a collective assessment of the impairment gathering the financial assets portfolios per segments with similar characteristics, using statistical evaluation techniques based on the analysis of historical losses, in order to determine the estimated percentage of losses incurred in such assets at the date of the statement of financial position; in other words, not individually identified (see note 4 for more information on how to calculate the collective provision). Once a financial asset or group of similar financial assets are subject to a provision as a result of an impairment loss, the interest income continues being recognized using the original contractual interest rate of the loan in the carrying value of the loan, net of the provision recorded.

For equity instruments with changes in OCI, a significant or extended reduction in the fair value of the security below its cost is considered as objective evidence of impairment. Impairment losses previously recognized in the consolidated income statement may not be reversed. Any increase in the amount subsequent to an impairment loss is taken to OCI.

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Impaired financial assets are withdrawn from the statement of financial position and taken to provisions when considered as irrecoverable. Financial assets recoveries previously written off are recorded as a credit in the income statement.

**Portfolio Sale**

Portfolio operations susceptible of sale, according to the Bank's management guidelines, correspond to the productive and unproductive loans that must be approved by the Bank's Board of Directors. Portfolio write-off is made at the carrying value at the date of negotiation and the sale is made at the market value for such portfolio. The result of the sale shall be recorded in Other income/expenses in the period of the transaction.

**7) Restructured Financial Assets with Collection Issues**

A restructured financial asset is an asset with collection issues, where the Bank and its subsidiaries have granted benefits to the debtor, which otherwise would not be considered. In general, such benefits address a reduction of the interest rate, an amortization term extension, or the reduction of the outstanding balances. Restructured financial assets are recorded at the present value of the expected future cash flows, discounted at the asset's original rate prior to the restructuring.

If the financial asset terms are renegotiated or modified, or is a financial asset replaced by a another (new) due to the borrower's financial difficulties, the derecognition of such financial asset is assessed. If the renegotiated assets's cash flows are substantially different, the contractual rights of the original financial asset are considered as expired. In this case, the original financial asset is written off and the new financial asset is recognized at fair value.

Impairment losses prior to restructuring are measured as follows:

If the expected restructuring does not generate the write off of the current asset, the estimated future cash flows are included in the current asset's measure based on its estimated useful life after discounting the original effective interest rate from the current financial asset.

If the expected restructuring generates the write off of the current asset, it is understood that the expected fair value of the new asset is the final cash flow of the current financial asset at the date of write off. Such amount shall be deducted on the date foreseen for the accounts write off using the original effective interest rate of the current financial asset.

**8) Transfers and Write-offs of Financial Assets in the Statement of Financial Position.**

The accounting treatment for financial assets transfers is conditioned by the method used to transfer the risks and benefits related to the assets transferred to third parties; hence, the financial assets are only written off from the consolidated Statement of Financial Position when the generated cash flows are terminated, or when the implicit risks and benefits have been substantially transferred. In the latter case, the financial asset transferred is written off from the Statement of Financial Position and any right or obligation withheld or created as a consequence of the transfer is simultaneously recognized.

It is considered that the Bank and its Subsidiaries transfer substantially all risks and benefits if the risks and benefits transferred represent most of the total risks and benefits in the assets transferred. If risks and/or benefits associated with financial assets transferred are substantially retained:

- The financial asset transferred is not written off from the Statement of Financial Position and it continues to be appraised with the same criteria used prior to transfer.
- An associated financial liability is recorded for an amount equal to the consideration received, which is subsequently valued at its amortized cost.

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- Both, the income associated with the financial assets transferred (but not written off) and the expenses associated to the new financial liability continue to be recorded.

Financial assets are written off from the Statement of Financial Position only when the rights have been legally terminated or when substantially all of the asset's risks and benefits have been transferred to third parties.

**9) Offset of Financial Instruments in the Statement of Financial Position**

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position, when there is a legal right to offset amounts recognized and management intends to liquidate them on a net basis, or to realize the asset and simultaneously liquidate the liability.

**10) Financial Assets Write-off**

Financial assets are written off from the Statement of Financial Position only when the rights have been legally terminated or when substantially all of the asset's risks and concessions have been transferred to third parties.

**As from January 1, 2018**

IFRS 9 sets out the requirements to recognize and measure financial assets, financial liabilities, and some contracts to purchase or sell non-financial items. This standard replaces IAS 39 Financial Instruments - Recognition and Measurement.

The following table summarizes the impact, net of taxes, for the transition to the IFRS 9 in the opening of reserve balances and retained gains as of January 1, 2018 (for a description of the transition method, see (iv), below).

	Reference	Impact due to the adoption of IFRS 9 as of January 1, 2018
Recognition of expected losses under IFRS 9.	ii.	(37,025)
<b>Impact as of January 1, 2018</b>		<b>\$ <u>(37,025)</u></b>

Details of the new significant accounting policies and the nature and purpose of the changes to the preceding accounting policies are set as follows:

**i. Classification and measure of financial assets and financial liabilities**

IFRS 9 (version 2014) includes a new classification and measurement approach for the financial assets that reflects the business model where they are managed and their cash flows characteristics.

IFRS 9 (version 2014) includes three main classification categories for the financial assets measured at amortized cost (AC), at fair value with changes in Other Comprehensive Income (FVOCI) and at fair value with changes in income (FVCI).

The new standard complements both of the existing categories in the preceding IFRS 9 of AC and FVCI currently in force in Colombia for the consolidated financial statements, adding the category of FVOCI.

A financial asset is measured at amortized cost and not at fair value with changes in income, if it meets both of the following conditions:

- the asset is kept in a business model which purpose is to keep the asset to obtain the contractual cash flows; and

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- The contractual terms of the financial asset set the specific dates for the cash flows derived only from payments of capital and interests on the pending balance.

A debt instrument is measured at FVOCI, only if it meets both of the following conditions and has not been designated as FVCI:

- The asset is held in a business model which purpose is achieved by charging the contractual cash flows and selling such financial assets; and,
- The contractual terms of the financial asset set the specific dates for the cash flows derived only from payments of capital and interests on the pending balance.

During the initial recognition of the investments in equity instruments not held to be traded the Group may decide to irrevocably record the subsequent changes in the fair value as part of Other Comprehensive Income in equity. This decision must be made on the per instrument basis.

All fair value not classified as measured at amortized cost or at fair value with changes in OCI, as described above, are measured at fair value with changes in income.

Additionally, at the initial recognition, the Group may irrevocably designate a financial asset that meets the measurement requirements at AC or FVCOCI to be measured at FVCI, if by doing it the accounting asymmetry does significantly reduce, which may occur if not doing so. For now, the Group will not use this option. A financial asset is classified in one of the categories mentioned at its initial recognition.

#### **Assessment of the business model**

The Group shall assess the objectives of the business models where it keeps the various financial instruments at portfolio level to reflect, as best as possible, the way each subsidiary manages the business and how information is provided to management. Information considered included:

- The objectives and policies indicated per financial instruments portfolio and the operation of policies. They include whether the management strategy is focused on charging revenues on contractual interests, keeping a performance profile with a concrete interest or coordinating the financial assets term with the term of the liabilities funding them or the expected cash outflows or realizing the cash flows through the sale of the assets.
- According to the method of evaluation and information to the parents and key personnel of management at each Group subsidiary on the performance of the portfolios.
- The risks affecting the business models performance (and the financial assets held in the business model) and how such risks are managed;
- How business promoters are compensated (e.g., is the compensation is based on the fair value of the assets managed or on the contractual cash flows obtained); and
- The frequency calendar, amount and sales in preceding periods. The sale reasons and the expectations on future sales activities. However, the information on the sales activity is not considered as isolated, but as part of an assessment on how the objectives set by the Group are met, to manage the financial assets and how the cash flows are realized.

The financial assets held or managed for trading and which performance is assessed on the fair value basis, are measured at fair value with changes in income because they are not held in the business models to charge for contractual cash flows, nor to obtain contractual cash flows and sell these financial assets.

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**Assessment of whether contractual cash flows are only payments to capital and interests**

For the purpose of this assessment, capital is defined as the fair value of the financial asset at its initial recognition. Interest is defined as the consideration of the value of money in time and as the credit risk associated to the capital amount in force in a particular period and as other basic risks in a credit agreement and other related costs (e.g. liquidity risk and administrative costs), as well as the profitability margin.

By assessing whether the contractual cash flows are only payments to capital and interests, the Group considered the instrument's contractual terms. This included the assessment to determine whether the financial asset has a contractual term that may change the period of amount of the contractual cash flows, so that such condition is not met. With this assessment the Group considered:

- Contingent events that will change the amount and periodicity of the cash flows;
- Leveraging conditions;
- Advanced and extension payment terms;
- Terms that limit the Group to obtain cash flows from specific assets (e.g. assets agreements with no resources); and
- Characteristics that modify the considerations for the value or money in time; e.g. the periodic review of interest rates.

Interest rates on certain consumer and commercial credits are based on variable interest rates that are set at the Group's discretion. Variable interest rates are generally set in Colombia based on the DTF (as published by the Central Bank) and the IBR (Reference Banking Indicator published by the Central Bank), and in other countries, according to local practices, plus certain additional discretionary points. In these cases, the Group shall assess whether the discretionary characteristic is consistent with the 'only capital and interests payment' criterion, considering a number of factors that include if:<sup>12</sup>

- Debtors are in conditions to pay in advance the loans with no significant penalties. Colombian law prohibits to making charges for credit payments in advance.
- Market competitive factors ensure the interest rates are consistent among the banks;
- Any protection regulatory standard set out in favor or the clients in the country that requires the banks to treat clients fairly.

A prepayment characteristic is consistent with the 'only capital and interest payments', if the amounts paid in advance do substantially represent amounts not paid of capital and interest over the outstanding capital amount, which may include reasonable offsetting for the contract's early termination.

In addition, a pre-payment characteristic is treated as consistent with this criterion if a financial asset is acquired or generated with a premium or discounts from its contractual face value, and the amount paid in advance does substantially represent the contractual amount plus the interests contractually accumulated but not paid (which may include a reasonable offsetting due to the early termination), and the fair value of the prep-payment characteristic is insignificant at its initial recognition.

The following accounting policies are applied to the subsequent measurement of the financial assets.

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<sup>1</sup>DTF is the average interest rate agreed by savings accounts holders in the banks, savings and housing corporations, financial corporations, and commercial funding companies, for the Term Deposits (CDT) with 90 days maturity open during the last week.

<sup>2</sup>IBR is a reference short-term interest rate denominated in Colombian pesos that reflects the price that the banks are willing to offer or to collect funds in the monetary market. IBR is calculated based on the listings of the market stakeholders.

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Financial assets at fair value with changes in income (FVCI)	These assets are subsequently measured at fair value. Net profit and losses included in revenues from interests or dividends are recognized in income. See (iii) below for the derivatives designated as hedge instruments.
Financial assets at amortized cost (AM)	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced due to the impairment loss (see (ii) below). Revenues from exchange profit and losses and impairment are taken to income. Any profit or loss derecognized from accounts is recognized in income.
Debt investments with changes in Other Comprehensive Income (FVCOCI)	These assets are subsequently measured at fair value. Interests revenue calculated through the effective interest method, exchange difference earnings and impairment losses are taken to income. Other net earnings and appraisal losses are taken to OCI. At the derecognition, accumulated earnings and losses in OCI are reclassified to profit or loss due to the OCI realization.
Equity investments with changes in Other Comprehensive Income (FVCOCI)	These assets are subsequently measured at fair value. Dividends are recognized as revenue in income, unless the dividends do clearly represent a recovery of part of the investment's cost. Other net profit or loss are recognized in OCI and are never reclassified in income.

The effect of adopting the IFRS 9 over the accounting balances of the financial assets as of January 1, 2018, relates to the changes and category, and to the new impairment requirements, as described further.

The following table and accompanying notes explain the original measurements according to the categories of IFRS 9 (version 2012) and the new measurement categories under IFRS 9 (version 2014) for each class of financial assets of Group 1, as of January 1, 2018.

	Original classification under IFRS 9 (version 2012)	New classification under IFRS 9 (version 2014)	Original amount under IFRS 9 (version 2012)	New amount under IFRS 9 (version 2014)	
<b>Financial Assets</b>					
Cash and Cash Equivalents	Amortized cost	Amortized cost	Ps. 9,527,725	Ps. 9,527,725	
Debt instruments	Amortized cost	Amortized cost			
		Fair value (FVCI)	491,204	491,204	
		Fair value (FVCOCI)			
	Fair Value	Amortized cost			
		Fair value (FVCI)	5,042,002	5,042,002	
		Fair value (FVCOCI)			
Investments in equity instruments	Fair Value	Fair value (FVCI)	91,940	91,940	
		Fair value (FVCOCI)			
Derivative Instruments	Fair Value	Fair value (FVCI)	103,008	103,008	
Credit portfolio	Amortized cost	Amortized cost	13,585,967	13,585,967	
		Fair value (FVCI)			
Other accounts receivable	Amortized cost	Amortized cost	155,073	155,073	
<b>Total Financial Assets</b>			<b>Ps. 28,996,919</b>	<b>Ps. 28,996,919</b>	

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**ii. Impairment of Financial Assets**

IFRS 9 (version 2014) replaces the incurred loss model of IAS 29 for an expected credit loss model (ECL). This new model requires the application of considerable judgment in respect to the changes in economic factors affecting the ECL, which is determined on the basis of an weighted average basis.

The new impairment model applies to the following financial assets that are not measured at FVCI and FVCOCI:

- Debt instruments;
- Leases receivable;
- Other accounts receivable
- Credit portfolio
- Financial guarantee contracts issued; and
- Loan covenants issued

Under the IFRS 9 (version 2014), the impairment loss on investments over equity instruments will not be recognized.

IFRS 9 (version 2014) requires the recognition of an impairment provision for financial assets at fair value with changes in OCI for an amount equal to an expected impairment loss for a period of twelve months subsequent to the cutoff date of the financial statements, or during the loan's remaining term. The expected loss in the remaining life of the loan are the expected losses as a result of all possible impairment events over the expected life of the financial instrument, while the expected losses for the 12-month period are the portion of the expected losses as a result of possible impairment events during the twelve months following the reporting date of the financial statements.

Under IFRS 9 (version 2014), the reserves for losses are recognized for an amount equal to the ECL during the asset's life term, except for the following cases where the amount recognized is equivalent to the ECL for the 12 months following the date of measure:

- Investments in debt instruments determined that reflect a low credit risk at the cutoff date; and
- Other financial instruments (different from other short-term accounts receivable) on which the credit risk has not significantly increased from their initial recognition.

IFRS 9 impairment requirements are complex and require management estimated judgments and assumptions, particularly in the following areas:

- To assess whether the credit risk has significantly increased from its initial recognition; and
- To include prospective information when measuring the expected impairment losses.

**Measurement of ECL**

ECL is the expected credit loss value according to an exposure under credit risk characteristics and is measured as follows:

- Financial assets with no credit impairment at the reporting date: present value of all contractual cash payment delays (e.g., difference between the cash flows owed to the Group according to the contract and the cash flows the Group expects to receive);
- Impaired financial assets at the reporting date: difference between the carrying value and the present value of the future estimated cash flows.
- Covenants of outstanding loans: the present value of the difference between the contractual cash flows owed to the Group in the case the covenant is exercised, and the cash flows the Group expects to receive; and
- Financial guarantees contracts: expected payments to reimburse the holder, less any amount the Group expects to recover.

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Impaired financial assets are defined by the IFRS 9 in a similar way as the impaired financial assets under IAS 39.

**Definition of default**

Under IFRS 9, the Group considers a financial asset in default when:

- It's hardly probable that the debtor pays in full its credit obligations to the Group with no resources to take actions, such as to realize the guarantee (if any is held); or
- The debtor is in default for more than 90 days on any material credit obligation. Overdrafts are considered as in default once the client has surpassed the limit recommended or when lower limit is recommended than the current balance.
- Clients in bankruptcy processes, such as the Law 1116 in the case of the Republic of Colombia.
- In the case of fixed income financial instrument, the following concepts are included, among others:
  - External rating by the issuer of the instrument as D.
  - The contractual payments are not made on the due date or on the term or grace period set out.
  - There is virtual certainty of payment suspension.
  - It is probable that they go bankrupt or a bankruptcy petition or a similar action is filed.

By assessing whether a debtor is in default, the Group considers the following indicators:

- Qualitative, e.g. failure to comply with contractual clauses.
- Quantitative, e.g. default status and failure to pay other obligations of the same issuing Group; and
- Based on internally developed data, and obtained from external sources

The input used in the assessment of whether the financial instruments are in default and their importance may vary in time to reflect the changes in circumstances.

**Significant Increase in Credit Risk**

Under IFRS 9, when a significant increase is determined in a financial asset from its initial recognition, the Group considers reasonable and sustainable information that may be relevant and is available with no disproportionate cost or effort, including the information and the qualitative and quantitative analysis, based on the historical records, as well as the expert assessment of the Group credit, including information forecasted to the future.

The Group expects to identify whether a significant increase has occurred in the credit risk, by comparing the following:

- The default probability (DP) during the remaining life at the reporting date; with
- The DP during the remaining life at that point in time, which was estimated at the moment of the exposure's initial recognition.
- Qualitative aspects are also considered along with the refutable presumption of the standard (30 days).

The assessment of whether the credit risk has significantly increased from the initial recognition of a financial asset requires the identification of the initial recognition date of the instrument.

**Rating per Credit Risk Category**

The shall assign a credit risk rating to each exposure, based on a variety of data that determines the DP is predictive and applying the expert credit judgment; the Group expects to use such ratings to identify significant increases in the credit risk under IFRS 9 (version 2014). Credit risk ratings are defined through qualitative and quantitative factors that indicate the risk of loss. These factors may vary depending on the nature of the exposure and the type of provider.

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Each exposure shall be allocated to a credit risk rating at its initial recognition, based on the information available on the debtor. The exposures shall be subject to continuous monitoring, which may result in the change of an exposure to a different credit risk rating.

### **Generating the DP's Term Structure**

Credit risk ratings are expected to be the main input to determine the DP's Term structure for the various exposures. The Group intends to obtain performance and loss information on the exposures to credit risk analyzed per jurisdiction or region, type of product and debtor, as well as by the credit risk rating. In the case of some portfolios, the information compared with external credit reference agencies may also be used.

The Group shall use statistical models to analyze the data gathered and generate impairment probability estimates in the remaining life of the exposures and such impairment probabilities shall change as a result over time.

This analysis shall include the identification and calibration of relationships between the impairment rates and the key macro-economic factors, as well as an in-depth analysis of certain factors in the impairment risk (e.g. portfolio write-offs). For most credits, the key economic factors may probable include the growth of the gross internal product, changes to market interest rates and unemployment.

For the exposures in specific industries and/or regions, the analysis may extend to pertinent products and/or real estate prices.

The Group's approach to prepare prospective economic information in its assessment is presented as follows:

The Group has determined a general framework that includes quantitative and qualitative information to determine whether the credit risk in a financial asset has significantly raised from its initial recognition.

The initial framework is aligned to the Group's internal process to manage the credit risk.

The criterion to determine whether the credit risk has significantly increase shall vary per portfolio and include limits, based on failures to comply.

The Group shall assess whether the credit risk of a particular exposure has significantly increased from its initial recognition if, based on the quantitative modeling, the expected impairment probability will significantly increase. In determining the credit risk increase, the expected impairment loss in the remaining life is adjusted due to changes in the terms.

Under certain circumstances, using the judgment of credit experts and based on pertinent historical information, the Group may determine that an exposure has experienced a significant increase in the credit risk, if the particular qualitative factors may indicate it and such factors may not entirely be captured by their qualitative analysis periodically carried out. As a limit, and as required by IFRS 9, the Group shall assume a significant increase in the credit risk takes place at the latest when the asset is in default from more than 30 days.

The Group shall monitor the effectiveness of the criterion used to identify the significant increases in credit risk, based on regular reviews to confirm that:

- Criteria are capable of identifying significant increases in credit risk before an exposure is impaired.
- The criteria are not aligned with the point in time when an asset is over 30 days in default.
- The time average in identifying a significant increase in the credit risk and the default, seem to be reasonable.
- Exposures are not generally transferred directly from the Group's expected impairment probability in the following 12 months to the impaired credit group.
- There is no unjustified volatility in the impairment transfers provision between the groups with the expected loss probability in the following 12 months and the expected loss probability in the credits remaining life.

### **Modified Financial Assets**

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The credit contractual terms may be modified by a number of reasons, including changes in market conditions, client retention, and other factors not related to a current or potential impairment in the client's credit.

When the terms in a financial asset are modified under IFRS 9 and the modification does not result in a withdrawal of the asset from the balance sheet, determining whether the credit risk has significantly increased presents comparisons on:

- The default probability in the remaining life at the date of the balance sheet based on the terms modified with
- The default probability in the estimated remaining life based on the date of the initial recognition and the original contractual terms.

The Group renegotiates loans to clients under financial difficulties to maximize the collection opportunities and to minimize the risk of default. Under the Group's renegotiation policies, clients in financial difficulties are granted concessions that generally correspond to reductions in the interest rates, extension of payment terms, reduction of the balances owed, or a combination of all of them.

In the case of modified financial assets as part of the Group's renegotiation policies, the estimated DF reflects if the modifications have improved or restored the Group's ability to collect the interests and capital and the Group's previous similar actions. As part of this process, the Group shall assess the compliance with the payments by the debtor vs. the terms modified on the debt and considers several behavior indicators on such group of modified debtors.

Generally, the restructuring indicators are a relevant increase factor in the credit risk. Therefore, a restructured debtor needs to prove a consistent payment behavior over a period of time before it is no longer considered as an impaired credit or that the DP has decreased in such way that the provision may be reversed and the credit is measured for impairment in a period of twelve months following the closing date of the financial statements.

#### **Input at the measure of ECL**

The key input when measuring the ECL are usually the term structures of the following variables:

- Default probability (DP)
- Loss Given Default (LGD)
- Exposure due to Default (ED)

The parameters above will be derived from internal statistical models. These models shall be adjusted to reflect prospective information, as described below:

DP are estimated on a specific date that will be calculated based on statistical classification models and evaluated using rating tools adjusted to the different categories of counterparts and exposures. These statistical models shall be based on internally compiled data comprising both, qualitative and quantitative factors. If a counterpart or exposure migrates between the various ratings, this will generate a change in the estimated DP. DP shall be estimated considering contractual maturity terms of the exposures and the estimated pre-payment rates.

LGD is the probable magnitude of loss in the case of default. The Group shall estimate the LGD parameters based on the history of the loss recovery rates vs. the parties in default. The LGD models will consider the structure, collateral, and priority of the debt lost, the counterpart's industry and the recovery costs for any collateral that is part of the financial asset. In the case of loans guaranteed by property, such loans shall be calculated based on discounted cash flows using the credit's effective interest rate.

ED represents the expected exposure in the event of default. The Group shall derive the ED from the current counterpart's exposure and the potential changes in the current amount allowed under the contract terms, including amortization and prepayments. The ED of a financial asset shall be the gross value at the default. In the case of covenants of loans and financial guarantees the ED shall consider the amount withdrawn, as well as the potential future amounts that may be withdrawn or collected under the contract, which shall be estimated, based on historical

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observations and prospective forecasted information. In the case of some financial assets, the Group shall determine the ED by modeling a range of possible exposure results in several points in time using scenarios and statistical techniques. As described before, and subject to the use a maximal DP of 12 months where the credit risk has significantly increase, the Groups shall measure the ED considering the risk of default during the contractual term (including debt extension options to the client), on which there is an exposure to the credit risk, even if, for the purposes of risk management, the Group considers a larger period. The maximal contractual period extends to the date when the Group is entitled to require the payment for a loan pr to terminate a loan covenant or a guarantee pledged.

In the case of consumer overdrafts, credit cards balances and certain revolving corporate credits that include both, a loan and a covenant component not withdrawn by the client, the Group shall measure the ED over a period higher than the maximal contractual period if the Group's contractual ability to demand its payment and pay off the non-withdrawn covenant do not limit the Group's exposure to credit losses in the contract's contractual period. These facilities do not have a fixed term or a collection structure and are managed on a collective basis. The Group may pay them off with immediate effect, but this contractual right is not enforced by management's regular administration of the Group on a daily basis, but only when the Group finds out an increase of the credit risk at each loan level. This higher period shall be estimated, considering the credit risk management actions the Group expects to take and that are useful to mitigate the ED. These measures include a reduction in the limits and the cancellation of the credit contracts.

Where the parameters modeling is carried out on collective basis, the financial instruments shall be grouped on the basis of characteristics of similar risks that include:

- Type of instrument
- Credit Risk Rating
- Guarantee
- Date of Initial Recognition
- Remaining term to maturity
- Industry
- Debtor's geographic location

The groups above shall be subject to regular reviews to ensure the exposures of a particular Group remain appropriately homogeneous.

In the case of portfolios where the Group has limited historical information, comparative data shall be used to complement the internal information available.

#### **Forecast of Future Economic Conditions**

Under IFRS 9 (version 2014), the Group shall include information with the forecast of future conditions, both at the assessment whether the credit risk has significantly increased from its initial recognition, as well as a the measure of ECL. Based on the recommendations of use by economic experts and on the consideration of a variety of current and forecasted external information, the Group shall prepare a 'base case' on the projection of relevant economic variables, as well as a representative range of other possible forecasted scenarios. This process involved the development of two or more additional economic scenarios and considers the relative probabilities for each result.

The external information may include economic data and the disclosure of projections by government committees and monetary authorities in the countries where the Group operates, supranational organizations like the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund, among others, and academic and private sector forecasts.

It is expected that the base case represents the most probable result and that it is aligned to the information used by the Group for other purposes such as the strategic planning and budgeting. Other scenarios represent a more optimistic and pessimistic result. In addition, the Group plans to carry out periodic stress tests to tune the determination of other representative scenarios.

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The Group is in the process of identifying and documenting key guidelines on credit risk and credit losses for each financial instrument's portfolio and, based on a historical data analysis, estimate the relationships between the macro-economic variables, credit risk and credit losses.

**Change Impact of the Provision Model for Financial Instruments Impairment Losses**

In the case of the assets in the scope of the impairment model under IFRS 9, the impairment losses are generally expected to increase and become more volatile. The Group determined the application of the impairment requirements of IFRS 9 as of January 1, 2018, results from an additional impairment assigned as follows:

	<b>Dec-31-17</b> <b>IAS 39</b>	<b>Jan-01-18</b> <b>IFRS 9</b>	<b>Recognition</b> <b>IFRS 9</b>
Accounts Receivable	301,288	348,799	47,511
Investments	-	2,244	2,244
Accounts receivable (1)	13,603	873	(12,730)
<b>Total</b>	<b>314,891</b>	<b>351,916</b>	<b>37,025</b>

- (1) The difference is due to the inclusion by the Bank at December 31, 2017, of interests and other concepts derived from its portfolio as part of other accounts receivable. However, as from June 20, 2018, the concepts previously mentioned are included in the portfolio.

**iii. Hedge accounting**

In order to apply the IFRS 9 in regards to the hedge accounting, IASB allows adopting an accounting policy deciding to apply the requirements of IFRS 9 or continue to apply the current requirements of IAS 39 for all financial instruments designated in a hedge coverage, until the accounting project for macro-hedges is not complete. Given this, the Group has decided to continue with the hedge accounting under the provisions of IFRS 9.

**iv. Transition**

All changes to the accounting policies as a result of the adoption of IFRS 9, retroactively, except as described as follows:

- The Group has taken an exemption not to restate the comparative information of prior periods in respect to the classification and measurement requirements (including impairment). Differences in the carrying value of the financial assets and financial liabilities as a result of adopting the IFRS 9 are recognized in the reserves and accumulated results as from January 1, 2018. Consequently, the information presented for 2017 does not generally reflect the IFRS 9 requirements but presents the requirements of IAS 39.
- The following assessments have been carried out based on the facts and circumstances that existed at the date of the initial application.
- Determination of the business model that holds a financial asset.
- Designation and reversal of prior designations of certain financial assets and financial liabilities measured at fair value with changes in income.
- Designating certain investments in equity instruments not held to negotiate as in fair value with changes in Other Comprehensive Income.
- If an investment in a debt security had a credit risk under the date of initial application of the if 9, the Group has assumed the credit risk over the asset has not significantly increased since its initial recognition.

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**v. Separated under:**

As comparative effects according to the rules of the Superintendency of Finance related to the preparation of the separate financial statements, the Bank and its Subsidiaries use an assignment model set by the Superintendency. Such models require the classification of loans per credit risk levels according to the following categories:

- Category A and AA - "Normal Risk" The loans and financial lease in this category are adequately cleared with the debtor financial statements or his cash flows, as well as the remaining credit information available to us, reflect their payment ability.
- Category B and BB - "Acceptable risk, above normal": Loans and financial leases in this category are have an acceptable service and are protected under a guarantee, but there are weaknesses that may potentially affect in a transitory or permanent manner, the debtor's payment ability and his protected cash flows, to the extent that, if not timely correctly, they may affect the regular collection of loans or contracts.
- Category C and CC - "Appreciable Risk": The loans and financial leases in this category have debtors with insufficient payment ability or address projects with insufficient cash flows, which may compromise the regular collection of the obligations.
- Category D\* - "Significant Risk": Loans and financial leases in this category have the same deficiencies as the loans of Category C, but with a higher degree; therefore, the collection probability if highly unlikely.
- Category E\* - "Risk of Uncollectibility": Loans and financial leases in this category are considered as uncollectible:
- (\*) Categories D and E are loans considered as "in default" to calculate the assignment on commercial and consumer loans.

For mortgages and micro-credits, the preceding classification per risk levels is made on a monthly basis considering the number of days in default.

The differences between the impairment separately calculated in conformity with the rules of the Superintendency of Finance in respect to the calculation according to IAS 39 on the consolidated basis recorded in OCI, amounted to \$ -67,960 (2017 \$ -11,759).

**d) Derivative Financial Instruments and Hedge Accounting**

A derivative is a financial instrument which value changes as a result of one or more underlying variables (specific interest rate, price of a financial instrument, or commodity listed in a stock market, and the exchange rate of a foreign currency, etc.), that has an initial net investment lower than the investment required for other instruments with a similar response to the variable and is traded at a future date.

The Bank and its Subsidiaries trade in the following financial markets: forwards, futures and swaps that meet the derivative's definition.

Derivatives operations are initially recognized at fair value. Subsequent changes in fair value are recognized in the income statement, unless the derivative is designated as a hedge instrument, in which case, the accounting criteria will depend on the nature of the item hedged, as described below:

- In the case of the fair value hedge of assets or liabilities and firm commitments, changes in the fair value are recognized in the income statement, as well as any other change in the fair value of the asset, liability or firm commitment attributable to the risk hedged.
- Cash flows hedge of a particular risk related to a recognized asset or liability or a highly probable projected operation, the effective portion of changes in the derivative's fair value is recognized in other comprehensive income (OCI) in equity. The profit or loss related to the non-effective portion for the hedge or that does not relate to the covered risk is immediately recognized in the income statement.

Amounts accumulated in other comprehensive income (OCI) are transferred to the profit of loss in the same period when the item hedged is take to income.

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- Hedging of net investments in a foreign operation is recognized similarly to the cash flows hedge: the effective portion of changes in the fair value of the hedge instrument is recognized in OCI, and the ineffective portion of the changes in the derivative's fair value is recognized in the income statement. The profit or loss of the hedge instrument accumulated in equity are recognized in the income statement when the net investment in foreign operations is entirely sold, or proportionally when it is partly sold in part.

At the beginning of the transaction, the Bank and its subsidiaries document the current relationship between the hedge instrument and the item hedge, as well as the objective of the risk hedge and the strategy to start the hedge relationship. It also documents its assessment at the date of the beginning of the transaction and on recurrent bases, to determine whether the hedge relationship is highly effective to offset the changes in the fair value or in the cash flows of the items hedged.

**e) Non-Current Assets Held for Sale**

Assets received as payment in kind and non-current assets held for sale, which the Bank and its Subsidiaries are going to sell within a period higher than one year, and which sale is considered as highly probable, are recognized as non-current assets held for sale. These assets are measured at the lowest amount between the book value at the transfer and fair value, less the estimated cost for disposal. If the term expires and the assets have not been sold, they are reclassified to their original categories (Property and Equipment, Other Assets).

The Bank and its Subsidiaries shall recognize impairment losses due to initial or subsequent reduction of the asset's value for disposal in the income statement at fair value less the sales cost.

**f) Properties and Equipment**

Properties and Equipment include its own assets or assets under financial leasing held by the Bank and its subsidiaries for their current or future use, and which are expected to be used during more than one period.

As from December 2017, Banco GNB Sudameris S.A. modified the accounting policy for the lands and buildings, in order to do the accounting record for such real estate assets under the appraisal model at fair value taking the value of the commercial appraisal and not the cost model, as it had been done.

This is because the appraisal adjustments applied to the real estate assets in Colombia have made it more reasonable to have the lands and buildings accounted at their commercial value, and not at cost, thus having financial information that is adjusted to the reality.

The effect in the consolidated financial statements of Banco GNB Sudameris is positive to the extent of an increase in the assets value and in other comprehensive income (OCI) of the Entity, which will be reflected in the financial statements for the period ended on December 31, 2018 for the following amounts:

Buildings and land	\$10,861
Deferred tax liabilities	\$3,763
OCI, net of taxes	\$7,098

Depreciation is calculated by applying the straight-line method during the estimated useful life of the asset. The annual depreciation rates per asset's item are:

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Concept	Useful Life
Buildings	60 – 80 years
Hardware – IT infrastructure	9 – 25 years
PC Laptops	3 – 7 years
Servers	3 – 5 years
Communications	6 – 8 years
Equipment for specific extension	5 – 7 years
ATM	5 – 10 years
Middle/high capacity equipment: power plant >40 KW/UPS > 30 KVA/ - Air conditioning of the facilities	10 – 12 years
Generators /UPS/ Air conditioning in the offices	5 – 10 years
Furniture and supplies	3 – 10 years
Vehicles	5 – 10 years

Costs related to the repair and maintenance of assets and equipment are recognized as an expense in the period they are accrued and are recorded as General Expenses.

Property and equipment are initially measured at cost, including:

- a) The purchase price included including the cost of importation and non-deductible taxes after deducting discounts;
- b) Any costs directly attributable to take the goods to their place, and bring them to serviceable conditions;
- c) Cost of dismantling. This is an initial estimate of the restoration cost.
- d) Cost of debt.

#### **Write offs of Tangible Assets**

The carrying value, including the residual value of an item of Property and Equipment is written off when no future associated economic benefit is expected, and the profit or loss for such write-off are taken to income.

#### **g) Investment Property**

Land and buildings, considered in part or as a whole, maintained to earn revenues from a lease or capital appreciation, and not for its own use for sale in the ordinary course of the business, are classified as investment properties. Investment properties are initially recognized at cost, including all costs related to the operation, and subsequently measured at fair value with changes in the fair value recognized in the income statement.

#### **h) Leases - Lessor Accounting**

Leases are classified as a financial or operating lease. A lease is classified as a financial lease when it transfers substantially all risks and rewards inherent to the property to the lessee. A lease is classified as operating if it does not transfer substantially all the risks and rewards inherent to the property. Lease contracts classified as financial leases are included in the statement of financial position as Loans and Accounts Payable and are recognized in the same way as other loans. Lease contracts classified as operating leases are included as property, plant and equipment or Investment property of the Bank and its Subsidiaries and are recognized and depreciated in the same way as property and equipment of its own use. Revenues from payments are taken to income for the period using the straight line accrual method.

#### **i) Leases - Lessee's Accounting**

At their initial recognition, assets are calculated financial or operating leases in the same way as described above.

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Lease contracts classified as a financial lease, are included in the statement of financial position as property and equipment or as investment properties, in accordance with the intention by the Bank's and its Subsidiaries in respect to the asset. Financial leases are initially simultaneously recognized in assets and liabilities for an amount equal to the fair value of the asset received in lease or for the present value of the minimal lease amounts, if lower.

The present value of the minimum lease amounts is established using the interest rate implicit in the lease contract, or if such rate is not determined, the average interest rate of the bonds placed by the Bank and its subsidiaries in the market. Any initial direct cost of the lessee is added to the amount of the asset recognized.

After the initial recognition, these assets are accounted for in the same way as other property, plant and equipment or investment properties, when initially recognized. The value recognized as a liability is included as a financial liability.

Payments made according to the lease contracts classified as operating are recognized in the income statement on the straight-line basis during the lease term. Incentives received from leases are recognized as an integral part of the total lease payments during its term.

## **j) Intangible Assets**

### **1) Goodwill**

Business combinations are recorded to use the acquisition method when control is transferred. The cost transferred in the acquisition is usually measured at fair value, in the same way as the identifiable net assets acquired. The resulting goodwill is annually tested for impairment. If there are non-controlling interests during the entity's control acquisition, assets are recognized at fair value or proportional interest for the amount recognized of the acquired party's identifiable net assets. This election is allowed on an operation basis.

Goodwill represents the price excess paid over the fair value of the assets and liabilities acquired in a business combination (with certain exceptions, where the book value is used).

Goodwill acquired in a business combination is assigned to each group of the cash generating units of which benefits are expected as a consequence of the acquisition. Goodwill is not subsequently amortized but is subject to an annual impairment assessment of the cash generating unit (CGU) to which goodwill has been assigned, from which is expected benefits derive from synergies in the business combinations.

An impairment loss taken to goodwill cannot be reversed in subsequent periods. In addition, the income statement of the business acquired by the Bank and its Subsidiaries is included as from the date of acquisition as part of the consolidated financial statements.

### **2) Other Intangible Items**

Other Intangible Items comprise computer programs (software), initially measured at the cost incurred during acquisition or internal development phases. Costs incurred during the research phase are directly taken to the income statement.

Development costs directly attributed to design and identifiable software testing, are recognized as intangible assets when they meet the following conditions:

Technically, it is possible to complete the production of an intangible asset so that it is available for use;

Management proposes to complete that intangible asset for its use;

The Bank is capable of using the intangible asset;

It is probable that the future expected economic benefits attributed to the asset enter the entity;

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Adequate technical or financial resources are available or other resources to complete development and to use the intangible asset; and

Costs attributable to intangible assets during their development phase can be reliably estimated and measured.

Costs directly attributable and capitalized as part of the software include personnel expenses of the developers, and an adequate percentage for general expenses.

Expenses that do not meet these criteria are recognized as expenses on an accumulative basis. Disbursements on intangible assets are initially recognized as expenses for the period and will not subsequently be recognized as intangible assets.

Subsequent to recognition, these assets are measured at cost less amortization, which is done during the estimated useful life, as follows: Software programs and computing licenses: 10 years. Amortization is recognized through the straight-line method depending on the estimated useful lives.

#### **k) Inventory**

Inventory is appraised at the lowest value between the cost and the net realizable value. The cost includes the purchase costs, transformation cost, and other costs incurred to bring the asset to its current condition and location. The net realizable value is the estimated sale price in the ordinary course of the business less the applicable sale expenses.

If an inventory impairs, the carrying value is reduced to its sale price less the cost to complete and sale; the impairment loss of the value is immediately recognized in the income statement.

#### **l) Financial Obligations**

A financial obligation is any contractual obligation of the Bank and its subsidiaries to deliver cash or another financial asset to another entity or person, or to exchange financial assets or financial liabilities under potentially unfavorable conditions for the Bank and its subsidiaries, or a contract that may be terminated or settled using property equity instruments of the entity. Financial liabilities are initially recognized at fair value, which is usually the same as the operation value less cost directly attributable. Subsequently, such financial assets are measured at amortized cost, in accordance with the effective interest-rate method, determined at the initial recognition and taken to the income statement as financial expenses.

#### **m) Benefits to Employees**

The Bank and its Subsidiaries provide the following in exchange for the services provided by its employees:

- Short-term benefits to employees

According to the Colombian labor regulation, such benefits correspond to salaries, legal and extra-bonuses, holidays, severance payments, and contributions of payroll taxes to State entities paid within the 12 months following the reporting period. These benefits are recognized on an accumulative basis and taken to the income statement.

- Post-employment benefits (defined benefit plans)

These are the benefits that the Bank and its Subsidiaries pay their employees when they retire or when they complete their period of employment, different from indemnities. In accordance with Colombian labor standards, these benefits correspond to retirement pensions that are assumed directly by the Bank and its subsidiaries, payments pending for severance payments to employees belonging to the labor regime prior to Law 50 of 1990, and certain extralegal benefits or benefits agreed in collective bargaining agreements.

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The liabilities for post-employment benefits are determined based on the present value of estimated future payments, calculated based on actuarial reviews prepared using the projected credit unit method, actuarial assumptions about the mortality rate, salary increase, personnel turnover and interest rates determined with reference to market yields on bond effects at the date of reporting for National Government bonds or high quality business liabilities. According to the method of the projected credit unit, the future benefits to be paid to employees are allocated to the accounting period when the employee provides the service. Therefore, the corresponding expense due to these benefits recognized in the income statement of the Bank and its Subsidiaries, includes the cost for the present service assigned in the actuarial calculation, plus the financial cost of the calculated obligations. Changes in liabilities due to changes in actuarial assumptions are recognized in other comprehensive income (OCI).

Changes in actuarial liabilities due to changes in employment benefits retroactively granted to employees are recognized as an expense in the first of the following dates:

- When there is a change in employment benefits granted; or
  - When provisions for restructuring costs are recognized by a subsidiary or a business of the Bank and its Subsidiaries.
- Other Long-term Benefits

Other long-term benefits include all benefits to employees other than short-term, post-employment benefits and layoff indemnities. In accordance with collective bargaining agreements and the regulation of each company of the Bank and its Subsidiary, these benefits are mainly seniority bonuses. Liabilities for long-term benefits to employee are determined in the same way as the post-employment benefits described in Subsection (b) above; the only difference is that the changes in the actuarial liability due to changes in actuarial assumptions are taken to the income statement.

- Benefits for Unilateral Termination

These benefits are payments made by the Bank and its Subsidiaries as a result of a unilateral decision to terminate a contract of employment, or the employee's decision to accept benefits offered by a company in exchange for the termination of the contract of employment. In accordance with Colombian law that these payments correspond to offsetting and other benefits which entities unilaterally decide to grant their employees in these cases.

Termination benefits are recognized as a liability in the income statement on the first of the following dates:

- When the Bank and Subsidiaries formally inform the employee of the decision to terminate; or
- When provisions for restructuring costs are recognized by a subsidiary or a business of the Bank and its Subsidiaries.

## **n) Taxes**

### **1) Current Income Tax**

Income tax expenses include the current and deferred tax. The tax expense are recognized in the income statement, except for items recognized in the Other Comprehensive Income (OCI) in equity.

Current income tax is calculated based on the current tax regulations (enacted or substantially enacted) in Colombia as from the reporting date of the financial statements, or in the country where the subsidiaries of each subordinate entity are located. Management regularly evaluates the income tax positions for each subordinate entity in respect to the situations where applicable tax regulations are subject to interpretation and establish provisions, where applicable, on the basis of amounts expected to pay to the tax authorities.

### **2) Deferred Taxes**

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Deferred taxes are recognized on temporary differences that arise between the tax basis of assets or liabilities and the amounts recognized in the consolidated financial statements. However, deferred taxes are not recognized if they arise due to the initial recognition of goodwill, temporary differences on the initial recognition of an asset and a liability in a transaction other than a business combination not affecting the accounting or tax profit or loss in respect to investment in subsidiaries, to the extent their reversal in the foreseeable future is not likely. Deferred tax is determined using the tax tariff in force at the close of the balance sheet.

Deferred tax assets are recognized only to the extent that it is probable future tax income are available to offset temporary differences.

Deferred tax assets arise from taxable temporary differences, except for tax liabilities in investments in subsidiaries, where the appropriate time to reverse the various temporary differences is controlled by the Bank and its Subsidiaries and is not reversed in the near future. Generally, the Bank and its Subsidiaries have the capacity to control the reversal of temporary differences in investments in associates.

Current tax and deferred tax are offset only when the Bank has the legal and enforceable offsetting legal right and is going to liquidate on a net basis and to liquidate the liability at the same time. Deferred tax is offset when there is a legal right to offset deferred taxes against current tax liabilities, and when deferred tax assets and liabilities refer to income tax accounted by the same taxing authority on the same taxable entity, or on different entities. However, these different entities intend to liquidate current tax liabilities and assets on a net basis, or their assets and liabilities will be simultaneously realized for each period where differences are reversed.

#### **Tax on Wealth**

Law 1739/2014 created a Wealth Tax payable by all entities in Colombia with net assets higher than COP\$1,000 (approximately USD\$420,000). For accounting purposes in Colombia, tax may be recorded against equity reserves. The Bank and its Subsidiaries recorded such amount in equity in 2017.

#### **o) Provisions and Contingencies**

Provisions for restructuring costs and legal claims, etc. are recognized when the Bank and its Subsidiaries face a legal or constructive obligation as a result of past events and are likely to require a flow of economic benefits to liquidate the obligation. The restructuring provisions include fines due to the cancellation of leases and payments for the dismissal of employees.

The provision amount is determined as the best estimate, and when a long-term liquidation is expected, it is discounted at its present value.

Provisions are periodically updated, at least at the closing date for each period, and adjusted to reflect the best possible estimate at any time. The provision is reversed if it is no longer probable that funds will have to be distributed to meet that obligation. If there is a change in estimates, they are recorded prospectively as changes in accounting estimates, in accordance with IAS 8 Accounting Policies Changes in Accounting Estimates and Errors.

#### **p) Net Profit per Share**

Net profit per share, is calculated by dividing the net profit by the period attributable to the controlling interest by the weighted average of ordinary shares issued and delivered during the period. The Bank does not have financial instruments with potential voting rights. Therefore, these financial statements present only the basic profit per share.

#### **q) Operation Segments**

An operating segment is a component of an entity which:

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- a) undertakes business activities out of which it may obtain income and incur expenses (including operating income and expenses with other components in the same entity);
- b) operating profit or loss are periodically reviewed by the person responsible for making decisions, who decides the allocation of resources to the segment and evaluates performance; and
- c) has differentiated financial information available.

The bank and its Subsidiaries disclose separate information per operating segment identified that exceeds the minimal quantitative thresholds of a segment:

- a) Income reported from ordinary activities, including income from external customers, as well as income or transfers between segments, equal or higher than 10% of combined ordinary activities income, internal and external, from all operating segments.
- b) The net profit amount reported is, in absolute terms, equal or higher than 10% of the greater of (i) the net combined profit reported for all operating segments that have not had losses; or (ii) the combined loss reported of all operating segments that have had losses.
- c) Its assets are equal or higher than 10% of the combined assets of all operating segments.

**r) Non-consolidated structured entities**

In the regular course of business, the Bank undertakes operations through which transfers financial assets to third parties. Depending on the circumstances, these transfers may result on the withdrawal of those financial assets, or that they continue being recognized. The term "non-consolidated structured entities" refers to all the structured entities non-controlled by the Bank. The Bank undertakes transactions with non-consolidated structured entities in the regular course of business in order to facilitate the transactions of clients and for specific investment opportunities.

**NOTE 4. - CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES WHEN APPLYING ACCOUNTING POLICIES**

The management of the Bank and its Subsidiaries make estimates and adopts assumptions that affect the amounts recognized in the consolidated financial statements and the carrying value of assets and liabilities over the course of the period. These judgments and estimates are permanently evaluated and are based on management's experience and other factors including the occurrence of future events considered to be reasonable under current circumstances. Similarly, management makes judgments additional to those that involve the estimates adopted in the process of applying the accounting policies. The judgments with the most significant effect on the amounts recognized in the consolidated financial statements and the estimates that may generate important adjustments in the carrying value of assets or liabilities in the following year include the following:

**Going Concern:** The management of the Bank and its subsidiaries prepares the financial statements on the basis of a going concern. For the purposes of this judgment, Management considers the financial situation, its current intentions, the operations result, and their access to financial resources in the market, and analyzes the impact of such factors on its future operations.

At the date of this report, management has no knowledge of any situation that would make the Bank and its subsidiaries to think they were not in the capacity to continue as a going concern in the next year.

**1) Business Model for Financial Assets**

The Bank applies significant levels of judgment to determine its business model to manage the financial assets and assess whether the financial assets meet the conditions defined in the model in order to be classified as "fair value" or "amortized cost". As a consequence, and in general, the Bank and its subsidiaries have classified its financial assets in debt securities in its Investment Portfolio as fair value with a lower portion as amortized cost;

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the latter corresponds, basically, to the investment in debt securities of the Colombian Government and compulsory investments under the Colombian standards.

The Bank and the subsidiaries classify its credit portfolio at amortized cost. In terms of the business model, the financial assets at amortized cost may only be sold under restricted circumstances and are not material in regards to the total portfolio. This may happen when an asset stops meeting the accounting policy for the investments of the Bank and its subsidiaries, or for any adjustment to the structures of assets and liabilities maturity, the need to fund important disbursements or to meet the seasonal needs for liquidity. During the periods ended on December 31, 2018 and 2017, the Bank and its subsidiaries did not make any significant change in the business model and sold the unproductive portfolio in December 2017 (see note 30).

## **2) Provision due to Portfolio Impairment Loss**

In observance of the regulations of the Superintendency and IFRS 9 - Financial Instruments, the Bank and its subsidiaries review their credit portfolio on a periodic manner, in order to assess its impairment and determine whether it is necessary to record it in Income for the current period. Management exercises their criteria to determine if there are observable data that would indicate the reduction of the portfolio expected cash flow before a reduction in such cash flows may be identified in respect to an operation in particular.

The process adopted to calculate the provision includes the analysis of specific, historical and subjective components.

The methods used by the Bank and its subsidiaries include the following:

- A periodic and detailed analysis of the credit portfolio.
- A loan classification system according to the risk levels
- Any periodic review of the provisions summary on portfolio losses.
- Identification of loans that must be individually evaluated for impairment.
- Consideration of internal factors, like size, organizational structure, loan portfolio structure, loan management process, trend analysis of loans in default, and historical experiences of losses.
- Consideration of inherent risks in the different credit modalities.
- Consideration of external factors, local, regional and national, and of economic factors.

### **Main Sources of Uncertainty**

When applying the method of discounted cash flows in the process of calculating the provisions on individual loans considered as significant, the management of the Bank and its subsidiaries adopt assumptions in regards to the recoverable amount per client and the period when such recovery would take place. Any variation in this estimate's value may generate significant variations in the value of the corresponding provision. Management makes an estimate to calculate the provision on individual loans considered as significant, based on the respective guarantees in order to determine their fair value, with the assistance of independent experts. Any variation in the price as a result of the eventual recovery through the guarantee may in turn generate significant variations in the provisions value.

In the provisions calculation process due to collective impairment for loans not individually considered, or those individually significant and not impaired and which impairment is collectively assessed, the historical loss rates used in the process are periodically updated to include the most recent data that reflect the current economic conditions, the industry performance trends, the geographic concentration, or the lenders concentration for each portfolio segment, and any other relevant information that may affect the provision calculation due to credit impairment. Several factors affect the estimates of the provisions on losses of loans granted by the Bank and the subsidiaries, including the volatility in the impairment probability, migration and estimates of loss severity.

In order to quantify the eventual losses in the portfolios collectively assessed, the Bank and its subsidiaries have calculation methods that consider four main factors, as follows: exposure, probability of default, identification period of the loss, and severity of the loss. For this purpose, loans are considered in default when they are over 90 days past due, restructured due to financial issues of the debtors, with clients in bankruptcy, and clients included in the credit risk categories D or E, according to the internal models of credit risk assessment.

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- The exposure to default (ED) is the risk amount if the debtor stops paying.
- Probability of Default (PD) is the probability that a debtor does not comply with its obligations to pay the capital and/or interests. The PD is related to the score or rating or aging in default in the payment for each debtor or operation. In the specific case of loans in default, the PD assigned is 100%. A loan is classified as “doubtful” when it is 90 or more days in default, or where there is not default in the payments but there are doubts on the debtor’s solvency (“subjective doubt”).
- The Loss Given Default (LGD) is the estimated loss in the event of default and depends mainly on the characteristics of the debtor and the valuation of the guarantees related to the operation.
- Loss Identification Period (LIP) corresponds to the time from the occurrence of an event that causes a loss in particular and the moment when such loss becomes evident at individual level. The LIP analysis is carried out in homogeneous risk portfolios.

### **3) Deferred Income Tax**

The Bank and its subsidiaries assess the realization of deferred tax assets in time. Such assets include the recoverable income tax through future deductions of taxable earnings and are recorded in the statement of financial position. They are recoverable in the probability of existence of the corresponding tax benefits. Future taxable income and the amount of probable future tax benefits are based on the medium-term management plans. The business plan is based on management expectations considered as reasonable, given the current circumstances.

As of December 31, 2018 and 2017, the management of the Bank and its subsidiaries estimates that the assets in the deferred income tax would be recovered based on the future estimated taxable profit, together with the translation adjustment in the financial statements. No deferred tax liabilities have been recorded for the investments in subsidiaries as the Bank does not expect to remit them in the near future, because the Bank controls the subsidiaries’ dividends policy and has no intention to distribute dividends or sell the corresponding investments in the near future.

### **4) Goodwill**

Annually, the management of the Bank and its subsidiaries evaluate the eventual impairment of goodwill recognized in their financial statements. Such evaluation is made based on the appraisal of the business lines related to goodwill through the method of discounted cash flows and considering factors like the country’s economic position, the operation sector, the historical financial information, and the projected growth of income and costs during the following five years, and to an indefinite future, considering the capitalization index of benefits, discounted at risk-free interest rates for the risk premiums demanded under the circumstances. The main assumption used in these appraisals appear in Note 16.

### **5) Provisions for Contingencies**

The bank and its subsidiaries calculate and record estimates for contingencies in order to cover eventual losses due to labor, civil and commercial litigations, requirements of the tax authorities and other matters, depending on the circumstances, which, in the opinion of internal or external consultants, are considered as sources of probable loss and that may be reasonably quantified.

Given their nature, in several of these lawsuits or cases it is not reasonably feasible to make a precise projection or to quantify the loss; then, the actual disbursement amount effectively made due to the lawsuits or litigations is constantly different from the amounts initially estimated and provided. These differences are recognized in the year they are identified.

### **6) Pension Plans**

The measurement of pensions, costs and liabilities depends on a wide range of long-term assumptions determined

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on an actuarial basis, including the present value of the future projected payments of pensions for plan members, considering the probability of potential future events, such as increases in the minimum urban salary and demographic experience; such experiences may affect the amount and future contributions in the event of any variation in them.

The discount rate used allows representing the future cash flows at their present value at the date of measurement. The Bank and its subsidiaries set a long-term rate that represents the market rate for high quality fixed yield investment or government bonds denominated in Colombian pesos - i.e., the currency to be used to pay the earnings - and considers the opportunities and the payment amounts of earnings in the future. Colombian Government bonds have been selected for this purpose.

The Bank and its subsidiaries use other key assumptions to appraise the actuarial liabilities calculated on the bases of specific experiences in combination with statistics published and market indicators. The most pertinent assumptions that have been used in the actuarial calculations and the corresponding sensitivity analysis appear in Note 21.

## **7) Recognition of Income**

### **Applicable as from January 1, 2018**

Applying the IFRS 15 requires the Bank and its subsidiaries to make judgments that affect determining the amount and time of the income from contracts with clients. They include:

- Determining the compliance time of the performance obligations.
- Determining the transaction price assigned to such obligations.
- Determining the individual sale prices.

## **8) Loyalty Programs**

In respect to the loyalty programs of clients, the fair value attributed to the reward points is deferred as a liability and recognized as income at the redemption of the points and the provision of services to participants who are given the points. The fair value of the reward loans is estimated as a reference to the fair value of the prizes that may be claimed, and it is reduced to consider the proportion of the reward loans out of which no redemption is expected by the clients. The Bank exercises its judgment when determining the assumptions to be adopted to respect the number of points not expected to be redeemed through a statistical modeling and the historical trends, to establish the mixture and the fair value of the reward loans.

The points give a material right to the clients, which they will not have access to unless a contract is signed. Therefore, the promise to give points to clients is considered an individual performance obligation. The transaction price is assigned to the product and points, based on the individual sale price. The individual sale price of the product is estimated based on the market price.

## **NOTE 5. - ACCOUNTING STATEMENTS ISSUED BY IASB AT INTERNATIONAL LEVEL**

**New standards, changes and interpretations made to the accounting framework accepted in Colombia which application must be assessed as from January 1, 2019, or that may be early applied.**

Decree 2483 of 2018 compiled and updated the technical framework of the Accounting and Financial Information Standards Accepted in Colombia that had been included by Decrees 2420 of 2015, 2496 of 2015, 2131 of 2016, and 2170 of 2017, including a new standard issued by the International Accounting Standards Board (IASB), to be applied as from January 1, 2019, although they may be early applied.

The impact assessment of this new standard, according to the Bank analysis, is described as follows:

### **IFRS 16 Leases**

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IASB issued IFRS 16 with an effective date of application as of January 1, 2019.

IFRS 17 replaces the current guidelines for the accounting of leases, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single accounting registry model of lease contracts in the Statement of Financial Position for the lessees. The lessee recognizes an asset for the right of use representing the right to use the asset leased and a liability for the lease representing its obligation to pay the lease amounts. There are optional exemptions for short-term leases or leases of low-value assets. The accounting treatment of leasing contracts for lessors remains similar to the current accounting practices, where the lessor classifies the lease contracts as financial or operating leases.

The Bank and its subsidiaries started an evaluation of the potential impacts on its financial statements. So far, the most significant impact identified is the recognition of assets and liabilities in its operating lease contracts, especially of properties used in the facilities operation. In addition, the nature of the expenses corresponding to operating lease contracts of the lessee, will change with IFRS 16, from lease expenses to depreciation charges on the rights of use of the assets, and financial expenses in liabilities for lease. The preliminary impact of adopting this standard may generate the recognition of rights of use from \$200,000 and \$300,000 million and debts on lease contracts for \$200,000 and \$300,000 million, which, according to the appraisal option of the rights of use, does not reduce the accumulated profit at January 1, 2019. Once the analysis is completed, which being carried out by the Company, the final figures will be defined and recorded on the adoption impacts of this new standard. Early adoption of this standard will not be made.

**New standard and interpretation issued by the International Accounting Standards Board (IASB) that has not been included in the accounting framework accepted in Colombia.**

**IFRS 17 - Insurance Contracts**

IFRS 17 - Insurance Contracts sets out the principles for the recognition, measurements, presentation and information to disclose on the insurance contracts issued. It does also require similar principles to apply to the reinsurance contracts held and the investment contracts issued with discretionary participation contracts. The purpose is to ensure that the entities provide pertinent information that truthfully represents such contracts to assess the contracts' effect within the scope of IFRS 17 on the financial position, financial performance and the entity's cash flows.

IFRS 17 shall be applied to annual periods starting on January 1, 2021. Early application is allowed.

IFRS 17 derogates IFRS 4 - Insurance Contracts, that was a temporary standard that allowed the entities to use a range of accounting practices for insurance contracts, reflecting the local accounting requirements and the variations of such requirements. Some of the previous insurance accounting practices allowed as per IFRS 4 did not adequately present the true underlying financial positions or the financial performance of the insurance contracts.

IFRS 17 key principles are that an entity:

- (a) identifies as insurance contracts those where the entity accepts a significant insurance risk from the other party (the insurance policy holder), agreeing to offset the policy holder in case of an uncertain future event (the insured event) that may adversely affect him.
- (b) will separate the implicit derivatives specified, various investment components, and the different performance obligations in the insurance contracts.
- (c) will divide the contracts into groups that will be recognized and measured.

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(d) will recognize and measure insurance contracts groups by: (i) an adjusted present value for the risk of future cash flows (cash flows from compliance), that include all the information available on the cash flows from compliance, so that it is coherent with the observable market information, plus (if it is a liability) or less (if it is an asset); or (ii) an amount that represents the non-accumulated profit (earned) in the group of contracts (contractual service yield).

(e) will recognize a group of insurance contracts throughout the period where the entity provides the insurance coverage, and to the extent that the entity is released from the risk. If a group of contracts has or becomes a loss generator, the entity shall immediately recognize such losses.

(f) will separately present the revenues from ordinary insurance activities, the insurance service expenses, and the financial expenses of income from insurance.

(g) will disclose information to allow the financial statements users to assess the effect that contracts under the scope of IFRS 17 have on the financial position, financial performance and the cash flows of the entity. Therefore, the entity shall disclose quantitative and qualitative information on: (i) the amounts recognized in its financial statements from insurance contracts; (ii) the significant judgments and changes to such judgments, made at the application of the standard; and (iii) the nature and scope of the contracts' risks within the scope of this standard.

The Group does not expect impacts based on this standard, considering that it has not identified it undertakes insurance contracts; in any case, detail analysis is underway.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 was issued in May 2017; this interpretation explains how to apply the recognition and measurement requirements of IAS12 when there is uncertainty over the income tax treatments. In this circumstance, an entity shall recognize and measure its deferred or current tax liabilities or assets applying the requirements of IAS 12 over the tax profit (tax loss), taxable basis, unused tax losses, unused tax credits, and tax rates determined applying this interpretation.

The Bank and its subsidiaries shall assess the potential impacts of this interpretation in its financial statements, and no situations have been identified so far that may require changes in the financial statements.

**NOTE 6. - FAIR VALUE MEASUREMENT**

The fair value of the financial assets and liabilities traded in active markets (such as financial assets in debt securities, equity certificates and derivatives listed and actively traded in stock exchanges or interbank markets) is based on dirty prices supplied by a price vendor.

An active market is a market where assets or liabilities are traded with sufficient frequency and volume to be able to provide price information on an ongoing basis. A dirty price is that which includes accrued and outstanding interest on the security, as from the date of issue or last payment of interest, until the effective purchase-sale operation date. The fair value of financial assets and liabilities not traded in an active market is determined through appraisal techniques selected by the price supplier or by management of the Bank and its Subsidiaries.

Appraisal techniques used for non-standardized financial instruments, such as foreign currency swaps and derivatives in the over-the-counter market include the use of interest rates or currency assessment curves built by market data providers, extrapolated to the specific conditions of the instrument appraised. Discounted cash flow analysis and other valuation techniques are used as well by the market stakeholders that mostly use the market data.

The Bank and its subsidiaries may use models developed internally to appraise instruments that are not part of active markets; generally, such models are based on valuation techniques and methods generally standardized in the financial sector. The valuation models are mainly used for appraising equity financial instruments not listed in the stock exchange, debt certificates and other debt instruments where the markets have been inactive during the

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period. Some inputs of these models may not be observable in the market and thus, are estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and the valuation techniques used may not fully reflect all the factors relevant to the Bank's positions. Therefore, the appraisals are adjusted, if necessary, to allow additional factors, including the model risk, liquidity risks and counterpart risks.

The fair value hierarchy has the following levels:

- Level 1 entry data are quoted prices (with no adjustments) in active markets for identical assets and liabilities to those the entity can access at the date of measure.
- Level 2 entry data are different from the prices quoted included in Level 1, that are directly or indirectly observable for the assets or liabilities.
- Level 3 entry data are non-observable entry data for the asset or liability.

The fair value level that allows the justification of a total fair value is determined on the basis of the lowest input level that is significant to measure the entire fair value. Therefore, the importance of an entry is evaluated in relation to the measurement of the entire fair value. If the fair value measurement uses observable inputs that require significant adjustments based on non-observable inputs, the measurement falls under Level 3. The importance evaluation of a particular input for the fair value measurement requires exercising judgment that considers the asset or liability specific factors.

Determining the meaning of "observable" requires significant judgment by the Bank and its Subsidiaries. The Bank and its subsidiaries consider data is observable, if they are market data that is available, periodic distributed or updated, reliable and verifiable, have no rights of ownership and are provided by independent sources with an active role in the reference market.

**a) Measurement of Fair Value on a Recurrent Basis**

These are the measurements required or allowed by the IFRS in the statement of financial position at the end of the period.

The most frequent methods applicable to derivatives are the following:

Appraisal of currency forwards: The provider publishes curves assigned according to the underlying currency of origin. Such curves represent the nominal rate for periods in arrears related to exchange rates forwards.

Appraisal of forwards on bonds: To determine a forward's valuation at a determined date, the bond's theoretical value is calculated based on its price at the valuation date and the underlying country-risk-free reference rate. The present value of the difference between the theoretical future value and agreed price of the bond in a forward contract is obtained using the country-risk-free discount rate of reference for the underlying security over the days to maturity.

Valuation of swaps: The provider publishes curves assigned in accordance with the underlying security, base swap curves (exchange of payments related to variable interest rates), domestic and foreign curves and implied curves associated with exchange forwards.

Valuation of OTC options: The Provider publishes curves assigned to the underlying currency of origin, a forward exchange rate curve for the local operation currency, implied curves associated with exchange forwards, swap curves assigned to the particular underlying instrument and a matrix and curves for implied volatilities.

The valuation of real estate property recognized as investment property at fair value is measured using a Level 3 market approach with available data in relation to the available prices in different regions of Colombia.

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The following table analyses the assets and liabilities (by class) held by the Bank and its Subsidiaries, within the fair value hierarchy, as December 31, 2018 and 2017, on a recurring basis:

<b>December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
<b>Negotiable debt securities</b>				
<b>In COP</b>				
Debt securities	6,174,098	-	-	6,174,098
Equity securities - issuers in Colombia	-	86,197	-	86,197
Derivatives	-	23,511	-	23,511
Investment Property	-	-	67,567	67,567
Property and equipment (real estate)	-	-	673,967	673,967
<b>Total assets at fair value, recurrent basis</b>	<b>6,174,098</b>	<b>109,708</b>	<b>741,534</b>	<b>7,025,340</b>
<b>Liabilities</b>				
Derivatives	-	31,805	-	31,805
<b>Total liabilities at fair value, recurrent basis</b>	<b>-</b>	<b>31,805</b>	<b>-</b>	<b>31,805</b>
<b>December 31, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
<b>Negotiable debt securities</b>				
<b>In COP</b>				
Debt securities	5,042,003	-	-	5,042,003
Equity securities - issuers in Colombia	-	91,940	-	91,940
Derivatives	-	103,008	-	103,008
Investment Property	-	-	51,878	51,878
Property and equipment (real estate)	-	-	373,326	373,326
<b>Total assets at fair value, recurrent basis</b>	<b>5,042,002</b>	<b>194,948</b>	<b>425,204</b>	<b>5,662,155</b>
<b>Liabilities</b>				
Derivatives	-	96,735	-	96,735
<b>Total liabilities at fair value, recurrent basis</b>	<b>-</b>	<b>96,735</b>	<b>-</b>	<b>96,735</b>

There were no transfers between Level 1 and Level 2 for December 2018 and 2017.

To determine the fair value hierarchy level, each instrument is evaluated according to the information on the type of calculation reported by PRECIA S.A., and the expert criteria applied by the Front and Middle Office who issue their opinion considering aspects like: Historical continuity in the disclosure of prices, outstanding amounts, record of operations completed, number of price contributors as a measure of market depth, market knowledge, regular quotations by one or more counterparties for the specific security, and bid/offer spread, among other factors.

In December 2017, land and buildings were measured at fair value, once the Bank request to appraise them by a certified valuation expert and found that the results showed the cost model was 46% below the fair value of the real estate properties, and therefore, in order to provide a more effective presentation of the financial position of these non-current assets in th financial statements, it chose the revaluation model. Similarly, new assessments were made in 2018 and it was decided to acquire an interest in the real estate private capital fund.

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CONCEPT	BANK	SERVITRUST	SERVIBANCA	SERVIVALORES	CORPORACION	FCP	PARAGUAY	PERU	TOTAL
Lands cost	1,692	24	-	459	75,800	93,411	2,632	-	174,018
Buildings cost	16,900	235	802	2,821	172,769	259,362	6,001	21,979	480,869
Accumulated depreciation	(632)	(18)	(49)	(185)	(18,647)	(6,053)	(4,862)	(16,363)	(46,809)
<b>Total Cost</b>	<b>17,960</b>	<b>241</b>	<b>753</b>	<b>3,095</b>	<b>229,922</b>	<b>346,720</b>	<b>3,771</b>	<b>5,616</b>	<b>608,078</b>
Revaluation lands	787	-	-	-	12,782	-	(105)	-	13,464
Revaluation buildings	3,086	233	370	1,684	47,429	-	(224)	-	52,578
Accumulated depreciation	(159)	(13)	(18)	(88)	-	-	125	-	(153)
<b>Total Revaluation</b>	<b>3,714</b>	<b>220</b>	<b>352</b>	<b>1,596</b>	<b>60,211</b>	<b>-</b>	<b>(204)</b>	<b>-</b>	<b>65,889</b>
<b>Total Property - Real Estate Assets</b>	<b>21,674</b>	<b>461</b>	<b>1,105</b>	<b>4,691</b>	<b>290,133</b>	<b>346,720</b>	<b>3,567</b>	<b>5,616</b>	<b>673,967</b>

**b) Concepts Measured at Fair Value, Non-recurrent Basis**

The Bank and its subsidiaries do not have any assets or liabilities measured at fair value with a non-recurring basis as of December 31, 2018 and 2017.

**Determination of the Fair Value**

The Bank and its subsidiaries determined the financial instruments that are traded in an active market are Level 1. Their fair value was established according to quoted prices (unadjusted), who determines the prices through weighted averages of the transactions carried out during the day.

The Bank and its subsidiaries defined the financial instruments that are traded in non-active market are Level 2. The table below provides information on the valuation techniques and significant inputs when measuring assets and liabilities.

	Valuation Technique	Significant Inputs
<b>Assets</b>		
Debt securities	Market prices	Market price or price calculated based on reference points set out by the price vendor methodology.
Equity securities - issuers in Colombia	Market prices	Market price or price calculated based on reference points set out by the price vendor methodology.
Derivatives	Market prices	- Price of underlying asset - Currency per underlying asset - Forward exchange rate - Matrix and curves
Investment Properties (1)	Technical appraisal	Appraisal carried out at the end of each period by an independent expert for similar operations in the market
Property and equipment (real estate)	Technical appraisal	Appraisal carried out at the end of each period by an independent expert for similar operations in the market

(1) Level 3 - The Bank and its Subsidiaries have determined that the financial instrument not being traded in an active market correspond to Level 3. The following paragraph provides information on several inputs and valuation techniques.

**Investment Property:**

Investment properties are recognized at fair value, based on a valuation made by an independent expert appraisal at the end of each period. In Colombia, the operations frequency in the marker is low, but management considers that the activities volume is sufficient to assess the fair value if the investment properties of the Bank and its subsidiaries, based on comparable operations of the market. Management has reviewed the main assumptions used by the expert independent appraisers (such as inflation, interest rates, etc.) and believes they are consistent with the market conditions at the end of each period. However, management believes that the estimation of the

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investment properties' fair value depends on significant judgment by the independent expert appraisers and thus, there is a significant possibility that the actual sales price of a property differs from its fair value.

Reconciliation between the balances at the beginning and the end of the period with the fair value classified as Level 3, appears in Note 15.

**Fair value of Financial Assets and Liabilities Recognized at Amortized Cost**

The following table presents a summary of financial assets and financial liabilities recognized at amortized cost only for the purposes of this disclosure as of December 31, 2018 and 2017.

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Carrying Value</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>	<b>Estimated Fair Value</b>
<b>Assets</b>				
Cash and Cash Equivalents	9,256,890	9,256,890	9,527,725	9,527,725
Debt securities at amortized cost	771,851	779,699	491,204	483,785
Portfolio and accounts receivable (1)	15,609,645	15,471,405	13,887,255	13,723,178
<b>Total Financial Assets</b>	<b>25,638,386</b>	<b>25,507,994</b>	<b>23,906,184</b>	<b>23,734,688</b>
<b>Liabilities</b>				
Deposits by clients (2)	8,486,862	8,502,005	8,363,206	8,401,341
Financial Liabilities (3)	4,471,736	4,754,683	4,482,549	4,849,900
Bank loans	2,240,382	2,404,779	1,547,823	1,713,550
Debt securities (Bonds)	2,231,354	2,349,904	2,934,726	3,136,350
<b>Total Financial Liabilities</b>	<b>12,958,598</b>	<b>13,256,689</b>	<b>12,845,755</b>	<b>13,251,241</b>

- (1) Fair value of the loans portfolio at amortized cost was determined using cash flows models discounted at the interest rates offered by banks to grant new loans, taking into account the credit risk and its maturity. The process of valuation is deemed as Level 3.
- (2) The fair value of demand deposits is equal to their carrying value. For fixed-term deposits with maturities below 180 days, its fair value was considered as equal to its carrying value. For fixed-term deposits with maturities over 180 days, the discounted cash flows model was used at the rates offered by banks in accordance with their maturity. The process of valuation is deemed as Level 2.
- (3) For short-term liabilities the carrying value was considered as their fair value. For short-term liabilities the carrying value was considered as their fair value. The fair value of long-term financial liabilities was determined using discounted cash flows models at risk-free interest rates adjusted by risk premiums for each entity. The fair value of outstanding bonds is determined according to quoted prices or estimated prices supplied by the price vendor. This valuation is considered as Level 2.

**NOTE 7. - RISK MANAGEMENT**

Risk management for the Bank and its Subsidiaries is a fundamental element to achieve efficiency and effectiveness in the operations, reliability of reports and compliance with the law, standards and regulations; hence, its importance in the achievement of the entity's strategic objectives.

The analysis of the strategic context in which it performs its activities allows Banco GNB Sudameris and its Subsidiaries to establish means to prevent the materialization of events that affect the regular course of processes and the achievement of the objectives set by the Entity, or if this turns out not to be reasonably possible, to implement measures for the treatment and mitigation of risks to reduce its impact.

**Organizational Structure of Risk Management**

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The Board of Directors, as the highest body responsible for risk management of the group entities, determines the profiles and defines policies and procedures for risk management aligned with the internal control system, in the context of the development of the strategic plan, the entities' objectives and targets; therefore, it follows up each Risk Management System in regards to its objectives, plans and indicators of compliance and control, in conformity with current regulations.

With the purpose of preserving the efficiency and effectiveness of its management and operating ability, as well as to safeguard the resources it manages, Banco GNB Sudameris S.A. and its Subsidiaries have an integral risk management system and an organizational structure that allows cutting down costs and damages caused by them supported by the following structure:

**Board of Directors**

The Board of Directors is responsible for adopting, among others, the following decisions related to the appropriate organization of the risk management system of each entity:

- Definition and approval of the entity's policies on risk management.
- Approval of regulations, manuals of procedures and functions of the entity supervised, as well as the respective updates.
- Approval of the Code of Ethics, the internal control system and the organizational and technological structure of the risk management systems.
- Approval of operating limits and counterparts according to the attributions defined.
- Approval of exposure and limits to different types of risk.
- Approval of actions where exposure limits are overcome or exceeding the exposure limits or any exception to a rule, as well as contingency plans to adopt for any extreme situation.
- Appointment of the risk committee, definition of its functions and approval of its regulations according to the applicable provisions of law.
- Approval of methodologies and models to manage the Risk Management Systems.
- Ongoing monitoring to the compliance with the guidelines and policies of the Risk Management Systems.

The Board relies basically on the following committees for the administration of the various Risk Management Systems:

**Risk Committee**

The Risk Committee must comply with the functions and responsibilities described below:

- a. Advise the Board of Directors in the definition of the exposure limits per type of risk, term, amount, currency, and instruments, and observe their compliance.
- b. Advise the Board of Directors and the bank's Chairman on the definition of information security policies and procedures and prevention of the cybersecurity risk.
- c. Prepare analysis and forecasts on the behavior of the main economic and monetary variables that evidence the economy situation, the behavior of the various financial instruments, and their incidence in the risks the entity is exposed to.

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- d. Verify the integral risk management estimating and controlling the degree of exposure to the various risks the entity is exposed to, with the purpose of protecting itself from eventual changes that may cause losses in the financial statements.
- e. Monthly review of exposure limits to market risk, liquidity risks, credit risk, and operative risk, along with any excess arising and proposals for their adjustment.
- f. Monthly review of the results related to the management of the information security and cyber-security risk.
- g. To make proposals to the chairman in regards to the contingency plans to adopt for each extreme scenario and risk identified.
- h. Monthly review the operative risk exposure, the assessment of the Type "A" events, and the activities done during that period.
- i. Quarterly review the interaction results of the National Risk Management Area with the General Audit of Banco GNB Sudameris.
- j. Biannual analysis and review of the methodologies to measure the risks of market, liquidity and credit.
- k. Observe the timely and total compliance with the instructions given by the Superintendency of Colombia regarding the identification, measurement, control and monitoring of the different systems of risk management, information security and cyber-security.
- l. Analyze the stress test results for the risks of market, liquidity and credit risk back-testing.
- m. Analyze the entity's counterpart limits and request their presentation for the approval by the Board of Directors.
- n. Other duties related to the Committee's objectives and rules for risk management not assigned to other bodies and those issued by a competent authority that are mandatory.

**Loans Committee**

- Analysis of results for ongoing and semester rating.
- Sector analysis by customers and perspectives per economic activity of the clients.
- Monthly analysis and variation of customers in default.
- Analysis of the monthly variation to the portfolio quality by risk category.
- Follow-up to past-due portfolio under special and legal collection.
- Analysis of figures, trends and evolution of past-due portfolio in regional offices and channeling of efforts to avoid operating losses.
- Evaluation, design and recommendation of policies designed to recover past-due accounts.
- Presentation of figures and strategies recommendations to be followed to collect the past due loans from major customers.
- Analysis and evaluation of the provision projections by portfolio.

**Credit Committee**

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- Analysis, evaluation, monitoring, review and approval of credit applications within authority levels. Similarly, recommendations for the presentation of proposals that require the Board approval due to their amount.
- Verification and approval through the signature of specific credit operations of the respective banking area, in a collective action, taking into account the allocation of limits within authority levels indicated by the Schedule of the Board and FC4.
- Presentation to the Board of proposed limits, in accordance with the authority levels of each department.
- Assure compliance with the selection policies and maintenance of the corporate banking clients, institutional banking, consumer banking and payroll-loan customers, in accordance with the policies set out by the Board.

**Audit Committee**

- Proposals for the Board of Directors approval of the structure, procedures and methodologies required for the functioning of the internal control system.
- Evaluation of the internal control structure of the Bank and its Subsidiaries in order determined whether the procedures designed give reasonable protection to the entity's assets, as well as third parties procedures under its administration or custody, and evaluate whether controls exist to verify that operating transactions are appropriately authorized and recorded.
- Observe that the preparation, presentation and disclosure of financial information adjusts to applicable standards, verifying that the necessary controls are in place.
- Study of the financial statements and preparation of the related report for the Board's consideration, based on the evaluation not only of the corresponding projects, with their notes, but also, the opinions, observations by control entities, results of assessments carried out by competent committees and other related documents.
- Proposals for programs and controls to the Board to prevent, detect and provide an adequate response to the risk of fraud and misconduct.
- Supervision of functions and activities of the Audit function in order to determine its independence and objectivity in regards to the activities audited, identification of limitations that prevent the appropriate performance and verification whether the scope of that work meets internal control needs.
- Follow-up on the levels of risk exposure, the implications for the Bank and its subsidiaries, and measures adopted to control or mitigate them, at least every six months, or more frequently if appropriate, and present to the Board the resulting reports on the most important aspects of the work performed.
- Evaluation of internal control reports prepared by the audit function verifying that the management has taken into account the suggestions and recommendations.
- Follow-up to the compliance with the instruction of the Board or equivalent body.
- Presentation to the Shareholders' General Meeting, through the Board, of the candidates to occupy the post of Statutory Auditor.
- Analysis of functional Information Systems, their reliability and integrity for decision making.
- Other functions as established by the Board in the Internal Regulations.

**Risk Management Framework**

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The Board of Directors is responsible for setting and supervising the risk management structure of the Bank. The Board of Directors has created the Risk Committee, which is responsible for developing and monitoring the Bank risk management policies in its specific areas. All Committees have been duly enforced and regulated and regularly inform the bank's General Direction on their activities.

The group's risk management policies were established in order to identify and analyze the risks faced by the Parent, set adequate limits and risk controls and to monitor the risk and compliance with the limits. There are regular reviews of policies and risk management systems in order to reflect changes under market conditions, products and services offered. Through its management standards and procedures, the Parent develops a disciplined and constructive control environment where all employees understand their roles and obligations.

The Bank and its subsidiaries' Audit Committee supervises how management monitors the compliance with policies and the procedures of the group's risk management and reviews whether the risk management framework is appropriate with regard to the risks faced by the Bank and its Subsidiaries. Internal Audit assists the Committee in its supervisory roles. Internal Audit also conducts regular and ad hoc reviews of controls, procedures and risk management which results are reported to the Audit Committee of the Bank and its Subsidiaries.

**Individual Risk Analysis**

The Bank and its subsidiaries are exposed in the ordinary course of business to a range of financial, operational, reputation and legal risks. The financial risks include (i) market risk (ii) credit risk (including dealing and price risks as detailed below); and (iii) structural risks due to the composition of balance sheet assets and liabilities including variations in exchange rates, liquidity and interest rates. Below appears an analysis of each risk mentioned in order of importance:

- Credit risk;
- Liquidity risk;
- Market risk;
- Exchange risk; and
- Interest rate risk.

**a) Credit risk;**

The Bank and its subsidiaries are exposed to credit risk consisting of the risk of incurring a financial loss because of the failure by the debtor to meet its payment obligations on a timely and complete manner. Exposure to credit risk is also incurred as result of credit activities and transactions with counterparts.

For the purpose of risk management reporting, the exercise considers and consolidates all elements of exposure to credit risk (such as the risk of an individual debtor failing to pay, country risk and sector risk).

For the purpose of risk management, the credit risk originated in trading asset is independently managed and their related information is disclosed in the chart that appears below.

The maximum exposure of the Bank and its subsidiaries to credit risk under the term of IFRS 7, and at consolidated level, is reflected in the carrying value of the financial assets in the statement of financial position as of December 31, 2018 and 2017, as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Deposits in banks different from the Central Bank</b>	299,102	303,630
<b>Financial Liabilities at Fair Value</b>		
Government	5,666,652	3,722,096
Financial entities	494,850	533,882
Other sectors	98,793	867,106
Derivatives	23,511	103,008
Portfolio and accounts receivable		

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Commercial	8,661,068	7,993,616
Consumer	5,842,272	4,750,097
Housing	1,106,305	1,143,542
Other accounts receivable	175,801	155,073
<b>Total financial assets with credit risk</b>	<b>22,368,354</b>	<b>19,572,049</b>
<b>Financial instruments with credit risk out of the statement of financial position at their par value</b>		
Financial guarantees and credit letters	6,471,782	6,655,139
Credit commitments	375,316	410,945
<b>Total exposure to credit risk out of the statement of financial position</b>	<b>6,847,098</b>	<b>7,066,084</b>
<b>Total Maximum Exposure to Credit Risk</b>	<b>29,215,452</b>	<b>26,638,133</b>

The Board has delegated the responsibility for the credit risk supervision to the Bank's Portfolio Committee. The Credit Risk area reports to the Loans Committee and is responsible for the credit risk management, including:

- Definition of the credit policy in consultation with the business units, covering guarantee requirements, classification and credit reports, and compliance with regulatory and statutory requirements.
- **Monitoring of the authorization structure for the approval and renewal of credit lines.** Authorization limits are collectively allocated, that is, at least two officers with authorization to approve new credit lines are involved, depending on the amounts defined. Approval by two or more officers, or the Credit Committee or the Board is required, depending on the credit line's amount.
- **Credit risk monitoring:** The Credit area evaluates all credit exposures exceeding the designated limits, before the respective business unit communicates the lines to the client. Renewals and reviews of loans are subject to the same review process.
- **Concentration Exposure Limits:** This applies to counterparts, geographical places and industries (in the case of loans and advances), and the issuer, credit classification band, market liquidity and country (for investment instruments).
- **Development and maintenance of risk classification in the Group:** The purpose is to classify the exposure in accordance with the risk degree of financial loss faced and to focus management on arising risks. The risk classification system is used to determine when impairment provisions may be required against specific credit exposure. The current risk classification framework comprises six classes that reflect a range of uncollectibility risks and the available guarantees or other types of factors mitigating credit risk. The responsibility to establish the degrees of risk corresponds to the Credit Risks Area which reports to the Parent's Loans Committee for its final approval, where appropriate. The risk degrees are subject to regular reviews by the Credit Risks Area.
- **Compliance review for business units with agreed exposure limits** including those for industries, country risk and types of product selected. Reports on credit quality in local portfolios are submitted to the Parent's Loans Committee and the appropriate corrective actions are taken.
- **Advisory, guidance and specialized skills** for business units in order to promote best practices on credit risk management practices across the Bank.

The Bank and its subsidiaries define the group's credit policies and the procedures to establish the approval limits for letters of credit for each business unit. Each business unit has a Credit Director who reports to local management and the Risk Committee on all credit matters; each business unit is responsible for the quality and yield of its loan portfolio, monitoring and controlling all credit risks in its portfolio and reporting results to the Bank.

Internal Audit makes regular audits of business units and processes in the Credit Area of the Risk Management Division of the Bank and Subsidiaries.

The loans' detail per type of guarantee in the Grupo GNB consolidated as of de 31, 2018 and 2017, is as follows:

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December 31, 2018	Commercial	Consumer	Housing	Total
Non-guaranteed credits	5,193,789	5,825,110	380	11,019,279
<b>Collateralized Credits</b>				
Home Mortgage	-	-	1,105,925	1,105,925
Other real estate assets	2,325,321	575	-	2,325,896
Admissible Financial Collateral 0%	328,228	2,340	-	330,568
Admissible Financial Collateral 12%	187,197	208	-	187,405
Other collateral	626,533	14,039	-	640,572
<b>Total Gross Credit Portfolio</b>	<b>8,661,068</b>	<b>5,842,272</b>	<b>1,106,305</b>	<b>15,609,645</b>

December 31, 2017	Commercial	Consumer	Housing	Total
Non-guaranteed credits	4,117,080	4,733,574	23,093	8,873,747
<b>Collateralized Credits</b>				
Home Mortgage	-		1,120,449	1,120,449
Other real estate assets	2,103,348	978	-	2,104,326
Investments in equity instruments	98,129	-	-	98,129
Deposits in Cash and Cash Equivalents	10,480	3,700	-	14,180
Trust contracts, letters of credit, and guarantee funds	212,526	7,847	-	220,373
Pledge of revenue	418,992	-	-	418,992
Pledges	34,955	268	-	35,222
Other Assets	998,106	3,730	-	1,001,836
<b>Total Gross Credit Portfolio</b>	<b>7,993,616</b>	<b>4,750,097</b>	<b>1,143,542</b>	<b>13,887,255</b>

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The summary of the portfolio per risk level classification is as follows, as of December 31, 2018 and 2017:

	Loans to clients		Interbank loans		Total	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Commercial</b>						
A	7,806,765	7,382,541	37,830	111,483	7,844,595	7,494,024
B	221,033	118,429	-	-	221,033	118,429
C	323,526	253,807	-	-	323,526	253,807
D	217,096	90,132	-	-	217,096	90,132
E	54,818	37,224	-	-	54,818	37,224
<b>Commercial sub-total</b>	<b>8,623,238</b>	<b>7,882,133</b>	<b>37,830</b>	<b>111,483</b>	<b>8,661,068</b>	<b>7,993,616</b>
<b>Consumer</b>						
A	5,622,466	4,583,607	-	-	5,622,466	4,583,607
B	36,585	45,375	-	-	36,585	45,375
C	74,787	62,094	-	-	74,787	62,094
D	96,908	48,218	-	-	96,908	48,218
E	11,526	10,803	-	-	11,526	10,803
<b>Consumer Sub-total</b>	<b>5,842,272</b>	<b>4,750,097</b>	<b>-</b>	<b>-</b>	<b>5,842,272</b>	<b>4,750,097</b>
<b>Housing</b>						
A	1,046,738	1,098,694	-	-	1,046,738	1,098,694
B	31,911	28,608	-	-	31,911	28,608
C	4,898	4,396	-	-	4,898	4,396
D	14,381	5,407	-	-	14,381	5,407
E	8,377	6,437	-	-	8,377	6,437
<b>Housing Sub-total</b>	<b>1,106,305</b>	<b>1,143,542</b>	<b>-</b>	<b>-</b>	<b>1,106,305</b>	<b>1,143,542</b>
<b>Total Gross Portfolio</b>	<b>15,571,815</b>	<b>13,775,772</b>	<b>37,830</b>	<b>111,483</b>	<b>15,609,645</b>	<b>13,887,255</b>
Provisions	(492,863)	(300,977)	(304)	(311)	(493,167)	(301,288)
<b>Total Net Portfolio</b>	<b>15,078,952</b>	<b>13,474,795</b>	<b>37,526</b>	<b>111,172</b>	<b>15,116,478</b>	<b>13,585,967</b>

#### Loans and Investments in Impaired debt instruments

Impaired loans and debt instruments correspond to loans, advances and investments in debt instruments (other than instruments carried at fair value with effect in income) for which the Bank and its subsidiaries decide the recoverability of the capital and interests owed in accordance with the terms of the loan/investment instrument; loans, advances and investments in debt instruments at fair value with changes in income are not tested for impairment, but are subject to the same internal classification system (see Note 11 – Credit Portfolio).

#### Loans and Investments in Debt Instruments in Default but nor Impaired

Past-due loans and investment debt instruments not impaired, other than those recognized at fair value with changes in income are those where the contractual interest or capital repayments are past-due, but the Parent believes that impairment is not appropriate considering the level of guarantee/collateral available and/or the collection stage on the amounts due to the Group.

#### Restructured loans

Loans with renegotiated terms are those that have been restructured due to impairment of the borrower's final position and where the Parent has made concessions it would not otherwise consider.

Once the loan has been restructured, it remains in this category regardless of satisfactory performance after its restructuring.

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**Write-off Policy**

The Parent and its subsidiaries write off loan balances, investment debt instruments or any provision related through impairment losses when Bank's Management Area of Recoveries and Collections decides that a loan or instrument is not collectible.

This decision is taken after considering information such as the occurrence of significant changes to the financial position of the borrower or issuer, such that they cannot continue to pay the obligation or that collection against collateral is not sufficient to pay the entire exposure.

In the case of smaller, standard loans, write-off decisions are usually based on the specific aging status of default for a product.

The following is an analysis of gross and net write-offs of individually impaired assets per risk degree:

	<u>Colombia</u>	<u>Peru</u>	<u>Paraguay</u>	<u>Total</u>
	<u>Write-off</u>	<u>Write-off</u>	<u>Write-off</u>	<u>Write-off</u>
<b>December 31, 2018</b>				
Commercial	15,928	11,893	6,867	34,688
Consumer	74,074	44,609	157	118,840
Housing	34	-	-	34
<b>Total</b>	<b>90,036</b>	<b>56,502</b>	<b>7,024</b>	<b>153,562</b>
<b>December 31, 2017</b>				
Commercial	18,281	7,099	1,219	26,600
Consumer	72,001	46,519	1,160	119,680
Housing	285	-	-	285
<b>Total</b>	<b>90,567</b>	<b>53,618</b>	<b>2,379</b>	<b>146,564</b>

The Bank and its subsidiaries record collateral against loans and advances to customers in the form of a mortgage interest on properties and other instruments recorded on assets in guarantee. Fair value estimates of guarantees are based on the guarantee value evaluated at the time of the loan and are generally updated in accordance with current regulations, except where the loan is individually evaluated as impaired. Generally, collateral is not recorded on the Bank's loans or advances, except where instruments are held as part of a resale activity and loan instruments.

The following are details of a fair value estimate of collateral and other instruments improvements taken against loans and advances to customers and banks:

	<b>Loans to clients</b>		<b>Interbank loans</b>	
	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Against individual impairment</b>				
Property	280,985	190,969	-	-
Debt instruments	14,714	4,363	-	-
Participation instruments	100,395	25,798	-	-
Other	181,568	44,008	-	-
<b>Against collective impairment</b>	-	-	-	-
Property	56,717	46,357	-	-
Other	23	27	-	-
<b>Against accounts not in default or impaired</b>	-	-	-	-
Property	3,507,099	3,486,383	-	-
Debt instruments	246,479	408,189	-	14,920
Participation instruments	594,963	581,252	-	-
Other	1,670,421	1,739,687	-	-
	<b>6,653,364</b>	<b>6,527,031</b>	<b>-</b>	<b>14,920</b>

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When the Bank and its subsidiaries obtain financial and non-financial assets during the period by calling on guarantees taken as instruments against loans and advances, which results in other credit improvements.

The policy of the Bank and its subsidiaries is to exercise the guarantees in an orderly and timely fashion. As a general rule, the Bank and its subsidiaries do not use non-monetary collateral on their own operations.

**Credit Risk Concentration**

The Bank and its subsidiaries monitor the credit risk concentration per sector and geographical location; below appears an analysis of credit risk concentration from loans and advances and investment instruments as of the closing date:

	<u>Loans to clients</u> <u>December 31,</u> <u>2018</u>	<u>Interbank loans</u> <u>December 31,</u> <u>2018</u>	<u>Total</u> <u>December 31,</u> <u>2018</u>	<u>Loans to clients</u> <u>December 31,</u> <u>2017</u>	<u>Interbank loans</u> <u>December 31,</u> <u>2017</u>	<u>Total</u> <u>December 31,</u> <u>2017</u>
<b>Concentration per Sector</b>						
Trade	1,919,220	-	1,919,220	1,560,437	-	1,560,437
Agriculture	1,431,385	-	1,431,385	1,375,657	-	1,375,657
Manufacture	1,161,461	-	1,161,461	1,087,522	-	1,087,522
Real Estate	703,405	-	703,405	604,386	-	604,386
Financial Intermediation	640,514	-	640,514	495,831	-	495,831
Transport	424,839	-	424,839	474,024	-	474,024
Health	167,695	-	167,695	357,149	-	357,149
Education	396,111	-	396,111	324,263	-	324,263
Energy and Gas	76,929	-	76,929	62,527	-	62,527
Communications	60,507	-	60,507	72,729	-	72,729
Mining	11,977	-	11,977	5,143	-	5,143
Other	1,579,698	-	1,579,698	1,411,644	-	1,411,644
Government	49,497	-	49,497	50,821	-	50,821
Banks	-	37,830	37,830	-	111,483	111,483
Unsecured	5,842,272	-	5,842,272	4,750,097	-	4,750,097
Housing	1,106,305	-	1,106,305	1,143,542	-	1,143,542
Provisions	(492,863)	(304)	(493,167)	(300,977)	(311)	(301,288)
<b>Total</b>	<b>\$ 15,078,952</b>	<b>37,526</b>	<b>15,116,478</b>	<b>13,474,795</b>	<b>111,172</b>	<b>13,585,967</b>

Concentration by geographical location of loans and advances is measured on the basis of the location of the Group's entity holding the assets, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured on the basis of the location of the instrument's issue.'

<b>Geographical concentration</b>	<b>Loans to clients</b>	<b>Interbank loans</b>	<b>TOTAL</b>
	<u>December 31, 2018</u>		
Colombia	8,098,943	4	8,098,947
Peru	3,682,314	37,819	3,720,133
Paraguay	2,816,677	7	2,816,684
Panama	636,976	-	636,976
Virgin Islands	336,905	-	336,905
United States	-	-	-
Total Provisions	(492,863)	(304)	(493,167)
<b>Total</b>	<b>\$ 15,078,952</b>	<b>\$ 37,526</b>	<b>15,116,478</b>

**Total**

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Geographical concentration	Loans to clients	Interbank loans	
	At December 31, 2017		
Colombia	7,127,767	60,077	7,187,844
Peru	3,564,138	51,397	3,615,534
Paraguay	2,370,094	9	2,370,104
Panama	707,683	-	707,683
United States	6,089	-	6,089
Total Provisions	(300,977)	(311)	(301,288)
<b>Total</b>	<b>13,474,795</b>	<b>\$ 111,172</b>	<b>13,585,967</b>

**b) Market Risk:**

Market risk is defined as the potential loss of the financial assets value due to adverse movements in factors determining their price, also called risk factors, such as interest rates, exchange rates, share prices and other factors affecting the value of financial products traded by the Bank.

The market risk management system (SARM as per its acronym in Spanish) implemented by the Bank and its subsidiaries is designed to identify, measure, control and monitor the market risk to which it is exposed in the course of treasury operations considering the entity's structure and size.

Group GNB Sudameris trades in the money market, the exchange market and the capital market to meet its needs and those of its clients in accordance with policies and risk levels. In this sense, it manages various financial assets portfolios within limits and levels allowed.

The risks assumed in operations, both in the Parent and the Treasury's book are consistent with the general business strategy and risk appetite of the Bank and its subsidiaries, based on the market depth for each instrument, weighting of risk assets, the level of solvency, profits budget established for each business unit and the overall Balance structure.

The business strategies are established in accordance with approved limits seeking a balance between in the risk and reward. At the same time, there are structural limits which are consistent with the general philosophy of the Bank based on its levels of capital, profit and tolerance for risk.

Grupo GNB Sudameris is exposed to the following risk factors:

- **Interest rate risk:** it is defined as the possibility that variations in interest rates may adversely affect the value of the entity's financial instruments held. Investments held by the group are exposed to this risk due to the effects of interest rates fluctuations, which may affect the financial position and future cash flows. Interest margins can be increased as a result of changes in interest rates, but they may also reduce and cause losses, should unexpected movements take place.
- **Exchange Rate Risk:** It is defined as the sensitivity of the proprietary's position value in a currency other than the Colombian peso given potential movements in the exchange rates to which the Bank and its subsidiaries are exposed. This risk is implicit in currency dealings, mainly forwards. The exchange risk is also present where there is a mismatch in the net currency position affected by fluctuations in exchange rates.
- **Hedging:** As part of its strategy to strengthen business in the region and following the acquisition of Banco GNB Peru and Banco GNB Paraguay, Banco GNB Sudameris has developed hedging mechanisms through the issue of subordinated bonds. This way, the Entity seeks to mitigate exchange risk by using hedging tools.

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- The hedge accounting treatment for hedging is subject to compliance with methodological requirements that ensure its effectiveness. Grupo GNB Sudameris makes a quarterly test to guarantee compliance with the assumptions required.

Grupo GNB Sudameris does constantly work on the review of models that allow managing the market risk on the basis of identifying and analyzing the variations in risk factors (interest rate, exchange rate and price indexes) on the value of the various financial instruments portfolios.

Based on the standard risk measurement methodology (VaR) at December 31, 2018 and 2017, the following results are presented:

**SEE CONGLOMERATE**

**Maximal, minimal and average VaR**

	December 31, 2018			End of the period
	Minimal	Average	Maximal	
Interest Rate	114,761	133,696	143,670	143,670
Exchange Rate	1,587	4,020	9,277	1,587
Participation Securities	378	394	422	397
Collective Funds	163	23,213	52,300	31,183
<b>Total VaR</b>		<u>161,323</u>		<u>176,837</u>

**Maximal, minimal and average VaR**

	December 31, 2017			End of the period
	Minimal	Average	Maximal	
Interest Rate	67,625	95,781	114,761	114,761
Exchange Rate	784	10,988	24,120	1,844
Participation Securities	403	411	422	422
Collective Funds	162	375	588	163
<b>Total VaR</b>		<u>107,555</u>		<u>117,190</u>

The Group's VaR at the cutoff of December 31, 2018 compared to the cutoff of December 31, 2017 increased to \$59,046 million, mainly due to the increase of the Investment Funds that grew \$31,019 million through the Real Estate Fund, and second due to the increase in the interest rate by \$28,909 million, explained by the portfolio increase from 2017 to 2018 for \$1.4 billion in the item Investments at Fair Value with Changes in OCI.

VaR indicators individually presented by the Bank and its Subsidiaries at December 31, 2018 and 2017, were:

Entity	December 31, 2018		December 31, 2017	
	Amount	Basic Points Level I	Amount	Basic Points Level I
	Banco GNB Sudameris	88,463	99.4	86,948
Servitrust	1,108	1.3	1,089	1.3
Servivalores	867	1.0	852	1.0
Servibanca	1,499	1.8	1,473	1.8
Paraguay	6,024	7.2	5,921	7.0
Peru	19,230	22.6	18,901	22.2
<b>Total VaR, Consolidated Subsidiaries</b>	<u>117,191</u>	<u>133.3</u>	<u>115,184</u>	<u>130.8</u>

**c) Variation Risk in the Exchange Rate of Foreign Currencies**

Grupo GNB Sudameris is exposed to exchange risk from its positions in currencies other than the Colombian peso, mainly dollars and euros, both in the proprietary position and in investments held in subsidiaries abroad.

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The proprietary spot position is determined by the difference between assets and liabilities in a foreign currency in and out of the balance sheet, both direct and contingent, including those liquidated in Colombian pesos. The limit is 50% of the entity's computable capital for the two preceding periods, restated at the market representative exchange rate for the following month.

The gross leverage position contains the short-term foreign currency operations of the Bank and its subsidiaries, as well as long and short-term operations of flows or maturities of the day, rights and obligations under contracts for future delivery in foreign currency and exchange exposure in contingencies acquired in the negotiation of currency options and derivatives on the exchange rate, up to a limit of 550% of computable capital of the entity in the preceding two months, restated at the Market Representative Exchange Rate for the following month.

Additionally, the Global Proprietary Position excludes the derivatives and reports the face value recorded in the memorandum accounts including purchases and sales for up to 20% of the entity's computable capital in the preceding two months restated at the average Market Representative Exchange Rate.

The determination of maximum and minimum amounts in the daily position and the foreign currency spot position is based on each entity's computable capital on the last day of preceding two months translated at a rate published by the Superintendency of Finance at the closing of the preceding month.

Substantially all the foreign currency assets and liabilities of the Bank and its subsidiaries are held in US dollars.

The following is the currency detail as of December 31, 2018 and 2017:

<b>December 31, 2018</b>	<b>USD (Millions)</b>	<b>Euros (Millions)</b>	<b>Other currencies translated to USD (Millions)</b>	<b>Total in COP (Millions)</b>
Cash and Cash Equivalents	287.47	5.67	151.41	1,444,698
Debt investments	-	-	397.65	1,292,277
Equity investments	-	-	0.40	1,301
Derivatives	7.09	-	-	23,043
Loans	1,100.06	-	1,254.64	7,652,186
Other	72.21	-	67.57	454,241
<b>Assets</b>	<b>1,466.83</b>	<b>5.67</b>	<b>1,871.67</b>	<b>10,867,746</b>
Current accounts	84.18	-	205.94	942,810
Savings accounts	377.18	-	60.89	1,423,597
Term deposits	234.91	-	971.94	3,921,966
Other	1,027.40	5.58	268.74	4,230,268
<b>Liabilities</b>	<b>1,723.67</b>	<b>5.58</b>	<b>1,507.51</b>	<b>10,518,641</b>
<b>Net Position</b>	<b>(256.84)</b>	<b>0.09</b>	<b>364.16</b>	<b>349,105</b>

<b>December 31, 2017</b>	<b>USD (Millions)</b>	<b>Euros (Millions)</b>	<b>Other currencies translated to USD (Millions)</b>	<b>Total in COP (Millions)</b>
Cash and Cash Equivalents	9.93	-	98.06	322,265
Loans	983.63	-	1,280.18	6,755,204
Other	622.98	3.93	457.02	3,234,443
<b>Assets</b>	<b>1,616.55</b>	<b>3.93</b>	<b>1,835.26</b>	<b>10,311,912</b>
Current accounts	178.59	-	178.59	1,065,834
Savings accounts	218.76	-	188.33	1,214,743
Term deposits	445.24	-	962.66	4,201,169
Other	1,032.51	3.88	172.47	3,607,247
<b>Liabilities</b>	<b>1,875.10</b>	<b>3.88</b>	<b>1,502.04</b>	<b>10,088,993</b>
<b>Net Position</b>	<b>(258.55)</b>	<b>0.04</b>	<b>333.22</b>	<b>222,918</b>

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1. The estimated effect of an increase or decrease per \$10/US 1 in relation to the exchange rate as of December 31, 2018, would be \$1,078.

2. The estimated effect of an increase or decrease per \$10/US 1 in relation to the exchange rate as of December 31, 2017, would be \$7,618.

**d) Interest Rate Risk on Structure**

The Bank consolidated assets and liabilities are exposed to the market fluctuations of the interest rates affecting their financial position. This risk is based on the relationship between asset and liability positions. On the asset side, the positions taken for investments and loans placement at fixed and floating rates, that are in turn funded by liabilities such as deposits and bank borrowings at fixed and floating rates, means that interest margins may increase or decrease as a result of movements in these rates, which may increase the margins generating greater profit, or decrease as a consequence of unexpected market events.

The following appears a sensitivity analysis of the main productive assets and interest-bearing liabilities exposed to interest rate changes. The table presents the average volumes and accumulated amounts as of December 31, 2018 and 2017, as well as the impact of a 50 basic points variation.

Account Detail	December 31, 2018			Variation of 50 basic points in interest rates	
	Average for the period	Interest income/expense	Average interest rate	Favorable	Unfavorable
	Portfolio in COP	7,208,856	921,747	12.8%	74,418
Portfolio in foreign currency	6,881,945	627,219	9.1%	173,893	(173,893)
Money market asset operations in COP	3,477,744	158,022	4.5%	156	(156)
Money market asset operations in foreign currency	91,029	97	0.1%	2	(2)
COP investments in negotiable debt securities and available for sale	6,552,925	293,497	4.5%	30,896	(30,896)
<b>Financial assets generating interests</b>	<b>24,212,499</b>	<b>2,000,582</b>	<b>8.3%</b>	<b>279,365</b>	<b>(279,365)</b>

Account Detail	December 31, 2018			Variation of 50 basic points in interest rates	
	Average for the period	Interest income/expense	Average interest rate	Favorable	Unfavorable
	Clients deposits in current accounts, savings accounts and Term Deposits in COP	8,597,344	371,958	4.33%	41,202
Clients deposits in savings accounts and term deposits in foreign currency	1,296,348	34,562	2.67%	6,313	(6,313)
Clients deposits in fixed term deposits in COP	4,448,364	260,299	5.85%	9,653	(9,653)
Clients deposits in fixed term deposits in foreign currency	3,881,037	134,246	3.46%	15,561	(15,561)
Bonds in Colombian pesos	332,405	24,498	7.37%	8,018	(8,018)
Bonds in foreign currency	1,931,299	131,266	6.80%	48,574	(48,574)
Financial obligations in Colombian pesos	1,999,142	100,708	5.04%	89	(89)
Financial obligations in foreign currency	1,017,242	52,795	5.19%	3,772	(3,772)
<b>Total interest-bearing financial liabilities</b>	<b>23,503,181</b>	<b>1,110,332</b>	<b>4.72%</b>	<b>133,182</b>	<b>(133,182)</b>
<b>Total interest-bearing financial liabilities in COP</b>	<b>15,377,255</b>	<b>757,463</b>	<b>4.93%</b>	<b>58,962</b>	<b>(58,962)</b>
<b>Total interest-bearing financial liabilities in foreign currency</b>	<b>8,125,926</b>	<b>352,869</b>	<b>4.34%</b>	<b>74,220</b>	<b>(74,220)</b>
<b>Total net financial assets subject to interest rate risk in COP</b>	<b>1,862,270</b>	<b>615,803</b>	<b>3.04%</b>	<b>46,508</b>	<b>(46,508)</b>
<b>Total net financial liabilities subject to interest rate risk in foreign currency</b>	<b>(1,152,952)</b>	<b>274,447</b>	<b>4.65%</b>	<b>99,675</b>	<b>(99,675)</b>
<b>Total net financial assets subject to interest rate risk</b>	<b>709,318</b>	<b>890,250</b>	<b>3.54%</b>	<b>146,183</b>	<b>(146,183)</b>

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Account Detail	December 31, 2017			Variation of 50 basic points in interest rates	
	Average for the period	Interest income/expense	Average interest rate	Favorable	Unfavorable
Portfolio in COP	6,577,877	861,726	13.1%	64,578	(64,578)
Portfolio in foreign currency	6,402,220	601,111	9.4%	59,433	(59,433)
Money market asset operations in COP	2,508,600	150,097	6.0%	83	(83)
Money market asset operations in foreign currency	200,130	250	0.1%	8	(8)
COP investments in negotiable debt securities and available for sale	5,320,858	335,866	6.3%	53,799	(53,799)
<b>Financial assets generating interests</b>	<b>21,009,685</b>	<b>1,949,050</b>	<b>9.3%</b>	<b>177,900</b>	<b>(177,900)</b>

  

Account Detail	December 31, 2017			Variation of 50 basic points in interest rates	
	Average for the period	Interest income/expense	Average interest rate	Favorable	Unfavorable
Clients deposits in current accounts, savings accounts and Term Deposits in COP	6,999,155	420,156	6.00%	33,012	(33,012)
Clients deposits in savings accounts and term deposits in foreign currency	1,151,589	36,597	3.18%	5,581	(5,581)
Clients deposits in fixed term deposits in COP	4,236,883	316,890	7.48%	12,012	(12,012)
Clients deposits in fixed term deposits in foreign currency	4,012,518	150,103	3.74%	22,908	(22,908)
Bonds in Colombian pesos	332,405	27,085	8.15%	8,619	(8,619)
Bonds in foreign currency	2,012,969	114,698	5.70%	50,738	(50,738)
Financial obligations in Colombian pesos	1,348,121	98,045	7.27%	20,402	(20,402)
Financial obligations in foreign currency	487,655	38,429	7.88%	8,428	(8,428)
<b>Total interest-bearing financial liabilities</b>	<b>20,581,296</b>	<b>1,202,003</b>	<b>5.84%</b>	<b>102,343</b>	<b>(102,343)</b>
<b>Total interest-bearing financial liabilities in COP</b>	<b>12,916,565</b>	<b>862,176</b>	<b>6.67%</b>	<b>65,426</b>	<b>(65,426)</b>
<b>Total interest-bearing financial liabilities in foreign currency</b>	<b>7,664,731</b>	<b>339,827</b>	<b>4.43%</b>	<b>36,917</b>	<b>(36,917)</b>
<b>Total net financial assets subject to interest rate risk in COP</b>	<b>1,490,770</b>	<b>485,514</b>	<b>2.68%</b>	<b>9,151</b>	<b>(9,151)</b>
<b>Total net financial liabilities subject to interest rate risk in foreign currency</b>	<b>(1,062,381)</b>	<b>261,534</b>	<b>4.67%</b>	<b>22,524</b>	<b>(22,524)</b>
<b>Total net financial assets subject to interest rate risk</b>	<b>428,390</b>	<b>747,047</b>	<b>3.44%</b>	<b>75,557</b>	<b>(75,557)</b>

- 1) Had there been a 50 bp variation in interest rates at December 31, 2018, interest-bearing financial assets would have had a variation in income for +/- \$279,365 million.
- 2) Had there been a 50 bp variation in interest rates at December 31, 2018, interest-bearing financial liabilities would have had a variation in cost for +/- \$133,182 million.
- 3) Had there been a 50 bp variation in interest rates at December 31, 2018, the total net financial assets subject to interest rate risk would have had a variation for +/- \$146,183 million.

**e) Liquidity risk**

**1. Management and Models**

The consolidated Liquidity Risk Management System (SARL as per its acronym in Spanish) allows an evaluation of the liquidity risk exposure of the Group, enabling the adoption of timely decisions for the adequate mitigation of the risk, and when applicable, to determine the adequate amount of capital that may correspond to the risk levels of GNB Sudameris Conglomerate and manage the entity's liquidity policy.

GNB Sudameris Conglomerate manages the liquidity risk in accordance with standard model set out by Chapter VI of the Basic Accounting and Financial Communication of the Superintendency of Finance, and in concordance with the rules related to the management of the liquidity risk through the basic SARL principles, which establishes the minimal prudent parameters to be supervised by the entities in their operation to efficiently manage the liquidity

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risk they are exposed to, using SARL elements and stages (identification, measurement, control and monitoring), in conformity with the structure, complexity and size of the Entity consolidated.

The liquidity risk indicator measurement and other measures regarding international affiliates are the responsibility of each particular business; however, the overall liquidity management is the responsibility of the Conglomerate 's Risk Direction and Models Management, where such area analyzes the implications in terms of financing and liquidity of the entity's liquidity structures and their compatibility with the the Parent's policies and guidelines and its the limits and alerts scheme approved by the Board of Directors to facilitate the joint liquidity risk management.

The development and update of liquidity risk policies have contributed to the appropriate standardization of the risk management system, not only in terms of limits and alerts, but also in procedures, developing complementary management tools and conducting periodic stress exercises for its models, which will be the basis to take preventive or risk mitigating actions, thus limiting the exposure, designing a liquidity cushion, adjusting the risk profile and structuring the contingency plan.

As part of the risk liquidity analysis, GNB Sudameris Conglomerate measures, among others, the volatility of deposits with no contractual maturity through statistical analysis, the evolution of financial assets and liabilities, the structure of interest rates, the indicator for regular liquidity coverage ratio (ICR), and the stress liquidity coverage ratio (SLC), the concentration of funding sources, proprietary position, liquidity gap per currency, and funding positions between related parties.

Senior management (through the Conglomerate's Risk Committee) is aware of the conglomerate's liquidity situation and makes the necessary decisions considering the high-quality net assets to be held, the tolerances in liquidity management or minimum liquidity, deposit-taking, policies on surplus liquidity placement, changes in the characteristics of existing products as well as the new products, diversification of funding sources in order to avoid concentration in deposit-taking from a small number of investors or savers, hedging strategies, and changes in the financial position structure.

The Bank and its subsidiaries, each have a liquidity contingency plan that clearly specifies the roles and responsibilities to activate the contingency, and the creation of a liquidity crisis team which function and responsibility are to take the actions required to mitigate the effects of the exposure to the liquidity risk by any of the group entities, using a series of strategies designed to correct the liquidity structure based on supports from the Central Bank, the entity's assets, main customers, shareholders, or the deposit insurer FOGAFIN, as the last case, in addition to defining the disclosure of internal information to communication media, control entities and the general public through the Communications Plan.

High-quality net assets comprise cash and trading investments in debt instruments, investments in collective portfolios with no term commitment, debt investments available for sale in debt securities, and investments held to maturity, provided that they are money-market operations.

Conglomerado GNB Sudameris meets the requirements to establish the mandatory cash reserve as regulated in each country in the case of the affiliates abroad, keeping the cash, banks and the respective deposits in the Central Banks, applying the percentages set on the deposits and liabilities, as required by each regulation.

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**Quantitative Information**

In 2018, Conglomerado GNB Sudameris held very high liquidity levels, sufficient to cover all its liquidity requirements, as explained by the following table at the closing of December 2018, and the maximal, minimal and average amounts during the period:

December 31, 2018		
Entity	Amount	Percentage
Banco GNB Sudameris	5,091,968	74.33%
Servivalores	6,829	0.10%
Servitrust	41,253	0.60%
Servibanca	102,657	1.50%
GNB Peru	1,335,257	19.49%
Corporación Financiera GNB Sudameris	201	0.003%
GNB Paraguay	272,688	3.98%
<b>Total</b>	<b>6,850,853</b>	<b>100%</b>
Maximal	\$ 7,047,623	
Minimal	\$ 4,413,771	
Average	\$ 5,693,235	

The following liquidity analysis summary of the group was presented at year-end December 31, 2017, according to the provisions issued by the Superintendency of Finance of Colombia for such purpose.

December 31, 2017		
Entity	Amount	Percentage
Banco GNB Sudameris	6,411,031	78.54%
Servivalores	21,756	0.27%
Servitrust	30,821	0.38%
Servibanca	77,229	0.95%
GNB Peru	1,274,138	15.61%
GNB Paraguay	347,266	4.25%
<b>Total</b>	<b>8,162,242</b>	<b>100%</b>
Maximal	\$8,162,242	
Minimal	\$4,772,378	
Average	\$5,396,438	

At year-end December 31, 2018 and 2017, the Parent analyzed the financial liabilities maturities presenting the following consolidated contractual maturities:

**Maturity Analysis of Consolidated Financial Liabilities at December 31, 2018**

Financial Liabilities	< 1 month	1-3 months	3-12 months	Over 12 months
Deposits by clients	2,107,471	2,407,733	3,484,850	13,120,215
Short-term financial obligations	4,991,660	-	-	-
Outstanding investment securities	755	-	-	2,707,007
Bank credits	151,013	322,643	574,096	1,362,967
<b>Total Financial Liabilities</b>	<b>7,250,899</b>	<b>2,730,376</b>	<b>4,058,946</b>	<b>17,190,189</b>

**Maturity Analysis of Consolidated Financial Liabilities at December 31, 2017**

Financial Liabilities	< 1 month	1-3 months	3-12 months	Over 12 months
Deposits by clients	2,090,735	2,064,928	3,870,165	10,513,922
Short-term financial obligations	4,255,354	-	-	-
Long-term financial obligations	78	1,977	5,924	-
Outstanding investment securities	-	-	-	2,926,747
Bank credits	72,395	52,961	304,965	1,117,502
<b>Total Financial Liabilities</b>	<b>6,418,562</b>	<b>2,119,866</b>	<b>4,181,054</b>	<b>14,558,171</b>

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## **Operating Risk**

Operating risk plays a fundamental role in the financial conglomerate's management, with an ongoing monitoring of various events, which may, or not, imply losses as a result of failures in internal processes, human resources, infrastructure and technology or derived from external circumstances.

### **1. SARO Evolution**

During 2017, the Operative Risk Area, part of the Direction of banking Risks, ascribed to the Risk Management Area, in compliance with the provisions of current regulations, continued with the management of the operative risk, carrying out the following activities, among others:

#### **1.1 Banco GNB Sudameris and Colombian Subsidiaries:**

##### **1.1.1 Banco GNB Sudameris**

During this period, the Board of Directors approved the standard's update for the Operative Risk Management Area of the Entity, that included the definitions of the Conglomerate's tolerance level and the limit of the new operative risk appetite, as well as the methodology to do the BIA (Business Impact Analysis), the methodology to verify the controls. the responsibility of the Operative Risk Direction related to the support and assessment to identify the risks in the new projects, products, channels or services.

The development of a new technological tool GNB SARO was completed, allowing the management and follow up of the operative risks, events reports, and monitoring the treatment plans set in the areas. The application is available for all employees of Banco GNB Sudameris as from September 2018.

As an important part of the production kick off of the app and the strengthening of the risk culture, in-house training sessions were held for all collaborators through practical exercises that allowed reinforcing the operative risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.

The management of Operative Risks of Banco GNB Sudameris and its subsidiaries was consolidated and strengthened through the approval of a new organizational structure by means of specialized professional to reinforce the development of the activities comprised by SARO stages.

Together with the respective area, the review and update of the risk evaluation matrix was completed for the Bank's processes and/or those with synergies with the Colombian subsidiaries. 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, supported by Banco GNB Sudameris areas, the identification of critical processes/activities was completed through the update of the Business Impact Analysis (BIA), verifying they are aligned to the Business Continuity Plan.

In-house and virtual periodic training was carried out in order to reinforce SARO basic concepts and to easily identify the operative risk events and incentive the active participation of all Banco GNB Sudameris 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.

Banco GNB Sudameris has observed the requirements of the Statutory Audit, and Internal Audit, in the topic related to the Management and Administration of the Operative Risk Management (SARO), with satisfactory results.

A visit by the Superintendency of Finance of Colombia was received in October in regards to the application of the SARO management policies; the corresponding report from that control body is expected.

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In regards to the participation in the new projects, products, and services the Direction of Operative Risks supported the identification of the risks for the projects of Electronic Billing, the Preferred Attention Scheme to Premier GNB Clients and Plan of Assistance to Retirees - Colpensiones.

**1.1.2. Servitrust**

During the evaluation period, the new limits of the Entity's risk appetite were defined and approved, completing the update of the Standard of Operative Risk Management Procedure.

The organizational structure was strengthened for the management of the operative risk of the Trust Company Servitrust GNB Sudameris.

The development of a new technological tool GNB SARO was completed, allowing the management and follow-up of the operative risks, events reports, and monitoring the treatment plans set in the areas. The application is available for all employees of the Trust Company Servitrust GNB Sudameris as from September 2018.

As an important part of the production kick off of the app and the strengthening of the risk culture, in-house training sessions were held for all collaborators through practical exercises that allowed reinforcing the operative risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.

Together with the respective areas, the risk assessment matrix was reviewed and updated for the processes of the Trust Company Servitrust GNB Sudameris. 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, supported by the Trust Company Servitrust GNB Sudameris, the update of the Business Impact Analysis (BIA) was completed, verifying they are aligned to the Business Continuity Plan.

Servitrust GNB Sudameris has observed the requirements of the Superintendency of Finance of Colombia, Statutory Audit, and Internal Audit, in the topic related to the Management and Administration of the Operative Risk Management (SARO), with satisfactory results.

The information requirement of the Risk Rating Agency was responded in regards to Servitrust GNB Sudameris and the collective investment funds Cash and GNB Abierto.

In regards to the participation in the new projects, products and services, the Direction of Operative Risk prepared the risk matrix of Electronic Billing and Stand-Alone Equity for Portfolio Management.

**1.1.3. Servibanca**

During the evaluation period, the new limits of the Entity's risk appetite were defined and approved, completing the update of the Standard of Operative Risk Management Procedure.

The organizational structure was consolidated and strengthened for the operative risk management of Servibanca S.A.

The development of a new technological tool GNB SARO was completed for Conglomerado GNB Sudameris, allowing the management and follow up of the operative risks, events reports, and monitoring to the treatment plans set in the areas. The application is available for all employees of Servibanca S.A. as from September 2018.

As an important part of the production kick off of the app and the strengthening of the risk culture, in-house training sessions were held for all collaborators through practical exercises that allowed reinforcing the operative risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.

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Together with the respective areas, the review and update of matrixes was completed for Servibanca S.A. processes; this way, the risks were determined and identified where the Entity is exposed, along with the controls that allow mitigating them, keeping the exposure levels within tolerable limits.

On the other hand, supported by the Entity areas, the update of the Business Impact Analysis (BIA) was completed, verifying they are aligned to the Business Continuity Plan.

Servibanca S.A has observed the requirements of the Statutory Audit, and Internal Audit, in the topic related to the Management and Administration of the Operative Risk Management (SARO), with satisfactory results.

In-house and virtual periodic training was carried out in order to reinforce SARO basic concepts and to easily identify the operative risk events and incentive the active participation of all Servibanca S.A 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.

#### **1.1.4. Servivalores**

During the evaluation period, the new limits of the Entity's risk appetite were defined and approved, completing the update of the Standard of Operative Risk Management Procedure.

The organizational structure was strengthened for the management of the operative risk of Sociedad Comisionista Servivalores GNB Sudameris.

The development of a new technological tool GNB SARO was completed, allowing the management and follow-up of the operative risks, events reports, and monitoring the treatment plans set in the areas. The application is available for all employees of the Sociedad Comisionista Servivalores GNB Sudameris as from September 2018.

As an important part of the production kick off of the app and the strengthening of the risk culture, in-house training sessions were held for all collaborators through practical exercises that allowed reinforcing the operative risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.

Together with the respective areas, the risk assessment matrix was reviewed and updated for the processes of Sociedad Comisionista Servivalores GNB Sudameris. 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, supported by the Sociedad Comisionista Servivalores GNB Sudameris, the update of the Business Impact Analysis (BIA) was completed, verifying they are aligned to the Business Continuity Plan.

Sociedad Comisionista Servivalores GNB Sudameris has observed the requirements of the Statutory Audit, and Internal Audit, in the topic related to the Management and Administration of the Operative Risk Management (SARO), with satisfactory results.

In-house and virtual periodic training was carried out in order to reinforce SARO basic concepts and to easily identify the operative risk events and incentive the active participation of all Sociedad Comisionista Servivalores GNB Sudameris 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.

The information requirement was responded to the Risk Rating Agency on Sociedad Comisionista Servivalores GNB Sudameris and the Collective Investment Fund Rentaval.

In regards to the participation in the new projects, products and services, the Direction of Operative Risk prepared the risk matrix of Electronic Billing and Fondo de Capital Privado Inmobiliario.

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**1.1.5. Corporación Financiera GNB Sudameris**

The Board of Directors approved the Standard for the Management of the Operative Risk of Corporación Financiera GNB Sudameris that included the definitions of the Conglomerate's tolerance level and the limit of the operative risk appetite.

The development of a new technological tool GNB SARO was completed, allowing the management and follow-up of the operative risks, events reports, and monitoring the treatment plans set in the areas. The application is available for all employees of Corporación Financiera GNB Sudameris as from September 2018.

As an important part of the production kick off of the app and the strengthening of the risk culture, in-house training sessions were held for all collaborators through practical exercises that allowed reinforcing the operative risk knowledge, as well as the tool's functionality and management, highlighting the importance to prepare the events report on operative risk.

Risk matrix were prepared for all areas of Corporación Financiera GNB Sudameris, together with each one of the individuals in charge, which were approved by the Entity's General Management.

On the other hand, supported by the areas of Corporación Financiera GNB Sudameris, the BIA templates were prepared for the Direction of Treasury Operations, Accounting Direction, Direction of Market Risks (Middle Office), which were legalized with the Corporation's General Management.

In-house and virtual periodic training was carried out in order to reinforce SARO basic concepts and to easily identify the operative risk events and incentive the active participation of all Corporación Financiera GNB Sudameris 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.

In regards to the participation in the new projects, products and services, the Direction of Operative Risk prepared the risk matrix of Electronic Billing.

**1.2 International Subsidiaries:**

**1.2.1 Banco GNB Peru**

During this period, both, the Board of GNB Peru and the Parent's Board, approved the Manual of Operating Risk Management that contains the necessary adjustments to be aligned to the methodology established and the Pre ASA recommendations of the SBS.

Similarly, Banco GNB Peru carried out parameterization, tests and training activities in order to implement the new technological tool GNB SARO. This tool supports the integral management of the Operative Risk Management System for GNB Peru and the Conglomerate, for each of the stages, allowing the online registration of the events, the management of the risk matrix, and the treatment plans established in each area.

A regulation training was provided to all the Staff, Coordinators and Sales Promoters of the Bank (Mortgage and Risk Agreement of the Bank), related to the Operative Risk Management. The agencies in Lima and the cards area received in-house training sessions on the identification, gathering and report of operative risk events.

The Board granted the Risk Committee the autonomy to approve the modifications to the regulations of the Committee of Operating Risk, Business Continuity and Information Security, as well as the Committee of New Products and Important Changes.

On a quarterly manner, the Risk Committee was presented the analysis on the main events of operative risk, follow-up to litigation provisions, control of the operative risk appetite, ASA schedule, materialized risks of the agreement product, analysis of fines, and risk matrix of important changes.

The identification and assessment was carried out for the new projects on the implementation of BantiQ, Trader Live, and Mobile Banking.

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The classification of critical providers was completed, identifying the process dependency to the performance of its services; in addition, the Continuity Plans were reviewed for such providers with the contracts in force with the Bank and the Provider's Questionnaire.

In regards to the continuity plan, the following activities were performed during this period:

- ✓ Monitoring of business continuity events: the continuity events are gathered and recorded in a permanent manner.
- ✓ Permanent monitoring to continuity indicators: Business interruptions and activation of continuity plans.
- ✓ Tests were applied in alternate sites with satisfactory results.
- ✓ Update of BIA.

### **1.2.2. Banco GNB Paraguay:**

During this period, the Board of GNB Paraguay and the Parent's Board approved the Manual of Operative Risk, that includes the limit of operative risk appetite of 0.1% of the Entity's effective equity.

Similarly, Banco GNB Paraguay carried out parameterization, tests and training activities in order to implement the new technological tool GNB SARO. This tool supports the integral management of the Operative Risk Management System for GNB Paraguay and the Conglomerate, for each of the stages, allowing the online registration of the events, the management of the risk matrix, and the treatment plans established in each area.

There is an ongoing performance of activities related to the follow up of events, determining their cause and possible affectation.

The online operative risk training was completed for all personnel of Banco GNB Paraguay.

Internal Audit did the annual review and presented the corresponding report.

In regards to the continuity plan, the methodology adjustment activities continue within the schedule set. Currently, the business continuity and contingency plans are under updating process.

### **1.3. Operating Risk Events**

During 2018, the events with the highest economic impact occurred to Banco GNB Peru and are related to the fraud as SERFOR due to the presentation of forged documentation for the disbursement of Agreement Loans amounting to \$1,365 million, followed by shortages in ATMs through fraudulent withdrawals for \$323 million, which are under investigation.

In 2018, operative risk events took place with impact on the financial statements of Banco GNB Sudameris for \$376 million, originated in an external fraud in 82.02%, where the corresponding actions have already been taken.

During 2018, there were operative risk events in Servibanca with impact in the financial statements for \$336.8 million, where the events type "A" with the highest amount are related to vandalism and theft of ATMs.

In regards to Banco GNB Paraguay, events Type "A" with the highest impact are related to the reimbursement of funds to clients for claims with a favorable response for \$7.4 million.

The operative risk events in the subsidiaries Servitrust and Servivalores with impact in the financial statements are related to the annulment of trading slips at the Stock Market of Colombia for \$0.5 and \$0.1 million, respectively.

The share of Type A operating risk events corresponding to the year 2018 in respect to the total value of the events occurred, is as follows:

**Figures in COP millions**

**YEAR 2018**

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Entity	Amount	Share
Banco GNB Peru	2,561.8	78.04%
Banco GNB Sudameris	376	11.45%
Servibanca	336.8	10.26%
Banco GNB Paraguay*	7.4	0.23%
Servitrust	0.5	0.015%
Servivalores	0.1	0.003%
<b>Conglomerate</b>	<b>3,282.6</b>	<b>100%</b>

**Source: SARO Application**

\* The value of the exchange rate is taken from the last working day of the month in 2018.

Below appears a comparison on the behavior of the Type A events for each entity in the Conglomerate during the years 2018 and 2017:

Figures in COP millions	YEAR 2017		YEAR 2018	
Entity	Amount	Amount	Amount	%
Banco GNB Peru	6,393.8	2,561.8	(3,832)	(59.9%)
Banco GNB Sudameris	365.6	376	10.4	2.8%
Servibanca	233.3	336.8	103.5	44.3%
Banco GNB Paraguay*	38.5	7.4	(31.1)	(80.7%)
Servitrust	24	0.5	(23.5)	(98%)
Servivalores	5.5	0.1	(5.4)	(98%)
<b>Conglomerate</b>	<b>7,060.7</b>	<b>3,282.6</b>	<b>(3,778.1)</b>	<b>(53.5%)</b>

**Source: SARO Application**

\* The value of the exchange rate is taken from the last working day of the month in 2018.

## 2. Risk Profile

During 2018, considering the risks identified at each entity, we have reported that the residual risk level is LOW for the Conglomerate and is found under the risk appetite defined for each one of its companies.

The operating risk appetite for each one of the Conglomerate's entities allows, with no big issues, covering the value of Type A risk events that occurred during the Q3 in the year, with a LOW residual risk level for the Conglomerate, as presented below: Particularly, in the case of Banco GNB Peru the limit is overcome due to the reduction of the Effective Equity from S/.767 to S/.702 million due to the distribution of dividends, which was reported to the Board of Banco GNB Peru.

Figures in COP millions

Subsidiary	Computable capital	Risk Appetite	Appetite Value	Value Type A Events	% Use
Banco GNB Sudameris	3,059,872	0.053%	1,622	376.01	23.19%
Banco GNB Peru	676,982	0.37%	2,505	2561.76	102.27%
Banco GNB Paraguay*	425,735	0.10%	426	7.41	1.74%
Servibanca	118,844	0.56%	666	336.80	50.61%
Servitrust	40,468	0.13%	53	0.47	0.89%
Servivalores	24,280	0.026%	6	0.11	1.73%

\* The value of the exchange rate is taken from the last working day of the month in 2018.

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**NOTE 8. - OPERATING SEGMENTS**

Banco GNB Sudameris has segmented its operations at consolidated level in accordance with its geographical distribution in the countries it is present. These segments are components of the Parent, in charge of carrying out commercial activities that generate income and expenses and the results are periodically reviewed by the Board of Directors.

The Parent is organized into three business segments: Colombia, Peru and Paraguay. All the countries composing the segments provide services related to the financial sector's activity and are regulated by the laws in the country of presence and the Parent's guidelines.

**Colombia**

Colombia's segment is composed of Banco GNB Sudameris and its local subsidiaries: Servitrust GNB Sudameris, Servibanca, Servivalores GNB Sudameris, Servitotal and Corporación Financiera GNB Sudameris. Banco GNB Sudameris has more than 95 years' experience in the country and offers a range of products and services to its customers in different sectors of the economy; including consumer, commercial and institutional credit, complemented by services offered by the local subsidiaries. The trust fund, Servitrust GNB Sudameris, has wide experience in the management of collective investment funds and administration and guarantee trusts; the subsidiary Servibanca a strategic ally of the Bank, in the implementation of technology-based products, and has a network of more than 2300 ATMs nationwide, with presence in more than 600 cities and twons; and Servivalores GNB Sudameris is the securities exchange broker of the Parent, a company with more than 20 years of experience, dedicated entirely to securities dealing in Colombia. Servitotal and Corporación Financiera are subsidiaries that had not started their operation at the end of the period 2017.

**Perú**

This segment corresponds to Banco GNB Peru acquired in 2013 from HSBC. Its operation began in 2007, and it has been consolidating into a relevant player in the Peruvian banking system. GNB Peru operates in consumer, commercial and corporate segments.

**Paraguay**

Paraguay's segment consists of Banco GNB Paraguay, a long-serving bank in that country operating since 1920, acquired by Banco GNB Sudameris from HSBC in 2013. The Bank focuses in activities in two business segments: retail banking and commercial and corporate banking.

This segmentation by country responds to a strategic organization of the Parent with regard to its offer of products and services, in response to the needs of its customers in the different sectors of the economy of the countries it has presence.

The Board of Directors has financial information available at consolidated and individual levels for each of the companies comprising the segments for which performance follow-up is made based on results obtained in the various items of the balance sheet and the income statement, as well as the various indicators that complement them.

The following is a summary of the financial information per segment as of December 31, 2018 and 2017:

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**Statement of financial position as of December 31, 2018**

<b>Assets</b>	<b>Colombia</b>	<b>Peru</b>	<b>Paraguay</b>	<b>Write-offs</b>	<b>Consolidate</b>
Cash and Cash Equivalents	8,445,145	630,383	436,995	(255,633)	9,256,890
Financial assets at fair value	7,592,466	920,463	224,857	(2,453,980)	6,283,806
Financial assets at amortized cost	569,596	202,255	-	-	771,851
Accounts Receivable	8,796,475	3,553,260	2,766,743	-	15,116,478
Other accounts receivable	198,997	41,498	4,249	(68,943)	175,801
Non-Current Assets Held for Sale	230	12,790	12,744	-	25,764
Intangible assets	804,954	10,421	7,847	(7,066)	816,156
Intangible Assets	206,367	11,397	1,385	213,390	432,539
Income tax assets	222,250	36,123	-	-	258,373
Other Assets	37,117	34,783	8,965	-	80,865
<b>Total Assets</b>	<b>26,873,597</b>	<b>5,453,373</b>	<b>3,463,785</b>	<b>(2,572,232)</b>	<b>33,218,523</b>
<b>Liabilities</b>					
Financial liabilities at fair value	26,798	-	30,598	(25,591)	31,805
Deposits by clients	14,718,405	3,828,777	2,438,991	(255,633)	20,730,540
Short-term liabilities	4,878,790	120,369	290,164	-	5,289,323
Loans with development entities	1,538,619	531,031	170,732	-	2,240,382
Long-term loans	2,142,283	89,071	-	-	2,231,354
Benefits to employees	50,235	4,446	-	-	54,681
Provisions	21,454	16,316	14,323	-	52,093
Tax Rate	23,567	-	3,419	-	26,986
Advance Capital Increase	162,488	-	-	-	162,488
Other liabilities	236,169	138,403	18,950	(66,261)	327,259
<b>Total Liabilities</b>	<b>23,798,808</b>	<b>4,728,413</b>	<b>2,967,177</b>	<b>(347,486)</b>	<b>31,146,911</b>

**Income Statement**

	<b>Colombia</b>	<b>Peru</b>	<b>Paraguay</b>	<b>Write-offs</b>	<b>Consolidate</b>
Income due to interests and appraisals	1,207,778	312,182	236,803	(5,378)	1,751,385
Interest expense					
Deposits interest expense	649,762	111,780	65,007	(4,448)	822,101
Financial debt and other interests	273,572	34,677	6,824	(930)	314,143
Total interest expense	923,334	146,457	71,831	(5,378)	1,136,244
Net income due to interests and appraisals	284,444	165,725	164,972	-	615,141
Impairment loss of Financial Assets	153,215	106,683	35,795	-	295,693
<b>Net income due to interests and appraisals</b>	<b>131,229</b>	<b>59,042</b>	<b>129,177</b>	<b>-</b>	<b>319,448</b>
Net income from commissions and fees	91,128	30,076	21,042	246	142,492
Valuation income at fair value, net	236,504	33,529	(12,816)	(19,163)	238,054
Other Income	397,363	58,361	17,708	(220,170)	253,262
Other Expenses	488,699	120,042	73,299	(19,086)	662,954
<b>Net profit before tax</b>	<b>367,525</b>	<b>60,966</b>	<b>81,812</b>	<b>(220,001)</b>	<b>290,302</b>
Income Tax	37,043	9,410	8,739	-	55,192
<b>Net profit</b>	<b>330,482</b>	<b>51,556</b>	<b>73,073</b>	<b>(220,001)</b>	<b>235,110</b>

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**Statement of financial position as of December 31, 2017**

<b>Assets</b>	<b>Colombia</b>	<b>Peru</b>	<b>Paraguay</b>	<b>Write-offs</b>	<b>Consolidate</b>
Cash and Cash Equivalents	8,460,452	655,138	569,354	(157,219)	9,527,725
Financial assets at fair value	5,500,981	849,580	286,253	(1,399,863)	5,236,951
Financial assets at amortized cost	491,204	-	-	-	491,204
Accounts Receivable	7,779,555	3,511,727	2,294,685	-	13,585,967
Other accounts receivable	149,356	5,760	11,293	(11,336)	155,073
Non-Current Assets Held for Sale	230	11,840	9,539	-	21,609
Intangible assets	469,681	11,145	9,332	-	490,158
Intangible Assets	17,537	17,100	2,600	196,078	233,315
Income Tax Assets	146,404	62,105	-	-	208,509
Other Assets	78,639	877	7,911	-	87,427
<b>Total Assets</b>	<b>23,094,039</b>	<b>5,125,272</b>	<b>3,190,967</b>	<b>(1,372,340)</b>	<b>30,037,938</b>

**Liabilities**

Financial liabilities at fair value	14,370	-	96,241	(13,876)	96,735
Deposits by clients	12,466,002	3,788,538	2,382,749	(97,538)	18,539,750
Short-term liabilities	4,348,205	119,251	143,682	-	4,611,137
Loans with development entities	1,036,277	414,681	156,545	(59,680)	1,547,823
Long-term loans	2,889,252	45,219	-	255	2,934,726
Benefits to employees	50,844	4,660	-	-	55,504
Provisions	17,877	7,397	12,823	-	38,097
Tax Rate	84,179	-	1,693	-	85,874
Other liabilities	181,695	88,137	12,618	(11,337)	271,116
<b>Total Liabilities</b>	<b>21,088,701</b>	<b>4,467,883</b>	<b>2,806,353</b>	<b>(182,175)</b>	<b>28,180,761</b>

**Income Statement**

	<b>Colombia</b>	<b>Peru</b>	<b>Paraguay</b>	<b>Write-offs</b>	<b>Consolidate</b>
Income due to interests and appraisals	1,107,117	313,683	223,746	(3,868)	1,640,679
Interest expense					
Deposits interest expense	760,546	118,757	74,029	(2,778)	950,554
Financial debt and other interests	245,839	33,527	6,182	(1,096)	284,452
Total interest expense	1,006,384	152,284	80,211	(3,873)	1,235,006
Net income due to interests and appraisals	100,733	161,399	143,535	6	405,673
Impairment loss of Financial Assets	146,711	51,359	31,553	-	229,623
<b>Net income due to interests and appraisals</b>	<b>(45,978)</b>	<b>110,041</b>	<b>111,982</b>	<b>-</b>	<b>176,050</b>
Net income from commissions and tariffs	157,653	34,471	19,903	(63,999)	148,028
Valuation income at fair value, net	246,339	29,793	-	(1,143)	274,989
Other Income	387,902	13,747	11,177	(190,042)	222,784
Other Expenses	380,015	125,883	69,865	(5,749)	570,014
<b>Net profit before tax</b>	<b>365,901</b>	<b>62,169</b>	<b>73,197</b>	<b>(249,430)</b>	<b>251,837</b>
Income Tax	12,168	9,446	7,581	-	29,195
<b>Net profit</b>	<b>353,733</b>	<b>52,723</b>	<b>65,615</b>	<b>(249,430)</b>	<b>222,642</b>

The main write-offs in total income, expenses, assets and liabilities between segments with the corresponding consolidated entries at the level of the Bank and its Subsidiaries, are:

- Investment in term deposits and outstanding bonds in other segments.
- Investments in subsidiary write-offs and registry of non-controlling interests.
- Commissions expense and income

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**Income Analysis per Products and Services**

Income of the Bank and its Subsidiaries are analyzed per product and services in the income statement.

**Income per Country**

The following table presents the income of the Bank and its Subsidiaries per individual country where income is significant for the years ended on December 31, 2018 and 2017.

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Colombia	1,128,158	1,052,460
Peru	312,182	313,683
Panama	52,570	37,862
Paraguay	236,803	223,746
United States	343	121
British Virgin Islands	21,329	12,807
<b>Total Consolidated Earnings</b>	<b>1,751,385</b>	<b>1,640,679</b>

The analysis above is based on the client's domicile; income of extra-territorial entities (off-shore) of Colombian clients is reported as Colombian income. Earnings include income from interests, commissions, fees, and other operating income.

**Assets per Country**

The following table presents the non-current assets of the Bank and its Subsidiaries per individual country for the years ended on December 31, 2018 and 2017:

<b>December 31, 2018</b>	<b>Intangible assets</b>	<b>Intangible Assets</b>
Colombia	797,887	208,051
Peru	10,421	11,397
Paraguay	7,848	1,385
Write-offs	-	211,706
<b>Total</b>	<b>816,156</b>	<b>432,539</b>
<b>December 31, 2017</b>	<b>Intangible assets</b>	<b>Intangible Assets</b>
Colombia	469,681	17,537
Peru	11,145	17,100
Paraguay	9,332	2,600
Write-offs	-	196,078
<b>Total</b>	<b>490,158</b>	<b>233,315</b>

During the years ended on December 31, 2018 and 2017, the Bank and its Subsidiaries did not report any income concentration between the clients with more than 10% of share in ordinary activities income.

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**NOTE 9. - CASH AND CASH EQUIVALENTS**

The following is the detail of cash and cash equivalents

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Local currency</b>		
Cash	295,484	258,771
Banco de la República (Central Bank)	1,078,774	1,254,976
Banks and other financial entities	5,975	1,001
Bank reserve	-	-
Remittances in transit	-	-
Interbanking funds	80,036	20,360
Simultaneous operations (repurchase agreement)	6,351,923	6,012,893
<b>Sub-total</b>	<b><u>7,812,192</u></b>	<b><u>7,548,001</u></b>
<b>Foreign Currency</b>		
Cash	87,535	72,900
Banco de la República (Central Bank)	760,715	967,691
Banks and other financial entities	318,459	594,578
Bank reserve	893	6,107
Remittances in transit	-	283
Interbanking funds	277,096	338,165
<b>Sub-total</b>	<b><u>1,444,698</u></b>	<b><u>1,979,724</u></b>
<b>Total</b>	<b><u>9,256,890</u></b>	<b><u>9,527,725</u></b>

There are no restrictions on cash and cash equivalents.

**NOTE 10. - INVESTMENTS IN FINANCIAL ASSETS**

**a) At fair value with changes in income**

The financial assets balance in debt instruments and equity instruments is as follows as of December 31, 2018 and 2017:

	<b>December 31 2018</b>	<b>December 31 2017</b>
<b>Debt securities</b>		
<b>Denominated in local currency</b>		
Securities issued or guaranteed by the Local Government	4,517,327	3,496,584
Securities issued or guaranteed by National State Entities	78,522	59,184
Securities issued or guaranteed by financial entities	463,886	474,346
<b>Total denominated in local currency</b>	<b><u>5,059,735</u></b>	<b><u>4,030,115</u></b>
<b>Denominated in foreign currency</b>		
Securities issued or guaranteed by Central Banks	1,071,766	798,593
Securities issued or guaranteed by financial entities	-	-
Securities issued by foreign governments	-	211,894
Other securities	44,163	1,401
<b>Total denominated in foreign currency</b>	<b><u>1,115,929</u></b>	<b><u>1,011,888</u></b>
<b>Total debt securities, net</b>	<b><u>6,175,664</u></b>	<b><u>5,042,003</u></b>
Investments impairment IFRS 9	(1,567)	-
<b>Total debt securities</b>	<b><u>6,174,097</u></b>	<b><u>5,042,002</u></b>
Equity securities, net	54,869	68,513
Investment funds, net	31,329	23,427
<b>Total investment securities, net</b>	<b><u>6,260,295</u></b>	<b><u>5,133,943</u></b>

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**b) In debt securities at amortized cost**

Below appears the detail of the carrying value of investments in debt securities, net of provisions due to investment losses on the dates indicated:

<b>Debt securities</b>	<b>December 31 2018</b>	<b>December 31 2017</b>
<b>Denominated in COP</b>		
Issued or guaranteed by the Colombian government		-
Issued or guaranteed by other financial entities	569,651	491,204
<b>Total denominated in local currency</b>	<b><u>569,651</u></b>	<b><u>491,204</u></b>
<b>Denominated in foreign currency</b>		
Issued or guaranteed by the Colombian government		-
Issued or guaranteed by other financial entities	202,264	-
<b>Total denominated in foreign currency</b>	<b><u>202,264</u></b>	<b><u>-</u></b>
<b>Total debt securities</b>	<b><u>771,915</u></b>	<b><u>491,204</u></b>
Investments impairment IFRS 9	(64)	-
<b>Total inversiones, neto</b>	<b><u>771,851</u></b>	<b><u>491,204</u></b>

As of December 31, 2018 and 2017, financial investments in debt securities are guaranteeing repo and simultaneous operations amounting to \$6,709,053 and \$6,371,419, respectively.

**c) Impairment**

The investments model uses the the input of the default probabilities (DP) from the rating agency S&P and the losses due to default (LDD) of the rating agency Moody's. Below appears the impairment at December 2017 after applying the IFRS 9 methodology, where the impact is 100%, since there was no impairment under IAS 39.

Figures in COP millions		
	<b>Impairment IAS 39</b>	<b>Impairment IFRS 9</b>
<b>Banco GNB Sudameris</b>	-	1,444
<b>Banco Paraguay</b>	-	683
<b>Banco Perú</b>	-	49
<b>Servibanca</b>	-	31
<b>Servivalores</b>	-	20
<b>Servitrust</b>	-	17
<b>Total</b>	-	<b><u>2,244</u></b>

The following is the impairment movement of investments with cutoff date at December 31, 2018.

<b>Initial balance provision at December 31, 2017</b>	
Plus provision IFRS 9 year 2018 investments	1,631
<b>Final balance provision at December 31, 2017</b>	<b>1,631</b>

**d) At fair value due to rating**

The following is the credit quality detail defined by rating agencies of independent risks for the issuers of interest debt securities for the Bank:

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Fair Value	December 31 2018	December 31 2017
Issued or guaranteed by Central Banks	1,071,766	798,593
Issued or guaranteed by Governments	4,595,849	3,767,662
Investment degree	463,886	474,346
Speculative operations	44,163	1,401
Not classified / not available	86,198	91,941
<b>Total</b>	<b><u>6,261,862</u></b>	<b><u>5,133,943</u></b>
Investments impairment IFRS 9	(1,567)	-
<b>Total investments, net</b>	<b><u>6,260,295</u></b>	<b><u>5,133,943</u></b>

No impairment provisions were created at December 31, 2018 and 2017.

**e) Maturity of financial assets**

The following is a summary of the financial assets by maturity dates:

**December 31, 2018**

Description	From 0 to 30 days	From 31 to 180 days	From 181 to 360 days	From 361 to 720 days	Impairment	Balance
Investments in debt securities at fair value with changes in OCI	130,601	2,687,955	1,263,334	2,032,781	(1,567)	6,113,104
Investments in debt securities at fair value with changes in income	51,384	-	5,871	3,739	-	60,994
Investments in debt securities at amortized cost	135,649	211,936	222,067	202,263	(64)	771,851
Investments in equity at fair value with changes in OCI	-	-	-	54,868	-	54,868
Equity instruments at fair value with changes in income	-	-	-	31,329	-	31,329
Cash operations and derivatives	23,511	-	-	-	-	23,511
<b>Total Investments</b>	<b><u>341,145</u></b>	<b><u>2,899,891</u></b>	<b><u>1,491,272</u></b>	<b><u>2,324,980</u></b>	<b><u>(1,631)</u></b>	<b><u>7,055,657</u></b>

**December 31, 2017**

Description	From 0 to 30 days	From 31 to 180 days	From 181 to 360 days	Over 360 days	Balance
Investments in debt securities at fair value with changes in OCI	196,119	1,218,461	1,025,558	2,601,865	5,042,003
Investments in debt securities at amortized cost	103,530	201,618	186,056	-	491,204
Investments in equity at fair value with changes in OCI	30,875	-	-	48,497	79,372
Equity instruments at fair value with changes in income	12,162	-	-	406	12,568
Cash operations and derivatives	103,008	-	-	-	103,008
<b>Total Investments</b>	<b><u>445,694</u></b>	<b><u>1,420,079</u></b>	<b><u>1,211,614</u></b>	<b><u>2,650,768</u></b>	<b><u>5,728,155</u></b>

**f) Derivatives**

**Trading derivatives**

The following table expresses the fair value at the end of the period for forwards, futures and swaps of interest rates, securities and foreign currencies where the Bank and its subsidiaries has commitments.

The derivative financial instruments contracted by the Bank and its subsidiaries are traded in financial off-shore and local markets. The fair value of the derivative instruments have positive or negative variations as a result of

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the fluctuations in exchange rates of foreign currencies, interest rates and other risk factors, depending of the type of and underlying instrument.

	December 31, 2018			December 31, 2017		
	Value USD	Notional amount	Fair Value	Value USD	Notional amount	Fair Value
<b>ASSETS</b>		<b>3,249.75</b>			<b>2,984.00</b>	
Currency spot	12,916	41	41	7,235	21	21
Currency forwards	7,203,562	23,410	23,410	34,427,980	102,733	102,733
Interest rate swaps	18,357	60	60	85,059	254	254
<b>TOTAL ASSETS</b>	<b>7,234,835</b>	<b>23,511</b>	<b>23,511</b>	<b>34,520,274</b>	<b>103,008</b>	<b>103,008</b>
<b>LIABILITIES</b>						
Currency forwards	2,694,238	8,756	8,756	57,953	173	173
Interest rate swaps	20,027	65	65	100,370	300	300
Currency spot	13,763	45	45	7,250	21	21
Currency futures	7,058,829	22,939	22,939	32,252,414	96,241	96,241
<b>TOTAL LIABILITIES</b>	<b>9,786,857</b>	<b>31,805</b>	<b>31,805</b>	<b>32,417,987</b>	<b>96,735</b>	<b>96,735</b>
<b>NET POSITION</b>	<b>(2,552,022)</b>	<b>(8,294)</b>	<b>(8,294)</b>	<b>2,102,287</b>	<b>6,273</b>	<b>6,273</b>

**g) Offsetting of financial assets and financial liabilities**

Below appears the detail of the financial instrument subject to contractual offsetting at December 31, 2018 and 2017:

**December 31, 2018**

	Gross amount of financial assets recognized	Gross amounts of financial liabilities recognized and offset in the statement of financial position	Net amount of financial assets recorded in the statement of financial position
<b>Assets</b>			
Derivatives	41,323	(17,853)	23,470
Repo and simultaneous operations (repurchase agreement)	41	-	41
<b>Total</b>	<b>41,364</b>	<b>(17,853)</b>	<b>23,511</b>
	Gross amount of financial assets recognized	Gross amounts of financial liabilities recognized and offset in the statement of financial position	Net amount of financial liabilities recorded in the statement of financial position
<b>Liabilities</b>			
Derivatives	97,781	(66,021)	31,760
Repo and simultaneous operations (repurchase agreement)	45	-	45
<b>Total</b>	<b>97,826</b>	<b>(66,021)</b>	<b>31,805</b>

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**At December 31, 2017**

	Gross amount of financial assets recognized	Gross amounts of financial liabilities recognized and offset in the statement of financial position	Net amount of financial assets recorded in the statement of financial position
<b>Assets</b>			
Derivatives	202,421	(99,434)	102,987
Repo and simultaneous operations (repurchase agreement)	21	-	21
<b>Total</b>	<b>202,442</b>	<b>(99,434)</b>	<b>103,008</b>
	Gross amount of financial assets recognized	Gross amounts of financial liabilities recognized and offset in the statement of financial position	Net amount of financial liabilities recorded in the statement of financial position
<b>Liabilities</b>			
Derivatives	126,443	(29,730)	96,713
Repo and simultaneous operations (repurchase agreement)	22	-	22
<b>Total</b>	<b>126,465</b>	<b>(29,730)</b>	<b>96,735</b>

**Hedging Instruments**

The Bank and its subsidiaries decided to manage the hedge accounting of the Subsidiaries abroad - Banco GNB Peru and Banco GNB Paraguay - with non-derivative instruments (foreign currency borrowings).

The purpose of hedge accounting is to protect the Parent from the exchange rate risk due to structural positions at its subsidiaries abroad.

The primary position subject to hedging are the net initial investments abroad (investment cost). In 2017, hedging extended to the goodwill generated by the acquisition of subsidiaries abroad.

The hedge used by Banco GNB Sudameris to cover its initial investments and the investments' goodwill abroad are subordinate bonds with maturity in 2022 in a percentage of 100% and subordinate bonds with maturity in 2027 in a percentage of 30.95%.

The following is the detail of the total hedged investments and the hedge type out of Colombia.

December 31, 2018	Foreign Currency (Millions)		Colombian pesos (Millions)		OCI Account
	Amount with Hedge	Hedge amount in USD obligations, net	Accumulated translation of obligations adjustments in foreign currencies	Obligations of Hedge - Net	
Investment in Banco GNB Perú (Soles)	627	187	49,610	49,610	-
Investment in Banco GNB Paraguay (Guaraníes)	524,919	91	24,189	24,189	-
Goodwill		65	17,313	17,313	-
<b>Total</b>		<b>343</b>	<b>91,112</b>	<b>91,112</b>	<b>-</b>

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December 31, 2017	Foreign Currency (Millions)		Colombian pesos (Millions)		OCI Account
Investment Detail	Amount with Hedge	Hedge amount in USD obligations, net	Accumulated translation of obligations adjustments in foreign currencies	Obligations of Hedge - Net	
Investment in Banco GNB Peru (Soles)	627	187	3,119	3,119	-
Investment in Banco GNB Paraguay (Guaraníes)	524,919	91	1,521	1,521	-
Goodwill		65	1,089	1,089	-
<b>Total</b>		<b>343</b>	<b>5,729</b>	<b>5,729</b>	<b>-</b>

### Hedging Effectiveness Tests

IFRS 9, in terms of hedge effectiveness is derivative from the requirements of IAS 39. In this sense, it considers that the hedge is highly effective if there is, at the beginning of the period and during subsequent periods, offsetting of changes in fair value or cash flows attributable to the risk hedged.

According to the regulations, the Bank does prospective tests on a quarterly basis that establish the stability of the economic conditions that guarantee the hedge effectiveness. Similarly, it generates the correlation analysis of the exchange rate flows that verify the historical behavior; this way, it complements the prospective analysis with incurred behaviors.

During the year ended on December 31, 2018 the portion of profit or loss related to the hedge instrument determined to be an effective hedge, is recognized in Other Comprehensive Income, and the ineffective portion in the income for the period.

The Bank has documented the hedging effectiveness in its net investments in foreign currency. The value of the investments fluctuates during the year and as a result, the Bank evaluates the hedge and results of the effectiveness test on a quarterly basis.

### NOTE 11 - CREDIT PORTFOLIO

The following is an analysis of the financial asset at amortized cost.

#### Credit portfolio per modality

The distribution of the credit's portfolio of the Bank and its Subsidiaries at amortized cost is as follows:

Description	December 31, 2018	December 31, 2017
Agreements	5,515,282	4,348,574
Ordinary loans (1)	7,135,358	6,294,601
Loans with funds from development entities	1,011,488	1,073,919
Overdrafts	37,035	72,410
Credit cards	147,299	177,429
Loans to SMEs	648,557	766,503
Housing loans (2)	1,106,305	1,143,542
Vehicle loans	8,321	10,277
<b>Total gross financial assets in credits portfolio</b>	<b>15,609,645</b>	<b>13,887,255</b>
Impairment provision	(493,167)	(301,288)
<b>Total net financial assets in credits portfolio</b>	<b>15,116,478</b>	<b>13,585,967</b>

(1) Includes employee's consumer portfolio for  
(1) Includes employees housing portfolio for

10,695	11,251
26,344	25,761

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The movement of the impairment provision on financial assets in the credit portfolio during the years ended on December 31, 2018 and 2017, is as follows:

	December 31, 2018			
Impairment specific provisions	Commercial	Consumer	Home Mortgage	Total
<b>Balance at December 31, 2017</b>	172,245	104,838	24,205	301,288
Adoption IFRS 9	13,765	23,722	10,024	47,511
<b>Total</b>	<b>186,010</b>	<b>128,560</b>	<b>34,229</b>	<b>348,799</b>
Impairment losses for the period:				
Charge for the period	204,331	289,014	43,996	537,341
Recoveries	(73,883)	(145,747)	(26,725)	(246,355)
Effect of foreign currency movements	54,364	-	-	54,364
Discount effect	(47,420)	-	-	(47,420)
Write-offs	(34,688)	(118,840)	(34)	(153,562)
<b>Sub-total impairment provisions - Clients</b>	<b>288,714</b>	<b>152,987</b>	<b>51,466</b>	<b>493,167</b>

	December 31, 2017			
Impairment specific provisions	Commercial	Consumer	Housing	Total
Balance at the beginning of reporting period	124,638	178,290	3,583	306,511
Impairment losses for the period:				
Charge for the period	278.183	158.572	42.907	479.663
Recoveries	(148.004)	(85.801)	(21.918)	(255.723)
Effect of foreign currency movements	(14.003)	-	-	(14.003)
Discount effect	9.216	-	-	9.216
Write-offs	(26.600)	(119.680)	(285)	(146.564)
Portfolio sales	(51.169)	(22.664)	-	(73.834)
Items condoned	(15)	(3.879)	(83)	(3.977)
<b>Sub-total impairment provisions - Clients</b>	<b>172,245</b>	<b>104,838</b>	<b>24,205</b>	<b>301,288</b>

The distribution of the credit's portfolio of the Bank and its Subsidiaries per maturity is as follows:

	December 31, 2018				
	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Commercial	4,045,753	2,016,467	1,019,064	1,579,784	8,661,068
Consumer	97,166	391,332	758,996	4,594,779	5,842,273
Housing	1,432	11,179	32,775	1,060,919	1,106,305
<b>Total Gross Portfolio</b>	<b>4,144,351</b>	<b>2,418,978</b>	<b>1,810,835</b>	<b>7,235,482</b>	<b>15,609,646</b>

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**December 31, 2017**

	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Commercial	3,626,084	1,620,793	1,164,850	1,581,889	7,993,616
Consumer	202,948	384,430	688,100	3,474,619	4,750,097
Housing	770	9,872	23,228	1,109,672	1,143,542
<b>Total Gross Portfolio</b>	<b>3,829,802</b>	<b>2,015,095</b>	<b>1,876,178</b>	<b>6,166,180</b>	<b>13,887,255</b>

**Portfolio in default but not impaired**

As of December 31, 2018 and 2017, the summary of the portfolio in default per aging is as follows:

**December 31, 2018**

**In default but not impaired**

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	Total in default but not impaired	Total in default impaired
Commercial	333,998	20,062	13,093	367,153	151,677
Consumer	157,556	27,408	18,487	203,451	79,438
Housing	95,908	27,652	9,941	133,501	30,892
<b>Total Portfolio</b>	<b>587,462</b>	<b>75,122</b>	<b>41,521</b>	<b>704,105</b>	<b>262,007</b>

**December 31, 2017**

**In default but not impaired**

	From 0 to 30 days	From 31 to 180 days	From 181 to 360 days	Total in default but not impaired	Total in default impaired
Commercial	263,060	13,663	5,141	281,864	112,821
Consumer	137,938	29,767	15,475	183,181	54,217
Housing	72,553	21,871	9,078	103,502	20,652
<b>Total Portfolio</b>	<b>473,550</b>	<b>65,302</b>	<b>29,694</b>	<b>568,546</b>	<b>187,689</b>

**NOTE 12. - OTHER ACCOUNTS RECEIVABLE**

Following is the detail of other accounts receivable as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Commissions and fees	1,086	857
Leases	67	-
Sale of assets and services	996	-
Assets in Servibanca contract NIIF 15	286	-
Debtors	75	34
Deposits	10,828	16,840
Taxes	1,741	34

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Advances to providers	1,737	955
Advances to employees	3,302	3,498
Payments on account of clients	14,943	11,071
Purchase-sale agreements	35,747	32,824
Insurance claims	32,510	25,995
Abandoned ICETEX accounts	4,889	4,512
National Treasury Direction	2,148	2,085
Miscellaneous	73,525	58,653
<b>Sub-total</b>	<b>183,880</b>	<b>157,358</b>
Impairment	(8,079)	(2,285)
<b>TOTAL</b>	<b>175,801</b>	<b>155,073</b>

Below appears the detail of impairment in other accounts receivable as of December 31, 2018 and 2017:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Balance at the beginning of the period	(2,285)	(9,605)
Provision taken to income	(3,507)	(8,214)
Write-offs	(9,402)	8,425
Reimbursements taken to income	7,115	7,109
<b>Balance at the end of the period</b>	<b>(8,079)</b>	<b>(2,285)</b>

The accounts receivable model uses the simplified impairment methodology that assumes assets are classified as stage 2; thus, the remaining useful life of the account's receivable must be analyzed. However, being them traditionally below one year, their analysis does not differ from the assets classified as stage 1.

Following are specified the impacts specifications at December 31, 2017 due to the application of the standard IFRS 9.

Figures in COP millions

<b>COMPANY</b>	<b>Provision IAS 39</b>	<b>Provision IFRS 9 Consolidated Balance</b>
<b>Banco GNB Sudameris</b>	2,208	724
<b>Servitrust</b>	28	68
<b>Servibanca</b>	49	57
<b>Banco GNB Peru</b>	-	14
<b>Banco GNB Paraguay</b>	-	10
<b>Servivalores</b>	-	-
<b>Total</b>	<b>2,285</b>	<b>873</b>

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**NOTE 13. - NON-CURRENT ASSETS HELD FOR SALE**

The detail of non-current assets held for sale at December 31, 2018 and 2017, is as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets received in kind</b>		
Furniture	1,957	-
Real estate properties	37,273	32,557
Machinery and Equipment	4,960	885
<b>Sub-total</b>	<b>44,190</b>	<b>33,442</b>
Impairment	(18,426)	(11,833)
<b>TOTAL</b>	<b>25,764</b>	<b>21,609</b>

The following is the movement of non-current assets held for sale for the periods ended on December 31, 2018 and 2017:

	<b>December 2018</b>	<b>December 2017</b>
Balance at the beginning of the period	21,609	17,740
Acquisition and withdrawal of properties	5,715	5,748
Sales	(1,560)	(1,879)
<b>Balance at the end of the period</b>	<b>25,764</b>	<b>21,609</b>

**NOTE 14. - PROPERTIES AND EQUIPMENT**

The following is the detail of property and equipment as of December 31, 2018 and 2017:

<b>December 31, 2018</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Land	187,482		187,482
Buildings	533,447	(46,962)	486,485
Vehicles	4,620	(1,971)	2,649
Furniture and supplies	48,957	(22,845)	26,112
Computing equipment	93,555	(47,694)	45,861
<b>Total</b>	<b>868,061</b>	<b>(119,472)</b>	<b>748,589</b>

<b>December 31, 2017</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Land	97,200	-	97,200
Buildings	308,773	(26,027)	282,746
Vehicles	2,932	(1,581)	1,351
Furniture and supplies	34,439	(14,888)	19,551
Computing equipment	76,744	(39,312)	37,432
<b>Total</b>	<b>520,088</b>	<b>(81,808)</b>	<b>438,280</b>

The Bank and its subsidiaries evaluated indications of impairment in the assets classified as of Property and Equipment and did not find sufficient evidence to conduct any impairment test during the period. Therefore, no recognition or record was made for this item.

The movement in the carrying value of property and equipment during the periods ended on December 31, 2018 and 2017 is as follows:

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	December 31, 2017	Additions	Write-offs	Revaluation	December 31, 2018
Land	97,200	76,818	-	13,464	111,682
Buildings	308,773	175,138	(3,042)	52,578	609,247
Vehicles	2,932	2,059	(371)	-	4,620
Furniture and supplies	34,439	19,021	(4,503)	-	48,957
Computing equipment	76,744	18,369	(1,558)	-	93,555
<b>Total</b>	<b>520,088</b>	<b>291,405</b>	<b>(9,474)</b>	<b>66,042</b>	<b>868,061</b>

	December 31, 2016	Additions	Write-offs	Revaluation	December 31, 2017
Land	27,278	50,998		18,924	97,200
Buildings	124,200	130,065	(2,155)	56,663	308,773
Vehicles	2,683	288	(39)	-	2,932
Furniture and supplies	33,164	2,084	(809)	-	34,439
Computing equipment	67,437	9,346	(39)	-	76,744
<b>Total</b>	<b>254,762</b>	<b>192,781</b>	<b>(3,042)</b>	<b>75,587</b>	<b>520,088</b>

The movement in the accumulated depreciation related to property and equipment during the periods ended on December 31, 2018 and 2017 is as follows:

	Buildings	Furniture and supplies	Computing equipment	Vehicles	Total
<b>December 31, 2016</b>	<b>(23,244)</b>	<b>(13,499)</b>	<b>(31,094)</b>	<b>(1,216)</b>	<b>(69,053)</b>
Revaluation	(1,205)	-	-	-	(1,205)
Depreciation recorded in the year	(4,499)	(3,248)	(7,409)	(326)	(15,482)
Write-offs and additions to PPE	2,921	1,859	(809)	(39)	3,932
<b>December 31, 2017</b>	<b>(26,027)</b>	<b>(14,888)</b>	<b>(39,312)</b>	<b>(1,581)</b>	<b>(81,808)</b>
Depreciation recorded in the year	(3,815)	(3,478)	(10,021)	(309)	(17,623)
Write-offs and additions to PPE	(17,120)	(4,479)	1,639	(81)	(20,041)
<b>December 31, 2018</b>	<b>(46,962)</b>	<b>(22,845)</b>	<b>(47,694)</b>	<b>(1,971)</b>	<b>(119,472)</b>

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**NOTE 15. - INVESTMENT PROPERTY**

The following is a summary of the investment properties as of December 31, 2018 and 2017:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cost	58,488	42,827
Fair Value	9,079	9,051
Impairment	-	-
<b>Total</b>	<b><u>67,567</u></b>	<b><u>51,878</u></b>

There was lease income on investment properties for \$69 and \$65 for the periods ended on December 31, 2018 and 2017, respectively.

There were no purchase commitments of investment properties in 2018.  
There are no restrictions on the sale of investment properties.

The following table presents the reconciliation between the balances at the beginning and the end of the period with the fair value measurements classified as Level 3:

**Investment Property**

<b>December 31, 2016</b>	<b>28,880</b>
Additions	<u>22,998</u>
<b>December 31, 2017</b>	<b>51,878</b>
Additions	<u>15,689</u>
<b>December 31, 2018</b>	<b><u>67,567</u></b>

**NOTE 16. - INTANGIBLE ITEMS**

**a) Goodwill**

The movement in the goodwill account during the periods ended on December 31, 2018 and 2017 is as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Balance at the beginning of the year</b>	211,834	212,923
Exchange difference adjustment	17,312	(1,089)
Corporation investments	182,673	-
<b>Balance at the end of the year</b>	<b><u>411,820</u></b>	<b><u>211,834</u></b>

The following is the detail of the goodwill allocated per cash generating unit (CGU) that is part of the lowest level monitored by the management of the Bank's and its subsidiaries:

<b>December 31, 2018 CGU</b>	<b>Goodwill in books</b>	<b>Carrying value CGU</b>	<b>Recoverable value CGU</b>	<b>Surplus</b>
Banco GNB Peru	207,337	207,337	212,604	5,267
Banco GNB Paraguay	4,369	4,369	4,369	-
Servivalores	1,684	1,684	1,684	-
HSBC	15,756	15,756	1,075,933	1,075,933
Charleston Santa Teresa S.A.S	78,499	78,499	-	-
Charleston Hotels Group INC.	104,175	104,175	-	-
	<b><u>411,820</u></b>	<b><u>411,820</u></b>	<b><u>1,294,590</u></b>	<b><u>1,081,200</u></b>

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December 31, 2017 CGU	Goodwill in books	Carrying value CGU	Recoverable value CGU	Surplus
Banco GNB Peru	190,382	190,382	198,609	8,227
Banco GNB Paraguay	4,012	4,012	4,012	-
Servivalores	1,684	1,684	1,684	-
HSBC	15,756	15,756	734,000	718,244
	<b>211,834</b>	<b>211,834</b>	<b>938,305</b>	<b>726,471</b>

At December 31, 2017, the Corporation had no investments in subsidiaries. Considering that one of the objectives defined by the Corporation is the acquisition and interest in local and foreign companies with growth potential, generation of value and profit, an investment was made in 2018 in two companies of the hotel sector, as follows:

- On October 25, 2018, Tayset Investments Limited (domiciled in the British Virgin Islands) was acquired, and liquidated on December 27, 2018, which allowed the Corporation to keep the shares in Hoteles Charleston Santa Teresa S.A.S. (domiciled in Colombia).
- On November 2, 2018, Charleston Hotels Group Inc. (domiciled in Panama) was acquired.

As of December 31, 2018, the detail of the investments in subsidiaries is as follows:

Company's Name	Share %	Investment Cost	Mercantile credit	Equity Method	Restatement	Total investment
Hoteles Charleston Santa Teresa S.A.S.	100%	111,844	78,498	2,650	-	192,994
Charleston Hotels Group Inc.	100%	100,348	104,175	14,445	4,722	22,690
		<b>212,192</b>	<b>182,673</b>	<b>17,095</b>	<b>4,722</b>	<b>416,682</b>

In accordance with paragraph 45 of IFRS 3, the Corporation is under the 1-year measurement period as from the date of acquisition of the investments, in order to adjust the amounts recognized as a result of the business combination, obtaining the information necessary to identify and measure the identifiable assets acquired and the liabilities assumed in the transaction.

The following are the assumptions applied to assess the impairment of the highest goodwill values recorded at December 31, 2018:

Banco GNB Peru	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
US Treasuries 10 y.	2.6%	2.6%	2.6%	2.6%	2.6%
Country Risk Peru	1.5%	1.5%	1.5%	1.5%	1.5%
Risk-Free Rate in Dollars	4.1%	4.1%	4.1%	4.1%	4.1%
Market risk premium	7.6%	7.6%	7.6%	7.6%	7.6%
Sector beta	0.3%	0.3%	0.3%	0.3%	0.3%
Equity cost (Ke) USD nominal	6.6%	6.6%	6.6%	6.6%	6.6%
Devaluation	0.2%	0.1%	0.1%	0.0%	0.2%
<b>Equity cost (Ke) PEN nominal</b>	<b>6.8%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>6.6%</b>	<b>6.6%</b>

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Capital cost  
CAPM methodology

	2018	2019	2020	2021	2022
US Treasuries 10 years (1)	3.14%	3.14%	3.14%	3.14%	3.14%
Country Risk Colombia (2)	1.42%	1.42%	1.42%	1.42%	1.42%
Risk-Free Rate in Dollars*	3.39%	3.39%	3.39%	3.39%	3.39%
Market risk premium (Rm)**	7.93%	7.93%	7.93%	7.93%	7.93%
Tx	37%	38%	38%	38%	38%
Beta (3)	0.23	0.23	0.23	0.23	0.23
Debt/Equity Ratio - Emerging Countries	3.45	3.45	3.45	3.45	3.45
Leveraged beta	0.73	0.72	0.72	0.72	0.72
Equity Cost (Ke) Dollars Nominal	8.1%	8.1%	8.1%	8.1%	8.1%
Devaluation	7.2%	3.1%	3.0%	-2.9%	-3.0%
Equity cost (Ke) Pesos nominal	15.9%	11.5%	11.3%	4.9%	4.8%
Capital	1,748,049	2,117,225	2,291,355	2,521,734	2,815,677
USD average capital cost	8.1%				
COP average capital cost	9.7%				

\* US debt bonds 30 years

\*\* Profitability index S&500 - average October 2018

(1) Information at closing October 2018 - Source Bloomberg

(2) Information at closing October 2018 - Source Bloomberg

(3) Emerging markets Banks - Damodaran at December 2017

**b) Computer software and applications**

The following is the detail of the balances of software and other computer applications as of December 31, 2018 and 2017:

	December 31, 2017	Additions and write-offs	Amortization	December 31, 2018
Licenses	-	5,962	-	5,962
Programs acquired	20,516	2,382	-	22,898
Programs in transit	902	(902)	-	-
Programs withdrawn	26,816	(692)	-	26,124
Licenses amortization	-	-	(342)	(342)
Accumulated amortization of programs acquired	(11,737)	-	(5,066)	(16,803)
Accumulated amortization of completed programs	(15,016)	-	(2,104)	(17,120)
<b>Total Intangible items</b>	<b>21,481</b>	<b>6,750</b>	<b>(7,512)</b>	<b>20,719</b>

	December 31, 2016	Additions and write-offs	Amortization	December 31, 2017
Programs acquired	14,241	6,275	-	20,516
Programs in transit	9	894	-	902
Programs withdrawn	25,644	1,172	-	26,816
Accumulated amortization of programs acquired	(6,728)	(1,575)	(3,434)	(11,737)
Accumulated amortization of completed programs	(9,741)	(1,557)	(3,719)	(15,017)

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<b>Total Intangible items</b>	<b>23,425</b>	<b>5,209</b>	<b>(7,153)</b>	<b>21,481</b>
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**NOTE 17. - CURRENT INCOME TAX**

**i. Detail of consolidated income tax liquidation surplus:**

**December 31, 2018**

Entity	Advance	Provision	Asset (Liability)
Banco GNB Sudameris	192,463	-	192,463
Servitrust	1,206	(1,595)	(389)
Servibanca	-	(7,367)	(7,367)
Servivalores	772	(1,420)	(648)
Servitotal	3	(5)	(2)
Corporación Financiera	1,184	-	1,184
Banco GNB Peru	43,447	(6,438)	37,009
<b>Total Income Assets</b>	<b>239,075</b>	<b>(16,825)</b>	<b>222,250</b>

Banco GNB Paraguay	7,610	(8,778)	(1,168)
<b>Total Income Liabilities</b>	<b>7,610</b>	<b>(8,778)</b>	<b>(1,168)</b>

**December 31, 2017**

Entity	Advance	Provision	Asset (Liability)
Banco GNB Sudameris	175,616	(18,600)	157,017
Servitrust	2,670	(4,621)	(1,951)
Servibanca	9,763	(19,146)	(9,384)
Servivalores	2,069	(1,369)	700
Servitotal	4	(5)	(1)
Corporación Financiera	24	-	23
Banco GNB Peru	40,517	(3,551)	36,966
<b>Total Income Assets</b>	<b>230,664</b>	<b>(47,292)</b>	<b>183,371</b>

Banco GNB Paraguay	5,608	(7,255)	(1,647)
<b>Total Income Liabilities</b>	<b>5,608</b>	<b>(7,255)</b>	<b>(1,647)</b>

**ii. Components of income tax expense:**

The detail of the income tax expense components for the periods ended on December 31, 2018 and 2017, is as follows:

Concept	December 31, 2018	December 31, 2017
Income tax for the period	53,155	49,438
Income tax surcharge	2,426	3,334
<b>SUB-TOTAL</b>	<b>55,581</b>	<b>52,772</b>
Adjustment income tax provision	-	2,100
Deferred taxes (see Note 23)	(390)	(26,871)
Deferred tax adjustment due to investments reclassification	-	1,194
<b>TOTAL</b>	<b>55,191</b>	<b>29,195</b>

**BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIAS**  
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**iii. Reconciliation of the tax tariff in accordance with the Tax Provisions and Effective Rate**

In December 2016, the Congress enacted a tax reform (Law 1819) that, among others, contains the following regulations on related income and taxes for 2017 and 2018 in Colombia:

- Taxable income is subject to a rate of 34% in 2017 and 37% for the years 2018 and 2019.
- The tax on corporate equity - CREE has been eliminated and a 6% surcharge is applied to the Income Tax for 2017 and 4% for 2018, for the taxable income over \$800 million.
- Corporate income tax returns are effective during three years after the date of filing.
- Tax losses incurred before 2017 continue being deductible under the same terms applied for 2016 but may not be fiscally adjusted. Corporate tax losses incurred since year 2017 and subsequent years, may be offset with ordinary income during the following twelve years, and the Income Tax return filing and corrections that comprise or offset the tax losses are translated in the company six years after the filing.
- Capital earnings or unexpected earnings are still taxes added at 10%.
- Based on the tax calculation, it may not be lower than 3.5% of the tax equity at the end of the preceding period, and, if the taxable income is lower than such basis, the difference may be reduced from the taxable income within the five years from their occurrence, as “presumptive income excess”.
- Since January 1, 2017, determining the income and related taxes requires that the current local technical framework of the accounting standards is applied to the amount of assets, liabilities, equity, revenue and expenses, where there is no regulations. In any case, tax regulations may expressly require the application of a different treatment.

Law 1943 of December 23, 2018, known as the ‘Financing Law’, established the following modifications to the income tax of legal entities:

- For 2019, a 33% rate has been set plus a 4% surcharge for a total rate of 37%.
- For 2020, a 32% rate has been set plus a 3% surcharge for a total rate of 35%.
- For 2021, a 31% rate has been set plus a 3% surcharge for a total rate of 34%.
- Income tax rate as from 2022 will be 30%.

Similarly, the presumptive income rate is progressively eliminated, and was established at 1.5% for the years 2019 and 2020 and 0% as from taxable year 2021.

Tax rates for 2017 and 2018 that affect affiliate the subsidiaries in Peru and Paraguay are 30% and 10%, respectively.

The detailed reconciliation between the total tax expense for fiscal purposes and the expense recorded in the financial statements for the periods ended on December 31, 2018 and 2017, is presented below:

Concept	December 31, 2018	December 31, 2017
<b>Profit (loss) before tax</b>	290,302	251,837
Theoretical income tax expense at the rate in force 2018 - 37% and 2017 - 40%.	107,411	100,735
<b>Plus or less taxes that increase or decrease the income tax expense</b>		
Non-deductible tax on financial movements	2,404	2,163
Other non-deductible provisions	287	5,606
Dividends that do not constitute income	(833)	(468)
Income from equity method	(75,402)	(72,154)

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Profit (loss) on the sale of appraisal of investments	-	537
Interests and other non-taxable income	-	(2,801)
Exempt income	(595)	(1,023)
Recovery of provisions	(3,079)	(3,596)
Recovery on sales of assets	64,836	-
Exchange difference Law 1819/16	(20,069)	-
Linear accrual appraisal	(23,630)	-
Taxes abroad	3,633	-
Other	228	197
<b>Total tax expense for the period</b>	<u>55,191</u>	<u>29,195</u>
<b>Effective tax tariff</b>	<u>19,01%</u>	<u>11,59%</u>

**NOTE 18. - OTHER ASSETS**

The following is the detail of the balances of other assets as of December 31, 2018 and 2017:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other interests - Assets foreclosed (1)	66,335	75,151
Expenses paid in advance	6,409	5,260
Hotels inventory	1,289	
Miscellaneous	7,332	6,446
Works of art and culture	1,790	1,790
Impairment of other assets	(2,290)	(1,220)
<b>Total</b>	<u>80,865</u>	<u>87,427</u>

(1) Other interests correspond to rights in stand-alone equities received by the Bank in kind, where a percentage is owned.

Below appears the detail of impairment movements in other assets as of December 31, 2018 and 2017:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Balance at the beginning of the period	<u>(1,220)</u>	(2,143)
Provision taken to income	(1,070)	(1,458)
Write-offs	-	1,748
Reimbursements taken to income	-	633
<b>Balance at the end of the period</b>	<u>(2,290)</u>	<u>(1,220)</u>

**NOTE 19. - DEPOSITS BY CLIENTS**

**Deposits by clients**

The detail of deposits by clients received by the Bank and its subsidiaries in the course of their operations is as follows:

**BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIAS**  
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<b>Current accounts</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Private - Active	1,540,529	1,258,327
Private - Inactive	14,370	16,759
Official - Active	384,430	358,608
Official - Inactive	323	414
Private - Abandoned	1,836	1,685
Official - Abandoned	255	338
<b>Total current accounts</b>	<b>1,941,743</b>	<b>1,636,131</b>

<b>Savings accounts</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Ordinary - Active	10,146,717	8,427,245
Ordinary - Inactive	152,320	110,391
With term deposits	197	410
Abandoned	2,701	2,367
<b>Total savings accounts</b>	<b>10,301,935</b>	<b>8,540,413</b>

<b>Term deposits</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Maturity from inception - up to 6 months	4,854,814	5,000,662
6-12 months	1,758,815	1,193,757
12-18 months	980,654	974,080
18 months and over	892,579	1,194,707
<b>Total term deposits</b>	<b>8,486,862</b>	<b>8,363,206</b>

Below appears a summary of the effective interest rates earned by deposits by clients:

	<b>December 31, 2018</b>			
	<b>Rate for Deposits in Colombian pesos</b>		<b>Foreign Currency</b>	
	<b>Minimal</b>	<b>Maximal</b>	<b>Minimal</b>	<b>Maximal</b>
	%	%	%	%
Current accounts	1.63	2.23	1.63	2.23
Savings accounts	4.14	4.72	4.14	4.72
Fixed term deposits	5.47	6.45	-	-
	<b>December 31, 2017</b>			
	<b>Rate for Deposits in Colombian pesos</b>		<b>Foreign Currency</b>	
	<b>Minimal</b>	<b>Maximal</b>	<b>Minimal</b>	<b>Maximal</b>
	%	%	%	%
Current accounts	1.73	3.44	1.73	3.44
Savings accounts	4.76	7.53	4.76	7.53

**BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIAS**  
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Fixed term deposits	6.73	8.26	-	-
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**Deposits per Economic Sector**

The following charts show the clients deposit exposure by economic sector, using the Central Bank classifications, separately indicating the deposits of individuals corresponding to employees on a salary and rentiers.

**Current account as of December 31, 2018**

Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	2,807	7,959	49,928	60,694
Trade	292,489	62,649	108,926	464,064
Construction	89	127,583	24,865	152,537
Utilities	328,489	31,652	22,380	382,521
Transport	3,954	15,458	18,255	37,667
Financial	265,291	143,399	12,478	421,168
Industry	72,260	6,437	42,403	121,100
Mining and energy	2,784	2,233	9,515	14,532
Solidarity	3,582	-	99,229	102,811
Other - on a salary and rentiers	47,794	30,129	106,726	184,649
<b>Total</b>	<b>1,019,539</b>	<b>427,499</b>	<b>494,705</b>	<b>1,941,743</b>

**Savings accounts as of December 31, 2018**

Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	1,410	229	29,554	31,193
Trade	386,980	19,711	158,580	565,271
Construction	53	4,457	12,736	17,246
Utilities	2,981,520	17,470	19,798	3,018,788
Transport	3,135	395	47,760	51,290
Financial	5,130,079	1,217	97,587	5,228,883
Industry	60,994	5,169	135,444	201,607
Mining and energy	473	862	3,708	5,043
Solidarity	64,899	-	93,746	158,645
Other - on a salary and rentiers	248,795	595,699	179,475	1,023,969
<b>Total</b>	<b>8,878,338</b>	<b>645,209</b>	<b>778,388</b>	<b>10,301,935</b>

**Term deposits as of December 31, 2018**

Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	20,933	9,880	73,940	104,753
Trade	373,951	364,867	104,393	843,211
Construction	711	96,525	16,486	113,722
Utilities	1,311,307	390,525	46,920	1,748,752
Transport	32,799	8,390	29,215	70,404
Financial	1,700,953	1,061,374	346,366	3,108,693
Industry	80,678	9,007	105,863	195,548
Mining and energy	90,356	10,836	7,578	108,770
Solidarity	26,444	-	214,049	240,493
Other - on a salary and rentiers	926,763	804,665	221,088	1,952,516
<b>Total</b>	<b>4,564,895</b>	<b>2,756,069</b>	<b>1,165,898</b>	<b>8,486,862</b>

**Current account as of December 31, 2017**

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Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	2,284	720	1,238	4,242
Trade	171,542	54,102	92,955	318,599
Construction	818	258	443	1,519
Utilities	423,384	133,531	229,422	786,337
Transport	4,020	1,268	2,178	7,466
Financial	174,557	55,053	94,589	324,199
Industry	57,867	18,251	31,357	107,475
Mining and energy	1,154	364	625	2,143
Solidarity	3,429	1,081	1,858	6,368
Other - on a salary and rentiers	41,880	13,209	22,694	77,783
<b>Total</b>	<b>880,935</b>	<b>277,837</b>	<b>477,359</b>	<b>1,636,131</b>

**Savings accounts as of December 31, 2017**

Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	1,465	89	154	1,708
Trade	355,953	21,725	37,299	414,977
Construction	373	23	39	435
Utilities	2,101,711	128,275	220,231	2,450,217
Transport	4,773	291	500	5,564
Financial	4,570,379	278,947	478,914	5,328,240
Industry	37,274	2,275	3,906	43,455
Mining and energy	277	17	29	323
Solidarity	27,324	1,668	2,863	31,855
Other - on a salary and rentiers	226,141	13,802	23,696	263,639
<b>Total</b>	<b>7,325,670</b>	<b>447,112</b>	<b>767,631</b>	<b>8,540,413</b>

**Term deposits as of December 31, 2017**

Sector	Colombia	Peru	Paraguay	Total
Agriculture and livestock	19,688	14,492	5,381	39,561
Trade	260,412	191,684	71,176	523,272
Construction	330	243	90	663
Utilities	1,230,154	905,491	336,229	2,471,874
Transport	19,114	14,069	5,224	38,407
Financial	1,625,743	1,196,676	444,352	3,266,771
Industry	71,567	52,679	19,561	143,807
Mining and energy	110,335	81,215	30,157	221,707
Solidarity	14,423	10,616	3,942	28,981
Other - on a salary and rentiers	810,272	596,425	221,466	1,628,163
<b>Total</b>	<b>4,162,038</b>	<b>3,063,590</b>	<b>1,137,578</b>	<b>8,363,206</b>

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**NOTE 20. - FINANCIAL LIABILITIES**

**Deposits by financial entities**

The following is the detail of deposits by financial entities

**Short-term obligations**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Banks	273,637	139,625
Special deposits	115,382	120,710
Utilities	88,416	95,448
Interbanking funds	175,951	231,098
Repo operations	3,526,610	2,884,236
Simultaneous operations (with repurchase agreement)	1,109,056	1,140,020
Commercial current accounts	271	-
<b>Total</b>	<b>5,289,323</b>	<b>4,611,137</b>

**Financial obligations with development entities and banks out of Colombia**

The following is the summary of the financial obligations of the Bank and its Subsidiaries as of December 31, 2018 and 2017:

<b>Entity</b>	<b>Interest Rate</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Banco de la República (Central Bank)	From 4,25,% to 1,04%	27,814	9,265
Banco de Comercio Exterior (Bancoldex)	From 8,14,% to 5,04%	198,697	101,237
Fondo para el Financiamiento del Sector Agropecuario FINAGRO	From 14,54% to 9,54%	10,000	6,000
Financiera de Desarrollo Territorial S. A. FINDETER	From 8,69% to 7,34%	742,069	841,521
Banks abroad		721,449	282,414
Other Financial Liabilities		540,353	307,386
<b>Total</b>		<b>2,240,382</b>	<b>1,547,823</b>

**Effective Interest Rates for Short-Term Financial Obligations**

Below appears a summary of the effective annual interest rates accrued on the short-term financial obligations:

	<b>December 31, 2018</b>				<b>December 31, 2017</b>			
	<b>Rate in Colombian pesos</b>		<b>Rate in foreign currency</b>		<b>Rate in Colombian pesos</b>		<b>Rate in foreign currency</b>	
	<b>Min %</b>	<b>Max %</b>	<b>Min %</b>	<b>Max %</b>	<b>Min %</b>	<b>Max %</b>	<b>Min %</b>	<b>Max %</b>
Interbanking funds (I)	-	-	2.30	2.55	4.62	4.65	0.47	0.63
Repo operations (R)	4.25	5.25	-	-	4.75	4.75	-	-
Simultaneous ( S )	4.22	4.25	-	-	4.25	4.8	-	-

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**Long-term financial obligations**

Type	December 31, 2018	December 31, 2017
Outstanding subordinated bonds - COP	333,756	332,405
Outstanding subordinate bonds - Foreign Currency	1,897,598	1,702,673
Outstanding ordinary bonds - USD	-	899,648
<b>Total</b>	<b>2,231,354</b>	<b>2,934,726</b>

The following is the detail on the characteristics of the Bank's bonds:

		December 31, 2018						
	Type of issue	Amount of issue	Balance	Interest Rate	Interest expense	Date of issue	Date of maturity	Payment method
Issue 2012	Subordinated Bonds	USD 250,000,000	828,489	7.50%	57,787	30-jul-12	30-jul-22	Interests semester in arrears
Issue 2016	Subordinated Peru Bonds	USD 15,006,000	49,247	5.4375%	5,100	27-oct-16	27-oct-26	Interests semester in arrears
Issue 2017	Subordinated Bonds	USD 300,000,000	980,038	6.50%	58,135	03-abr-17	03-abr-27	Interests semester in arrears
Issue 2018	Subordinated Peru Bonds	S/. 41,050,000	39,824	5.8407%	14,150	19-nov-18	19-nov-21	Interests semester in arrears
		<b>Total Bonds in Foreign Currency</b>	<b>1,897,598</b>					
Issue 2017	Subordinated Bonds	\$119,205	119,673	3.85%	8,633	Nov-23-17	Nov-23-24	Interests quarter in arrears
Issue 2017	Subordinated Bonds	\$213,200	214,083	4.05%	15,865	Nov-23-17	23-nov-26	Interests quarter in arrears
		<b>Total Bonds Local currency</b>	<b>333,756</b>					
		<b>Total Bonds Issued</b>	<b>2,231,354</b>					

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At December 31, 2017								
	Type of issue	Amount of issue	Balance	Interest Rate	Interest expense	Date of issue	Date of maturity	Payment method
Issue 2012	Subordinated Bonds	USD 250,000,000	757,593	7.50%	57,104	30-jul-12	30-jul-22	Interests semester in arrears
Issue 2013	Ordinary Bonds	USD 300,000,000	899,648	3.875%	37,197	02-may-13	02-may-18	Interests semester in arrears
Issue 2016	Subordinated Peru Bonds	USD 15,006,000	45,219	5.4375%	5,100	27-oct-16	27-oct-26	Interests semester in arrears
Issue 2017	Subordinated Bonds	USD 300,000,000	898,145	6.50%	43,657	03-abr-17	03-abr-27	Interests semester in arrears
		<b>Total Bonds USD</b>	<b>2,600,605</b>					
Issue 2017	Subordinated Bonds	\$119,205	119,854	3.85%	988	Nov-23-17	Nov-23-24	Interests quarter in arrears
Issue 2017	Subordinated Bonds	\$213,200	214,267	4.05%	1,836	Nov-23-17	23-nov-26	Interests quarter in arrears
		<b>Total Bonds COP</b>	<b>334,121</b>					
		<b>Total Bonds Issued</b>	<b>2,934,726</b>					

**NOTE 21. - BENEFITS TO EMPLOYEES**

According to Colombian labor legislation, labor agreements and the collective bargaining agreements, employees of the Bank and its subsidiaries have short-term fringe benefits - salaries, holidays, legal and extralegal bonuses, severance payments and interests on severance payment - and long-term benefits such as seniority bonus and medical aids, and post-employment and retirement benefits. The latter ones include the severance payment to employees that remain in the labor regime before Law 50 of 1990 and legal and extralegal retirement pensions. Management remuneration includes salaries, benefits in kind and contributions to a post-employment benefit plan.

Employees of subsidiaries in Peru and Paraguay receive only short-term benefits.

In regards to the benefits plans to employees, the Bank and its Subsidiaries are exposed to several risks (interest rates and operating risks), which they intent to minimize by applying the risk management policies and procedures defined by Note 7, above.

The following is the detail of the provisions recorded for benefits to employees as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Short-Term	13,658	13,428
Post-employment	19,080	22,231
Long-Term	17,015	15,340
Estimated liabilities	4,928	4,505
<b>Total</b>	<b>54,681</b>	<b>55,504</b>

**BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIAS**  
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**Short-term benefits**

Payment for such benefits (other than the termination indemnities) must be made within the term of the twelve months following the year-end where the employees have provided his services. Such benefits accumulate through the accrual system, taken to income. According to the Colombian labor laws, as well as to the Collective Bargaining Agreement entered into between the Bank and the union bodies, as well as the extra-legal benefits applicable to the employees excluded from the mentioned collective bargaining agreement, such benefits correspond to: Basic salaries, integral salaries, severance payment regime Law 50 of 1990, interests on severance payment, vacation time, legal bonus, extra-legal bonus, financial aids, paid time off, as well as the contributions to the social security system in pensions and health, as well as the contributions to payroll taxes.

**Post-employment Benefits**

This type of benefits is paid to the employees at their retirement or after competing their employment (different from the termination indemnities). In accordance with the Colombian labor regulations, and with the provisions of the Collective Bargaining Agreement entered into between the Bank and the Union Bodies, such benefits correspond to the retirement pensions (retiree in charge of the Bank or with a pension shared with Colpensiones), and to the Retirement Financial Aid, that is paid to the employees whose position is under the scope of the Collective Bargaining Agreement, to the individuals who have been granted their elderly pension.

The liability corresponding to the post-employment benefits is determined based on the present value of the future estimated payments to be made to the employees who have been granted their elderly pension, calculated based on actuarial studies; therefore, the expense related to such benefits is recorded in the Bank's income statement which includes the cost for the current service assigned in the actuarial calculation, plus the financial cost for the liability calculated.

The Bank does not have an asset and/or insurance policy intended to pay for Post-employment Benefits, and thus it has created all this liability in its financial statements.

The Bank does not make share-based payments as a benefit to employees.

**Retirement Benefits (Termination Indemnities)**

Indemnities due to termination to pay to the employees as a consequence of:

- (a) a company's decision to terminate the employee's contract prior to the regular retirement age; or
- (b) the employee's decision to voluntarily accept the conclusion of the work relationship, in exchange for such offsetting.

The Bank has not set retirement plans or programs for its employees. Nonetheless, in the case of a decision to unilaterally terminate the work contract with no just cause, in accordance with the Colombian labor legislation and the provisions of the collective bargaining agreement in force, the Bank shall make the payment for the corresponding indemnity.

Termination benefits are recognized as a liability in the income statement on the first of the following dates:

- When the Bank formally communicates to the employee its decision to retire him from the job.
- When provisions are recognized due to restructuring costs of a subsidiary or Bank's business involving the payment for termination benefits.

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**Other Long-term Benefits**

These are all the benefits to employees, other than the short-term benefits to employees and post-employment benefits due to termination. The seniority bonus and severance payment to employees under the regime preceding Law 50 of 1990 are among the benefits paid in accordance with the Colombian labor laws, as well as with the provisions of the Collective Bargaining Agreement and the extra-legal benefits applicable to the employees excluded from collective bargaining agreement aforementioned.

Liabilities for long-term benefits to employees are similarly determined as the post-employment benefits, i.e. by preparing the actuarial calculations as previously described. Therefore, the expense corresponding to these benefits is recorded in the income statement of the Bank, including the cost for the present service assigned in the actuarial calculation, plus the financial cost of the liabilities calculated.

The Bank does not have an asset and/or insurance policy intended to pay for Post-employment Benefits, and thus it has created all this liability in its financial statements.

**Actuarial Calculations**

The obligations measured for retirement pensions, retirement aid seniority bonus, and severance payment with retroactivity, depend on several long-term premises and assumptions that are determined on actuarial basis, including the present value estimates of future payments of benefits, considering the probability of future events, such as salary increases, as well as the variations in the personnel headcount, etc. The eventual variations in the long-term premises and assumptions, may have a significant effect in the amount of the actuarial calculations, and thus, in future contributions with the consequent variation in the interest cost and services for such actuarial calculations.

The actuarial studies are carried out through the method of the projected credit unit, thus using the actuarial assumptions, such as the percentage of the cost of life, mortality rates, work life average, salary increase, personnel turnover, and discount rates.

The discount rate used to prepare the actuarial calculations, in order to establish the present value of the future cash flows, corresponds to a rate for long-term investments. Such rate represents the market rate of fixed-income investments or Government bonds denominated in the currency that the benefit will be paid and considers the opportunity and amount for the payment of the future benefits.

**Pension Benefits**

In Colombia, the retirement pensions when the employees retire after meeting a certain age and years of service, are assumed by public or private pension funds, based on defined contribution plans where the companies and employees make monthly contributions of amounts determined by law to have access to a pension at the employee's retirement; however, in the case of some employees hired before 1968 who have met the requirements of age and years of service, the pensions are assumed directly by the Parent.

The following is the movement of the retirement benefits and long-term benefits for the periods ended on December 31, 2018 and 2017:

	<b>Post-employment</b>		<b>Other long-term benefits</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Balance at the beginning of the period	22,231	26,381	15,340	10,948
Costs incurred during the period	239	278	993	812
Interests	1,684	2,013	828	756
Paid to employees	(2,600)	(3,752)	(4,296)	(1,975)
OCI adjustment	(2,474)	(2,689)	4,150	4,799
<b>Balance at the end of the period</b>	<b>19,080</b>	<b>22,231</b>	<b>17,015</b>	<b>15,340</b>

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**Actuarial Assumptions**

The variables used to calculate the projected obligations for the various post-employment retirement benefits and other long-term benefits, are presented as follows:

Actuarial Assumptions	December 31, 2018	At December 31, 2017
Discount Rate	7.50%	6.75%
Inflation Rate	3.50%	3.50%

Employees turnover rate: The Turnover Table SOA 2003 was used to prepare the different actuarial calculations

The Colombian mortality table published by the Superintendency was used to calculate the employees expected life, which is based on the mortality experience of several insurers with operations in Colombia.

**Other Long-term Benefits:**

The Parent grants its employees long-term extra-legal seniority bonuses during their work life, depending on the number of years of service, every five, ten, fifteen, and twenty years, etc., calculated as a number of days of salary (between 15 and 180) for each payment.

The Parent has a group of employees with a severance payment benefit prior to the issue of Law 50 of 1990, where such benefit is accumulative and is granted based on the last salary earned by the employee multiplied by the number of years of service, less the advances made on the new benefit.

The remuneration of management key personnel in each category of the benefits granted, is disclosed in Note 31 - Related Parties.

**Sensitivity Analysis**

The liability sensitivity analysis due to retirement benefits to employees in the different financial and actuarial variables, is as follows, keeping all other variables constant:

Post-employment Benefits	Change in variable	Variable increase	Variable decrease
		+50 points	-50 points
Discount Rate	7.50%	(751.93)	802.84
Salaries increase rate	4.50%	202.26	(188.26)
Pension increase rate	3.50%	609.66	(577.32)
Long-term Benefits	Change in variable	Variable increase	Variable decrease
		+50 points	-50 points
Discount Rate	7.00% and 7.50%	(379.70)	402.73
Salaries increase rate	4.50%	477.53	(453.40)

**Pensions**

The actuarial study on retirement pensions was prepared by MERCER, in order to determine the present value of the future obligations originated by the retirement pensions in charge of the Bank.

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The mathematical reserves for retirement pensions were calculated using the technical bases established by Decree 2783 of December 20, 2001, and the respective modifications through Decree 2984 of 2009.

Similarly, the requirements established by the External Communication No. 027 of August 2010 were considered, through which the Proformas F.0000-047 and F.0000-148 were modified.

The actuarial calculation of retirement pensions with cutoff at December 31, 2018 amounted to \$19,003 that the Bank has provided in full (100%) according to the provisions of the International Accounting Standard No. 19 (IAS 19), in respect to the Legal Plan of Retirement Pension in charge of the Entity.

**NOTE 22 - PROVISIONS FOR LEGAL CONTINGENCIES AND OTHER PROVISIONS**

The following is the detail of provisions as of December 31, 2018 and 2017:

<b>Legal processes, fines, penalties and indemnities</b>	<b>December 31, 2018</b>	<b>At December 31, 2017</b>
Fines and penalties other administrative authorities	122	122
Labor lawsuits	1,115	2,293
Other lawsuits in administrative, judicial or arbitration process	6,563	5,861
<b>Sub-total legal processes, fines, penalties and indemnities</b>	<b>7,800</b>	<b>8,276</b>
<b>Other provisions</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Provisions</b>	<b>44,293</b>	<b>29,821</b>

Such provisions are estimated based on the evolution of each process, as well as the concept by the respective lawyers, in respect to the probability of a favorable sentence for each one of them.

**Labor Lawsuits**

As of December 31, 2018 and 2017 the provision includes labor lawsuits for \$1,115 and \$2,293 for litigation against the Parent, mainly due to lawsuits for illicit enrichment by the Parent, claiming that the bank took ownership of social security funds and other employee benefits and did not deliver them to the respective government agencies. Additionally, the Bank also faces litigation regarding employment contracts from former employees seeking additional termination benefits. The expected timing of decision is uncertain since each case is subject to review and analysis by experts in charge as well as a legal ruling over the disputed matters. Historically, most labor proceedings have been decided in favor of the Bank.

**Other processes**

As of December 31, 2018 and 2017, this provision includes administrative proceedings for \$6,563 and \$5,861 for claims related to loans under the UPAC system, and with regard to the lack of access to the Bank's premises by individuals with disabilities, client indemnities, complaints, and improper client disbursements, among others. The expected timing of decision is uncertain since each case is subject to review and analysis by experts in charge as well as a legal ruling over the disputed matters.

**NOTE 23. - DEFERRED INCOME TAX**

• **Deferred tax on temporary differences**

The difference between the carrying value of assets and liabilities and their tax value causes the temporary differences shown below. These differences, in turn, generate deferred taxes calculated and recorded for the years ended on December 31, 2018 and 2017, based on current rates, for the years in which they would be reverted.

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**Year ended on December 31, 2018**

<b>Deferred tax assets</b>	<b>Balance at December 31, 2017</b>	<b>Deposits (charges) to previous periods</b>	<b>Debit (credit) to income</b>	<b>Debit (credit) to OCI</b>	<b>Balance at December 31, 2018</b>
Assets received in kind	76	-	(9)	-	67
Works of art and culture - Integration project	511	-	(198)	-	313
Improvements	112	-	(93)	-	19
Computing software	171	-	(171)	-	-
Placement commission investment securities	28	-	(28)	-	-
Previous Loss	50,563	-	(16,619)	-	33,944
Labor Liabilities	10,237	-	(4,200)	1,261	7,298
ICA movement	1	-	(1)	-	-
Deposits by clients (exchange difference)	130	-	1,123	-	1,253
Long-term liabilities (exchange difference)	343	-	13,857	-	14,200
Outstanding investment securities	691	-	23,778	38,571	63,040
Other accounts receivable (exchange difference)	34	-	(31)	-	3
Short-term liabilities (exchange difference)	-	-	1,365	-	1,365
Investments at fair value with changes in OCI	-	-	63	-	63
Other liabilities (exchange difference)	5	-	33	-	38
Provisions	-	-	208	-	208
Generic provision credits	9,503	-	3,576	-	13,079
Facilities depreciation excess	3,016	-	(160)	-	2,856
Other	4,102	-	113	4,510	8,725
<b>Total deferred tax assets</b>	<b>79,523</b>	<b>-</b>	<b>22,606</b>	<b>44,342</b>	<b>146,471</b>
<b>Deferred tax liabilities</b>					
Outstanding investment securities	(1)	-	1	-	-
Forward operations	(435)	-	(198)	-	(633)
Property, plant and equipment	(44,577)	-	19,224	10,874	(14,479)
Lands	(3,884)	-	1,888	1,787	(209)
Investment in debt securities	(14,321)	-	4,646	33	(9,642)
Impairment provision on credit portfolio and accounts receivable	(50,029)	13,697	-	27,656	(8,676)
Loans and accounts receivable at amortized cost	(15,700)	-	(874)	(29,385)	(45,959)
Investments in equity shares <20%	(2,293)	-	133	36	(2,124)
Mercantile credit	(1,763)	-	(403)	(36)	(2,202)
Credit portfolio (exchange difference)	(2,805)	-	(28,936)	-	(31,741)
Short-term liabilities (exchange difference)	(2)	-	2	-	-
Other investments (exchange difference)	(23)	-	(295)	-	(318)
Cash and cash equivalents (exchange difference)	(1,954)	-	(15,951)	-	(17,905)
Other accounts receivable (exchange difference)	-	-	(1,411)	-	(1,411)
Investment Properties	(825)	-	(42)	-	(867)
<b>Total deferred tax liabilities</b>	<b>(138,612)</b>	<b>13,697</b>	<b>(22,216)</b>	<b>10,965</b>	<b>(136,166)</b>
<b>Total net position (liability)</b>	<b>(59,089)</b>	<b>13,697</b>	<b>390</b>	<b>55,307</b>	<b>10,305</b>

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**Year ended on December 31, 2017**

<b>Deferred tax assets</b>	<b>Balance at December 31, 2016</b>	<b>Reclassification</b>	<b>Debit (credit) to income</b>	<b>Debit (credit) to OCI</b>	<b>Balance at December 31, 2017</b>
Assets received in kind	798	-	(722)	-	76
Works of art and culture - Integration project	2,308	-	(1,797)	-	511
Improvements	256	-	(144)	-	112
Computing software	688	-	(517)	-	171
Placement commission investment securities	1,009	-	(981)	-	28
Previous Loss	56,360	21,060	(22,681)	(4,176)	50,563
Forward operations	1,063	-	(1,063)	-	-
Labor Liabilities	5,844	1,096	(7,166)	10,463	10,237
ICA movement	1,320	-	(1,319)	-	1
Deposits by clients (exchange difference)	-	-	130	-	130
Long-term liabilities (exchange difference)	-	-	343	-	343
Outstanding investment securities	-	-	10,554	(9,863)	691
Other accounts receivable (exchange difference)	-	-	34	-	34
Other liabilities (exchange difference)	-	-	5	-	5
Generic provision credits	-	14,352	-	(4,849)	9,503
Facilities depreciation excess	-	2,830	-	186	3,016
Other	214	2,707	(4,569)	5,750	4,102
<b>Total deferred tax assets</b>	<b>69,860</b>	<b>42,045</b>	<b>(29,893)</b>	<b>(2,489)</b>	<b>79,523</b>
<b>Deferred tax liabilities</b>					
Outstanding investment securities	(5,797)	-	5,796	-	(1)
Forward operations	-	-	(435)	-	(435)
Property, plant and equipment	(24,494)	-	7,786	(27,869)	(44,577)
Lands	(1,430)	-	(562)	(1,892)	(3,884)
Investment in debt securities	(32,741)	-	40,411	(21,991)	(14,321)
Impairment provision on credit portfolio and accounts receivable	(35,532)	-	-	(14,497)	(50,029)
Loans and accounts receivable at amortized cost	(15,534)	-	(166)	-	(15,700)
Investments in equity shares <20%	(7,328)	-	5,501	(466)	(2,293)
Mercantile credit	(4,576)	-	1,988	825	(1,763)
Credit portfolio (exchange difference)	-	-	(2,805)	-	(2,805)
Short-term liabilities (exchange difference)	-	-	(2)	-	(2)
Other investments (exchange difference)	-	-	(23)	-	(23)
Cash and cash equivalents (exchange difference)	-	-	(1,954)	-	(1,954)
Other assets (exchange difference)	-	-	-	-	-
Investment Properties	(860)	-	35	-	(825)
<b>Total deferred tax liabilities</b>	<b>(128,292)</b>	<b>-</b>	<b>55,570</b>	<b>(65,890)</b>	<b>(138,612)</b>
<b>Total net position (liability)</b>	<b>(58,432)</b>	<b>42,045</b>	<b>25,677</b>	<b>(68,379)</b>	<b>(59,089)</b>

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**Effect of current tax and deferred tax on each item of Other Comprehensive Income in Equity:**

Following appears the effect of current tax and deferred tax on each item of Other Comprehensive Income:

	December 31, 2018			December 31, 2017		
	Amount before taxes	Deferred tax expense (income)	Net	Amount before taxes	Deferred tax expense (income)	Net
<b>Items that may be subsequently reclassified to income</b>						
Translation of investment in subsidiaries abroad	50,374	38,643	89,017	20,721	(36,487)	(15,766)
Profit due to assets revaluation	(63,264)	12,661	(50,603)	74,125	(29,761)	44,364
Differences between the provision and impairment recorded in the calculation of the financial statements, separate and consolidated	(56,333)	-	(56,333)	39,608	-	39,608
Profit (loss) due to cash flows hedge	(91,112)	41,354	(49,758)	(2,910)	1,446	(1,464)
Profit (loss) in the appraisal of equity instruments	36,910	4,510	41,420	(12,362)	(9,863)	(22,225)
<b>Items that will not be reclassified to income</b>						
Profit (loss) in benefits plans to employees	7,860	1,261	9,121	(11,286)	10,463	(823)
Miscellaneous Profit (Loss)	-	(29,425)	(29,425)	-	(4,177)	(4,177)
Profit (loss) due to portfolio reclassification to retained gains	-	(13,697)	(13,697)	-	-	-
<b>Total Other Comprehensive Income during the period</b>	<b>(115,565)</b>	<b>55,307</b>	<b>(60,258)</b>	<b>107,896</b>	<b>(68,379)</b>	<b>39,517</b>

**NOTE 24. - OTHER LIABILITIES**

The following is the detail of Other Liabilities as of December 31, 2018 and 2017:

Concept	December 31, 2018	December 31, 2017
Fogafín	17,611	13,029
Ascredibanco	310	500
Cancelled accounts	5,639	5,710
Commissions and fees	5,630	3,678
Taxes	6,888	1,779
Dividends and surplus	1,431	786
Leases	188	59
Tax on Financial Movements (GMF)	2,092	2,144
Providers and services payable	23,692	20,953
Contributions, affiliations and transfers	695	554
Income tax withholdings and payroll taxes	59,039	12,920
Advance income	9,099	7,871
Deferred deposits	4,334	4,104
Other contributions	115	84
Other	190,496	196,945
<b>Total</b>	<b>327,259</b>	<b>271,116</b>

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**NOTE 25. - ADVANCE CAPITAL INCREASE**

The following is the detail of the capitalization advance made by the shareholder GILEX HOLDING at December 31, 2018.

Advance in foreign currency: USD 50,000,000  
 Market Representative Exchange Rate: 3,249.75  
 Total advance local currency: \$162,488

**NOTE 26. EQUITY**

**Capital**

Parent's shares have a par value of COP\$400 each at December 31, 2018 and 2017, as follows:

	<b>December 31,</b>	<b>December 31, 2017</b>
	<b>2018</b>	
Number of authorized shares (1)	250,000,000	187,500,000
Number of shares to subscribe	84,950,559	22,450,559
<b>Total shares subscribed and paid</b>	<b>165,049,441</b>	<b>165,049,441</b>
Authorized Capital (1)	100,000	75,000
Capital to be subscribed	(33,980)	(8,980)
<b>Total capital subscribed and paid</b>	<b>66,020</b>	<b>66,020</b>

(1) At the Extraordinary Shareholders Meeting No. 90 of July 19, 2018, the increase in the Bank's authorized capital was authorized to \$100,000, where it is divided in 250 million of ordinary nominative shares.

**Reserves**

**Legal Reserve (mandatory)**

Banks are required to set a 'Legal Reserve' by appropriating 10% of the net profit in each period until it reaches 50% of the subscribed capital. The reserve may be reduced below such level in order to cover losses exceeding the non-distributed profit. This reserve may not be used to pay dividends or cover expenses or losses if the Bank has non-distributed profit.

**Appropriation of withheld profit**

The detail of the provision on withheld profit at December 31, 2018 and 2017 is as follows:

<b>Reserves</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Legal	1,129,450	968,190
Occasional	66,932	85,695
<b>Total Reserves</b>	<b>1,196,382</b>	<b>1,053,885</b>

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**Declared Dividends**

Dividends as declared and paid to the shareholders, based on the net profit recognized in the separate financial statements for the preceding period where no dividend was declared.

The calculation of profit per share for the periods ended on December 31, 2018 and 2017 is as follows:

Basic Earnings per Share	December 31, 2018	December 31, 2017
Net Profit of the Year	235,110	222,642
Less: Non-controlling interests	4,916	4,023
<b>Net income for the year attributable to controlling interests</b>	<b>230,194</b>	<b>218,619</b>
Weighted average of ordinary shares used to calculate the net basic earnings per share.	165,049,441	165,049,441
<b>Net basic earnings per share of controlling interests (COP)</b>	<b>1,395</b>	<b>1,325</b>

The Shareholders' Meeting No. 88 of March 28, 2018 decreed cash dividends for \$56,369 (at \$34,153 per share).

**NOTE 27. - INCOME AND EXPENSES DUE TO COMMISSIONS AND FEES**

The following is the detail of income and expenses due to commissions and fees for the periods ended on December 31, 2018 and 2017

Concept	December 31, 2018	December 31, 2017
Bank acceptance	53	53
Letters of credit	1,389	1,322
Bank guarantees	1,224	958
Bank services	65,724	64,765
Credit card and debit card affiliated stores	7,483	6,892
Management fees, credit cards	1,373	1,608
Other (1)	154,347	139,459
<b>SUB-TOTAL</b>	<b>231,593</b>	<b>215,057</b>
Bank services	18,653	16,672
Bank guarantees	4,777	4,355
Fiduciary businesses	53	-
Management of the collective investment fund	3,269	-
Commissions on sales and services	120	-
Board of Directors	156	65
Statutory Audit and External Audit	4,417	2,917
Appraisals	17	36
Legal Consulting	3,825	4,038
Other (2)	53,814	38,946
<b>SUB-TOTAL</b>	<b>89,101</b>	<b>67,029</b>
<b>TOTAL</b>	<b>142,492</b>	<b>148,028</b>

(1) Commissions paid by Banco GNB Sudameris for the use of the low value payment system.

(2) It includes \$22,878 for the payment of commissions to the sales force in the agreements portfolio at December 2017.

**NOTE 28. - OTHER INCOME**

The following is the detail of Other Income for the periods ended on December 31, 2018 and 2017:

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<b>Concept</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Sale of Investments	28,994	51,575
Portfolio Sale	10,218	63,936
Dividends and other capital earnings	2,587	1,359
Property, plant and equipment	272	876
Leases	6,767	6,583
Exchange difference	27,954	21,536
Otros (1)	176,470	76,919
<b>Total</b>	<b>253,262</b>	<b>222,784</b>

(1) It includes income from the portfolio written off for \$8,000, reimbursement of other provisions for \$12,811, the return on Bancassurance management for \$23,084, and from hotel services for \$42,670 (Corporation subsidiaries), at December 31, 2018

**NOTE 29. - OTHER EXPENSES**

The following is the detail of Other Expenses for the periods ended on December 31, 2018 and 2017:

<b>Concept</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Benefits to employees	<b>238,750</b>	<b>222,309</b>
<b>Loss on the sale of investments</b>	<b>22,146</b>	<b>10,182</b>
Legal expenses	3	3
Leases	75,630	68,471
Contributions, affiliations and transfers	28,785	25,209
Insurance	43,807	32,048
Repairs and maintenance	44,598	36,890
Adjustments and installations	2,103	2,245
<b>Total general administrative expenses</b>	<b>194,926</b>	<b>164,866</b>
Depreciation of property and equipment	<b>17,623</b>	<b>15,481</b>
Amortization of intangible items	<b>7,512</b>	<b>7,153</b>
Management and intermediation services	270	217
Loss for operating risk	479	252
Taxes and fees	42,241	31,409
Non-controlling interest	4,917	4,016
Penalties, fines, litigations, indemnities, operating risks	60	284
Otros (1)	134,030	113,845
<b>Other Expenses</b>	<b>181,997</b>	<b>150,023</b>
<b>Total Other Expenses</b>	<b>662,954</b>	<b>570,014</b>

(1) Other expenses comprise mainly the payment for cleaning and security for \$10,105, temporary services \$1,822, advertising and publicity for \$921, public utilities \$19,462, transportation for \$10,809, and hotel expenses for \$25,586 (Corporation subsidiaries) at December 31, 2018.

**NOTE 30. - CONTINGENCIES AND COVENANTS**

**Credit Commitments**

In the regular course of operations, the Parent grants guarantees and letters of credit to customers where the group makes irrevocable commitments to make payments to third parties if the customer does not meet his obligations to those third parties, with the same credit risk as the financial assets in the loan portfolio. The granting of guarantees and letters of credit are subject to the same approval policies for the disbursement of loans with

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regard to the credit quality of customers, and guarantees are required as considered adequate to the circumstances.

The commitments to extend credit represent the unused portion of authorizations to extend credit in the form of loans, the use of credit cards, overdraft limits and letters of credit. With regard to credit risk on commitments to extend lines of credit, the Bank and its subsidiaries are potentially exposed to losses for an amount equal to the total amount of the unused commitments, if the amount unused were to be fully withdrawn; however, the amount of the loss is lower than the total amount of the unused commitments given that most of the commitments to extend credit are also contingent on the customer maintaining specific standards of credit risk. The parent monitors the term the maturities of commitments regarding credit limits, because long-term commitments carry a higher credit risk than short-term commitments.

The use of pending balances of lines of credit and guarantees do not necessarily represent future cash requirements, because these limits may expire and part or all of them may not be used.

### **Contingencies**

#### **Legal Contingencies**

As of December 31, 2018 and 2017, the Parent attended administrative and judicial processes against it; the processes expectations were valued, based on the analysis and concepts by the lawyers in charge and the following contingencies were determined:

#### **Labor Lawsuits**

As of December 31, 2018 and 2017, there were labor claims for \$697 and \$4,611 million, respectively. Historically, most of these cases have been decided in favor of the Bank and its subsidiaries.

#### **Civil Processes**

As of December 31, 2018 and 2017, the result of valuation of claims in judicial processes due to civil claims, excluding those with remote probabilities, amounted to \$6,549 and \$6,836, respectively.

#### **Administrative processes and other litigation**

The expectations for administrative and judicial tax processes, initiated by national and local tax authorities, in some cases set penalties that would be due by the Parent as an active collector of regional taxes, and in others, determine higher taxes acting as taxpayers. At December 31, 2018 and 2017, the amount of these claims amounted to \$618, respectively.

### **NOTE 31. - RELATED PARTIES**

The following are considered as related parties:

1) Individual shareholders holding more than 10% of the Parent's capital and those whose individual share is lower than it, but which are involved in operations in excess of 5% of the computable capital.

Shareholders with more than 10% holding:

- GILEX HOLDING S.à.r.l

Shareholders with less than 10% interest in capital but with operations for more than 5% of computable capital.

- As of December 31, 2018 and 2017, the Parent had no operations exceeding 5% of the Parent's computable capital with shareholders interest below 10%.

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2) Key management personnel: These are individuals with authorities or responsibilities to plan, manage and control the Parent's activities, directly or otherwise, including any director or administrator (whether executive or not) of the Parent. These include members of the Board of Directors, the President-CEO and Vice Presidents.

3) Subsidiaries in which the Bank exercises control as Parent

- Banco GNB Peru
- Banco GNB Paraguay
- Servitrust GNB Sudameris
- Servivalores GNB Sudameris
- Servibanca S.A
- Servitotal
- Corporación Financiera GNB Sudameris
- Fondo Capital Privado Inmobiliario

4) Other related entities not subsidiaries

**Operations with Related Parties:**

The Parent may engage in operations, agreements or contracts with related parties on the understanding that these operations will be undertaken at fair values, respecting market conditions and tariffs.

In the periods ended on December 31, 2018 and 2017, the following did not apply to operations between the Parent and related parties:

- Loans implying that the borrower would be subject to an obligation not corresponding to the essence or nature of a loan.
- Loans at interest rates other than those ordinarily paid or charged to third parties in similar conditions of term, risk, etc.

During the periods ended on December 31, 2018 and 2017, Directors fees were paid for \$156 and \$65, respectively, for their attendance to Board and Committee meetings.

Most operations were conducted at market prices; the average loan placement rate, which the Parent granted to its related parties, is equal to DTF +3.45. Credit card and overdraft operations were made at full rates for those products.

In the performance of its commercial operations, the Bank does transactions with subsidiaries like interests in such entities, credit portfolio, and financial liabilities, which are detailed as follows:

<b>December 31, 2018</b>	<b>Shareholders</b>	<b>Members of the Board</b>	<b>Key Executives</b>
<b>Assets</b>			
Accounts receivable	-	7	1,171
<b>Liabilities</b>			
Deposits	-	9	178

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	Shareholders	Members of the Board	Key Executives
Net Interest Income	-	1	133
Financial expenses	-	-	7
Other Expenses	-	-	3,543

<b>December 31, 2017</b>	Shareholders	Members of the Board	Key Executives
<b>Assets</b>			
Accounts receivable	-	5	781
<b>Liabilities</b>			
Deposits	2,275	26	11

	Shareholders	Members of the Board	Key Executives
Net Interest Income	-	-	141
Financial expenses	-	-	1
Other Expenses	-	-	5,141

**Key Personnel Benefits**

Banco GNB Sudameris does not have an exclusive benefits plan that applies to key personnel in the Bank's Top Management, different from the plan applicable to all the employees excluded from the Collective Bargaining Agreement in force.

Some key management executives of the Parent are at the same time key executives of subsidiaries.

The compensation received by key management personnel comprises the following:

Concepts	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Salaries	3,543	5,141

The compensation of key management personnel includes salaries, benefits different from cash and contributions to a defined post-employment benefits plan.

**NOTE 32. - NON-CONSOLIDATED STRUCTURED ENTITIES**

The term "non-consolidated structured entities" refers to all the structured entities not controlled by the Bank. The Bank undertakes operations with structured entities in the regular course of the business in order to facilitate the transactions of clients and for specific investment opportunities.

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The following table presents the total assets of the non-consolidated structured entities where the Bank had an interest at the reporting date and their maximal exposure to a loss in respect to such interests.

<u>December 31, 2018</u>	<b>Funds managed by the Bank in FIC</b>
<b>Interests - Bank Assets</b>	
Investments at fair value with changes in Income	7,646
Other accounts receivable	105
	7,751
The total assets in respect to the Bank's interests in non-consolidated structured entities	7,751
<b>Maximal Bank's exposure</b>	<b>7,751</b>
 <u>At December 31, 2017</u>	
	<b>Funds managed by the Bank in FIC</b>
<b>Interests - Bank Assets</b>	
Investments at fair value with changes in Income	8,733
Other accounts receivable	43
	8,776
The total assets in respect to the Bank's interests in non-consolidated structured entities	8,776
<b>Maximal Bank's exposure</b>	<b>8,776</b>

In the regular course of the business, the Bank owns a trust and a stock broker that manage the collective investment funds and the third-party assets which trustees receive commissions.

The obligations in these entities when managing these assets are of means and guarantee no result; the maximal exposure to risk of loss is determined by the possible failures in the management of funds by the amount of earnings managed and the return on income of the clients' assets.

**NOTE 33. - SUBSEQUENT EVENTS**

On February 11, 2019, the Bank was authorized by the Superintendency of Finance to make a direct investment of capital through the capitalization of non-distributed in Banco GNB Paraguay amounting to PYG29,989,249,222 and in Banco GNB Peru for S/.63,513,848.