Credivalores Crediservicios S. A. S.
Financial Statements
By order of liquidity

Interim periods ended December 31, 2017 and December 31, 2016

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF FINANCIAL POSITION
BY ORDER OF LIQUIDITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Stated in millions of Colombian pesos)

	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	8	121.948	122.964
Financial Assets at fair value through profit or lost			
Equity Instruments	9	21.187	20.958
Derivatives Instruments	15	773	817
Loan portfolio	11	17.065	4.380
Total financial assets at fair value		**39.025**	**26.155**
Financial Assets at amortized cost			
Consumer loans		1.166.501	1.044.230
Microcredit loans		14.250	14.835
Impairment		(128.080)	(105.191)
Total Loan portfolio, net	11	**1.052.671**	**953.874**
Accounts receivable, net	12	183.511	189.482
Total Financial Assets at amortized cost		**1.236.182**	**1.143.356**
Investments in Associates and Affiliates	10	37.485	9.408
Current tax assets		8.191	2.799
Deferred tax assets, net	19	13.042	13.982
Property, plant and equipment, net	13	913	1.017
Intangible assets other than goodwill, net	14	26.047	28.836
Total assets		**1.482.834**	**1.348.517**
Liabilities and equity			
Liabilities:			
Financial Liabilities at fair value			
Derivative instruments	15	17.686	16.958
Total Financial Liabilities at fair value		**17.686**	**16.958**
Financial Liabilities At amortized cost			
Financial obligations		1.167.146	1.084.974
Total Financial Liabilities At amortized cost	16	**1.167.146**	**1.084.974**
Employee benefits provisions	17	1.154	1.198
Other provisions	18	302	1.021
Accounts payable		60.445	47.633
Current tax liabilities	19	1.100	4.503
Other liabilities		6.983	3.107
Total liabilities		**1.254.816**	**1.159.394**
Equity:	20		
Share capital		120.899	104.989
Reserves		5.814	5.814
Additional paid-in capital		58.442	20.842
Other Comprehensive Income (OCI)		(20.165)	(3.744)
Retained earnings		61.222	44.022
Earnings for the period		1.806	17.200
Total equity		**228.018**	**189.123**
Total liabilities and equity		**1.482.834**	**1.348.517**

Notes accompanying are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Stated in millions of Colombian pesos)

	Notes	January 1, 2017 through December 31, 2017	January 1, 2016 through December 31, 2016
		(In millions of pesos, except Net income per shere)	
Interest Income and similar	21	**289.865**	**269.013**
Financial costs interest	16	(146.686)	(126.222)
Net Interest and similars		**143.179**	**142.791**
Impairment of financial assets loan portfolio	11	(22.889)	(23.261)
Restructured loans		(2.571)	-
Impairment of other accounts receivable	12	(3.329)	-
Gross Financial Margin		**114.390**	**119.530**
SG&A			
Other expenses			
Employee Benefits		(18.414)	(20.005)
Expense for depreciation and amortization	13 y 14	(4.233)	(3.824)
Other	23	(77.643)	(79.041)
Total Other expenses		**(100.290)**	**(102.870)**
Net operating Income		**14.100**	**16.660**
Financial income			
Other Income recoveries		903	558
Financial income		1.472	294
Financial Income		**2.375**	**852**
Exchange rate differences		(7.887)	10.980
Forward valuation		(6.518)	(14.615)
Financial expense		**(14.405)**	**(3.635)**
Net Financial income (expense)	24	**(12.030)**	**(2.783)**
Other income	22	**957**	**9.552.38**
Net Income before income tax		**3.028**	**23.430**
Income tax	19	(1.222)	(6.230)
Net income for the period		**1.806**	**17.200**
Net earnings per share		**447**	**4.948**

Notes accompanying are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Stated in millions of Colombian pesos)

	Notes	December 31, 2017	December 31, 2016
Net income for the year		**1.806**	**17.200**
Other comprehensive income			
Items that may be or are reclassified to profit or loss			
Hedging of financial obligations:	19		
Unrealized gains (losses) from hedging cash flow, before taxes		(14.953)	(8.060)
Equity investments	10	943	808
Income tax	19	2.410	3.224
Total other comprehensive income for the period		**(11.600)**	**(4.028)**
Total other comprehensive income		**(9.795)**	**13.172**

Notes accompanying are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Stated in millions of Colombian pesos)

	Share capital	Additional paid-in capital	Reserves	Other Comprehensive Income (OCI)	Retained earnings	Earnings for the period	Total
Balance held at December 31, 2015	**104.989**	**20.842**	**5.814**	**284**	**10.097**	**33.925**	**175.951**
Appropriation of earnings	–	–	-	–	33.925	(33.925)	-
Increases (decrease) other comprehensive income	–	–	–	(4.028)	–	-	(4.028)
Year-end net income	-	–	–	–	–	17.200	17.200
Balance held at December 31, 2016	**104.989**	**20.842**	**5.814**	**(3.744)**	**44.022**	**17.200**	**189.123**
Appropriation of earnings	-	-	-	-	17.200	(17.200)	-
	15.910	37.600	-	-	-	-	53.510
Movimiento otras participaciones	-	-	-	(16.421)	-	-	(16.421)
Utilidad neta del año	-	-	-	-	-	1.806	1.806
Saldo al 31 de diciembre de 2017	**120.899**	**58.442**	**5.814**	**(20.165)**	**61.222**	**1.806**	**228.018**

Notes accompanying are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Stated in millions of Colombian pesos)

	31 de diciembre	
	2017	**2016**
Cash flows from operating activities		
Net income before taxes	3.028	23.430
Reconciliation of net income before taxes and net cash provided by (used in) operating activities:		
Depreciation of tangible assets	765	1.043
Amortization of intangible assets	3.468	2.781
Allowance for impairment of loans	69.883	23.261
Recovery deterioration for loan portfolio	(44.423)	(558)
Impariment accounts receivable	3.329	-
Write-offs of portfolio	(2.571)	(3.456)
Fair value adjustments to derivative financial instruments	(14.181)	20.560
Equity method	-	145
Fair value adjustments to financial assets	(12.685)	8.246
Foreign exchange gains (losses)	47	429
Income tax payment	(10.608)	(12.876)
Changes in operating assets and liabilities:		
Decrease (increase) in loans	(121.686)	(198.635)
Decrease (increase) in accounts receivables	2.642	(41.932)
Increase (decrease) in accounts payable	12.812	(36.113)
Increase (decrease) in employee benefit	(44)	(261)
Increase (decrease) in provisions	(719)	(954)
Increase (decrease) in other liabilities	3.876	(49.370)
Net cash provided by (used in) operating activities	**(107.067)**	**(264.259)**
Cash flows from investing activities:		
Decrease (increase) in investments	(28.291)	4.368
Acquisition of own - use property plant and equipment	(661)	(598)
Additions of other intangible assets	(679)	(4.713)
Net cash used in investing activities	**(29.631)**	**(943)**
Cash flows from financing activities:		
Issuance of financial obligations	1.500.825	820.206
Capitalization	53.510	-
Payment of financial obligations	(1.418.653)	(542.118)
Net cash provided by financing activities	**135.682**	**278.088**
(Decrease) Increase in cash and cash equivalents	**(1.016)**	**12.886**
Cash and cash equivalents at beginning of year	122.964	110.078
Cash and cash equivalents at end of year	**121.948**	**122.964**

Notes accompanying are an integral part of the financial statements.

NOTE 1. REPORTING COMPANY

Credivalores Crediservicios S.A.S., (hereinafter “Credivalores”, the “Company” or “CVCS”), is a simplified joint stock company registered for business in Bogotá - Colombia, located at Carrera 10 No, 65-98 P 4, and a website at www.credivalores.com.co. The Company was incorporated by means of Public Deed No. 420 dated February 4, 2003 drawn up before the Notary Public No.1 of the Circuit of Cali, Its term of duration is for twenty years as of the date of the aforementioned deed.

The merger of two companies, Crediservicios S.A. and Credivalores S.A. was registered by means of Public Deed No. 4532 of December 12, 2008.

The merger was unanimously approved by the General Meeting of Shareholders of both companies on July 31, 2008, whereby it was determined that Crediservicios S.A. (the surviving company), would continue to legally exist after taking over Credivalores S.A. which would cease to exist (being dissolved but not liquidated), In addition, the equity of Credivalores S.A. was merged with that of Crediservicios S.A. by means of acquiring the assets and assuming the liabilities of both companies, signed by both company’s legal representatives,

This merger agreement was reported to the Colombian Superintendency of Industry and Commerce, which did not report any objections. Credivalores S.A. (the acquired company) was incorporated by means of Public Deed No. 1906 dated May 13, 2003, drawn up before the Notary Public No. 1 of the Circuit of Cali, and duly registered with the Chamber of Commerce of Cali on May 21, 2003, under Registry Number 3501 Book IX. Subsequently, the Company changed its name from Crediservicios S.A. to Credivalores Crediservicios S.A. by means of the Public Deed No. 529 dated February 27, 2009 drawn up before the Notary Public No. 1 of the Circuit of Cali.

By means of Minutes No. 16 dated February 23, 2010 corresponding to a meeting of the General Meeting of Shareholders, which was duly registered before the Chamber of Commerce on March 19, 2010; the Company became a simplified joint stock company under the name of Credivalores Crediservicios S.A.S. under Registration Number 3074 of Book IX.

Its business purpose consists of granting consumer loans, including payroll deduction loans, to private individuals or legal entities, using both its own funds and other financing arrangements permitted by law. In carrying out these activities, the Company may:

a) Perform risk assessments,

b) Service and manage loans or lines of credit, including without being limited to recording and collecting these obligations,

c) Purchase and sell loans, credit instruments, securities, and loan portfolios,

d) Borrow funds and enter into transactions allowing the Company to obtain the funds required to perform its corporate purpose,

e) Act as co-signer, guarantor, surety or collateral provider to raise funds in order to finance its activities that may be undertaken, structured or implemented through trust arrangements, and

Perform any other activities that are required as part of the Company’s normal course of business, such as: (i) acquiring, encumbering, limiting the domain or disposing of fixed assets (ii) acquiring and using trade names, logos, trademarks and other industrial property rights; (iii) investing in existing companies, or creating new ones, providing these conduct the same or similar business activities as the Company or that should relate in any way to its own corporate purpose; (iv) entering into partnerships or contracts with third parties to carry out its corporate purpose; (v) guaranteeing its own and third-party obligations.

The funds used by the Company for carrying out its business activities shall be lawfully sourced and therefore the Company shall be prohibited from raising money by means of large scale or regular deposits from individuals, pursuant to current legislation. The Company is not under the supervision of the Colombian Superintendency of Finance (Superintendencia Financiera de Colombia) since it is not considered to be a financial institution in accordance with Colombian legislation, nor is it allowed to carry out brokerage of instruments registered with the Colombian National Registry of Securities and Issuers (RNVE).

The Company is prohibited from raising money through large-scale and regular deposits from individuals, complying with the stipulations in the financial and exchange regulations.

CVCS has the following branches nationwide: Aguachica, Armenia, Barrancabermeja, Barranquilla, Bucaramanga, Cali, Cartagena, Cartago, Ciénaga, Cúcuta, El Paso, Florencia, Girardot, Ibagué, La Dorada, La Jagua de Ibirico, Lomas, Magangué, Manizales, Medellín, Mocoa, Montería, Neiva, Palmira, Pasto, Pereira, Popayán, Riohacha, Sahagún, San Andrés, Santa Marta, Sincelejo, Tunja, Valledupar, Villavicencio, and Yopal.

There were no major changes to CVCS's shareholding interest at December 31, 2017 compared to December 31, 2016, however, in April 2017, the Company was capitalized in 53,510 million.

NOTE 2. BASIS FOR PREPARATION OF THE INTERIM FINANCIAL STATEMENTS AND SUMMARY OF THE MAIN ACCOUNTING POLICIES

2.1 Compliance Statement

The Financial Statements of Credivalores Crediservicios S.A.S. have been prepared in line with the Financial Reporting and Accounting Standards accepted in Colombia FRAS COL established by Law 1314 of 2009, regulated by Regulatory Decree 2420 of 2015, modified by Decree 2496 of 2015. These Financial Reporting and Accounting Standards correspond to the International Financial Reporting Standards (IFRS), officially translated and authorized by the International Accounting Standards Board (IASB) on December 31, 2012.

Law 1314 of July 13, 2009 regulated the financial reporting, accounting and data security standards and principles accepted in Colombia and identified competent authorities, established the procedure for issuing the standards and determined the entities responsible for monitoring compliance. This law was regulated by means of the following decrees:

a) 2784 of December 28, 2012
b) 1851 of August 29, 2013
c) 3023 of December 27, 2013
d) 2267 of November 11, 2014

At January 1, 2016, the regulatory framework contained in the appendix to Decree 2784 of December 28, 2012 and Decree 3023 of December 27, 2013 was repealed and Decree 2615 of December 17, 2014 applies. Said decree contains the International Financial Reporting and Accounting Standards effective at December 31, 2013 and their corresponding amendments issued by the International Accounting Standards Board (IASB).

Credivalores Crediservicios S.A.S. reports comparative information from the immediately previous period for all values included in the current period's financial statements and includes comparative explanations when necessary to ensure the current period's financial statements are understandable.

The main accounting policies applied in preparing the financial statements as of December 31, 2017 and 2016, are as follows.

2.2 Basis of preparation Financial Statements

IAS 1 refers to a complete set of general purpose financial statements. The aim of a set of financial statements is to show a structured interpretation of an entity's financial position and financial performance along with its cash flows that may be used by a wide range of stakeholders when making their economic decisions. Credivalores Crediservicios S.A.S. presents its financial statements in accordance with the aforementioned accounting standards to present a complete set of financial statements comprising:

Statement of Financial Position:

The presentation of this statement of financial position shows the Company's level of liquidity, which provides reliable and pertinent information; therefore, assets and liabilities are ordered according to their liquidity.

Statement of Comprehensive Income and other comprehensive income (OCI)

The Company posts its revenue, costs and expenses on its statement of comprehensive income based on the nature of such items. The term "Other Comprehensive Income" refers to income and expense that under FRAS COL are included in the statement of comprehensive income but excluded from profit and loss. Total comprehensive income comprises all components of profit and loss and other comprehensive income.

Statement of Changes in Equity

This statement of changes in equity shows the results for the reporting period: income and expense posted as other comprehensive income for the period, the effects of changes in accounting policies, corrections of errors that were previously recorded for the period, investments carried out, shareholder dividends and other distributions paid out for the period by equity investors.

Statement of Cash Flows:

The Statement of Cash Flows shows changes in cash and cash equivalents resulting from operating, investing and financing activities carried out during the year. In preparing this statement the Company used the indirect method.

In preparing the statement of cash flows the following items were taken into consideration:

i. The indirect method, whereby net gains or loss are first presented, which are then adjusted based on the effects of non-monetary transactions for all types of deferrals and accruals representing inflows or outflows in the past or in the future, as well as items of loss or profit associated with cash flows from investing or financing activities.

ii. Operating activities: these cover all those items that did not entail any outflows for the period as well as movements in terms of assets and liabilities for operating purposes.

iii. Financing activities: These include all financing activities, related to funding from financial institutions, capital markets and shareholders among others

iv. Investing activities: these include acquiring, selling or otherwise disposing of long-term assets and other investments not included in cash and cash equivalents.

Exchange rate differences in foreign currency are presented separately from cash flows from operating, investing and financing activities in the statement of cash flows.

The statement of cash flows is used to measure liquidity and by showing cash inflows and outflows it describes the Company's real financial position. It also allows to maintain a liquidity balance in terms of income and expense to determine the net liquidity gap, thus, enabling the Company to structure contractual and projected flows so as to ensure the level of liquidity required to carry out its business activities.

Liquidity risk is based on the Company's cash flow considering the specifics of the markets in which it operates and the unique nature of the products and services offered. To comply with this stage the Company assesses the liquidity risk related to its treasury to design controls and strategies in the metrics of the statement of financial position, liquidity gap, and contractual and projected flows to mitigate any liquidity or funding risk. Thus, it quantifies the maximum stress its cash flows can resist in order to continue with its normal course of operations without having to obtain any additional funds.

2.3 Basis of Measurement

The financial statements have been prepared using the historical cost method except in the case of assets and liabilities held in the form of financial instruments, which are measured at fair value and/or at amortized cost as appropriate.

Items included in the Company's financial statements are stated in the currency of the primary economic environment in which the Company operates (Colombian pesos). All figures are stated in millions of pesos and have been rounded to the nearest unit. Transactions in foreign currencies are converted to the functional currency using the exchange rate applicable on the date of the transaction. Assets and liabilities denominated in foreign currency on the closing date of the Statement of Financial Position are converted to the functional currency using the exchange rate applicable on said date.

NOTE 3. JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES IN THE APPLICATION OF ACCOUNTING POLICIES

Preparing financial statements in accordance to the IFRAS-COL requires Management to make certain estimates and assumptions that affect the amount of assets, liabilities, income and expenses reported during the period.

Credivalores Crediservicios S.A.S. will disclose the nature and amounts of changes in accounting estimates that are significant and that affect the current period or that are expected to any impact in future periods. Information about the effect on future periods will not be disclosed if estimating the effect is impractical.

Critical judgments and the most significant accounting estimates made for the required accounting policies include:

3.1 Financial Assets Business Model

Credivalores Crediservicios S.A.S.'s business model is based on granting consumer loans quickly through innovative products to middle or low income segments that are not served by the traditional financial system.

The Company has developed a diversified platform with collection channels designed to minimize the risk of default and optimize the quality of its loan portfolio (minimize NPL), including: payroll deduction loans (discounted from payroll payments), credit card (collecting via public utilities bills), and financing for insurance policy premiums (revocable insurance where the insurer returns the portion of the premium that was not used in case of default).

The business model focuses on building alliances and agreements for origination and distribution of each one of our products, thus guaranteeing growth. The company has more than 720 agreements with employers that can issue payroll loans, exclusive agreements with public utility companies for invoicing and collecting via credit card, and alliances with third parties and insurers for the origination of the Credipoliza product.

The risk management systems are similar to those implemented by other Colombian financial entities and they take characteristics of the target market into consideration. These systems have been adjusted according to the experience and knowledge acquired over more than 14 years in the market.

Credivalores Crediservicios S.A.S. seeks to maintain various sources of funding on the local and international level from banking and capital markets.

This business model produces a portfolio of diversified products with limited geographic concentration and by loan amount.

The entity applies meaningful judgements to determine its business model to manage financial assets and to evaluate if the financial assets comply with the conditions established in the business model so they can be classified at fair value or at amortized cost. According to the aforementioned, some financial assets have been classified in investments at fair value and others at amortized cost. According to the business model the financial assets at amortized cost can be sold only in limited circumstances, such as when there are infrequent transactions, adjustments are made to the maturity structure of its assets and liabilities, when it is necessary to finance significant capital disbursements and when there are seasonal liquidity needs.

Investments in equity instruments at fair value have been classified with adjustments through profit or loss, taking into account that they are strategic investments for the company and, are expected to be sold in the near future.

<u>Financial Assets at fair value</u>

According to its business model the Company has determined that Tucredito payroll deduction loans will be measured at fair value when they meet the following conditions:

1. Maximum term of 90 days as of the date of origination.

2. Highest rating based on its compliance score.

<u>Financial Assets at amortized cost (*)</u>

The loan portfolio is classified at amortized cost when it meets the following criteria: Credivalores Crediservicios S.A.S. business model is to hold these assets with the purpose of collecting their cash flows on specified dates, as per their contractual terms, and the contractual terms of the financial asset give rise on specified dates, to cash flows that consist of payments of principal and interest on the outstanding amount owed.

(*) See principal assumption in note 6

3.2 Allowance for loan impairment losses

The Company regularly reviews its loans portfolio to determine whether impairment should be reported in the income accounts for the period. The objective evidence that a financial asset is impaired includes significant financial hardship of the client, defaults or late payments from the client, restructuring of a loan by the company, signs that a client is entering economic insolvency, the disappearance of an active market for an instrument or other observable data related to the economic conditions related with the assets.

The process of calculating the provision includes analysis of specific, historical and subjective components. The methods used by the company include the following elements:

- Detailed periodic analysis of the loan portfolio.
- Periodic review of the summary of provisions for loan losses.
- Consideration of internal factors such as size, organizational structure, loan portfolio structure, loan management process, analysis of past due loan trends and historical loss experiences.
- Consideration of risks to inherent different kinds of loans.
- Consideration of local, regional, and national external and economic factors.

(Stated in millions of Colombian pesos)

Main sources of uncertainty

For the evaluation of impairment the Company uses statistical models of historical trends to determine the probability of default.

The default and loss rates used along with the chances of recovering the amounts owed are regularly compared with real results to ensure that these estimates remain current.

Incurred Loss due to the impairment of assets recognized at amortized cost corresponds to the difference between the carrying amount of the financial asset and the present value of future payments discounted at the effective interest rate originally recorded for such asset. Losses are recognized in the income accounts and included in a loan provision account. Whenever a subsequent event reduces the amount of impairment loss it is reversed in the income accounts.

Four fundamental factors are taken into account when calculating loan portfolio loss: exposure, probability of default, period when the loss is identified and the severity.

Exposure at default (EAD) is the amount of risk incurred at the moment of the counterparty's (client's) non-payment. Probability of default (PD) is the probability that the counterparty will pay late his monthly installments (capital and/or interest). The probability of default is associated to the rating/scoring or level of default of each counterparty/operation.

Loss given default (LGD) is the estimate of loss in the case of non-payment. It mainly depends on the characteristics of the counterparty and the valuation of the guarantees.

Loss identification period (LIP) corresponds to the time that passes between the moment an event occurs that creates a determined loss and the moment said loss becomes evident at a specific level. LIPs are analyzed for portfolios with homogenous risk.

The following table shows a sensitivity analysis of the most important variables that affect the calculation of the loan portfolio impairment provision over a variation of 10%:

December 31, 2017			
	Sensitivity	**Decrease**	**Increase**
Probability of default	10%	($ 9.656)	$7.865
Loss identification period	1 month	($2.433)	$2.411

Probability of default - Sensitivity over loans	-0.91%	0.74%
Probability of default - Sensitivity over allowance	-7.54 %	6.14 %
Loss identification period - Sensitivity over loans	-0.23 %	0.23 %
Loss identification period - Sensitivity over allowance	-1.90 %	1.88 %

December 31, 2016			
	Sensitivity	**Decrease**	**Increase**
Probability of default	10%	($ 4.575)	$ 4.334
Loss identification period	1 month	($ 1.181)	$ 1.518

Probability of default - Sensitivity over loans	(0.49%)	0.46%
Probability of default - Sensitivity over allowance	(4.35%)	4.12%
Loss identification period - Sensitivity over loans	(0.13%)	0.16%
Loss identification period - Sensitivity over allowance	(1.12%)	1.44%

3.3 Deferred income tax

The Company evaluates the time over which income tax assets will be realized. The deferred tax assets represent income taxes that are recoverable through future deductions to taxable income and are registered in the statement of financial position. The deferred tax assets are recoverable as long as it is probable that related tax revenue will be realized. Future tax revenue and the amount of tax benefits that are probable in the future are based on medium term plans prepared by Management. The business plan is based on Management's expectations, which are considered reasonable under the circumstances.

As of December 31st 2017, and December 31st 2016, Management estimates that the items of deferred income tax assets should be recoverable based on their estimates for future taxable earnings.

NOTE 4. SUMMARY OF THE MAIN ACCOUNTING POLICIES

The following are the significant accounting policies applied by Credivalores in the preparation of these financial statements.

4.1 Materiality

The economic facts are presented in accordance with their relative importance or materiality.

For disclosure purposes, a transaction, event or operation is material when, because of its amount or nature, or knowledge or lack of knowledge thereof, and considering the circumstances surrounding it, it affects the decisions that may be made or the assessments that users can carry out in regards of the accounting information.

Upon preparing and presenting these financial statements, the materiality of the amounts recorded is determined in terms of total assets, current and non-current assets, total liabilities, current and non-current liabilities, equity or income for the year as appropriate.

As per the assessment of materiality, Management considers as material any entry, transaction or event for which the value is equal to or greater than the percentage that results from the application of the following table and any others deemed necessary because of their nature:

Item	Percentage of fair value
Asset	0.5%
Liability	0.5%
Equity	0.5%
Revenue	0.5%
Expenses	0.5%

4.2.1 Functional and reporting currency

These financial statements are presented in Colombian pesos, which is the functional and reporting currency of Credivalores.

Items included in the Company's financial statements are stated in the currency of the primary economic environment in which the Company operates (Colombian pesos). All figures are stated in millions of Colombian Pesos and have been rounded to the nearest unit.

4.2.2 Transactions and Balances in Foreign Currency

Foreign currency transactions are recorded at the Company's functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currency are translated into the functional currency using the prevailing exchange rate at the reporting date of the statement of financial position. Non-monetary assets and liabilities denominated in foreign currencies in terms of historical costs are measured using the exchange rate at the transaction date. Financial instruments measured at fair value are translated using the exchange rate from the date the fair value was determined.

As of December 31st 2017 and 2016, the (COP/USD) exchange rates certified by the Superintendency of Finance were 2,984.00 and . 3,000.71 per U.S. $1 respectively.

4.3 Cash and cash equivalents

Represent the Company's high liquidity assets such as: bank account balances, remittances in transit and Time Deposits. Moreover, cash is recorded for petty-cash purposes.

Credit balances in transactions with a particular entity constitute obligations to that entity and, as such, must be reflected as a liability under bank loans and other financial obligations and/or checking account overdrafts. However, they are part of the Company's liquidity management. In the above-mentioned circumstances, such overdrafts are included as a component of cash and cash equivalents.

Investments in money market funds with positions in short term liquid assets, with maturity shorter than three months will also be classified as cash and cash equivalents. In this case, the risk of price changes is insignificant and positions are held support short-term cash requirements rather than for investment or similar purposes.

Bank expenses and financial interests are recorded at the value reported in the corresponding bank statements. Daily financial returns are reported at the rate negotiated with the respective financial entity with adjustments made in relation to the nominal value reported in the statement at the close of each month.

4.4 Financial Instruments

Financial Assets

The Company classifies its financial assets into equity instruments, trading instruments, amortized cost investment instruments, credit instruments and accounts receivable.

At the time of initial recognition a financial instrument is measured at fair value plus any direct attributable transaction costs, which are not included if the instrument is classified at fair value through changes in profit or loss. Typically, the fair value at the initial time of recognition is the price of the transaction itself, that is, the amount to be paid or received.

CVCS recognizes loans and accounts receivable, trading and investment securities and other assets or liabilities on their effective dates.

Purchases and sales of financial assets that are regularly carried out are recognized on the transaction date or on the date on which the Company is required to purchase or sell the asset.

Subsequently, the Company measures its financial instruments at fair value or amortized cost based on the established business model and the contractual terms of the corresponding financial asset or liability.

i. Amortized cost

Amortized cost is the cost of acquiring a financial asset or a liability plus or minus any capital repayments, cumulative amortizations (calculated using the effective interest rate method) with regard to any difference between the initial amount and the value repaid at maturity and minus any reduction for impairment.

ii. Fair value

Fair value is the amount to be received should the asset be sold or the amount to be paid for transferring a liability as part of a transaction between market participants on the date on which the measurement is made. The most objective and commonplace definition of fair value is the price that would be paid in an active, deep and transparent market (“listed price” or “market price”).

When such values are available CVCS determines the fair value of an instrument using the prices listed on an active market for that specific instrument. A market is considered active if listed prices are readily and regularly available and represent real transactions that are performed regularly on a stand-alone basis.

Should no active market exist for a specific financial instrument CVCS determines its fair value using valuation techniques. These valuation techniques include using recent market transactions between knowledgeable, willing parties carried out on an arm’s length basis, should these exist, as well as the fair values of other financial instruments that are substantially the same, discounted cash flows and pricing models.

The valuation technique chosen makes use, to the maximum extent possible, of information obtained directly from the market, using the least amount of data estimated by CVCS, incorporating all those factors that would normally be considered by market participants for setting the price of such financial instruments and is consistent with generally accepted pricing methodologies.

Fair value estimates obtained from financial models are adjusted to consider other factors such as uncertainty on its risk or the liquidity model. Adjustments are included when CVCS believes that another market player uses these same estimates when determining the price of a transaction (See note 6).

4.4.1 Equity Instruments

Investments that do not represent control or a significant influence over the investee.

All equity instruments are measured at fair value. Equity instruments held for sale are measured at fair value through profit and loss.

4.4.2 Investment in associate and affiliates

Investments in companies in which the Company does not have control, but has significant influence are called “Investments in Associates”. Investments in Associates are accounted for under the equity method.

The Company exercises significant influence over another entity if it owns, directly or indirectly, 20% or more of the voting power of the investee, unless it is clearly evidenced that such influence does not exist. They are initially recognized at cost, including costs directly related to the transaction. Subsequently to initial recognition, the consolidated financial statements include the company share of the net assets, net income or loss after income tax, and other comprehensive income of the investee, as long as the significant influence continues.
Investments in Associates are those in which the Company has direct or indirect control; that is, when all of the following conditions are met:

- The Company has control over the entity; mainly, rights granting the Company the means of directing relevant activities that significantly affect the associate returns.

- The Company obtains or is entitled to variable returns from the interests held in the associate.
- The Company is able to use its power over the associate to influence the amount of income obtained by the former.

The Equity Method is an accounting method in which the investment is recorded initially at cost and then adjusted based on subsequent changes to the acquisition on the part of the investor in the net assets of the investee. Following this method Credivalores recognizes its equity in the associate through other comprehensive income and profit or loss for the period.

4.4.3 Loans and receivables portfolio

The Company classifies its financial assets into the following measurement categories, based on their corresponding business model:

Classification of Financial Assets:			
Measurement	**Terms**	**Features**	**Valuation**
Fair value	0-90 days from origination	Current and best rated loans	Market price Tucredito
Amortized cost	0 days from origination onwards	Current and past-due portfolio	Incurred loss model (equivalent indexed rate)

4.4.3.1 Financial Assets at Fair Value

Credivalores Crediservicios S. A. S., in line with its business model, classifies its products according to the risk inherent in its portfolio. In general, its line of credit Tucredito (payroll deduction loans) is measured at fair value, given that its market niche is focused on placing “top-rated” loans.

Classification of “Tucredito” line of credit, based on the corresponding business model			
	Tucredito portfolio segment	**Measurement**	**Valuation**
1	Performing loans subject to sale	Fair value	Market price.
2	Best rated loans with terms of less than a year (originated loans less than 90 days prior)	Amortized cost	(Indexed rate equivalent to amortized cost).
3	Performing loans with terms of more than one year (originated loans with terms of more than 90 days)	Amortized cost	(Indexed rate equivalent to amortized cost).
4	Past due loans	Amortized cost	Incurred loss model based on the expected loss.

The policy established by the Company for measuring its loan portfolio, per the business model classification, is:

In line with its business model the Company has decided to measure the loans comprising the “Tucredito” line of credit at fair value based on the historical trading average since its loans are not impaired (and which, from their origination, are the best-rated 0 - 90 day loans) and since the Company has the possibility of selling them in the short term because of their excellent rating.

Unsold lines of credit, which were initially measured at fair value but which after 90 days of origination were impaired, will later be measured based on an indexed rate, which converts the amortized cost rate into an amount equivalent to their fair value.

4.4.3.2 Financial assets at amortized cost

The lines of credit determined by Credivalores Crediservicios S.A.S measured at amortized cost are as follows:

i. Tucredito (payroll deduction loans)
ii. Crediya (discounted operations)
iii. Credipoliza (financing for insurance policies).
iv. CrediUno (credit card).
v. Crediya MC (Micro loans).

Credivalores Crediservicios S.A.S. business model					
Product	**Measurement**	**Terms**	**Valuation**	**Features**	**Estimated % of Sales**
Tucredito	Fair value	0-90 days as of date of disbursement	Market price	Current and best rated payroll loans	80%
	Amortized cost	> 91 days subsequent to date of disbursement	Equivalent indexed rate	Current and past-due payroll loan portfolio	20%
Crediya	Amortized cost	Portfolio	Equivalent indexed rate	Discount transactions	0%
Credipoliza	Amortized cost	Portfolio	Equivalent indexed rate	Financing for insurance policies	0%
Crediuno	Amortized cost	Portfolio	Equivalent indexed rate	Credit card	0%
Crediya MC	Amortized cost	Portfolio	Equivalent indexed rate	Microcredit	0%

4.4 Impairment of non-financial assets

At each reporting date Credivalores Crediservicios S.A.S reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of impairment, If any such indication exists, then the asset’s recoverable amount is estimated (the greater between fair value and cost less disposal costs and value in use), Where the carrying value exceeds recoverable value an adjustment is made to bring carrying value down to recoverable value, modifying future depreciation charges in accordance with remaining useful life.

4.5 Accounts Receivable

Credivalores recognizes accounts receivable such as interest, commissions other than premiums from loan portfolio purchases, insurance and taxes.

For the initial measurement Credivalores will recognize an account receivable at fair value. Transaction costs directly attributable to the transaction will be directly recognized in the income accounts.

In the case of long-term (greater than one year) financial assets without explicit financing (contractually defined) the initially recognized value will be the future value discounted at the reference market rate for similar accounts receivable (amount, term) at the transaction date. Subsequently, long-term (greater than one year) financial assets without explicit financing (contractually defined) will be measured at amortized cost using the effective interest rate method. Short-term financial assets will not be subject to discounting.

In addition, interest must be recognized at a higher value in the account receivable.
The effective interest rate will be the rate corresponding to the market rate (where applicable) at the time the financing begins. If there is no market rate with similar characteristics the average internal lending rate will be used.

4.6 Leases

4.6.1 Assets acquired under leases

In their initial recognition, assets acquired under leases are classified as capital or operating leases.

Lease contracts classified as capital leases appear in the statement of financial position as property, plant and equipment for the Company's own use or as investment properties, as applicable. These are initially recorded as an asset and or a liability simultaneously at the lesser of the fair value of the asset leased or the present value of the minimum lease payments. The present value of the minimum lease payments is determined using the interest rate implicit in the lease contract or, in its absence, an average interest rate used by the Company on the market. Any direct costs associated with taking the lease are added to the amount recognized as an asset.

Subsequent to the initial recognition, these are recorded in the same way as the property, plant and equipment for the Company's own use or investment properties account where they were initially recorded. The amount recorded as a liability is included in the financial liabilities account and is recorded in the same way.

Payments made under operating lease agreements are recognized in the income accounts on a straight-line basis during the term of lease. The lease incentives received are recognized as an integral component of the total lease expense over its term.

4.7 Property and Equipment

Property, plant and equipment for the Company's own use include the assets, whether property or under finance lease agreements, held by the Company for its current or future use and which are expected to be used for more than one reporting period.
They are recorded in the statement of financial position at cost of acquisition plus the costs incurred in preparing these for use, less accumulated depreciation and, if applicable, estimated impairment losses resulting from comparing the net book value of each item with their corresponding recoverable amounts.

They are subsequently measured at cost less accumulated depreciation and impairment.Depreciation is calculated on a straight-line basis for the estimated useful life of the asset. The annual depreciation rates for each asset category are:

Type of asset	Total useful life	Residual value	Depreciation method
Furniture	3 to 10 years	Zero	Straight line
Vehicles	Between 5 and 10 years of age	Up to 10%	Straight line

Office equipment	3 to 10 years	Zero	Straight line
Computer and communication equipment	3 to 7 years	Zero	Straight line

Leasehold Improvements

Leasehold improvements are those made to rented property by means of a leasing agreement, as structured and designed to accommodate the entity's normal course of business and are recognized as property and equipment.

4.8. Intangible assets

Credivalores intangible assets correspond primarily to computer software, licenses, trademarks and insurance. Intangible assets are initially measured at cost of acquisition and subsequently at cost less any depreciation accumulated over their estimated useful life or any accumulated impairment loss. The Company analyzes whether there are external or internal signs of impairment to an intangible asset; any impairment losses or subsequent reversals are recognized in the income accounts for the period.

The following table shows the residual values, useful lives and depreciation methods for each type of asset:

Type of asset	Useful life	Residual value	Depreciation method
Software	1 to 3 years	Zero	Straight line
Licenses	1 to 3 years	Zero	Straight line
Trademarks	1 to 10 years	Zero	Straight line

4.9. Income taxes

Income tax expense includes current and deferred taxes. Tax expenses are recognized in the profit or loss, except for items recognized in “Other Comprehensive Income” OCI or directly in equity.

Deferred taxes are recognized based on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements that result in amounts that are either deductible or taxable upon determining tax profits or losses corresponding to future periods when the carrying amount of the asset is recovered or liabilities are paid or settled. However, deferred tax liabilities are not recognized if they derive from the initial recognition of goodwill; nor are deferred taxes recorded if the initial recognition of an asset or liability occurs in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss. Deferred tax is determined using enacted or substantively enacted tax rates at the reporting date.

Current income tax is calculated on the basis of the Colombian prevailing Tax laws. Management periodically assesses positions taken in its tax returns with regard to situations in which the applicable tax regulations are subject to interpretations and establish provisions when appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred tax liabilities arise from taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legal right to offset current deferred taxes against current tax liabilities, and when deferred tax assets and liabilities are related to taxes levied by the same tax authority on a single entity or different entities when there is an intention to offset the balances on a net basis.

4.9.1 Non income tax (levies)

Levies are recognized as liabilities when the Company has performed the activities on which taxes must be paid, according to legislation currently in effect.

Pursuant to the above, a wealth tax was created by the Colombian Congress in late 2014, which is calculated over the equity of companies in Colombia, determined under fiscal rules as of January 1, 2014, for every year since 2015 through 2017, and is recognized on an annual basis as a liability when incurred and charged to profit or loss.

4.10 Financial liabilities

A financial liability is any contractual obligation of the Company to deliver cash or another financial asset to another entity or person, to exchange financial assets or liabilities under conditions that are potentially unfavorable to the Company or a contract that will or may be settled using the Company's own equity instruments. Financial liabilities are initially recorded at their transaction value, which, unless otherwise determined is similar to their fair value less transaction costs directly attributable to issuance. Subsequently, these financial liabilities are measured at amortized cost and their returns are recognized applying the effective interest rate method determined initially and charged to the income accounts as financial expenses.
Financial liabilities are only released from the statement of financial position when the obligations they generated or acquired are extinguished through either cancellation or renewed placement.

4.11 Derivative financial instruments and hedge accounting

Beginning January 2016, Credivalores adopted Hedge Accounting, and thus the impact in the Company's financial statements of derivatives used for hedging purposes will be aligned to their accounting treatment in derivatives items (that is, payment of principal and interest of debt in foreign currency).

Credivalores mitigates foreign exchange risk of its indebtedness in foreign currency –mostly from the Notes issued under its Euro Commercial Paper Program– using financial instruments like non-delivery and delivery forwards with local financial institutions rated "AA-" or higher.

The Company aims to hedge the next interest payment due together with the principal of the Notes until their maturity, in tranches during the four weeks following the closing of the Note. Subject to a joint decision of the treasury and international funding areas, a portion of the principal may be left unhedged, but this should be hedged in a timely manner.

4.11.1 Fair-value hedge accounting

Fair value hedging: hedging exposure to changes in the fair value of recognized assets, liabilities, or firm commitments, or of an identified portion of such assets, liabilities or firm commitments which may be attributed to a particular risk and may affect the income for the period.

Changes in the forward contract debt due to exchange-rate differences are offset by changes in the forward contract price associated with the change in the market rate (TRM). The forward points will be recorded in Other Comprehensive Income (OCI) until the maturity date. That is, the fair value will have an effect on both income accounts and on OCI.

4.11.2 Cash-flow hedge accounting

Cash-flow hedging: hedging of exposure to changes in cash flows that: (i) are attributed to a particular risk associated with an asset or liability (such as all or some of the future interest payments of a variable-rate loan), or to a highly probable forecast transaction, and; (ii) may affect the income for the period.

The net effect of market-value changes on coupon transactions will be recorded in Other Comprehensive Income (OCI); when the forward matures it will be recorded in the income accounts on the date when the coupon hedged is paid off.

4.12 Employee Benefits

Benefits for Company employees are short-term and include elements like the following, if they are to be paid in full before twelve months after the end of the annual reporting period in which employees provide related services:

(a) wages, salaries and social security contributions.
(b) paid leave and paid sick leave;
(c) non-monetary benefits to current employees (such as medical care and per diem).

The Company will not need to reclassify an employee benefit to short term if the Company's expectations about the settlement calendar change temporarily. However, if the benefit characteristics change (such as a change from non-cumulative to cumulative benefit), or if a change to the settlement calendar expectations is not temporary, then the Company must determine whether the benefit still meets the definition of short term employee benefits.

When an employee has provided services to the Company during the accounting period the amount (not discounted) of the short term benefits to be paid for such services will be recognized:

(a) as a liability after deducting any amount already paid. If the amount already paid exceeds the amount not discounting benefits, the Company will recognize this excess as an asset (prepayment of an expense), inasmuch as the prepayment results in a reduction of future payments or a cash reimbursement.
(b) as an expense.

4.12.1 Short term paid leave

The Company will recognize the expected cost of short term employee benefits as paid leave as follows:

a) in the case of paid leave whose rights are accumulating as the employees provide the services that increase their right to paid leave in the future.

b) in the case of non-cumulative paid leave when the leave occurs.

Short term paid leave includes:

(a) Vacation.
(b) Temporary illness or disability.
(c) Maternity or paternity leave.
(d) Jury duty.
(e) Other short term leave.

4.13 Provisions and contingent liabilities

Lawsuit provisions are recognized when the Company has a current obligation (legal or assumed) derived from past events. A cash outflow is likely to be needed to settle the obligation and the amount has been estimated reliably. Restructuring provisions include lease cancellation payments and employee termination payments.

Where there are a number of similar obligations the likelihood that a cash outflow will be required is determined by considering the class of obligations as a whole. A provision is recognized even if the probability of a cash outlay with regard to any item included in the same class of obligations is immaterial.

Provisions are calculated at the present value of the disbursement expected to be needed to settle the obligation using a pre-tax discount rate that reflects current market measurements of the value of money over time and the specific risks attached to the obligation. An increase in the provision due to the passing of time is recognized as a financial expense.

4.13.1 Contingent Assets

The Company will not recognize any contingent asset.

Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the income is virtually certain to be realized then the related asset is not a contingent asset and should be recognized.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise the asset and the related income are recognized in the financial statements of the period when the change occurs.

4.13.2 Contingent Liabilities

The Company will not recognize any contingent liability.

Contingent liabilities shall be continually assessed to determine if a cash outflow is likely to include future economic benefits. If it is expected that an outflow of future economic resources will be probable for an item previously dealt with as a contingent liability the corresponding provision is recognized in the financial statements of the period when the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made of said amount).

4.14 Revenues

4.14.1 Revenues from interest and commissions

Interest and commission income are recognized in the income accounts using the effective interest method. The effective interest rate is the discount rate that equates cash flows receivable or payable as estimated over the expected life of the financial instrument (or a shorter period, where applicable) and the net carrying amount of the financial asset or liability in question. To calculate the effective interest rate the reporting entity determines all cash flows considering the contractual terms of the financial instrument in question and disregarding future credit losses.

The effective interest rate is calculated based on all fees and other amounts paid or received that form part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Revenues from ordinary business activities include: sales, fees, interest, dividends and management fees among others.

The following tables describe revenue from Company interest and commissions:

Type of transaction	Description
Interest on loans issued to clients	
Crediuno	Interest on the Crediuno line of credit - Credit card
Credipoliza	Interest on the Credipoliza - Financing insurance premiums
Crediya MC	Interest on the Microcredit line of credit
Tucredito	Interest in the Tucredito line of credit - Payroll Deduction Loan

Commissions	
Financial consultancy fees	Fees paid on the credit study performed on Asficrédito (business collaboration agreement).
Shared consultancy expense	This includes reimbursed administrative expense, leases and public utility bills, among others, on the part of Protección Garantizada and CV Credit.
Insurance returns	Insurance sales commissions upon placing loans.
Chain store commissions	Brokerage and channel (chain store) commissions.

Type of transaction	Description
Commissions	
Collection and handling fees	Fees for collections processes.
Management fees	
Crediuno	Management and handling fees for the Crediuno line.
Payroll	Administration and disbursement fees for the Tucredito payroll line of credit.
Credipoliza	Administration and handling fees for the Credipoliza business line.

4.14.2 Income from ordinary activities

Income from ordinary activities shall be measured at the fair value of the consideration received or to be received and represent amounts to be collected for goods delivered, net of discounts and returns.

The Company recognizes income when the amount can be measured reliably, when future economic benefits will likely flow to the Company and when specific criteria have been met for each activity, as described below:

4.14.2.1 Dividends

Credivalores recognizes dividends when the Company establishes the right to receive them.

When the right to receive them is established investments at fair value are credited to income accounts. For investments in associates, these are recognized using the equity method, deducting the investment amount.

4.15 Net earnings per share

To determine net earnings per share the Company divides the net income from the period attributable to shareholders, or controlling interest, between the weighted average common and preferred shares. Diluted net earnings per share is determined in the same way over net earnings, but the weighted average of outstanding shares is adjusted considering the potential diluting effect of stock options.

NOTE 5 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

New standards, amendments and interpretations incorporated in the accounting framework accepted in Colombia whose implementation should be evaluated beyond January 1, 2018 or that can be applied in early way.

Decrees 2496 December 2015, 2131 December 2016 and 2170 December 2017 introduced technical regulatory framework of financial reporting standards, modifications or amendments issued or made by the Council of international standards of Accounting (IASB for its acronym in English) to international financial reporting standards between 2014 and 2016, to assess its application in financial periods beginning on or later of January 1, 2018.

IFRS 9 financial instruments

In July, 2014 the IASB issued the final version of the IFRS 9 instruments financial which replaces IAS 39 "financial instruments: recognition and measurement" and all previous versions of IFRS 9. This standard is part of the annex to the Decree 2496 of 2015, modified by Decree 2131 of 2016, with applicability for periods beginning after January 1, 2018, allowing its early implementation.

The IFRS 9 includes three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting. Retrospective application is required, but the presentation of comparative information is not required, except for the hedge accounting, for which the requirements are applied prospectively, with some exceptions.

The company plans to adopt the new standard in the set effective date and not reexpresará comparative information. During 2017, carried out a detailed evaluation about the impact of the three aspects included in IFRS 9. This assessment is based on the information available at present and may be subject to changes as a result of new information, supported and reasonable, available during the year of application of the IFRS 9. The company anticipates changes in the value of the adjustment for loss under the expected loss model, driven mainly by the incorporation of a lifetime parameter of loss incurred in the loss expected for instruments with greater credit risk. However, reliable quantitative impacts can only be tested and find out once implement and validate models of risk and the expected loss parameters.

The IFRS 9 contains a new approach to classification and measurement of financial assets that reflects the business model in which the assets are managed and cash flow characteristics. The company will implement changes in the classification of some of their financial assets, in agreement to the business of the entity model.

Classification and assessment

The IFRS 9 includes three main classification categories for financial assets: measured at amortized cost (AC), at fair value with changes in other comprehensive income (VRCORI), and at fair value with changes in results (VRCR). The company does not provide a significant impact in its statement of financial situation by the application of the requirements for the classification and measurement of IFRS 9.

Heritage instruments are measured at fair value with changes in other comprehensive income.

Equity investments are measured at fair value with changes in results taking into account that the company's strategy is to receive the cash flows, which depend on the performance of the investment fund and generated profits, these portfolios present uncertainty or volatility in the expected stream of them, therefore their assessment is rated within the section of other models of business indicated by the IFRS 9.

The portfolio of credit and accounts receivable are maintained until the entry or exit of contractual, only corresponding to payments of principal and interest cash flows. The company analyzed the features of the contractual cash flows of these instruments and concluded that they meet the criteria for the measurement at amortized cost under IFRS 9. Therefore the reclassification of these instruments is not required.

The new approach to classification and measurement, including the new category of fair value through results others, integral, offers opportunities for the company to re-evaluate the criteria for the recognition and valuation of credit portfolios existing and thus designate a portfolio that reflects and to achieve an outcome consistent with the objectives of the company.

(a) Impairment

The IFRS 9 requires that the company recorded the credit loss expected for all instruments classified at amortized cost and at fair value with changes in other comprehensive income, either during the lifetime of the asset, or for credit losses expected in the next 12 months. The company will apply the simplified approach and record losses expected for the time of life of the asset for the products Credipoliza, TIGO, micro-credit and accounts receivable. NAMA Crediuno (credit card) and Tucredito (credit clearance) general approach shall be applied taking into account:

In accordance with the IFRS 9, the company calculates its expected credit loss (ECL, by its acronym in English) based on the present value of the difference between contractual cash flows and expected cash flows of the instrument. The ECL is updated in each date to reflect changes in the credit risk of the portfolio from initial recognition.

Also proposes a distinction and more detailed valuation of loss of credit in accordance with the credit risk inherent in the instruments. Thus, an assessment of the risk profile of credit of the instrument will be made to determine the allocation of an instrument at a certain stage and, consequently, a model for the estimation of specific ECL:

- Stage 1: financial instruments that do not have deteriorated significantly in their credit quality from his initial recognition or who have a low credit risk on the filing date. The ECL will be recognized in a time of 12 months and revenue horizon by interests on the gross carrying amount of the asset.

- Stage 2: financial instruments which have deteriorated significantly in its credit risk from its initial recognition (unless a credit risk low on the filing date) but do not have objective evidence of a loss event credit. The ECL will be recognized during the life of the asset and the interest income will be calculated on the gross carrying amount of the asset.

- Stage 3: instruments which have objective evidence of impairment at the date of filing. The ECL will be recognized over the life of the asset and the interest income shall be calculated on the net book value of the asset.

The quantification of the losses on the basis of historical loss experience takes into account three key factors: exposure in the event of non-compliance, the probability of default and loss in the event of non-compliance:

-Exposure in case of default (EAD, for its acronym in English): is defined as the current principal balance at the date of the statement of financial position. In the case of credit cards that include a quota that is likely to be used in its entirety, this parameter includes the expectations of the company's future outlays by incorporating a conversion factor of credit (CCF, for its acronym in English).

-Probability of default (PD) (PI): the probability that a customer does not conform with the full and punctual payment of the obligations of credit over a horizon of one year. The PD estimated for a period of 12 months is adjusted using the identification of loss (PIP) period to estimate the probability of time default to the date of the statement of financial situation in the following way:

-The "point in time" parameter, that makes the probability of failure to set the cycle required to end regulatory (defined as the average probability of default over a full economic cycle) to the likelihood of non-compliance in a given date required by IFRSs; known as probability of "point in time".

-PIP is the period from the occurrence of a loss event so far that this loss is evident in an individual loan level. The PIP is calculated based on homogeneous groups.

-Loss given default (LGD, for its acronym in English) (PDI): is defined as the loss that the entity would incur in the case of any instance of non-compliance. This depends mainly on the characteristics of the debtor. The PDI parameter is calculated based on homogeneous groups. The POI considered the incorporation of flow of recoveries, direct costs of recovery and the value of money over time.

b) hedge accounting

The company has determined that all coverage existing relations, which are currently listed as effective relations of coverage will continue fulfilling the criteria to apply the hedge under IFRS 9 accounting.

The company has decided not to apply retrospectively the IFRS 9 in the transition to coverages in which has excluded the term for coverage designation under IAS 39 points. Taking into account that the IFRS 9 does not change the General principles of how an entity accounted for its effective coverage, apply the requirements of IFRS 9 coverage will not have a significant impact on the financial statements of the company.

IFRS 15 "Revenue from contracts with customers"

Issued in may 2015, is a new standard that is applicable to all contracts with customers, excluding leases, financial instruments and insurance contracts. It is a joint project with the FASB to eliminate differences in the recognition of income between IFRS and US GAAP. This new standard aims to improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparability of companies from different industries and regions. It provides a new model for the recognition of income and more detailed requirements for contracts with multiple elements. It also requires more detailed disclosures. Its application is effective from January 1, 2018 and early application is permitted. The company estimates it won't have effects in the financial statements given the activity and services in which is focused.

IFRS 16 "Leases"

The (IASB for its acronym in English) International Accounting Standards Board issued IFRS 16 with date of implementation from January 1, 2019.

The 16 IFRS replaces the existing guidelines for accounting of leases, including IAS 17 leases, IFRIC 4 determining whether a contract contains a lease, SIC-15 operating leases and SIC 27 evaluating operation incentives of the substance of transactions involving the legal form of a lease.

The IFRS 16 introduces a single model of accounting records for leases in the State's financial situation for the tenants. A tenant acknowledges an asset for use representing the right to use the assets taken on lease and lease liabilities representing its obligation to make the lease payments. There are optional exemptions for short term leases or rental of goods of low value. The accounting treatment of leases for lessors remains similar to the current accounting rules whereby the lessor classifies lease contracts as financial or operating leases.

CVCS has begun a potential assessment of impacts on its financial statements, so far the impact identified is the recognition of assets and liabilities of its operating lease contracts especially of property used in the operation of offices. In addition the nature of expenditures to operating leases as a lessee contracts change with the IFRS 16, for leases to fees for rights of use of the asset depreciation and financial expenses in the lease liabilities. To date the company has not calculated a preliminary impact of the adoption of this new standard that could have one impact in the financial statements. You are not expected to be an early adoption of this standard.

IFRS 17 "insurance contracts"

The IFRS 17 contracts of insurance establishes principles for the recognition, measurement, presentation and information disclosure issued insurance contracts. It also requires similar principles apply to maintained reinsurance contracts and investment contracts with discretionary participation components. The objective is to ensure that entities provide relevant information in such a way that faithfully represent those contracts to evaluate the impact of contracts within the scope of the IFRS 17 on the financial position, financial performance and the cash flows of an entity.

The 17 IFRS shall apply to annual periods beginning after January 1, 2021. Early application is permitted.

The IFRS 17 repeals the IFRS 4 contracts of insurance which was an interim rule that allowed institutions use a variety of accounting practices for insurance contracts, reflecting the national accounting requirements and variations of those requirements. Previous practices of accounting for insurance permitted according to the IFRS 4 did not properly reflect the true underlying financial situations or the financial performance of insurance contracts.

NOTE 6. ESTIMATIONS OF FAIR VALUE

The Company may employ internally developed models for financial instruments that do not have active markets. Said models are mostly based on generally standardized valuation methods and techniques. Valuation models are primarily used to assess equity instruments not listed on the stock exchange, derivatives, debt securities and other debt instruments for which markets were or have been inactive during the financial period. Some components of these models may not be observable in the market and are estimated from assumptions.

The output of a model is always an estimate or approximate value that cannot be determined accurately, and valuation techniques used may not fully reflect all the factors relative to CVCS positions, therefore the valuations are adjusted if necessary to include additional factors, such as country risk, liquidity risks and counterparty risks.

Fair value hierarchy has the following levels:

- Level 1 entries are unadjusted prices quoted in active markets for assets or liabilities identical to those the entity can access on the measurement date.

- Level 2 entries are entries other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 entries cannot be observed for the asset or liability.

The fair value hierarchy in which the fair value measurement is fully classified is determined from the lowest level entry that is significant for fully measuring the fair value. For that, an entry's importance is evaluated with regard to the fair value measurement in its totality. Financial instruments quoted in markets considered inactive but valued in accordance with quoted market prices, quotes from price providers or alternative price sources supported by observable entries, are classified in Level 2.

A fair value measurement that uses observable entries requiring significant adjustments based on unobservable entries is a Level 3 measurement. The evaluation of a particular entry's importance in measuring the fair value in its totality requires an opinion, considering specific factors of the asset or liability.

The determination of what constitutes “observable” requires a significant opinion from CVCS. The Company considers observable data that market data that is already available, distributed or updated regularly by the price provider, is reliable and verifiable, has no property rights, and is provided by independent sources that participate actively in the reference market.

(Stated in millions of Colombian pesos)

6.1 Fair Value Measurement on a Recurring Basis

Fair value measurements on a recurring basis are those that IFRS accounting standards require or allow in the financial statement at the end of each accounting period.

The following table analyzes assets and liabilities (by class) within the fair value hierarchy, measured at fair value as at December 31, 2017 and December 31, 2016, on a recurring basis.

	December 31,	
	2017	**2016**
ASSETS	**Level 3**	**Level 3**
Investments in equity instruments	21.187	20.958
Trading derivatives		
Currency forward	-	476
Hedging derivatives		
Currency forward	773	341
Consumer		
Payroll deduction loans	17.065	4.380
Total fair value recurring assets	**39.025**	**26.155**
LIABILITIES		
Trading derivatives		
Currency forward	-	242
Hedging derivatives		
Currency forward	17.686	16.702
Interest rate swap	-	14
Total fair value recurring liabilities	**17.686**	**16.958**

6.2 Fair value determination

The methodology applicable to instruments for Credivalores is:

6.2.1 **Forward valuation:** The derivative's fair value comes from an internal model. This model takes the exchange rate on the day after the valuation closed and forecasts it to a future value with the devaluation curve through maturity date. After this the new forward market rate is compared with the agreed forward rate and the difference is stated in a present value with the IBR curve to calculate the derivative's fair value.

6.2.2 **Loan portfolio valuations:** Because these instruments don’t have an active market, the Company has developed methodologies that employ market information for certain cases of unobservable data. The methodology seeks to maximize the use of observable data to arrive at the closest approximation of an initial price for assets and liabilities without an ample market.

The Company has implemented the following methodology to determine its loan portfolio´s Fair Value:

I. Discount Rate: Determined by product considering the market´s appetite for such product, as well as the default risk involved
II. The model was built based on the following factors:

a. Projected cash flow according to weighted term to maturity for each product, using:

Current Balance
Average term to maturity
Weighted average Rate

b. Calculate Present value of cash flows projected as per described in a) discounted at the discount rate as per described in 1)

c. Present Value determined as per described in b) represents the porfolio´s fair value

6.2.3 Equity instruments: CVCS has equity investments in Agrocañas, representing less than 20% of the company equity and that in mutual funds. In general, the company is not listed on any public securities market, and therefore its fair value is determined using the adjusted net asset value method. For mutual funds fair value is determined through valuation of investment portfolios managed by the Trust, which are subject to an active securities market.

Credivalores defined Level 3 financial instruments as those not traded in an active market, the following table provides information about valuation techniques and significant unobservable inputs when measuring assets and liabilities at recurrent fair value.

	Valuation technique	Significant inputs (1)
ASSETS		
Trading Derivatives Currency Forward Debt securities Forward	Discounted cash flow	- Underlying asset price Currency curve by Underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of Exchange rates forwards - Implicit volatilities matrixes and curves
Loan portfolio valuations Tucredito payroll deduction loans	Discounted cash flow	- Current Balance - Average term to maturity - Weighted average Rate
Equity Instruments	Adjusted net asset value	- Unit value
LIABILITIES		
Derivatives held for trading Currency Forward Debt securities Forward	Discounted cash flow	- Underlying asset price - Currency curve by Underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of Exchange rates forwards - Implicit volatilities matrixes and curves
Hedging Derivatives Currency Forward	Discounted cash flow	- Underlying asset price - Currency curve by Underlying asset - Forward Exchange rates curve of the operation's currency - Implicit curves of Exchange rates forwards - Implicit volatilities matrixes and curves

(Stated in millions of Colombian pesos)

6.4 Sensitivity Analysis

Credivalores conducted the sensitivity analysis using the most representative variables in the valuation of derivatives (RMR, devaluation rate and discount rate) according to the maturity date of each instrument and based on the historical data and variation in the market behavior effect:

Variables	December 31, 2017	December 31, 2016
	Range	Range
Market Rate (TRM)	Máx. 3.092,65 - Mín. 2.837,90	Máx. 3.434,89 - Mín. 2.833,78
Devaluation Rate		
30 Day Forward Curve	4,81% - 5,68%	4,87% - 6,61%
60 Day Forward Curve	4,68% - 5,25%	5,10% - 6,23%
90 Day Forward Curve	4,46% - 5,08%	5,12% - 6,23%
180 Day Forward Curve	4,33% - 4,86%	5,40% - 6,19%
360 Day Forward Curve	4,11% - 4,75%	5,37% - 6,14%
540 Day Forward Curve	3,93% - 4,49%	5,45% - 5,89%
Discount Rate		
Overnight IBR	5,75% - 5,75%	6,00% - 7,00%
One-month term IBR	5,57% - 5,57%	6,32% - 7,08%
Three-month term IBR	5,37% - 5,37%	6,63% - 7,22%
TES 360 Zero Coupon	5,17% - 5,17%	6,84% - 7,35%
TES 1080 Zero Coupon	6,26% - 6,26%	6,72% - 7,77%

The sensitivity analysis of changes in said variables in the fair value is the estimated results to reflect the situation in the favorable and unfavorable scenario for assumptions in the internal valuation method applied by Credivalores.

Fair value	Favorable impact	Unfavorable impact
December 31. 2017	23.827	(62.707)
December 31. 2016	24.401	(31.052)

The fair value sensitivity analysis to assess derivatives for December 2017 and 2016 shows the positive and negative outlook in which the Company was exposed to the results of these two scenarios. For 2017 and 2016, the real fair value was 17.686 and 16,958, respectively. Said results are in the acceptable range in accordance with the models' estimate compared to variable change with regard to real results.

6.5 Determination of fair value of financial assets and liabilities recorded at amortized cost.

Below are the Company's assets and liabilities at fair value and their carrying amount:

Fair value	December 31, 2017		December 31, 2016	
	Carrying amount	Carrying amount	Carrying amount	Fair Value Estimate
Assets				
Loan Portfolio (Gross)				
Consumer	1,166,501	1.030.031	1,044,230	1,058,686
Microcredit	14,250	1.170	14,835	7,063
Total	**1,180,751**	**1.031.201**	**1,059,065**	**1,065,749**
Liability				
Financial obligations	1,167,146	1.246.528	1,084,974	1,101,839
Total	**1,167,146**	**1.246.528**	**1,084,974**	**1,101,839**

NOTE 7. RISK MANAGEMENT

CVCS manages risk pursuant to the applicable regulations in each country and CVCS's internal policies.

Objective and general guidelines

CVCS´s objective is to maximize returns for its investors, through proper risk management. The guiding principles of risk management of CVCS are as follows:

a) Make risk management a part of every institutional process.
b) Specialization in consumer product niches.
c) Extensive use of continuously updated scoring models to ensure quality growth of consumer loans

7.1 Governance Structure

Board of Directors

The Board of Directors has the following functions and responsibilities:

- Establishing and supervising the Company's risk management structure.
- Approving the policies, processes, and methodologies for granting, monitoring, and recovering the Company's loans, in order to identify, measure, and control the risks it faces.
- Approving exposures and limits to the different types of risks.
- Drawing attention to the responsibilities and duties assigned to positions and areas responsible for managing the different types of risks in order to develop a culture of risk control.
- Evaluating the recommendations and corrective measures proposed for the risk management processes.
- Approving the internal controls, as well as evaluating the reports and the management of the area responsible for these controls.
- Requesting loan portfolio reports from Management whenever required for due examination.

Risk Committee

The Risk Committee's responsibilities are:

- The Risk Committee must periodically monitor the Company's main risk indicators and anticipate risky situations that could potentially cause a loss of value in CVCS' assets.
- Regularly reviewing the Company's risk management policies and systems to ensure that these reflect any change in market conditions as well as CVCS' own activities.
- Propose to the Board of Directors changes or adjustments to current policies and methodologies to mitigate the target risk level.
- The Risk Committee meets on a monthly basis and is comprised of the following Senior Management executives:
  - Chairman
  - Risk Manager

- Chief Collections Officer
- Chief Operating Officer
- Chief Credit Officer
- Commercial Managers

The Committee enjoys the support of outside experts and specialized consultants who advise on the decisions to be made by the body.

Risk Management Department

- Periodically presenting to the Risk Committee on the progress of the different risk indicators and conducting the analyses necessary for understanding and taking actions that mitigate and control the risk levels.

- Managing and controlling compliance with policies and processes approved for risk management.

- Regularly reviewing the Company's risk management policies and systems to ensure that these reflect any change in market conditions as well as CVCS' own activities.

- Proposing to the Risk Committee methodologies and adjustments to risk management policies.

- Developing methodologies and models that enable risk identification, measurement, control and monitoring

Internal Auditing

- Verifying the application of risk management in accordance with the stipulations of the Comprehensive Risk Management manual.

- Reporting to the Audit Committee and making recommendations on the findings of the risk management process.

Financial Risk Management

The Company (CVCS) is exposed to the following risks related to the use of financial instruments:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operating Risk
- Money-Laundering Risk

7.2 Credit Risk

The Company's Credit Risk Management System considers the nature of each portfolio product, adjusting its methodologies, processes and policies to these characteristics to achieve the target risk set for each product.

The credit risk management model is based on four stages:

- Identification and Measurement: for adequate risk measurement and identification CVCS uses statistical models to identify the risk factors, accurately profile its current and potential clients and determine the level of risk to which they are exposed.

(Stated in millions of Colombian pesos)

- Policies and Processes: based on the characteristics of each product and the risk profile identified for each client risk management devises distinct processes and policies that adapt to each level of risk seeking to mitigate exposure to the potential risk in a precise manner.

- Control and Monitoring: this process aims to ensure compliance with the policies and processes established, as well as to monitor the progress of the portfolio risk indicators so as to take timely actions in response to any deviation from the expected indicators.

- Estimation of Provisions: risk management includes determination of risk coverage to allow absorption of the losses which may arise due to non-compliance with the credit obligations. Estimation of CVCS provisions are based on statistical models of expected losses for its main products. Payroll deduction loans and cards. For financing insurance policies transition matrices are used.

These processes are documented in the Credit Risk Management System Manual which also defines the target market, credit assessment criteria, collateral, collection management, organizational structure and information management.

7.2.1 Credit Risk Exposure

CVCS have exposures to credit risk, consisting of the risk of incurring in a financial loss as a result of the failure of the debtor to meet its payment obligations on a timely and complete manner. Exposure to credit risk of CVCS is also incurred as a result of credit activities and transactions with counterparties.
The maximum exposure to credit risk of CVCS, according to IFRS 7, is reflected in the carrying value of financial assets the in the statement of financial position of CVCS as of December 31, 2017 and December 31, 2016 as follows:

	December 31, 2017	**December 31, 2016**
Cash and cash equivalents	121.498	122,964
Financial instruments net	39.025	26.155
Loan portfolios		
Consumer loans	1.166.501	1.044.230
Microcredit portfolio	14.250	14.835
Accounts receivable, net	183.511	189.482
Total financial assets with credit risk	**1.524.785**	**1.397.666**
Off-balance-sheet credit risk at nominal value		
Unpaid approved credits	320.137	275,493
Total exposure to off-balance-sheet credit risk	**320.137**	**275,493**
Total maximum exposure to credit risk	**1.844.922**	**1.673.159**

7.2.2 Mitigation of Credit Risk, Collaterals and Other Credit Risk Improvements

The exposure to credit risk is reduced by collaterals and other credit enhancements, which reduce credit risk. The existence of guarantees can be a necessary measure but not a determinant for the approval of a credit. Credit risk policies of CVCS require an evaluation of the debtor’s payment capacity based on the debtor´s ability to generate the resources needed for the timely and complete payment of its obligations.

Policies to prevent excessive credit-risk concentration

In order to prevent excessive concentrations of credit risk at an individual, economic group, cities or economic sectors level, CVCS maintains updated indices to limit concentration of risk to an individual level or to an economic sector. The exposure limit by a CVCS to an individual client or economic group depends on the risk profile of the client, the nature of the risk of the debtor.

(Stated in millions of Colombian pesos)

The detail of credit risk at the level of CVCS in the different geographic areas determined according to the domicile of the debtor, without considering the provisions constituted for impairment of credit risk of debtors as of December 31, 2016 is as follows.

As at December 2017, the Credivalores Crediservicios S.A.S. portfolio is comprised of 54% payroll deduction loans; 37% credit cards; 9% insurance-policy financing; and 0.5% microcredit loans. The remnant of a business line was sold in 2017.

Our products are targeted primarily at individuals with medium-to-low earnings who have limited access to Colombia's traditional financial system.
mportant characteristics of the current portfolio:

- The 25 largest debtors account for 0.80% of the portfolio, and the largest single client, 0.17%.
- 47% of the entire portfolio is comprised of public-sector employees and retirees.
- Average credit (portfolio/client total) COP 2.5 million

The following is the portfolio loans summary by product to December 31, 2017

	At December 31, 2017			At December 31, 2016		
Department	**Consumo**	**Microcrédito**	**Total**	**Consumo**	**Microcrédito**	**Total**
Valle	249.532	1.832	**251.364**	222.163	2.407	**224.570**
Bogotá	177.573	-	**177.573**	165.521	-	**165.521**
Meta	111.084	845	**111.929**	102.673	1.167	**103.840**
Atlántico	57.580	-	**57.580**	50.742	-	**50.742**
Antioquia	59.081	-	**59.081**	54.466	-	**54.466**
Santander	73.315	601	**73.916**	58.248	997	**59.245**
Boyacá	58.028	-	**58.028**	50.441	-	**50.441**
Bolívar	32.665	-	**32.665**	30.621	-	**30.621**
Magdalena	25.824	-	**25.824**	23.432	-	**23.432**
Córdoba	21.990	-	**21.990**	18.842	624	**19.466**
Risaralda	19.544	429	**19.973**	21.490	-	**21.490**
Tolima	13.546	450	**13.996**	14.552	716	**15.268**
Cesar	47.905	163	**48.068**	32.882	193	**33.075**
Norte de Santander	12.234	611	**12.845**	12.258	905	**13.163**
Huila	10.625	613	**11.238**	11.020	858	**11.878**
Quindío	11.103	-	**11.103**	10.430	-	**10.430**
Sucre	11.083	407	**11.490**	10.894	663	**11.557**
Caldas	11.420	-	**11.420**	10.405	-	**10.405**
Cauca	8.091	-	**8.091**	6.253	-	**6.253**
La Guajira	9.677	-	**9.677**	3.922	-	**3.922**
Caquetá	7.056	392	**7.448**	5.635	564	**6.199**
Cundinamarca	9.063	-	**9.063**	5.092	-	**5.092**
Casanare	4.139	-	**4.139**	4.271	-	**4.271**
Nariño	2.250	380	**2.630**	2.328	585	**2.913**
San Andrés	3.504	-	**3.504**	3.485	-	**3.485**
Putumayo	558	-	**558**	755	-	**755**
Guaviare	192	-	**192**	184	-	**184**
Arauca	292	-	**292**	209	-	**209**
Chocó	80	-	**80**	44	-	**44**
Vichada	37	-	**37**	57	-	**57**
Amazonas	18	-	**18**	13	-	**13**
Vaupés	11	-	**11**	20	-	**20**
Guainía	14	-	**14**	6	-	**6**
Totales	**1.049.114**	**6.723**	**1.055.837**	**933.354**	**9.679**	**943.033**

Another noteworthy characteristic is the portfolio's geographical diversity: Valle del cauca accounts for the largest share with 24% of the total followed by Bogota at 16.8%.

Payroll deduction loans are very low-risk consumer loan products that operate through payroll discounts. This means that the loan installments are paid directly and automatically by companies without having to depend on clients' willingness to pay.

49.6% of our portfolio is made up of retirees (life pension) while 34.4% are public-sector employees (teachers, government employees, servicemen and women) - sectors marked by high job stability.

The segments to which payroll deduction loans are targeted include:

1. Retirees: individuals who, having met the requirements stipulated by the social security provisions are formally entitled to receive a fixed monthly life income.

2. Employees: individuals employed by a public or private company who receive regular remuneration as compensation for their services.

The credit card product, Crediuno, operates in agreement with public-sector companies allowing charges through public utility bills. This scheme ensures that clients prioritize their card payments by associating them with potential public-utility cutoffs. This characteristic minimizes late payments as compared with traditional cards.

The card is aimed at employees, retirees or low-income contractors. To manage this segment of clients, who generally have a low level of financial education; Credivalores Crediservicios S.A.S. developed the maximum installment concept, whereby the system automatically controls the term for which client consumer is deferred to ensure that the client never pays an installment beyond a defined value. This minimizes client defaults associated with inability to pay.

In addition, public utility companies share client payment histories allowing CVCS to develop robust risk models that extend to the un-banked population segment.

The Credipoliza target market consists of individuals or companies seeking to acquire an insurance policy paid by monthly installments. The main characteristic of this product from a risk perspective is the ability to cancel the policy, which CVCS can request if a client defaults on any of their payments, activating the reimbursement of the remaining balance by the insurer directly to CVCS.

All personal loans offered out by the Company include life insurance, whereby, upon death or permanent disability the insurance company is forced to pay Credivalores the remaining balance of the debt, and, if applicable, the outstanding amounts to the beneficiaries.

7.2.3 Credit Approval Models

To identify the level of credit risk, CVCS has ad hoc scoring models for each product and by region for some products.

The models include information from credit bureaus, internal information on behavior and external information yielded by the Company's partnerships. This external information includes access to databases with information on public-utility payment behavior; this privileged information enables the development of granting models that are more precise than those of the market, as well as the identification of un-banked clients for whom there is no financial information allowing access to a larger market than that traditionally covered by the banking industry.

The credit-card approval model was updated in 2017, and is to be implemented in the last quarter of 2017.

(Stated in millions of Colombian pesos)

CVCS has five credit approval models for its credit-card product, one per region. It also has a statistical model to estimate payment capacity based on levels of public-utility Consumer, economic strata level, and risk profile.

Impairment Models

The methodology developed by the Company to determine impairment forms part of the calculation of expected loss for each loan, prior to identification of the target loss event and determining the real impairment of each loan in the portfolio.

The expected loss model is expressed as:

$$\textbf{Expected loss} = \textbf{PD} * \textbf{EA} \ * \textbf{LGD}$$

Where:

PD:	Probability of default
AE:	Asset exposure
LGD:	Loss given default

The impairment calculation is expressed as follows:

$$\textbf{Imperment} = \ \textbf{AC} * \%\textbf{EL} * \textbf{LIP}$$

Where:

AC:	Is the asset value at amortized cost
%EL:	Is the expected loss percentage
LIP	Is the loss identification period

The %EL is calculated by applying the statistical model for the payroll loan and credit card products, and from transition matrices for Credipoliza and Microcrédito, which technically determine the levels of expected loss for each loan.

The factor that transforms “forward” to “spot” is known as the loss identification period and is related to the level of arrears and the definition of the default.

For Colombia, Chapter 2 of the Basic Accounting and Financial Public Announcement 100 of 1995 stipulate the identification of the loss (default) for microcredit loans when these exceed 4 months, 6 months for consumer loans and 12 months for commercial loans.

Credit Approval Process

CVCS credit area is responsible for controlling all phases of the credit approval process, ensuring that verification and analysis processes comply with the quality standards and policies defined by the Risk Committee.

The factory boasts BPM systems to control all the flow of credit, guaranteeing the quality of the process, greater efficiency and online monitoring of each stage.

For the proceeds of loans, were made several improvements in the Bizagi originator, among which we highlight:

- Disminuir the reprocesses, increasing approval indicator in the 10 points with respect to 2016, from 61% to 71% approval for the second semester.
- The response times remain within 24 hours for 97% of requests.
- A created inside the originator a special typing "Express line" in order to prioritize requests for purchase of portfolio emitting response in no longer than 12 hours.

(Stated in millions of Colombian pesos)

- With the start-up of originator and the stabilization of the same is succeeds in making an increase of the productivity of the processes associated with clearance by 30% on average.

For credit card product, the volume of consultations during 2017 was 281.000 customers presenting a growth of 5.2% compared to the year 2016.

The 13.3% of clients were approved by the process express which has with less than 1 hour response time.

In the second half 2017 factory implemented processes and controls to improve the quality of data and ensure that the new originations have a successful staging collection and an effective contact, reaching 97% of the quality of addresses and aligned phones premise wholeness, oneness and validity thereof.
We continue doing identity validation processes 100% of requests leading to minimum levels the risk of impersonation. He joined in the organizational structure, the direction of factory of mass products, focused on improving the processes of the products Crediuno and Tigo.

7.2.4 Monitoring and Control Process

The Company has an information system in place that provides daily indicators on the loan portfolio status so as to allow proper monitoring and timely decision-making.
The credit approval processes are connected to an engine managed by the risk area, which allows real-time adjustments to policy parameters so as to take immediate action where required in loan origination.

Each month the Risk Committee meets to evaluate the development of each product portfolio, analyzing the performance of each yield and applying corrective measures to credit processes or policies where necessary.

At December 31, 2017

Status	Tu Crédito	CrediUno	CrediPóliza	Microcrédito	CrediYa	Total managed portfolio	On balance sheet Portfolio
CURRENT	628.735	386.435	91.508	470	-	1.107.148	880.783
1-30	8.414	14.691	8.951	306	-	32.362	28.510
31-60	4.638	14.487	2.637	93	-	21.855	20.180
61-90	3.885	11.406	819	86	-	16.196	15.185
91 A 180	7.960	12.342	1.434	148	-	21.884	19.125
181 A 360	8.025	4.018	831	538	-	13.412	11.438
> A 360	35.951	41.507	4.826	5.082	2.394	89.760	80.616
Totales	**697.608**	**484.886**	**111.006**	**6.723**	**2.394**	**1.302.617**	**1.055.837**

At December 31, 2016

Status	Tu Crédito	CrediUno	CrediPóliza	Microcrédito	CrediYa	Total managed portfolio	On balance sheet Portfolio
CURRENT	568.788	367.651	73.009	2.602	-	1.012.050	801.933
1-30	7.068	13.235	6.842	1.236	-	28.381	25.726
31-60	4.227	7.463	1.671	329	-	13.690	11.945
61-90	2.165	2.171	217	286	-	4.839	4.058
91 A 180	5.625	9.011	298	729	-	15.663	13.611
181 A 360	6.632	7.476	1.300	1.546	7	16.961	15.354
> A 360	38.863	25.830	9.340	2.949	2.452	79.434	70.406
Totales	**633.368**	**432.837**	**92.677**	**9.677**	**2.459**	**1.171.018**	**943.033**

7.2.5 Loan recoveries

The collections area is an international standard in its recovery process, allowing you to maintain a consistency and continuous improvement of its process.

(Stated in millions of Colombian pesos)

Several improvements to the process were conducted in 2017:

- Implementation of automatic dialing in the internal collection, which allowed increase of 30% of the productivity of each Advisor
- A adjusted the segmentation model for each product, which allows you to define specific strategies for each segment reality, maximizing results.
- An updated score model for segmentation of portfolio to date, which determines the preventive collection and the actions that must be executed before the expiration.
- Is included in the model of measurement of internal consultants, the variables of productivity and quality.
- A unified operating processes (reporting, reports, projections, portfolio, send mass communications, etc) in a specialized area to support any operation of collection.
- A separated the area of quality and training with officers in each of these functions.
- It spent the payment of commissions to the area of the company payroll.

With regard to the management of monitoring:

- The customized tracking reports to create the report: "Collections compass" where daily permits tracking and projection of figures of containment, collection and management.
- It changed compensation scheme to the houses of collection, passing to a model 100% based on the collection of the assigned portfolio.
- An increased the frequency of collections committees with key areas for as manufactures, operations, risk and business area to define joint action plans to support the recovery of portfolio.

7.2.6 Credit worthiness

The following is a breakdown of banks and other financial institutions that hold our savings and checking account deposits.

		December 31,	
Entity	**Type of Account**	**2017**	**2016**
Banco de Bogotá	Checking	2.402	2.179
Bancolombia	Checking	3.220	1.904
Banco GNB Sudameris Colombia	Checking	65	1.195
Red Multibanca Colpatria	Savings	38	38
Banco BBVA	Checking	113	48
Banco De Occidente	Checking	223	309
Bancomeva	Checking	17	225
Available in Free-standing Trusts		8.616	13.857
		14.694	**19.755**

The following is a breakdown of creditworthiness as determined by independent credit rating agencies of all those major financial institutions in which the Bank holds cash:

Long-term debt ratings are based on the following scale:

Item	Financial Institution	Long-term Rating	Short-term Rating	Description
1	Banco BBVA	AAA	From BRC 1+ to BRC 2+	AAA is the highest rating awarded, indicating that the entity has an extremely robust capacity to safeguard its capital and limit its exposure to the risk
2	Banco de Bogotá	AAA		
3	Banco Colpatria	AAA		
4	Banco de Occidente	AAA		

(Stated in millions of Colombian pesos)

5	Banco Corpbanca	AAA		of loss due to credit-related factors.
6	Bancolombia	AAA		
7	Banco Santander	AAA		
8	Gnb Sudameris	AA+		An AA rating indicates that the capacity of either the issuer or issue to meet its financial obligations is very strong. However, issuers or issues that are awarded this rating may be more vulnerable to adverse events compared to those rated in the highest category.

Cash and cash equivalents are held with banks and financial institutions through free-standing trust funds, which have ratings between AA- and AAA BCR + 1 from BRC Standard and Poor's.

The Company takes into account the credit ratings awarded to financial institutions with which it conducts treasury operations in the form of fiduciary assignments such as deposits or investments at sight which classify as cash equivalents. In order to establish a minimum margin risk exposure and ensure optimal resource management through periodic evaluations and measurements of the Company's exposure.

7.3 Market Risk

The Company has been able to meet its liquidity needs acquiring working capital and lines of credit from local, foreign and multilateral entities This implies the need for follow-up when exposed to variable interest rates (financial obligations indexed to local and/or foreign variable rates such as: DTF, IBR, UVR, LIBOR, PRIME, etc.), and to exchange-rate fluctuations due to devaluation or revaluation in the local currency (USD, EUR, etc.).

CVCS participates actively in the money, foreign exchange and capital markets, seeking to meet the needs of its clients in accordance with the policies and risk levels established. As such, it manages different financial-asset portfolios within the permitted risk levels and limits.
Market risk arises from the open positions of CVCS's investment portfolios in debt securities, derivatives and equity instruments recorded at fair value, due to adverse changes in risk factors such as interest rates and exchange rates of foreign currencies.

For analysis purposes, market risk has been broken down into price risk and/or interest and exchange-rate risk of financial obligations in the periods of capital-payment amortization, the point at which the risk materialized.

At December 31, 2017 and December 31, 2016, CVCS had the following financial assets and liabilities at fair value subject to trade risk:

Financial assets and liabilities at fair value exposed to trading risk held:	**December 31, 2017**	**December 31, 2016**
Equity Securities	21.187	20,958
Derivatives instruments	773	817
Loan Portfolio	17.065	4,380
Total	**39.025**	**26,155**
Financial liabilities	17.686	16,958
Total	**17.686**	**16,958**
Net Position	**21.339**	**9,197**

(Stated in millions of Colombian pesos)

There are two scenarios under which CVCS is exposed to market risks:

Interest rates

CVCS's financial obligations are exposed to this risk when financing is acquired at variable indexed rates that may be subject to volatilities and may affect the Company's financial margin.

Sensitivity Analysis

Taking into account CVCS exposure to changes in the reference interest rate, a sensitivity analysis of the impact on financial obligations is included given the possible effect on the variable indexed interest rates in 2017. The following methodology was devised for the analysis:

1. Two scenarios were evaluated whereby indexed rates are affected by 20 BPS (increasing and decreasing indexed rates), which affect the future flows of CVCS financial obligations indexed to the variable rate. Debt repayment is implicit in these scenarios, given their contractual frequency, taking them to maturity.

2. The flows corresponding to interest payment (accrual) were evaluated using equivalent rates.

3. The present value of the monthly interest payment was calculated, using as reference the 6-month IBR EAR at December 31, 2017 (4.429%).

4. Finally, the results of each scenario were compared to the base scenario, which corresponds to the projections of interest flows using the rates at December 31, 2017 as reference .

The results are set out below:

Scenarios	Interests
Effect of 20 BPS decrease in variable rate	(108.852)
Effect of 20 BPS increase in variable rate	108.746
Total Scenarios	**(106)**

Interest Rate and Exchange Rate

Rate and devaluation effect scenario (variable rate and foreign currency obligations)	Interests
Effect of revaluation and decrease, 15 BPS, variable rate	(108.852)
Effect of devaluation and increase, 15 BPS, variable rate	108.957
Total Scenarios	**105**

Exchange rate

CVCS financial obligations are exposed to exchange rate risk when the present value of the liability positions presents volatilities due to the devaluation or revaluation of the funding acquired in another currency. This risk materializes at the moment when the payment corresponding to the amortization of principal and interest is made, due to trading in the currencies to be paid and recognition of the exchange rate difference.

(Stated in millions of Colombian pesos)

Sensitivity Analysis

Taking into account CVCS exposure to changes in the USD/ exchange rate, a sensitivity analysis of the impact on financial obligations is included given the possible effects of changes on the exchange rate in 2017. The following methodology was devised for the analysis:

1. Two scenarios were evaluated in which the exchange spot rate is adjusted by 0.60% daily volatility (forward curve projected Bloomberg´s spots prices), generating revaluation and devaluation effect on the TRM December 31, 2017.

2. The amortization of principal and payment of interest on financial obligations are implicit in these scenarios, given their contractual periodicity and taking them to maturity.

3. The flows corresponding to interest payment (accrual) were evaluated using equivalent rates.

4. The present value of the monthly interest payment was calculated, using as reference the 6-month IBR EAR at December 31, 2017 (4.429%).

5. Finally, we compared the results of each scenario with the base scenario, which corresponds to the projected flows for payment of capital and interest using as reference the rates at December 31, 2017.

The results are set out below:

Item	Total Debt
Initial Scenario (Balance at December 31, 2017)	634.195
Scenario 1 (Effect of revaluation)	630.227
Scenario 2 (Effect of revaluation)	638.162
Difference Scenario 1 vs. Initial Scenario	**(3.967)**
Difference Scenario 2 vs. Initial Scenario	**(3.967)**

(1) Volatility obtained from the daily average for the previous three years, including Q4 2017

7.4 Liquidity Risk

The liquidity Risk is represented by the potential event of being unable to meet the expected outgoing cash flows on a timely and efficient manner, without affecting the normal course of business or the company´s financial position. Liquidity risk is related with having insufficient liquid assets and therefore having to incur in unusual or extra funding costs.

The company funding is based on short and medium term Bank loans as well as bonds and commercial notes issued in the international capital markets. These funds are mainly used to leverage new loan origination according to its business model. On the other hand, the Company's capacity to build to sell positions in financial instruments (liquidity or loans) could be affected either by lack of market liquidity or because of sudden changes in interest rates and asset prices.

According to the Company´s funding model the liquidity risk includes among others, the ability to get short, medium and long term lines of credit, that allow to keep low liquidity assets (such as loan portfolio) and face short term unexpected stress situations.

In order to deploy a correct asset and liability management and assure the liquidity needed to operate the business the Company has set the following guidelines to control the liquidity risk: i) In the short term, cash flow associated to loan portfolio and liquid assets, short term financial liabilities, and off statement of financial positions in different time frames, allowing a permanent liquidity monitoring ii) for the long term assets and liabilities, the Company analyses its funding sources as well as the breakdown by type of source and those that are specifically associated to specific products.

(Stated in millions of Colombian pesos)

CVCS keeps at least 1.5 x its operating expenses in liquid assets statement of financial position liquidity has the following components:

- Inflows: incoming funds associated to loan portfolio, and interest income associated to liquid assets

- Outflows: Outgoing flows related to i) operating expenses ii) new loan origination and iii) financial liabilities´ principal and interest

- Liquidity GAP: Difference between inflows and outflows according to:

  - Monthly cash flow associated to assets (liquid assets, loan portfolio)
  - Monthly projected cash flow related to financial liabilities and operating expenses

The Company determines its liquidity gap based on to the above mentioned variables, and makes permanent follow up, as well as making any necessary adjustments according to the following ranges:

✓ 1 to 3 Months
✓ 3 to 6 Months
✓ 6 to 12 Months
✓ 12 Months +

Liquidity Risk Management

The company identifies its exposure to liquidity risk according to the markets were it operates, its products and services offered to its customers. For such purpose the Company has analyzed the processes associated to treasury in order to design controls and strategies to reduce the impact.

Liquidity position

Determine the minimum amount of liquid assets (cash and cash equivalents, short term liquid investments), in order to avoid any lacks that may affect the capacity to the outflows. It is calculated and monitored on a weekly basis on financial committee, considering cash flow projections for 7 and 15 days:

a) Green: liquid Assets / outflows >= 105%
b) Yellow: liquid Assets / outflows between 100 and 104%
c) Red: liquid Assets / outflows <100%

In case there are any yellow or green situations, the financial committee define any actions to be taken in order to assure the necessary coverage.

The liquidity level results at December 31, 2017 are set out below:

Item	**Liquidity level Dec-17**
7 Days	421%
15 Days	219%
30 Days	133%

As at December 31, 2017, the liquidity level in the 7 and 15 day bands is above the upper limit defined in the Company's liquidity manual, constituting a green flag scenario and indicating that CVCS has sufficient resources to operate normally.

(Stated in millions of Colombian pesos)

Also, as is good practice, a third band is monitored, which allows for controlling of the liquidity level projected to 30 days. As at December 31, 2017, a green band scenario is recorded, indicating that CVCS has ample liquidity to support its needs for normal operation.

Exposure to liquidity Risk

The Company monitors its liquidity position in order to determine how likely a liquidity stress can happen.

The following is a breakdown by range of time f the Liquid Assets and LRI (Liquidity Risk Indicator) for the time slot specified at December 31, 2017 and December 31, 2016.

	December 31, 2017				
	Subsequent Net Balances Available				
Description	**Liquid Assets Available at the End of the Period (1)**	**From 1 to 7 days (2)**	**From 8 to 15 subsequent days (2)**	**From 16 to 30 subsequent days (2)**	**From 31 to 90 subsequent days (2)**
Cash	23	23	-	-	-
Banco de Bogotá	2.402	2.402	-	-	-
Bancolombia S.A.	15.266	-	-	15.266	-
Banco GNB Sudameris Colombia	65	65	-	-	-
BBVA Colombia	113	113	-	-	-
Red Multibanca Colpatria S.A.	37	37	-	-	-
Banco De Occidente	223	223	-	-	-
Bancoomeva	17	17	-	-	-
Available in Free-standing Trusts	8.616	8.616	-	-	-
Fic's	16.530	-	16.530	-	-
Agrocaña	4.657	-	-	-	4.657
Asficredito	27.190	-	-	-	27.190
Valores Bancolombia	1.472	1.472	-	-	-
Scotiabank	25.540	-	-	25.540	-
Fiducolombia Free-standing	68.173	68.173	-	-	-
Inverefectivas	10.295	-	-	-	10.295
Total liquid assets	**180.619**	**81.141**	**16.530**	**40.806**	**42.142**

	December 31, 2016				
	Subsequent Net Balances Available				
Description	**Liquid Assets Available at the End of the Period (1)**	**From 1 to 7 days (2)**	**From 8 to 15 subsequent days (2)**	**From 16 to 30 subsequent days (2)**	**From 31 to 90 subsequent days (2)**
Cash	22	22	-	-	-
Banco De Bogotá	2.179	2.179	-	-	-
Bancolombia S.A.	1.904	1.904	-	-	-
Banco GNB Sudameris Colombia	1.195	1.195	-	-	-
BBVA Colombia	48	48	-	-	-
Red Multibanca Colpatria S.A.	38	38	-	-	-
Banco De Occidente	309	309	-	-	-
Bancoomeva	225	225	-	-	-
Available in Free-standing Trusts	13.857	13.857	-	-	-
Money Market Funds	16.307	-	16.307	-	-
Agrocañas	4.650	-	-	-	4.650
Credifinanciera	8.076	-	2.000	2.000	4.076
Alianza Fiduciaria	2.736	2.736	-	-	-
Valores Bancolombia	2.888	2.888	-	-	-

(Stated in millions of Colombian pesos)

Servitrust GNB Sudameris S.A.	2.883	2.883	-	-	-
Fideicomisos Fiduciaria Central	3.452	3.452	-	-	-
Corpbanca Investment Trust Col Sa Soc Fiduciaria	30	30	-	-	-
Fiducolombia Free-standing Trusts	83.123	83.123	-	-	-
Inverefectivas	9.408	-	-	-	9.408
Total liquid assets	**153.330**	**114.889**	**18.307**	**2.000**	**18.134**

(1) Liquid assets correspond to the sum of existing assets at the close of each period, which can quickly be converted to cash. In calculating liquid assets, all the listed investments, without exception, are computed at their fair exchange value on the date of the valuation (fair value).

(2) The balance corresponds to the residual value of the Company's liquid assets on days after closing the specific period. This balance is calculated as the difference between liquid assets and liquidity requirements. In turn, the liquidity requirement is the difference between the contractual revenue flows and contractual and non-contractual outflows in accordance with the Liquidity Risk Indicator (LRI) methodology.

Measurement of exposure to liquidity risk

Measuring the likelihood of the Company running out of liquid resources for its normal operation under normal market conditions requires the use of the tools described above: balance sheet liquidity, liquidity gap, and cash flow projection, to thereby quantify the degree of stress that the company's cash flow can bear to fulfill its normal operations without having to acquire additional resources.

Limit of liquidity risk exposure

Maximum exposure to liquidity risk is identified as the average time taken by the Company to carry out the liquidity financial operations (Guaranteed Loans, Portfolio Sales, Working Capital Loans, etc.) and generate the cash available for new loan origination.

The maximum exposure to liquidity risk is calculated weekly by the financial committee, taking into account projections for bands of 7 days, and 15 to 30 days.

In addition, to analyze the short- and medium-term liquidity requirements, the following indicators are taken into account:

1) Net Liquidity/CVCS + Free-standing Trust, where Net Liquidity is the sum of available cash and investments less long-term investments.

Lower limit: 8%; cannot be below the lower limit more than three times in a year

Exposure Limit Indicator 1 Dec-17	
Net Liquidity	**121.948**
Assets (CVCS + Free-standing Trust) (Portfolio)	1.180.751
Indicator 1	**10.3%**

2) Net Liquidity/Liabilities (Free-standing Trust + CVCS)

Lower limit: 10%; cannot be below the lower limit more than three times in a year

(Stated in millions of Colombian pesos)

Exposure Limit Indicator 1 Dec-17	
Net Liquidity	121.948
Liabilities (CVCS + Free-standing Trust)	1.167.146
Indicator 2	**10.4%**

In the three-month period ended December 31, 2017 there were no significant changes in the liquidity risk or in the manner in which CVCS manages this risk.

CVCS has performed an analysis of the consolidated maturities of financial assets and liabilities both derivatives and non-derivatives, showing the following remaining contractual maturities

December 31, 2017

Assets	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than one year**	**Total**
Cash due from banks and Central Bank	121.948	-	-	-	121.948
Equity Instruments at fair value	16.530	-	-	4.657	21.187
Investments in Associates and Affiliates	-	-	-	37.485	37.485
Financial Assets at amortized cost	59.055	311.091	360.922	704.224	1.435.292
Total assets	**197.534**	**311.091**	**360.922**	**746.366**	**1.615.912**

Liabilities	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than one year**	**Total**
Financial Liabilities At amortized cost	44.544	125.227	284.185	1.029.811	1.483.766
Financial Liabilities at fair value - Derivatives instruments	-	-	3.366	14.320	17.686
Total Liabilities	**44.544**	**125.227**	**287.551**	**1.044.130**	**1.501.452**

December 31, 2016

Assets	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than one year**	**Total**
Cash due from banks and Central Bank	118.889	4.075	-	-	122.964
Equity Instruments at fair value	16.308	-	-	4.650	20.958
Investments in Associates and Affiliates	-	-	-	9.408	9.408
Financial Assets at amortized cost	48.773	258.983	308.145	443.164	1.059.065
Total assets	**183.970**	**263.058**	**308.145**	**457.222**	**1.212.395**

Liabilities	**Less than one month**	**From one to six months**	**From six to twelve months**	**More than one year**	**Total**
Financial Liabilities At amortized cost	57.521	400.805	241.052	385.596	1.084.974
Financial Liabilities at fair value - Derivatives instruments	-	10.589	6.369	-	16.958
Total Liabilities	**57.521**	**411.394**	**247.421**	**385.596**	**1.101.932**

7.5 Operating Risk

Credivalores Crediservicios S.A.S., upon adopting best business practices, has implemented an Operating Risk Management System to ensure its strategic objectives are achieved.

The Operating Risk Management System (SARO) is based on proactively handling this type of risk and minimizing possible losses in this regard in accordance with international standards (Basel II and AS / NS4360), ISO 31000, Technical Quality Standard 5254.

The operating risk management system is made up of four elements that enable identification, control and monitoring in a systematic, organized and comprehensive manner.

a. Organizational structure: policies, manuals and procedures.
b. Technology platform: documentation and operating risk event logging.
c. Governing bodies: disseminating information.
d. Training: Company officers

The Company's Operating Risk Management Manual covers items such as:

a. General guidelines (compliance, data collection and event logging, controls and risk profile, business continuity plans, third party procedures).
b. Organizational structure.
c. Operating Risk Management System
d. Operating risk analyses.
e. Evaluating the effectiveness of the controls thus implemented.
f. Risk assessments.
g. Operating risk event logging.

In 2016, two risk-matrix review and update cycles were carried out which resulted in the identification of 145 potential risks across 18 risk matrices associated with the main Company processes. 46.26% of all risks arising are associated with the "external" factor, 37.22% with the "people" factor, 10.78% with the "IT" factor, 5.71% with the "process" factor and 0.09% with the "infrastructure" risk factor.

Also the Operating Risk Management training program was launched through our e-learning platform and talks and informative tips on operating-risk-management best practices were given by designated risk management officers. Moreover, new staff had to formally declare that they had read and were fully cognizant of the Company's Operating Risk Management Manual.

The assurance stage of the operating risk system involves the auditing department who are responsible for the Company's internal control.

The Operating Risk Management Department also continued to log operating risk events in order to establish and classify the causes and define the corresponding action plans in conjunction with Risk Management Officers and Process Leaders.

7.5.1 Operating Risk Policies

Credivalores has focused its operating risk management function on developing and implementing plans and projects relating to the optimum handling of this type of risk, in order to ensure the integrity of its business processes and its ability to maintain a reliable and permanently available client care service, this in order to achieve its strategic objectives.

7.5.1.1 Identification Policies

a. Upon launching new products or redefining existing ones, the Company follows all those guidelines set out in its Operating Risk Management Manual, which must again be checked in the event that these products are exposed to operating and legal risks.

Operating and legal risks associated with the Company's processes have been identified using the methodology defined by the Operating Risk Management area.

b. For each of these processes, the risk factors to which the Company is exposed must be thoroughly identified. Events that could cause the Company to incur losses must be also be defined.
c. The different types of loss must also be identified on an individual process level. This is based on the methodology and policies deployed in the Risk Management Department and specifically by the Operating Risk Management area.

7.5.1.2 Measurement Policies

a. Measurements must be taken of all operating risks using the operating risk methodologies defined by the Company.

b. Qualitative and/or quantitative measurements are to be performed on the more critical risks using indicators that reflect both the impact and the frequency of the corresponding risk exposure. Also, compliance with the limits set must also be permanently measured.

c. All operating losses incurred must be documented in accordance with the established methodology.

d. All events that could entail some kind of operating risk must be logged. This permits creating a historical loss analysis to facilitate calculating the capital required for each of the Company's lines of business.

The impact of an operating risk event is measured using the following scale and criteria by level of impact:

- Financial impact.
- Impact on the Company's reputation.
- Legal impact.
- Impact on clients.

7.5.1.3 Analysis Policies

Based on the frequency defined for each operating and legal risk indicator, the implications of the pattern and timeline of the risk involved are duly analyzed in order to trigger alerts and provide other information for the decision-making process this in terms of the relevance and effectiveness of the established controls and any special situation that should arise.

The Delphi technique used calls upon the judgment of experts in the corresponding areas or processes. This is supplemented with the advice of the Operating Risk Management officers.

7.5.1.4 Monitoring Policies

a. Internally developed measurement methodologies are periodically reviewed. This allows the Company to compare what is happening in reality with the results obtained from the methodology applied during a set period of time.

b. These risk measurements are regularly monitored to identify certain patterns and make the necessary adjustments.

7.5.1.5 Business Continuity

The Company updated its business continuity plan in consideration of its critical data processing, data integrity, and information security.

During 2018, the Company will use periodic tests to improve contingency and continuity plans, better disclosing and evaluating the same. This will help it to minimize the effect of events that could disrupt Company operations.

7.6 Risk of Money Laundering and Terrorism Financing

Credivalores Crediservicios S.A.S. has implemented a self-control and risk management system for anti money laundering and Terrorism financing (AML/TF), which seeks to determine the company's exposure to this type of risk, based on the characteristics of the business, products, and geographical areas, among other relevant aspects, in order to define controls, policies, guidelines and tools to mitigate the materialization of this risk.

The Company’s AML/TF Manual covers topics such as:

a. General guidelines (employees, suppliers, clients).
b. Organizational structure.
c. The Self-Regulating and AML/TF Risk Management System (PEPs-Publicly Recognized Persons-, employees, suppliers, clients, analyses of unusual transactions and suspicious operations).
d. Tools for the Prevention and Control of Anti Money Laundering
e. Reporting information.

The CVCS AML system is fully compliant with the Colombian Superintendency of Corporations’ (Superintendencia de Sociedades) regulations on the matter by way of Official Letter 100-00005/2014 and Public Announcement 100 – 00006.
The AML/TF management model focuses on developing and implementing preventive measures to control this type of activity by all employees, clients, associates, shareholders and suppliers related to the Company.

In order to prevent the risk of money laundering and the financing of terrorism, the Company periodically updates the blacklists used by the Company (OFAC, UN as well as others); triggers alerts for matches detected with the daily update lists and performs a monthly scan of clients, employees, suppliers, shareholders and investors.

In order to help strengthen an AML/TF culture within the Company in Q4 2017, a special training program was deployed on all levels through the e-learning platform. This training was included in the Company's induction programs and new Credivalores specialists were certified for having read and understood the AML/TF manual.

In 2017, the AML/TF compliance area updated the AML/TF risk matrix, identifying ten risks through control activities that allowed ML/FT risk to be addressed and kept within acceptable levels of exposure. The AML/TF manual was also updated in accordance with Public Announcement 100 - 00006, issued by the Colombian Superintendency of Corporations.

The Company’s residual risk profile with regard to its exposure to AML/TF risk through counterparties, distribution channels, jurisdictions and products is low to medium. This reflects implementation and execution of control activities designed and established to mitigate such risk.

The semi-anual reports were sent to the Board of Directors on the AML/TF prevention management, and the reports were sent to the oversight authorities, when required. the Suspicious Operations reports was sent to the Information and Financial Analysis Unit (UIAF- Division of Ministry of Finance).

(Stated in millions of Colombian pesos)

For Q4 2017, a request was received from the Colombian Superintendency of Corporations to evaluate implementation of the AML/FT which was responded to within the period established by the control entity.

NOTE 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash balances and demand deposits with original maturities of 90 days or less from the date of acquisition, which are subject to an insignificant risk of changes to their fair value and that are used by the CVCS to handle short-term commitments.

Cash and cash equivalent balances encompass the following as at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Cash	24	22
Banks	14.694	19.755
Mutual funds and joint portfolio (8.1)	81.690	95.112
Certificates of Deposit	-	8.075
Time Deposit	25.540	-
	121.948	**122.964**

As at December 31, 2017 and December 31, 2016, there were no restrictions on bank accounts.

8.1 Following is a breakdown of positions in money market funds (trust rights) by CVCS and the Free Standing Trust:

	December 31, 2017	December 31, 2016
Alianza Fiduciaria	-	2.736
Valores Bancolombia	1.472	2.888
Bancolombia	12.045	-
Sub-Total	**13.517**	**5.624**

Entity	December 31, 2017	December 31, 2016
Servitrust GNB Sudameris S.A.	557	2.883
Fideicomisos Fiduciaria Central	-	3.452
Corpbanca Investment Trust Col S.A Soc Fiduciaria	-	30
Participación en Fic’s	67.616	83.123
Sub-Total	**68.173**	**89.488**
Total 8.1	**81.690**	**95.112**

(Stated in millions of Colombian pesos)

The following is the credit rating of the fund managers of Free Standing Trusts:

Manager	Dec-17	Dec-16	Rating Agency
Fiduciaria Bancolombia	S1/AAA(col)	S1/AAA(col)	Fitch Ratings Colombia S.A.S CVCS
Fiduciaria GNB Sudameris_Servitrusts	F-AAA	F-AAA	Value and Risk Rating S.AS CVCS (2016 - 2017) BRC Standard & Poor´s (2015)
Fiduciaria la Previsora	S1/AAA(col)	S1/AAA(col)	Fitch Ratings Colombia S.A.S CVCS
Fiduciaria Popular	FAAA/2	FAAA/2	BRC Standard & Poor´s (2017-2016-2015) - BRC Investor Services S.A.S CVCS (2014)

Cash equivalents correspond to mutual and money market funds where the Company and the Free Standing Trust have a direct ownership of shares and rights. These funds invest in short term paper and offer a slightly higher yield than a savings account, and are classified as cash equivalents since the company can withdraw and deposit funds at any time, as funds are at sight.

NOTE 9. FINANCIAL INSTRUMENTS

9.1 AT FAIR VALUE THROUGH PROFIT OR LOSS

The balance of investments measured at fair value is comprised of:

	December 31, 2017	December 31, 2016
Equity instruments (a)	21.187	20.958
Derivative instruments (Note 13)	773	817
	21.960	**21.775**

a) Equity instruments

	December 31, 2017	December 31, 2016
Mutual Funds (1)	16.530	16.308
Agrocañas shares (2)	4.657	4.650
	21.187	**20.958**

(1) Investments at fair value correspond to shares in money market funds that offer easy access to resources at low risk, held in trusts which are rated from AA- to AAA by local rating agencies BRC Standard and Poor's and/or Fitch Ratings Colombia

Issuer	Type of Fund	Minimum Investmen t	Minimum Balance	Annual Return 2017	Annual Return 2016	At December 31, 2017	At December 31, 2016
Credicorp Capital	At sight	500,000	N/A	5.9%	7.1%	3	3
BTG Pactual I Z Class	Closed	5,000,000	2,000,000	352.9%	58.3%	6.010	1.842
BTG Pactual II Z Class	Closed	5,000,000	2,000,000	300.5%	167.5%	3.668	4.885
Fiduciaria Popular	At sight	200,000	200,000	5.6%	6.9%	73	69
Fiduciaria la Previsora S,A,	At sight	200,000	200,000	5.7%	6.9%	7	309
Servitrust GNB Sudameris	At sight	500,000	500,000		6.5%	-	1
Open Portfolio BTG						6.718	9.199
Credinvest Tramo IV						51	-
TOTAL						**16.530**	**16,308**

(Stated in millions of Colombian pesos)

(2*) The Company owns 5.03% of the Agrocañas S.A. share capital, with 3,300 outstanding shares at December 31, 2017. These are not listed on the stock exchange, and are therefore measured at cost.

NOTE 10. INVESTMENTS IN ASSOCIATES

The detail of the investments in associates is as follows:

	December 31,	
	2017	**2016**
Inverefectivas S.A (a)	10.295	9.408
Asesorías Financieras Asficrédito (b)	27.190	-
	37.485	**9.408**

(a) CVCS owns 25% the Inverefectivas S.A. share capital. This company was established under Panamanian legislation and has 4000 shares, with an intrinsic value of FIX 3.180,20 at December 31, 2017.

	December 31, 2017		December 31, 2016	
	Share of ownership interest	**Book value**	**Share of ownership interest**	**Book Value**
Associates				
Inverefectivas S,A	25%	10.295	25%	9,408
		10.295		**9,408**

(b) Below is the detail of the operation with consultants financial Asficredito:

Shares issued	Nominal value	Value of the given action to Credivalores	Surplus per share
1000	1.000	27.190	27.19

The corporate purpose of the CVCS's main associated companies are set out below:

	Associate	Corporate purpose
1	Inverefectivas S.A.	Holding,

The movement of investments in associates accounts is shown below for the years ended at December 31 de 2017 and December 31, 2016:

	December 31,	
Associate	**2017**	**2016**
Balance at the beginning of the year	**9.408**	**31.240**
Participation in the profit or loss of the period	-	(145)
Participation in Other comprehensive income	935	808
Increase (decrease) (i)	27.189	(22.066)
Adjustments for exchange differences	(47)	(429)
Year-end balance	**37.485**	**9.408**

The condensed financial information of the associates is as follows:

December 31, 2016	**Assets**	**Liabilities**	**Equity**	**Income**	**Expenses**	**Net income**
Inverefectivas S.A	12.721	-	12.721	205.345	25.345	180.000

(Stated in millions of Colombian pesos)

December 31, 2016	Assets	Liabilities	Equity	Income	Expenses	Net income
Inverefectivas S.A	37,631	-	37,631	1,877	75	1,802

(*) At the date of issue of these financial statements, the financial information of Asficredito is not had.

NOTE 11. LOAN PORTFOLIO, NET

Financial assets at amortized cost on the statement of financial position are classified as consumer portfolio and microcredit, Following is a description of the portfolio of CVCS at December 31, 2017 and December 31, 2016:

	December 31,	
	2017	**2016**
Consumer	1.166.501	1.044.230
Microcredit	14.250	14.835
Impairment	(128.080)	(105.191)
Total financial assets at amortized cost	**1.052.671**	**953.874**
TuCrédito payroll deduction loans at fair value	17.065	4.380
	17.065	**4.830**

The Financial Position Statement includes portfolio held in Free-standing trusts net totaling 366.792 at December 31, 2017 and 718,857 at December 31, 2016. CVCS classified portfolio by product in accordance with the height of default.

The movement of the provision for the impairment of financial assets by loan portfolio is provided below for the periods ended December 31, 2017 and December 31, 2016

	December 31	
	2017	**2016**
Initial Balance	105.191	85.944
Allowance of the period charged against to profit or loss	67.312	23.261
Recovered provisions	(44.423)	(558)
Write-offs	-	(3.456)
Closing balance	**128.080**	**105.191**

Here is a breakdown of the Loans Portfolio on Balance Sheet with all components:

At December 31, 2017

Modality	Capital	Transaction costs	Interest Accrued	Commissions	Impairment	Total
Consumer loans	1.049.114	20.271	89.507	7.334	(114.948)	**1.051.288**
Microcredit	6.723	265	7.525	3	(13.132)	**1.384**
Total financial assets at amortized cost	**1.055.837**	**20.536**	**97.032**	**7.347**	**(128.080)**	**1,052.672**

(Stated in millions of Colombian pesos)

At December 31, 2016

Modality	Capital	Transaction costs	Interest Accrued	Commissions	Impairment	Total
Consumer loans	933.356	16.645	91.818	2.411	(98.662)	**945.568**
Microcredit	9.677	749	4.395	14	(6.529)	**8.306**
Total financial assets at amortized cost	**943.033**	**17.394**	**96.213**	**2.425**	**(105.191)**	**953.874**

The distribution of maturities of CVCS gross loans portfolio is as follows:

December 31, 2017

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer	220.132	424.854	242.646	278.603	1.166.235
Microcredit	11.782	2.644	90	-	14.516
Total Gross Loan Portfolio	**231.914**	**427.498**	**242.736**	**278.603**	**1.180.751**

December 31, 2016

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer	225.183	423.173	147.429	248.445	1.044.230
Microcredit	8.627	4.867	1.341	-	14.835
Total Gross Loan Portfolio	**233.810**	**428.040**	**148.770**	**248.445**	**1.059.065**

The distribution of maturities of CVCS capital loans portfolio is as follows:

December 31, 2017

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer	189.830	373.817	225.545	259.923	1.049.114
Microcredit	4.936	1.702	86	-	6.724
Total Gross Loan Portfolio	**194.765**	**375.519**	**225.631**	**259.923**	**1.055.837**

December 31, 2016

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer loans	182.725	381.016	135.583	234.032	933.356
Microcredit	4.865	3.865	947	-	9.677
Total Gross Loan Portfolio	**187.590**	**384.881**	**136.530**	**234.032**	**943.033**

Below is the breakdown of CVCS Managed Loan Portfolio that includes the loan portfolio on balance sheet and the portfolio that was sold but is still managed by the Company:

(Stated in millions of Colombian pesos)

	At December 31, 2017		
Modality	**Loan Capital**	**Sold**	**Total**
Consumer	1.049.114	246.778	1.295.892
Microcredit	6.724	-	6.724
Total Financial Assets at amortized cost	**1.055.837**	**246.778**	**1.302.616**

	At December 31, 2016		
Modal3ity	**Loan Capital**	**Sold**	**Total**
Consumer	933.356	227.985	1.161.341
Microcredit	9.677		9.677
Total Financial Assets at amortized cost	**943.033**	**227.985**	**1.171.018**

Arrears but not impaired

As of December 31, 2017 and 2016, a summary of the overdue portfolio by days past due is as follows:

	At December 31, 2017			At December 31, 2016		
	Consumer	**Microcredit**	**Total**	**Consumer**	**Microcredit**	**Total**
Non expired loans	880.312	470	**880.782**	799.330	2.602	**801.932**
Arrears but not impaired	48.292	398	**48.690**	36.106	1.565	**37.671**
Non-performing loans under 360	44.976	773	**45.749**	30.462	2.561	**33.023**
Non-performing loans over 360	75.534	5.082	**80.616**	67.458	2.949	**70.407**
	1.049.114	**6.723**	**1.055.837**	**933.356**	**9.677**	**943.033**

NOTE 12. ACCOUNTS RECEIVABLE, NET

The detailed information of accounts receivables as of December 31, 2017 and December 31, 2016 is as follows:

	December 31,	
	2017	**2016**
Debtors (12.1)	120.131	123.074
Related economic (12.2)	63.503	62.979
From Partners and Shareholders	1.825	1.825
Prepayments and Advances	191	772
Payment by client account (12.3)	1.179	832
Employee	11	-
Allowance for doubtful accounts (12.4)	(3.329)	-
	183.511	**189.482**

12.1 The balance for other accounts receivable of 183.634 million at December 31 2017 and 120.131 million at December 31, 2016 123.074 correspond primarily to loan collection balances from the Free-standing Trusts pending transfer to CVCS.

12.2 The following is the detail by third of linked economic:	December 31,	
	2017	**2016**
Brestol S.A.S	22.440	13.929
Finanza inversiones S.A.S	22.051	19.030
Asesorias Financieras de Credito S.A.S	16.189	27.189
Inversiones Mad capital S.A.S	1.484	1.484
Sferika S.A.S	514	515
Cooperativa de Aportes y Credito Credipr.	-	273
Asficor S.A.S	276	-

(Stated in millions of Colombian pesos)

Seinjet Neirus David	201	202
Inversiones Dana S.A.	146	146
Agro el arado S.A	202	202
Creditos y ahorro Credifinanciera s.a.	-	4
Protección garantizada	-	3
Activar Valores	-	2
	63.503	**62.979**

12.3 The following is a breakdown of payments by client account:

	December 31,	
	2017	**2016**
Life Insurance Payroll deduction loans	849	609
Crediuno Insurance	327	216
Life Insurance SMEs	3	7
	1.179	**832**

12.4 The movement in the provision for impairment of other accounts receivable is provided below:

	December 31,	
	2017	**2016**
Balance at start of period	**-**	**-**
Provision charged to income accounts	(3.329)	-
Balance at end of period	**(3.329)**	**-**

NOTE 13. PROPERTY AND EQUIPMENT

The Company's property, plant and equipment at December 31, 2017 and December 31, 2016, respectively, are as follows:

	December 31,	
	2017	**2016**
Transport Equipment	117	117
Office equipment and Accessories	1.565	1.538
Computer equipment	1.010	1.016
Network and communication equipment	663	345
Machinery, plant and equipment in assembly	371	49
Goods received on finance lease agreements	4.878	4.878
Subtotal	**8.604**	**7.943**
Accumulated depreciation	(7.691)	(6.926)
Total	**913**	**1.017**

The breakdown for equipment movement is shown below:

	December 31, 2016	**Purchases**	**December 31, 2017**
Transport Equipment	117	-	117
Office equipment and Accessories	1.538	27	1.565
Electronic equipment	1.016	(6)	1.010
Network and communication equipment	345	318	663
Machinery, plant and equipment in assembly	49	322	371
Goods received on finance lease agreements	4.878	-	4.878
	7.943	**662**	**8.604**

(Stated in millions of Colombian pesos)

	December 31, 2015	Purchases	December 31, 2016
Transport Equipment	117	-	117
Office equipment and Accessories	1,298	240	1,538
Electronic equipment	845	171	1,016
Network and communication equipment	158	187	345
Machinery, plant and equipment in assembly	49	-	49
Goods received on finance lease agreements	4,878	-	4,878
	7,345	**598**	**7,943**

The following is the depreciation movement for 2017 and 2016, respectively:

	December 31, 2016	Depreciation	December 31, 2017
Office equipment and Accessories	1.458	182	1.640
Electronic equipment	908	139	1.047
Telecommunications equipment	197	88	285
Goods on Finance Lease Agreements	4.363	356	4.719
	6.926	**765**	**7.691**
	December 31, 2015	**Depreciation**	**December 31, 2016**
Office equipment and Accessories	1.111	347	1.458
Electronic equipment	972	(64)	908
Telecommunications equipment	187	10	197
Goods on Finance Lease Agreements	3.613	750	4.363
	5.883	**1.043**	**6.926**

All equipment of CVCS is duly protected with current insurance policies. To protect its property and equipment, the Company took out insurance policies with Beckley International Insurance Colombia and Chubb de Colombia at December 31, 2017 and December 31, 2016, which cover the risks of theft, fire, lightning strikes, explosions, earthquakes, strikes, revolts, etc.

Property and equipment include the values of furniture, computer equipment and improvements to rented property, which are used in the Company's normal course of business.

The Company's own property and equipment as listed above, are not in any way encumbered neither have they been delivered as collateral to guarantee any kind of obligation. The Company has also taken out insurance policies to protect these assets.

Finance Lease Agreements:

Assets under finance lease agreements were acquired with Leasing Bancolombia S.A. A total of 41 lease agreements are in effect with the Colombian institutions named above.

Correspond to rights to goods received as part of finance lease agreements, which are entered into for period of three (3) years and correspond to structured cabling, licenses, computer equipment and vehicles.

(Stated in millions of Colombian pesos)

	Cost	Accumulated depreciation	Carrying amount
Computing equipment	2,416	(2,416)	-
Vehicles	2,462	(2.303)	159
Balance as at December 2017	**4,878**	**(4,719)**	**159**

	Cost	Accumulated depreciation	Carrying amount
Computing equipment	2,416	(2,301)	115
Vehicles	2,462	(2,062)	400
Balance as at December 2016	**4,878**	**(4,363)**	**515**

The following is a summary of the minimum payments due in the coming years for finance lease assets at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Less than one year	76	272
More than one year, less than five	83	243
Total	**159**	**515**

NOTE 14. OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired by CVCS and have a definite useful life are measured at cost less their accumulated amortization and accumulated impairment losses.

	December 31,	
	2017	**2016**
Software licenses	449	256
Technology and insurance projects	1.927	2.385
Other	2.304	2.276
Trademarks Acquired (1)	21.367	23.919
	26.047	**28.836**

(1) The amortization expenses for the quarter was as follows:

	December 31,	
	2017	**2016**
Amortization	3.468	2.781

The aforementioned intangible assets do not carry any restrictions as to the ownership of their inherent rights.

As for the Company's intangible asset accounts, based on the corresponding assessment, no signs of impairment were detected which could have otherwise led to recognizing an expense.

(Stated in millions of Colombian pesos)

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Movements for hedge accounting and investments in derivatives are provided below:

	December 31,	
	2017	**2016**
ASSETS		
Hedging derivatives	773	341
Forward contracts for trading	-	476
Sub-Total	**773**	**817**
LIABILITY		
Hedging forward contracts	17.686	16.702
Forward contracts for Trading	-	242
Swaps	-	14
Sub-Total	**17.686**	**16.958**

CVCS maintains the derivative financial instrument to cover exposure to risk in foreign currency.

The following table describes the fair value recognition of the derivatives portfolio at December 31, 2017 and December 31, 2016:

(1) Forward Contracts for Hedging

The portfolio of derivative transactions presents assets valued according to the policy implemented and the type of fair value measurement and cash flow.

- **Fair-value hedge accounting Assets**

	Fair value			
	December 31, 2017		**December 31, 2016**	
ASSETS	**Nominal Amount USD**	**Fair Value**	**Nominal Amount USD**	**Fair Value**
Forward Contracts for Hedging				
Purchase of foreign currency	61	650	13	339
Total forward contracts for hedging - assets	**61**	**650**	**13**	**339**

- **Cash-flow hedge accounting**

	Cash flow			
	December 31, 2017		**December 31, 2016**	
ASSETS	**Nominal Amount USD**	**Fair Value**	**Nominal Amount USD**	**Fair Value**
Forward Contracts for Hedging				
Purchase of foreign currency	12	123	1	2
Total forward contracts for hedging - assets	**12**	**123**	**1**	**2**

(Stated in millions of Colombian pesos)

- **Fair-value hedge accounting Liabilities**

LIABILITIES	December 31, 2017 Nominal Amount USD	December 31, 2017 Fair Value	December 31, 2016 Nominal Amount USD	December 31, 2016 Fair Value
Forward Contracts for Hedging				
Purchase of foreign currency	273	(17.686)	76	(16,530)
Total forward contracts for hedging – liabilities	**273**	**(17.686)**	**76**	**(16,530)**

The forwards portfolio will mature in 2018.

The Company maintains the derivative financial instrument to cover exposure to risk in foreign currency. Management's goal and strategy is to analyze and assess the appropriate method to value this financial instrument according to the type of operation and business conducted.

LIABILITIES	December 31, 2017 Nominal Amount USD	December 31, 2017 Fair Value	December 31, 2016 Nominal Amount USD	December 31, 2016 Fair Value
Forward Contracts for Hedging				
Purchase of foreign currency		-	1	(172)
Total forward contracts for hedging - liabilities		**-**		**(172)**

The maturity of the forward contracts portfolio is in 2018.

Hedge accounting

- *Risk management objectives:* The goal of hedging is to protect the value of the COP currency for payment of principal in USD against representative market rate movements with the goal of mitigating market risks implied by holding a debt in USD. By hedging changes in forward points are treated as equity and carried to Other Comprehensive Income, making the impacts from exchange rate variations observable at the contract's expiration date, and minimizing volatility in each period's income statements.

- *Type of hedging:* The type of hedging to be used in order to fulfill the aforementioned objectives is fair value hedging.

- *Hedging instrument:* The instrument used to mitigate the risks of representative market rate volatility is a forward purchase contract which gives Credivalores Crediservicios S.A.S. the right to receive a nominal value in dollars at a forward exchange rate negotiated with the counterparty.

- *Hedged entry:* The hedged entry is the change in principal of the debt to be paid against representative market rate movements.

- *Hedge effectiveness:* The hypothetical derivative method will be applied retrospectively.

Cash-flow hedge accounting

- *Risk management objectives:* The goal of hedging is to protect the value of the COP currency in expected payments of a coupon amount in USD against representative market rate movements. Thereby mitigating the market risk implied from paying the debt in USD.

(Stated in millions of Colombian pesos)

- *Type of hedging:* The type of hedging to be used in order to fulfill the aforementioned objectives is cash flow hedging.

- *Hedging instrument:* The instrument used to mitigate market risks is a forward purchase contract, which gives Credivalores Crediservicios S.A.S. the right to receive a value in dollars at a forward exchange rate negotiated with the counterparty.

- *Hedged entry:* The entry to hedge the change is in Credivalores Crediservicios S.A.S. cash flow associated with increased or reduced financial expenses due to exchange rate movements.

- *Retrospective hedge effectiveness:* The hypothetical derivative method will be applied retrospectively.

Prospective Effectiveness of Current Hedging

Based on IAS 39, a prospective analysis is made of the hedge's effectiveness, which is based on the critical terms methodology to demonstrate effectiveness, in other words, maturity dates, nominal values and/or currencies, between the hedged entry and the derivative are backed at 100%, and the counterparty risk effect is considered minimal given the profile of the financial institution executing the derivatives.

Hedged entry		Hedging instrument	
Type	**Nominal Amount USD**	**Type**	**Nominal Amount USD**
Fair value	334	Fair value	334
Cash flow	12	Cash flow	12

For hedged entries on the previous table that apply to hedge accounting, critical terms are 100% backed, which prospectively demonstrates 100% effectiveness.

Retrospective Hedging Effectiveness

Due to the use of critical terms in the prospective analysis IAS 39 stipulates that a retrospective analysis must be used. The policy documented the hypothetical derivative methods, which showed the effectiveness of the real derivative compared to a hypothetical derivative. This hypothetical derivative is going to do the opposite, in other words, if Credivalores Crediservicios S.A.S.' real derivative is a forward purchase the hypothetical derivative will be a forward sale. So by comparing its movements, the real and hypothetical derivative will follow each other's behavior from 80% to 125%.

Real Derivative

Fair Value November 2017	Fair Value December 2017	Fair Value Change (Nov - Dec) 2017
(6,506)	(16,913)	10,407

Hypothetical Derivative

Fair Value November 2017	Fair Value December 2017	Fair Value Change (Nov - Dec) 2017	**Dollar Offset Nov - Dec 2017**
6,506	16,913	(10,407)	100%

The hypothetical derivative finally reflects the change in market value or impact on cash flows of the risk (in this case exchange rate) of the hedged entry; as can be observed in the table, the change in market value of the hypothetical derivative that reflects the exchange risk of the hedged entry varied in the same proportion as the real derivative, thereby the test showed 100% effective in hedging the entries.

(Stated in millions of Colombian pesos)

(2) Forward Contracts for Trading Assets

The following table shows the fair value at December 31, 2017 and December 31, 2016 of the forward contract portfolio at the end of each period

Trading

ASSETS	December 31, 2017		December 31, 2016	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Forward Contracts for Trading				
Purchase of foreign currency	-	-	3	476
Total forward contracts for trading - assets	**-**	**-**		**476**

Forward Contracts for Trading Liabilities

LIABILITIES	December 31, 2017		December 31, 2016	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Forward Contracts for Trading				
Purchase of foreign currency	-	-	3	(242)
Total forward contracts for trading - liabilities	**-**	**-**	**3**	**(242)**

For the December 31, 2017, the Company updated its assessment of hedging effectiveness, and results were satisfactory.

NOTE 16. FINANCIAL OBLIGATIONS

	December 31,	
	2017	2016
Financial obligations in free standing trusts	56.769	543.788
Promissory notes – Local banks	104.872	146.162
Finance lease agreements	330	755
Foreign banks	304.368	400.545
Other financial obligations	-	1.718
Issuance of bonds	746.000	-
Transaction cost	(45.193)	(7.994)
	1.167.146	**1.084.974**

The balance of Credivalores Crediservicios S.A.S. financial obligations and of the Free-standing Trusts at December 31, 2017 and December 31, 2016 correspond to obligations contracted with financial entities in Colombia and obligations in capital markets abroad, finance lease agreements, third parties and shareholders. Short-term obligations are loans that must be paid in January 2018 – December 31 2018, and long-term obligations are loans that come due after January 2019.

(Stated in millions of Colombian pesos)

a) Short-term financial obligations.

Entity	December 31, 2017	Interest rate	Maturity	December 31 2016	Interest rate	Maturity
National entity						
Banco Agrario	6.173	DTF + 3,4%	2018	-		
Banco de Bogotá	10.542	IBR + 5.6%	2018	10.188	IBR + 5.5%	2017
Banco Colpatria	10.000	IBR + 5.3%	2018	13.000	IBR + 5.8%	2017
Banco De Occidente	6.153	IBR + 3.8%	2018	4.582	IBR + 3.5%	2017
Banco Corpbanca	3.237	DTF + 7,8%	2018	8.000	14,97% EA	2017
Bancolombia	23.365	DTF + 6,7%	2018	30.500	DTF + 6,8%	2017
Bancoomeva	432	DTF + 6,7%	2018	276	DTF + 7%	2017
Banco Santander	-			10.455	LIBOR + 1,7%	2017
Total National Entity	**59.902**			**77.001**		
Foreign Entity						
International Notes (ECP Program)	199.928	6,6% EA	2018	255.060	8,13% EA	2017
Total Foreign Entity	**199.928**			**255.060**		
Shareholders						
Lacrot Inversiones	-			60.014	9,5% EA	2017
Total Shareholders	**-**			**60.014**		
Third parties						
Progresión Sociedad Administradora	-			1.718	12% EA	2017
Total Third Parties	**-**			**1.718**		
Free-standing trusts						
Free-standing trust, Corpbanca	-			1.194	IBR + 5.5%	2017
Free-standing trust, CrediUno IFC	3.518	9,91% EA	2018	-		
Free-standing trust, CrediPóliza Sindicado	-			42.613	DTF + 4,5%	2017
Free-standing trust, CrediUno EPSA	-			16.355	DTF + 6,75%	2017
Free-standing trust, CrediUno Sindicado	-			3.043	DTF + 4,5%	2017
Total Free-standing trusts	**3.518**			**63.205**		

Short-term obligations

Entity	December 31, 2017	Interest rate	Maturity	December 31 2016	Interest rate	Maturity
Finance lease agreements						
Leasing Bancolombia	94	8,42% EA	2018	73	8,42% EA	2017
Total Financial Leasing	**94**			**73**		
Total Short-term obligations	**263.442**			**457.071**		

(Stated in millions of Colombian pesos)

CVCS had short-term financial obligations during the periods ended December 31, 2017 and December 31, 2016 totaling 263.442 and 457,071, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per IAS 39.

b) Long-term obligations

Long-term obligations

Entity	December 31, 2017	Interest rate	Maturity	December 31 2016	Interest rate	Maturity
National entity						
Banco agrario	-			30.866	DTF + 3,4%	2018
Banco de Bogotá	8.441	IBR+6,5 %		14.130	IBR + 6.25%	2018
Bancolombia	13.194	DTF + 7,5%	2019	21.528	DTF + 7,5%	2019
Bancoomeva	6.667	DTF + 8%	2019	13.091	DTF + 7,7%	2018 a 2019
Banco Santander	16.667	IBR + 6.5%	2019	-		
Total National Entity	**44.969**			**79.615**		
Foreign Entity						
International Notes (ECP Program)	104.440	8,3% EA	2020	-		
	104.440			**-**		
Free-standing trusts						
TuCrédito Free-standing Trust, Colpatria	-			21.566	IBR + 6.3%	2018 a 2020
Free-standing trust, Credilibranzas	-			1.541	DTF + 5,25%	2018
Free-standing trust, Libranzas	-			4.888	DTF + 5,25%	2018
Free-standing trust, EPSA CrediUno	-			106.831	DTF + 6,75%	2018 a 2019
Free-standing trust, CrediUno IFC	53.252	11,91% EA	2020 y 2021	75.016	9,91% EA	2018 a 2021
Free-standing trust, syndicated CrediUno	-			58.015	DTF + 4,5%	2019
Free-standing trust, syndicated TuCrédito	-			238.003	DTF + 5,5%	2019 a 2021
Free-standing trust, CrediTigo	-			49.740	DTF + 6,25%	2018
Total Free-standing trusts	**53.252**			**555.600**		
Finance lease agreements						
Leasing Bancolombia	236	8,42% EA	2019 y 2020	682	8,42% EA	2018 a 2020
Total Financial Leasing	**236**			**682**		
Bonds						
International Bonds 144 A/Reg. S	746.000	9,75% EA	2022	-		
Total International bonds	**746.000**			**-**		
Total long-term obligations	**948.896**			**635.897**		
Cost of Transaction to be Amortized IFP	(45.193)			(7.994)		
Total financial obligations	**1.167.146**			**1.084.974**		

The Company had long-term financial obligations during the periods ended December 31, 2017 and December 31 2016 totaling $ 948.896 and $ 635,897, respectively. Associated costs incurred in the acquisition of loans are classified as transaction costs pending IFP amortization for the periods ended December 31, 2017 and December 31, 2016, valued at $45,193 and $7,994, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per IAS 39.

(Stated in millions of Colombian pesos)

The total balance of financial obligations for the periods ended December 31, 2017 and December 31, 2016 is 1.167.146 and 1,084,974 respectively, which will be paid off as described above.

Obligations stated in foreign currency

Entity	**Nominal Value December 31, 2017**		**Nominal Value December 31, 2016**	
Banco Santander	-	-	3	10.455
International Capital Markets Notes (a)	102	304.368	85	255.060
Lacrot Inversiones	-	-	20	60.014
International Finance Corporation (IFC)	20	56.796	30	75.016
Issuance of bonds (b)	250	746.000		-
Total	**USD**	**1.107.164**	**USD 138**	**400.545**

(a) International Notes

In August 2014 the Company established a new program for issuing commercial paper notes called “Euro Commercial Paper Program” abroad for up to USD 150, with maturities that can range from 1 day to 3 years from the issue date of each note. The issued notes are not registered under the US Securities Act of 1993, and according to the program, only be offered to non-Americans in compliance of Regulation S of the US Securities Act.

Under this program, the notes are issued outside of Colombia and are not registered in the Colombian National Registry of Securities and Issuers, nor listed on the Colombian Securities Exchange. Deustche Bank AG, London Branch is the issuance and payment agent for all program issues.

(b) Issuance of bonds

On July 27, 2017 Credivalores issued its inaugural senior unsecured 144A / Reg S notes (the “Notes”) due July 27, 2022 for US$250,000,000 with a coupon of 9.75% and a yield of 10.0%. The Notes are payable semi-annually in arrears on January 27 and July 27 of each year, beginning on January 27, 2018. The proceeds from this issuance were used to refinance existing indebtedness, including mostly secured debt, and the remainder, if any, for general corporate purposes.

According to the “Description of the Notes” of the Offering Memorandum, the Company may redeem the Notes, in whole or in part, at any time on or after July 27, 2020, at the applicable redemption prices set forth in the Offering Memorandum, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of redemption. Prior to July 27, 2020, we may also redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a “make-whole” premium, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of redemption. In addition, at any time on or prior to July 27, 2020, Credivalores may redeem up to 35% of the Notes using the proceeds of certain equity offerings at a redemption price equal to 109.750% of their principal amount, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of redemption. In addition, in the event of certain changes in the Colombian withholding tax treatment relating to payments of interest on the Notes, Credivalores may redeem the Notes, in whole but not in part, at 100% of their principal amount, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of redemption. If a change in control occurs with respect to us, unless the Company has exercised the option to redeem the Notes, each holder of the Notes will have the right to require us to repurchase all or any part of that holder’s Notes at 101% of the aggregate principal amount of Notes repurchased, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of repurchase.

The Notes will be senior unsecured general obligations and will (i) rank equally in right of payment with all of the Company’s other existing and future senior indebtedness (subject to certain obligations for which preferential treatment is given under Colombian insolvency laws); (ii) rank senior in right of payment to the Company’s existing and future subordinated indebtedness, if any; (iii) be effectively subordinated in right of payment to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness, including all indebtedness and other liabilities of any free-standing trusts (patrimonies autonomous); and (iv) be structurally subordinated to all existing and future indebtedness and trade payables of any of our subsidiaries that are not guarantors. The notes will not be entitled to any sinking fund.

(Stated in millions of Colombian pesos)

No public market currently exists for the Notes. The Notes have been listed an are quoted on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The Notes have not been and will not be registered with the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores, or "RNVE"), maintained by the Colombian Superintendency of Finance (Superintendencia Financiera de Colombia, or "SFC") and therefore may not be publicly offered in the Republic of Colombia ("Colombia"). The Notes will not be listed on the Colombian Stock Exchange (Bolsa de Valores de Colombia). The Notes may be offered to persons in Colombia in a private placement. The offering was not subject to review or authorization by the SFC.

- **IFP Financial Cost**

The funds received from loans acquired from financial institutions are used for portfolio origination and to handle various lines of working capital, which helps to maintain a degree of liquidity for the Company. The loans are represented by promissory notes wherein both parties establish the payment conditions, including limit, amount, interest rate and duration. The financial cost of financial obligations for periods ended December 31, 2017 and December 31, 2016:

	2017	2016
Free-standing trusts	49.669	68.252
Local banks	15.166	19.551
Finance lease agreements	55	117
Foreign currency obligation	30.959	21.786
Third parties	700	798
Shareholders	4.171	1.056
Issuance of bonds	24.249	-
Amortization Transaction costs	21.717	14.662
Total	**146.686**	**126.222**

The financial obligations and Free-standing Trusts of Credivalores Crediservicios S.A.S. that are recognized in local and foreign currencies will be recognized at the start of operation at their amortized value, net of costs incurred in the transaction which are attributable at the time of issuance. The difference between funds received (net of transaction costs) and the redemption value is recognized in the Income Statement for the corresponding period, using the effective interest method.

NOTE 17. EMPLOYEE BENEFITS

Under Colombian labor law and based on labor conventions employees are entitled to short-term benefits such as: wages, holidays, statutory bonuses, severance payment, and interest on severance pay.

Below is a breakdown of employee benefit payments as at December 31, 2017 and December 31, 2016:

	December 31,	
	2017	2016
Short-term benefits (a)	1.154	1.198
	1.154	**1.198**

(Stated in millions of Colombian pesos)

a. The breakdown of employee benefit payments at December 31, 2017 and December 31, 2016 is as follows:

	December 31,	
	2017	**2016**
Salaries	1	2
Severance pay	465	540
Interest on severance pay	54	62
Holidays	634	594
	1.154	**1.198**

The current component of employee benefits must be paid within the twelve months following the reporting period.

NOTE 18. OTHER PROVISIONS

CVCS's provisions at December 31, 2017 and December 31, 2016, respectively are provided below.

	2017	**2016**
Litigations subject to executive proceedings	84	84
Other provisions	218	937
	302	**1,021**

The movement of legal and other provisions are provided below for the periods ended December 31, 2017 and December 31 2016:

	Legal provisions	**Other provisions**	**Total provisions**
Balance held at December 31, 2016	**84**	**937**	**1.021**
Recovered provisions	-	(719)	(719)
Balance held at December 31, 2017	**84**	**218**	**302**

	Legal provisions	**Other provisions**	**Total provisions**
Balance held at December 31, 2015	**26**	**1.949**	**1.975**
Increase in provisions during the period	58	3.591	**3.649**
Recovered provisions	-	(4.603)	**(4.603)**
Balance held at December 31, 2016	**84**	**937**	**1.021**

The provisions correspond primarily to labor, civil and administrative proceedings filed by third parties against CVCS, on which provisions of 84 were recognized at 31 December 2016. It is not possible to determine a disbursement schedule for these proceedings due to their distribution across different instances.

However, the CVCS does not expect significant changes to the amounts provided for as a consequence of the outflows applicable to each proceeding. The expected time of resolution is uncertain since each proceeding is taking place in different instances.

(Stated in millions of Colombian pesos)

NOTE 19. CURRENT AND DEFERRED TAX LIABILITIES

19.1 Components of current tax liabilities

Current tax liabilities for the years ended December 31, 2017 and December 31, 2016 is as follows:

	2017	**2016**
Tax income	-	26
Tax on industry and Commerce	1.100	1,623
Tax CREE	-	2,458
Sales tax	-	396
	1.100	**4,503**

19.2 Components of income tax expense

Income tax expense for the years ended December 31, 2017 and December 31, 2016 is as follows:

	2017	**2016**
Income Tax	2.692	7.015
CREE surcharge	-	4.210
Subtotal - taxes from the current period	**2.692**	**11.225**
Net deferred tax from the period	(1.470)	(4.995)
Total	**1.222**	**6.230**

In accordance with the IAS 12, current and deferred taxes are recognized as income or expense in the income statement, except to the extent that they arise from a transaction or event recognized outside profit or loss in other comprehensive income (OCI), in equity. Therefore, in the periods ended December 31, 2017 and December 31, 2016, other comprehensive income was recognized in equity.

19.3 Reconciliation of the nominal income tax rate and the effective tax rate in Colombia:

The tax provisions in force in Colombia for income and ancillary taxes applicable in 2016 and 2017, respectively, among others, are as follows:

- The Corporate income tax rate is 25%.

- In addition, companies must pay the equality tax (CREE) at a rate of 9%, with an additional surcharge of 5% for 2015 and 6% for 2016; a surcharge of 8% for 2017 and 9% for 2018 is anticipated.

- A company's capital gains corresponding mainly to the sale or realization of fixed assets that were held by a company for more than two years are taxed at a rate of 10%.

- The basis for determining the amount of income tax and CREE to be paid by a company cannot be less than 3% of its net equity on the final day of the immediately preceding tax year. In the event that the Company's removed tax deductions are less than this base, the difference known as surplus presumptive income is deductible from taxable income within five years following the tax year in which it was recorded.

- Tax losses arising from the tax year of 2007 readjusted for tax purposes may be offset without any percentage limitation, at any time, by future ordinary net income, both for the determination of income tax and for CREE.

(Stated in millions of Colombian pesos)

- The tax bases of the items included in the removal of tax deductions in the tax returns are determined based on accounting standards in force in Colombia until December 31, 2014, before the entry into force of the International Financial Reporting Standards (IFRS), as well as special tax accounting provisions in force.

- A company's income tax returns are ratified two years subsequent to their presentation, except when it liquidates or offsets tax losses, in which case the returns will be ratified after five years.

In December 2017, Colombian Congress issued Law 1819 on Tax Reform, which among other provisions established the following with regard to income and ancillary taxes as of 2017:

- Corporate Tax rate is 34% for 2017, and 33% for 2018 and fore coming years.
- CREE is eliminated, while an income tax surcharge is created at a rate of 6% for 2017 and 4% for 2018 for taxable income in excess of 800 million.
- A company's income tax returns are ratified three years following their presentation.
- Tax losses occurring before 2017 continue to be deductible in the same terms as those of the tax laws applicable to 2015 and 2016, but cannot be readjusted for tax purposes. Tax losses occurring as of 2017 may be offset against the ordinary net income obtained by a company in the following twelve tax periods, but income tax returns and their corrections in which tax losses are determined or offset is six years from the date of filing.
- Capital gains continue to be taxed at a rate of 10%.
- The basis for determining the amount of income tax to be paid by a company cannot be less than 3.5% of its net equity on the final day of the immediately preceding tax year. In the event that a company's removed tax deductions are less than this base, the difference continues to be deductible from taxable income within five years following the tax year in which it was recorded as surplus presumptive income.
- For the determination of income and ancillary taxes, as of January 1, 2017, the value of assets, liabilities, equity, revenue, costs and expenses will be subject to recognition and measurement systems, in accordance with regulatory accounting frameworks in force in Colombia, when the tax law expressly refers to these and in cases in which it does not regulate the matter. In any case, the tax law may provide for different treatment.

The Company reconciled the total effective rate without deferred tax, which was 40% for 2017 and (27%) for 2016, as detailed below:

	2017	**2016**
Earnings (loss) before tax	3.028	23.430
Income Tax rate	40%	40%
Income Tax	**1.211**	**9.372**
More (less) tax impact on:		
Non-deductible expense	11	1.770
Valuations of financial instruments	(2.267)	-
Refund of expenditure prior years	-	(156)
Utilizations- Provisions	(238)	(214)
Non-deductible tax	525	105
Wealth tax	229	575
Fines and sanctions	249	30
Assumed interest	50	45
Loan adjustments and financial obligations	1.055	(5.295)
Excess of presumptive income	397	-
Total income tax provisions charged to income	**1.222**	**6.230**
Effective rate	**40%**	**27%**

(Stated in millions of Colombian pesos)

19.4 Deferred Tax

Differences between the carrying amount of assets and liabilities and the tax bases thereof give rise to temporary differences that generate deferred taxes, calculated and recorded in the periods ended December 31, 2017 and December 31, 2016, based on the tax rates in force for the years in which said temporary differences are to be reversed.

Year ended December 31, 2017

	Balance held at December 31, 2016	Income (Expense) in income statement	Unrealized income (expense) in OCI	Balance as at December 31, 2017
Deferred tax assets				
Deferred charges	91	(91)	-	-
Difference between accounting and tax bases - prepaid expenses	10.536	275	(8.286)	2.525
Difference between accounting and tax bases - loans	509	3.591	-	4.100
Impairment to financial assets	1.520	4.897	-	6.417
Industry and commerce tax	42	(42)	-	-
Forward contracts	11.633	(18.658)	7.025	-
Miscellaneous	147	(147)	-	-
Subtotal	**24.478**	**(10.175)**	**(1.261)**	**13.042**
Deferred tax liability				
Valuations of financial instruments	3.671	-	(3.671)	-
Goodwill	16	(16)	-	-
Impairment to financial assets	6.809	(6.809)	-	-
Subtotal	**10.496**	**(6.825)**	**(3.671)**	**-**
Net Total	**13.982**	**(3.350)**	**2.410**	**13.042**

Year ended December 31, 2016

	Balance held at December 31, 2015	Income (Expense) in income statement	Unrealized income (expense) in OCI	Reclassifications	Balance held at December 31, 2016
Deferred tax assets					
Deferred charges	5.783	(5.692)	-	-	91
prepaid expenses	13.956	(3.420)	-	-	10.536
Difference between accounting and tax bases - loans	-	509	-	-	509
Impairment to financial assets	-	1.520	-	-	1.520
Deferred income	2.021	(2.021)	-	-	-
Industry and commerce tax	85	(43)	-	-	42
Forward contracts	-	8.409	3.224	-	11.633
Miscellaneous	-	148	-	(1)	147
Subtotal	**21.845**	**(590)**	**3.224**	**(1)**	**24.478**

(Stated in millions of Colombian pesos)

	Balance held at December 31, 2015	**Income (Expense) in income statement**	**Unrealized income (expense) in OCI**	**Reclassifications**	**Balance held at December 31, 2016**
Deferred tax liabilities					
Valuations of financial instruments	9.888	(6.217)	-	-	3.671
Goodwill	50	(34)	-	-	16
Transaction expense owing	3.930	(3.930)	-	-	-
Impairment to financial assets	2.213	4.596	-	-	6.809
Subtotal	**16.081**	**(5.585)**	**-**	**-**	**10.496**
Net	**5.764**	**4.995**	**3.224**	**(1)**	**13.982**

The income tax expense represents the sum of current tax payable and deferred tax.

Current tax payable is calculated according to the company earnings for the period and the regulations of the country's regulatory entity, the Colombian Tax Authorities (DIAN).

Effect of current and deferred taxes in each component of other comprehensive income in equity:

The effects of current and deferred taxes in each component of other comprehensive income in equity are as follows:

	December 2017			**December 2016**		
	Amount before tax	**Deferred tax income (expense)**	**Net**	**Amount before tax**	**Deferred tax income (expense)**	**Net**
Items that may be subsequently reclassified to income						
Effect of changes in fair value on the valuation of derivative financial instruments	**(14.953)**	**2.410**	**(12.543)**	**(8.060)**	**3.224**	**(4.836)**

19.5 Net Worth Tax

Article 1 of Law 1739 of December 23, 2014, created an extraordinary tax to be paid as of January 1, 2015, called Net Worth tax, which is levied on a temporary basis for the fiscal years of 2015, 2016 and 2017. In this way CVCS recorded wealth tax in the annual income statement, as of January 1 of the same year.

This tax was levied on net equity held as at January 1, 2016 and paid in two equal installments between May and December 2017. The recorded wealth tax amount was 1,437.

(Stated in millions of Colombian pesos)

Lower Limit	Upper Limit	Rate for 2015	Rate for 2016	Rate for 2017
>0	<2,000,000,000	(Tax base)* 0.20%	(Tax base)* 0.15%	(Tax base)* 0.05%
>=2,000,000,000	<3,000,000,000	(Tax base-2,000,000,000)* 0.35%+ 4,000,000	(Tax base-2,000,000,000)* 0.25%+ 3,000,000	(Tax base-2,000,000,000)* 0.10%+ 1,000,000
>=3,000.000,000	<5,000,000,000	(Tax base-3,000,000,000)* 0.75%+ 7,500,000	(Tax base-3,000,000,000)* 0.50%+ 5,500,000	(Tax base-3,000,000,000)* 0.20%+ 2,000,000
>=5,000,000,000	Henceforth	(Tax base-5,000,000,000)* 1.15%+ 22,500,000	(Tax base-5,000,000,0000) *1.00%+ 15,500,000	(Tax base-5,000,000,000)* 0.40%+ 6,000,000

19.5 Tax uncertainties

The Company's income tax returns for the fiscal years 2016 and 2015 remain subject to acceptance and review by tax authorities. The Senior Management of Credivalores Crediservicios S.A.S. and its legal counsel believe that the amounts recorded as liabilities in the form of unpaid tax are sufficient to cover any claims that could arise. The tax return for 2016 will be presented in April 2017.

19.6 Annual Statement of Assets Held Abroad

Law 1739 of 2014 created an annual declaration of assets held abroad to be submitted by all those paying Income and Ancillary Taxes who are **obliged** to pay tax on (i) their global income; (ii) their equity held both at home and abroad; and (iii) assets held abroad.

The information required in order to identify the taxpayer as stipulated by the corresponding tax regulations is as follows:

- ✓ Discrimination of assets held by the Company abroad at January 1, 2015, the value of which shall exceed 3,580 TVA (Tax Value Units) (for 2015 101) , the value of the taxpayer's equity, the jurisdiction in which the assets are located and the nature and type of asset.
- ✓ Discrimination of assets held by the Company abroad at January 1, 2015, the value of which shall not exceed 3,580 TVA (Tax Value Units) in order to declare these in their aggregate along with the jurisdiction in which the assets are located and the nature and type of asset.

The tax bases corresponding to the assets held by the Company abroad at January 1, 2015, must also be stated and shall be based on the current tax legislation as well as Decree 2649 of 1993.

NOTE 20. EQUITY

Capital

CVCS objective is to safeguard its capacity to continue as a business enterprise and maintain a financial structure that optimizes the cost of capital and maximize returns for shareholders. The Company's capital structure encompasses and includes the subscribed capital, retained earnings and reserves.
Capital management objectives are met by managing the portfolio as authorized by law and maintaining a consistent pace of generating profits from its structural revenue (portfolio interests and returns on investments) which results in institutional strengthening and provides the Company an opportunity to maintain its dividend distribution policy among its shareholders.

For the reporting periods, CVCS indeed complied with the required minimum capital in the relation of solvency required by legal provisions and mandatory investments.

(Stated in millions of Colombian pesos)

Authorized, and Paid in Capital

CVCS's subscribed and paid capital as at December 31, 2017 and December 2016 was represented by 4.279.022 shares each year, each at a nominal price of 28,254.

Credivalores Crediservicios S.A.S.

Shareholder	December 31, 2017 Number of shares	%	December 31, 2016 Number of shares	%
Acon Consumer Finance Holdings S de RL	870.444	20,34%	870.444	23,42%
Crediholding S,A,S,	1.497.987	35,01%	1.497.987	40,31%
Lacrot Inversiones 2014 S,L,U	1.486.784	34,75%	923.665	24,86%
Acon Consumer Finance Holdings II S, L	184.167	4,30%	184.167	4,96%
Treasury shares	239.640	5,60%	239.640	6,45%
Total	**4.279.022**	**100%**	**3.715.903**	**100,00%**

	December 31	
	2017	**2016**
Number of authorized shares	4.700.000	4.700.000
Subscribed and paid shares	4.279.022	3.715.903
Nominal value	28.254	28.254
Subscribed and paid capital (nominal value)	120.899	104.989
Paid-in capital	58.442	20.842
Total capital plus premium	**179.341**	**125.831**

Reserves

Of the accounts that comprised the equity reserves as of December 31, 2017 and 2016 were constituted of the following:

	2017	**2016**
Legal reserve (1)	5.793	5.793
Occasional reserves:	21	21
Total Reserves	**5.814**	**5.814**

Dividends Declared

Dividends are declared and paid to shareholders on the basis of the previous year's net earnings. Earnings for 2016 were included as accumulated profits in the amount of 17.200

NET EARNINGS PER SHARE

The following is a breakdown of the basic earnings per share:

	December 31	
	2017	**2016**
Ordinary shares (a)	1.532.597	1.532.597
Preferred shares (a)	2.506.785	1.943.666
Repurchased treasury shares	239.640	239.640
Total earnings per share	**447**	**4.948**

(Stated in millions of Colombian pesos)

(a) The value of the shares at December 2017 and 2016 correspond to the total number of outstanding shares held by CVCS.

As per the Company´s bylaws, both common and preferred stock have the same decision power and rights, and the preference of those shares is given by its hierarchy in the payment of dividends at the moment declared by the Assembly and by the preferred right in the reimbursement in case of liquidation.

Year ended December 31, 2017

Share capital later stock buyback							
Name Entity	**Preference shares A**	**Preference shares B**	**Preference shares C**	**Treasury Shares**	**Common Shares**	**Total**	**%**
Acon Consumer Finance Holdings S de R.L.	835.834	-	-	-	34.610	870.444	20,34%
Crediholding S.A.S	-	-	-	-	1.497.987	1.497.987	35,01%
Lacrot Inversiones 2014 S.L.U.	-	923.665	563.119	-	-	1.486.784	34,75%
Acciones propias en cartera	-	-	-	239.640	-	239.640	5,60%
Acon Consumer Finance Holdings II, S.L.	-	184.167	-	-	-	184.167	4,30%
Totales	**835.834**	**1.107.832**	**563.119**	**239.640**	**1.532.597**	**4.279.022**	**100%**

Year ended December 31, 2016

Share capital later stock buyback						
Name Entity	**Preference shares A**	**Preference shares B**	**Treasury Shares**	**Common Shares**	**Total**	**%**
Acon Consumer Finance Holdings S de R.L.	835.834	-	-	34.610	870.444	23,42%
Crediholding S.A.S	-	-	-	1.497.987	1.497.987	40,31%
Lacrot Inversiones 2014 S.L.U.	-	923.665	-	-	923.665	24,86%
Acciones propias en cartera	-	-	239.640	-	239.640	6,45%
Acon Consumer Finance Holdings II, S.L.	-	184.167	-	-	184.167	4,96%
Totales	**835.834**	**1.107.832**	**239.640**	**1.532.597**	**3.715.903**	**100%**

NOTE 21. REVENUE

Below is a detail of the revenue for the years ended as of December 31, 2017 and 2016:

	2017	**2016**
Interests (21.1)	205.632	172.945
Commissions and fees (21.2)	84.233	60.666
From sales of portfolio (21.3)	-	13.526
Indemnities (21.4)	-	21.876
	289.865	**269.013**

21.2 Interest

	December 31	
	2017	**2016**
CrediUno interest	28.125	11.641
CrediPoliza interest	5.010	8.660
TuCrédito interest	28.388	30.205
TuCrédito transaction costs	(8.279)	(6.935)
CrediPoliza transaction costs	(895)	(846)
CrediUno transaction costs	(12.266)	(9.245)
TuCrédito fair value	12.687	(8.247)
Sub-total Consumer loans	**52.770**	**25.233**

(Stated in millions of Colombian pesos)

Microcredit interest	935	4.809
Microcredit loans transaction costs	(483)	(554)
Sub-total Microcredit	**452**	**4.255**
CrediUno late payment interest	605	393
CrediPoliza late payment interest	577	450
TuCrédito late payment interest	472	2.843
Consumer loan defaults	**1.654**	**3.686**
CrediYa late payment interest	206	620
Microcredit loan defaults	**206**	**620**
Financial returns	5.210	806
BTG Pactual Financial returns	12.052	5.327
Current interests, Free-standing Trust	116.846	133.019
Other income, Free-standing Trust	4.953	-
Current interests left off-balance	11.489	-
Other	**150.550**	**139.152**
Total Interests	**205.632**	**172.946**

21.2 Commissions and fees

	December 31	
	2017	**2016**
Department store income and credit card channels income	51	166
Shared financial consultancy fees	1.132	514
Financial Consultancy – Returns from Debtor life insurance	5.250	5.428
Financial Consultancy- Returns Voluntary insurance policies	2.825	3.313
Other financial consultancy	6	15
Internal commission	1.182	1.285
Collection fees	11.293	5.220
Microcredit SME's loan fees	100	1.088
Administration fee – credit card	55.771	39.427
Administration fee - life insurance plus	5.284	4.210
Brokerage Commission	849	-
Returned commission	490	-
	84.233	**60.666**

21.3 Due to the implementation of the new strategy in order to strengthen the own loan portfolio of the company management has restricted the sale of loans for the 2017. For this reason there is no profit related to sales as compared to the same period in 2016.

21.4 Indemnities

As of December 31, 2016, indemnities resulted primarily from the strategic partnership with Metlife for insurance alliance.

(Stated in millions of Colombian pesos)

NOTE 22. OTHER INCOME

At the end of each period, movements corresponded to:

	December 31	
	2017	**2016**
Partners and Brands Agreement	-	4.600
Other Income PA	-	3.915
Sickness Leave	45	97
Collection charges TuCrédito	388	98
Reimbursed claims Aval FGA	220	-
Provision Recovery	139	804
Certifications	82	1
Vendor Discount	5	5
Central consultation	-	17
Refund insurance	40	-
Other	38	16
	957	**9.553**

NOTE 23. OTHER EXPENSES

	December 31	
	2017	**2016**
Commissions	4.103	3.491
Legal expense	283	40
Fees	20.139	17.945
Taxes	15.445	15.223
Leases	3.787	3.531
Insurance	657	268
Maintenance	962	1.130
Adaptation and installation	148	412
Fines, penalties and awards	623	135
Janitorial and Secutiry services	577	749
Temporary Services	2.981	4.886
Publicity and advertising	3.931	4.620
Public services	3.431	3.258
Utilities	8	12
Travel expenses	1.315	1.169
Transport	1.391	1.255
Office supplies	776	2.315
Cost of representation	776	387
Technical assistance	12.758	12.179
Donations	11	11
Yields Invertors	1.048	2.778
Other	2.493	3.246
	77.643	**79.040**

(Stated in millions of Colombian pesos)

NOTE 24. NET FINANCIAL INCOME

	December 31	
	2017	**2016**
Financial income	2.375	852
Total Financial Income	**2.375**	**852**
Exchange rate differences	(7.887)	10.980
Forwards valuation	(6.518)	(14.615)
Total Financial Expense	**(14.405)**	**(3.635)**
Net Financial Income (expense)	**(12.030)**	**(2.783)**

NOTE 25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a. Commitments

Credit commitments

In the course of ordinary business, CVCS provides loan portfolio as guarantees to its funding sources, in which it irrevocably agrees to pay them in the event the client is unable to meet its obligations, with the same credit risk for loan portfolios.

Loan extension commitments represent unused portions of authorizations to extend credits as loans. With regard to the credit risk on commitments to extend lines of credit, CVCS is potentially exposed to losses in an amount equal to the total unused commitments, if the unused amount were to be withdrawn in its totality.

However, the amount of the loss is less than the total amount of the unused commitments because the majority of loan extension commitments are contingent once the client can maintain specific credit rating standards. CVCS monitors the maturity dates of those credit limit commitments because long-term commitments have a higher credit risk than short-term commitments.

The following is a breakdown of unused lines of credit commitments and guarantees at December 31, 2017 and December 31, 2016:

	2017	**2016**
Unpaid approved credits	320.137	275.493

Contingent assets

At the end of December 31 2017, the Company has a Guarantee with the Fondo de Garantías de Antioqua – FGA-, which has a value of $ 1.205 Million in accordance with the agreement's policies.

NOTE 26. RELATED PARTIES

The Company's Board of Directors and Senior Management, in their role as governing bodies, are fully aware of the responsibility related to managing the various risks to which the Company is exposed; likewise, they are fully aware of the Company’s processes and business structure so as to be able to provide support and adequate monitoring and follow-up.

(Stated in millions of Colombian pesos)

The Company's related parties are as follows:

1. Shareholders with interests, a controlling stake or a joint stake of the Company, or significant influence over CVCS.

2. Members of the Board of Directors: Members of the Board of Directors (principals and alternates, along with their related parts).

3. Key management personnel: includes the Company CEO and other C-level Officers, who are those who participate in the planning, direction and control of the Company.

4. Affiliates: Companies in which CVCS has significant influence, which is generally considered to be a share of between 20 and 50% of their capital.

The most representative balances as at December 31, 2017 and December 31, 2016 with related parties are including in the following charts, with headings for definitions of the related parties recorded in the previous sections.

	December 2017		**December 2016**	
	Shareholders	**Members of the Board of Directors (a)**	**Shareholders**	**Members of the Board of Directors (a)**
Accounts receivable	1.824	-	1.460	-
Accounts payable	-	58	59.951	155
Operating expenses	5.089	280	2.160	221

Compensation received by Key Management Personnel is comprised of the following:

	December 31	
Item	**2017**	**2016**
Salaries	5.603	3.536
Short term employee benefits	756	760
Total	**6.359**	**4.296**

a. Members of the Board of Directors (principals and alternates, along with their related parts) as of December 31, 2017.

Directors

No.	Director	Alternate
1	José Miguel Knoell Ferrada	Mathias Boccia Cristiano
2	Juan Carlos Restrepo Acuña	No appointment
3	Lorena Margarita Cárdenas Costas	No appointment
4	Rony Doron Seinjet	No appointment
5	Caicedo Pachon Maria Marcela	No appointment
6	Adrián Gustavo Ferrado	Carlos Manuel Ramón
7	Lawrence Robert Rauch	No appointment

(Stated in millions of Colombian pesos)

Legal Representatives

No.	Representative
Manager	Eliana Andrea Erazo Restrepo
Alternate	Liliana Arango Salazar

NOTE 27. EVENTS THAT OCCURRED AFTER THE REPORTED PERIOD

On February 14, 2018 Credivalores reopened these Notes for an additional amount of US$75,000,000, taking the total issued amount to US$325,000,000. The Notes were issued at a yield of 8.625% and a price of 104.079%. The proceeds from this issuance will be used to refinance existing unsecured indebtedness, and the remainder, if any, for general corporate purposes.

Hedging Operations

Credivalores' activities are exposed to financial risks including: liquidity risk, foreign currency risk and interest rate risks. Therefore, the Administration and the Board of Directors have approved and implemented a risk management policy to mitigate the negative effects of uncertainty and volatility of financial markets in the financial results of the Company. The Risk Management Policy establishes the use of a wide variety of financial derivatives to hedge the risks inherent to fluctuations in the exchange rate and the interest rate of financial obligations in a currency other than Colombian Pesos in the financial statements of the Company.

According to the directives of the risk management policy, the following is the summary of derivatives instruments in place as of January, 2018 to hedge the foreign currency risk and the interest rate risk of the outstanding Notes due July 2022.

	2018						
	Notional Hedged			Annual Interest Rate			
Type of Instrument	Credivalores Receives	Credivalores Pays	Settlement	Effective Date	Termination Date	Credivalores Receives	Credivalores Pays
Cross Currency Swap	USD 135.000.000	COP 375.722.550.000	Non-deliverable	27/01/2018	27/072020	9,75%	IBR+ 8,89%
Cross Currency Swap	USD 15.000.000	COP 41.746.950.000	Non-deliverable	27/01/2018	27/07/2020	9,75%	IBR+ 8,89%
Cross Currency Swap	USD 100.000.000	COP 304.096.970.083	Non-deliverable	27/01/2018	27/07/2020	9,75%	IBR+ 8,89%