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

Periods ended December 31, 2018 and December 31, 2017

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, 2018		December 31, 2017 Restated		January 1, 2017 Restated
Assets							
Cash and cash equivalents	9	$	195.058	$	121.948	$	122.965
Financial Assets at fair value through profit or lost							
Equity Instruments	10		20.034		21.187		20.958
Derivatives Instruments	16		164.486		773		818
Loan portfolio			18.337		17.065		4.380
Total financial assets at fair value			**202.857**		**39.025**		**26.156**
Financial Assets at amortized cost							
Consumer loans			1.299.476		1.166.501		1.044.230
Microcredit loans			6.461		14.250		14.835
Impairment			(163.413)		(128.080)		(105.191)
Total Loan portfolio, net	12		**1.142.524**		**1.052.671**		**953.874**
Accounts receivable, net	13		330.651		183.511		189.482
Total Financial Assets at amortized cost			**1.473.175**		**1.236.182**		**1.143.356**
Investments in Associates and Affiliates	11		10.366		37.485		9.408
Current tax assets			12.059		8.191		2.799
Deferred tax assets, net	20		14.433		13.042		13.982
Property, plant and equipment, net	14		788		913		1.017
Intangible assets other than goodwill, net	15		77.642		62.862		66.646
Total assets		$	**1.986.378**	$	**1.519.648**	$	**1.386.329**
Liabilities and equity							
Liabilities:							
Financial Liabilities at fair value							
Derivative instruments	16		26.762		17.686		16.958
Total Financial Liabilities at fair value			**26.762**		**17.686**		**16.958**
Financial Liabilities At amortized cost							
Financial obligations	17		1.564.108		1.167.146		1.084.974
Total Financial Liabilities At amortized cost			**1.564.108**		**1.167.146**		**1.084.974**
Employee benefits provisions	18		1.096		1.154		1.198
Other provisions	19		343		302		1.021
Accounts payable			95.897		60.444		47.633
Current tax liabilities	20		2.197		1.100		4.503
Other liabilities	21		46.298		6.983		3.107
Total liabilities		$	**1.736.701**	$	**1.254.815**	$	**1.159.394**
Equity:	23						
Share capital			123.922		120.899		104.989
Reserves			5.814		5.814		5.814
Additional paid-in capital			58.442		58.442		20.842
Other Comprehensive Income (OCI)	23-1		1.359		(20.165)		(3.744)
Retained earnings			52.788		99.034		99.034
Earnings for the period			7.352		809		-
Total equity			**249.677**		**264.833**		**226.935**
Total liabilities and equity		$	**1.986.378**	$	**1.519.648**		**1.386.329**

Notes accompanying are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Stated in millions of Colombian pesos)

	Notes	January 1, 2018 through December 31, 2018	January 1, 2017 through December 31, 2017
		(In millions of pesos, except Net income per share)	
Interest Income and similar	23	**340.948**	**289.865**
Financial costs interest	17	(160.957)	(146.686)
Net Interest and similars		**179.991**	**143.179**
Impairment of financial assets loan portfolio	12	(47.432)	(22.889)
Restructured loans		-	(2.571)
Impairment of other accounts receivable	12	(6.114)	(3.329)
Gross Financial Margin		**126.445**	**114.390**
SG&A			
Other expenses			
Employee Benefits		(17.623)	(18.414)
Expense for depreciation and amortization	14 y 15	(7.409)	(5.230)
Other	25	(72.607)	(77.645)
Total Other expenses		**(97.639)**	**(101.289)**
Net operating Income		**28.806**	**13.101**
Financial income			
Other Income recoveries		309	904
Financial income		2.215	1.472
Exchange rate differences		8.638	(7.886)
Financial Income		**11.162**	**(5.510)**
Forward valuation		(28.943)	(6.518)
Financial expense		**(28.943)**	**(6.518)**
Net Financial income (expense)	26	**(17.781)**	**(12.028)**
Other income	23	**908**	**958**
Net Income before income tax		**11.933**	**2.031**
Income tax	20	(4.581)	(1.222)
Net income for the period		**7.352**	**809**
Net earnings per share		**1.773**	**200**

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, 2018 AND 2017
(Stated in millions of Colombian pesos)

	December 31, 2018	December 31, 2017
Net income for the year	**7.352**	**809**
Other comprehensive income		
Items that may be or are reclassified to profit or loss		
Hedging accounting:		
Unrealized gains (losses) from hedging cash flow	**21.523**	**(11.600)**
Valuation financial derivatives Forwards	10.670	(14.953)
Valuation financial derivatives Cross Currency Swap	11.815	-
Valuation financial derivatives Options	(3.379)	-
Actions	(761)	943
Income tax	3.178	2.410
Total other comprehensive income for the period	**21.523**	**(11.600)**
Total other comprehensive income	**28.873**	**(10.791)**

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, 2018 AND 2017
(Stated in millions of Colombian pesos)

	Share capital	Additional paid-in capital	Reserves	Other Comprehensive Income (OCI)	Retained earnings	Earnings for the period	Total
Balances as of January 1, 2017 before Restatement	**104.989**	**20.842**	**5.814**	**(3.744)**	**44.022**	**17.200**	**189.123**
Restatement of Previous Years (See Note 2)	-	-	-	-	37.812	-	37.812
Balance held at January 1, 2017	**104.989**	**20.842**	**5.814**	**(3.744)**	**81.834**	**17.200**	**226.935**
Appropriation of earnings	-	-	-	-	17.200	(17.200)	-
Capitalization	15.910	37.600	-	-	-	-	53.510
Increases (decrease) other	-	-	-	(16.421)	-	-	(16.421)
Year-end net income	-	-	-	-	-	809	809
Balance held at December 31, 2017	**120.899**	**58.442**	**5.814**	**(20.165)**	**99.034**	**809**	**264.833**
Appropriation of earnings	-	-	-	-	809	(809)	-
Capitalization	3.023	-	-	-	-	-	3.023
Increases (decrease) other	-	-	-	21.524	(47.055)	-	(25.531)
Year-end net income	-	-	-	-	-	7.352	7.352
Balance held at December 31, 2018	**123.922**	**58.442**	**5.814**	**1.359**	**52.788**	**7.352**	**249.677**

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, 2018 AND 2017
(Stated in millions of Colombian pesos)

	31 de diciembre	
	2018	**2017**
Cash flows from operating activities		
Net income before taxes	11.933	2.031
Reconciliation of net income before taxes and net cash provided by (used in) operating activities:		
Depreciation of tangible assets	388	765
Amortization of intangible assets	7.021	4.465
Allowance for impairment of loans	47.975	69.883
Recovery deterioration for loan portfolio	(543)	(44.423)
Impairment accounts receivable	6.114	3.329
Fair value adjustments to derivative financial instruments	(138.754)	(20.307)
Fair value adjustments to financial assets	(1.272)	(12.685)
Foreign exchange gains (losses)	(40)	47
Adjust property, plant and equipment	1.327	0
Interest caused	150.938	84.625
Income tax	4.581	(2.692)
Income tax payment	(6.921)	(10.608)
Changes in operating assets and liabilities:		
Decrease (increase) in loans	(184.340)	(121.686)
Decrease (increase) in accounts receivables	(153.254)	2.642
Increase (decrease) in accounts payable	35.452	12.812
Increase (decrease) in employee benefit	(58)	(44)
Increase (decrease) in provisions	41	(719)
Increase (decrease) in other liabilities	39.315	3.876
Net cash provided by (used in) operating activities	**(180.097)**	**(23.308)**
Cash flows from investing activities:		
Decrease (increase) in investments	27.551	(27.426)
Acquisition of own - use property plant and equipment	(1.590)	(661)
Additions of other intangible assets	(21.801)	(679)
Net cash used in investing activities	**4.160**	**(28.766)**
Cash flows from financing activities:		
Issuance of financial obligations	927.162	1.538.506
Capitalization	3.023	53.510
Payment of financial obligations	(681.138)	(1.540.958)
Net cash provided by financing activities	**249.047**	**51.058**
(Decrease) Increase in cash and cash equivalents	**73.109**	**(1.016)**
Cash and cash equivalents at beginning of year	121.948	122.964
Cash and cash equivalents at end of year	**195.058**	**121.948**

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 Superintendence 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 this 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 Superintendence 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 the month of August 2018, a capitalization of $ 3,023 million was made with the investor Lacrot Inversiones.

NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS DUE TO CORRECTION IN APPLICATION OF BUSINESS COMBINATION

Credivalores prepares its consolidated financial statements in accordance with the Financial Reporting and Accounting Standards generally accepted in Colombia (NCIF, for the Spanish original), set forth in Decree 2420/2015, as amended by Decrees 2496/2015, 2131/2016, 2170/2017 and 2483/2018. These accounting and financial reporting standards are based on the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), in the versions accepted by Colombia in the aforementioned Decrees.

According to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, restatement is required for omissions or misstatements in the entity's financial statements for one or more prior periods, on which information was available for those periods and the entity could reasonably have been expected to obtain and take into consideration, but for some voluntary or involuntary reason failed to use such information.
Financial statements must be restated if they provide more reliable and relevant information of the effects of transactions, other events or condition that affect the entity's financial position, financial performance or cash flows. Such errors may include:

a. Mathematical mistakes, including sums, present value calculations, use of financial formulas, etc.
b. Errors in application of accounting policies, applying criteria that differs from the criteria allowed by an IFRS.
c. Failure to notice economic facts that occurred in a period (a change in a tax law that changes the income tax rate)
d. Misinterpretation of economic facts
e. Fraud (including frauds discovered in subsequent periods, but which occurred in a previous reporting period).

According to IAS 8 paragraph 42, the error must be corrected "retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred; or restating the opening balances of assets, liabilities and equity for the earliest prior period presented."

Background

In 2015 the Company acquired the business unit CREDIUNO-AVANCE for COP 23,800 million. The acquisition was performed at an assigned purchase price, which was effectively paid. Consequently, the owner of the business unit CREDIUNO and CREDIUNO AVANCES is Credivalores Crediservicios SAS. However, at the time of the acquisition, the full amount was recorded to the brand CrediUno Avance, failing to apply IFRS 3 – Business Combinations by not considering the existence of other significant assets whose value could be reliably estimated, but was not recognized at the time and was consequently excluded from recognition and measurement of goodwill or a gain from a bargain purchase, IFRS 3 paragraphs 34 to 36, such as:

a. Databases, intangible assets related to customers [IFRS 3 (2008). EI23- EI31] A customer list includes information on customers, such as their names and contact information. It may also be a database with other information about customers, such as their ordering history and demographic data. Customer lists do not usually arise from contractual or legal rights. However, such lists are often licensed or exchanged. Therefore, a customer list acquired in a business combination may meet the separability criterion.

b. Contracts with exclusivity: IFRS 3 (2008) EI34- EI38] Intangible assets based on contracts represent the value of the rights arising from the contractual agreements.

As a result of such transaction, the Company reinforces its leadership position in population sectors not covered by banking services in Colombia. The combination of the Company's infrastructure with the infrastructure for the Public Services Companies (ESPs, for the original in Spanish) for the product portfolio and the commercial network enabled optimization of product penetration in the mobile and fixed segments for both customer types. Additionally, synergies were achieved in the reduction of operating expenses and lower investment in transmission networks by providing economies of scale in terms of installation and infrastructure expenses, which would otherwise be sometimes duplicated.

The CREDIUNO and CREDIUNO AVANCES business unit focuses on placement and management of credit card consumer loans. Their business model has been making successful progress, also supported by the brand, market knowledge and know-how, and a commercial network to promote and operate their services (other intangible assets).

When this transaction was recognized, the calculation of the fair value of the consideration paid, assets and liabilities required for recognition had not been finalized as of the date on which the 2015 financial statements were issued. The full transfer took place in 2016, but an adjustment in other assets in the amount of COP 38,751 was not made within the measurement period established by IFRS standard No. 3 - Business Combinations.

During the measurement period (2016), the Company failed to recognize the adjustment of the amount provisionally recorded, as if the business combination had been completed as of the acquisition date. Due to the above, application is given to the provisions of paragraph 50 of IFRS 3: "After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors." The Company has decided to perform the procedures required to establish the fair values, perform any relevant adjustments and restate the financial statements.

Consequently, on the basis of the provisional values, which will be assessed for 2017 by an independent expert, appropriate retrospective adjustments will be recorded on the provisional amounts recorded on the acquisition date, in order to reflect the new information obtained on facts and circumstances that existed as of the date of the acquisition and which, if they had been known, would have affected the measurements of the amounts recognized on such date.

(Stated in millions of Colombian pesos)

The following are the Assets that were recognized and their respective amortizations:

Item	**Value**	**Amortization 2016**	**End balance 2016**	**Amortization 2017**	**End balance 2017**
Exclusivity contracts	16,044	182	15,862	240	15,622
Databases	22,707	757	21,950	757	21,193
Total	**38,751**	**939**	**37,812**	**997**	**36,815**

The following is a breakdown of the accounts affected by the retrospective application of the accounting change described earlier in the statement of financial position at January 1, 2017 and December 31, 2017 and in the Statement of Comprehensive Income at December 31, 2017:

Statement of Financial Position

	Previously reported balance **January 1, 2017**	Adjustment made	Restated balances **January 1, 2017**	Movement 2017	Adjustment made in 2017	Restated balances **December 31, 2017**
Intangible assets other than goodwill, net	24,037	37,813	61,850	(2,671)	(997)	58,182
Total restated asset balances	**24,037**	**37,813**	**61,850**	**(2,671)**	**- 997**	**58,182**
Retained earnings from previous periods	61,222	(37,812)	99,034	-	-	99,034
Current period earnings	-	-	-	1,806	(997)	809
Total restated balances in equity	**61,222**	**(37,812)**	**99,034**	**1,806**	**(997)**	**99,843**

Income Statement

Depreciation and amortization expenses				2,671	997	3,668
Pre-tax income (loss)				3,027	(997)	2,030
Current period net income				1,806	(997)	809

NOTE 3. BASIS FOR PREPARATION OF THE INTERIM FINANCIAL STATEMENTS AND SUMMARY OF THE MAIN ACCOUNTING POLICIES

3.1 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, 2018 and 2017, are as follows.

3.2 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.

3.3 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 4. 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.

In the preparation of interim financial statements, the management conducted trials important in the application of accounting policies in Credivalores Crediservicios S.A.S, the main sources of uncertainty were the same as those applied to the States Financial for the years ended 31 December 2017 and 2016, with the exception of the change made by the implementation of IFRS 9 financial instruments, effective for annual periods starting from 1 January 2018. Credivalores not early adopted IFRS 9 criteria.

4.1 IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 - financial instruments in lieu of the IAS 39 - financial instruments: recognition and measurement for the annual periods subsequent to January 1, 2018.

The company not restated comparative information for 2017 of the scope of the IFRS 9 financial instruments. Therefore, comparative information for 2017 is reported according to IAS 39 and is not comparable to the information presented by 2018. The differences arising from the adoption of IFRS 9 – financial instruments have been recognized directly in earnings accumulated to 1 January 2018.

4.1.1 METHODOLOGY OF DETERIORATION

IFRS 9 – financial instruments pose significant changes in the assessment of the impairment of financial instruments and, therefore, its associated risk. In particular, the standard proposes a new approach that pursues the identification of the significant increase of the risk of credit (SIRC) in an instrument before the identification of the objective evidence of impairment (OEI).

From the above, the company has advanced in the construction of quantitative and qualitative criteria to identify the significant increase in the credit risk of an instrument. Although a quantitative criterion as the main principle is used to evaluate the (SIRC), also qualitative criteria have been developed if the quantitative criterion may not be applied or used in specific financial assets.

Impairment related requirements are applied to financial assets measured at amortized cost and fair value with changes in other comprehensive income (FVOCI) whose business model remains to collect (contractual cash flows) and sell.

The model of credit losses changes from a model of credit losses incurred to a model of expected credit losses, which considered a prospective nature of the tolerances of loss for instruments based on the expectations of future behavior.

According to the application of the rule, follows its impact to March 31, 2018:

Below are listed the value of the credit portfolio to IFRS 9:

Value in millions of pesos	TU CREDIT	CREDIUNO	TIGO	CREDIPOLIZA	MICROCREDIT	Total general
CAPITAL BALANCE	435,688	421,964	64,630	110,846	5,354	1,038,482

Detail by portfolio

Impact on the accumulated value of provisions at the end of March 31, 2018.

Product	Clearance	Credit card	Credipoliza	Tigo	Microcredit	Total
Impact of adopting IFRS 9	10,356	34,564	382	1,043	710	47,055

(Stated in millions of Colombian pesos)

Main sources of uncertainty

The central concept of impairment under the new IFRS 9 impairment model is based on a dual measurement approach that takes into consideration the current level of expected impairment of each loan, compared to initial recognition, and requires recognition of impairment over the difference between expected credit losses in 12 months, if no significant changes in risk have occurred since initial recognition; otherwise, a credit loss amount is recognized over the expected life of the financial instrument.

This model is complemented with stress analysis and scenarios with variables that are not controlled by the Company, such as macroeconomic factors. To this end, the Company has developed a non-lineal statistical model (log–log model) that associates the level of overdue payments of the loan portfolio of Credivalores products with a set of available macroeconomic variables. The model indicates that the macroeconomic variables most closely correlated with performance of the Credivalores portfolio are: the unemployment rate, the maximum allowable interest rate, the change in the CPI and the change in GDP.
The resulting model enables us to incorporate forecasts on the expected future behavior of these macroeconomic variables in order to calculate expected loan portfolio losses. Such effect has been quantified and included in the provisions recorded by the Company. It also enables performing sensitivity analysis on the performance of these variables, in face of uncertainty, on the performance of our portfolio. This information is presented below:

Sensitivity analysis under two assumed scenarios:

- Pessimistic scenario: All the macroeconomic variables that are correlated with the portfolio move in a negative direction by one standard deviation.
- Optimistic scenario: All the macroeconomic variables that are correlated with the portfolio move in a positive direction by one standard deviation.

December 31, 2018			
	Sensitivity Sensitivity	**Optimistic Optimistic**	**Pessimistic**
Change in provisions	1 standard deviation	(COP 10,286.0)	COP 10,778.9
Sensitivity over total portfolio		-0.89%	0.93%
Sensitivity over provision stock		-6.29%	6.6%

2018 Adoption			
	Sensitivity	**Optimistic**	**Pessimistic**
Change in provisions	1 standard deviation	(COP 9,999.5)	COP 10,478.8

4.2 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.

Financial Assets at fair value

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.

Financial Assets at amortized cost (*)

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.

4.3 Deferred income tax

The recoverability of deferred assets is closely linked to the performance of the loan portfolio, given that it accounts for most of the Deferred Tax recoverable in future years; they also depend on the financial sustainability and permanence in the market of CVCS (going concern). Additionally, CVCS has redefined its loan placement guidelines, which have enabled it to increase the sales of services associated with each product, aimed at an efficient management of the accounts receivable from customers and improving liquidity, while satisfying the necessary requirements to fulfill the Company’s obligations and commitments.

Credit and collections procedures have been established for the following years, which are clearly set out at the time the credits are sold, which maximize sales potential to customers and lead to market stability.

Given the above effects, the deferred tax assets may be deductible in line with changes in the credit rating of the loan portfolio, providing an economic benefit that is reflected in its tax effects. In this way, the forecast of taxable income enables offsetting the surplus tax payment on presumed income recorded in the current year, 2018.

Additionally, the tax reform set forth in Law 1819/2016 increases the term for offsetting corporate tax losses for up to twelve (12) years.

NOTE 5. SUMMARY OF THE MAIN ACCOUNTING POLICIES

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

5.1 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%

5.2.1 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.

5.2.2 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 31, 2018 and 2017, the (COP/USD) exchange rates certified by the Superintendence of Finance were 3,249.75 and 2,984.00 per U.S. $1 respectively.

5.3 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.

5.4 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).

5.4.2 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)

5.4.2.1 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.

(Stated in millions of Colombian pesos)

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.

5.4.2.2 Financial assets at amortized cost

Financial assets are classified at amortized cost only if the asset is kept within a business model whose objective is to maintain it to collect contractual cash flows and the contractual terms of the value give rise at specific dates to cash flows that are only payments of cash. capital and interest on the outstanding principal capital; Interest income is recognized using the effective interest rate method.

The effective interest method is a method used to calculate the amortized cost of an asset and allocate the income or cost in interest during the relevant period. The effective interest rate is the discount rate at which the present value of estimated future cash payments or those received over the expected life of the financial instrument, or, as appropriate, in a shorter period of time, is equal to the net book value in the beginning. To calculate the effective interest rate, the Company estimates the cash flows taking into account all the contractual terms of the financial instrument, including the transaction costs and the premiums granted minus the commissions and discounts, but without considering the future credit losses.

The Company classifies the following financial instruments at amortized cost:

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	36,9%
	Amortized cost	> 91 days subsequent to date of disbursement	Equivalent indexed rate	Current and past-due payroll loan portfolio	
Credipoliza	Amortized cost	Portfolio	Equivalent indexed rate	Financing for insurance policies	5,1%
Crediuno	Amortized cost	Portfolio	Equivalent indexed rate	Credit card	58,0%

5.4.3 Impairment

Under the guidelines of the accounting standard IFRS 9, Credivalores was changing its model of impairment loss incurred to expected loss, which is set based on a classification of operations in three stages:

- Stage 1-assets without significant deterioration or in normal situation.
- Stage 2-assets with a significant increase.
- Stage 3-assets with objective evidence of impairment.

The fundamental concept of the new model is based on an approach of dual measurement, depending on the Stage of the financial instrument classification: for Stage 1 damage is equal to the credit losses expected at 12 months, to stage 2 and 3 is equal to the credit losses expected lifetime. The following figure outlines the criteria of the standard.

For loss lifetime of the asset is used the same methodology of credit loss expected for a year, but instead of covering only the first year, calculated on the expected life of the contract including extension of the instrument options.

For the calculation of the expected loss of clearance and credit card products Credivalores has decided to use the depreciation Granular approach, considering the following aspects:

- The exhibition and the corresponding risk parameters are calculated individually for each period.
- Intended that the exhibition and the corresponding risk parameters are consistent within each period but may vary between periods.
- The estimate of the EL is individual per period.
- 12 months EL and EL calculations in life, are made by adding the individual EL for each respective risk horizon (one year, lifetime).
- Fixed according to its amortization payment frequency: monthly, quarterly, semi-annual, annual, among others.
- The amortization approach granular capture the dynamic behavior of the parameters of risk in a high granularity (more detailed).

5.4.4 Impairment of non-financial assets

At each presentation date, Credivalores Crediservicios S.A.S. it reviews the carrying amounts of its property, plants and equipment and its intangible assets, in order to determine if there are indications of impairment and if there are any, the recoverable amount of the assets is estimated (whichever is greater between fair value and cost less the costs of disposal and the value of use). If the carrying amount exceeds the recoverable value, an adjustment is made so that the carrying amount decreases to the recoverable value, modifying the future depreciation charges in accordance with the remaining useful life

5.5 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.

5.5.1 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.

5.6 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.

5.7 Leases

5.7.1 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.

5.8 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.

5.9. 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
Exclusive contracts	1 to 15 years	Zero	Gradient according to Income Associated with contracts
Databases	30 years	Zero	Straight line

5.10. 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 regards 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.

5.10.1 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.

5.11 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.

5.12 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.

5.12.1 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.

5.12.2 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.

5.13 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.

5.13.1 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.

5.14 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.

5.14.1 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.

5.14.2 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).

5.15 Revenues

5.15.1 Revenues from interest and commissions

Revenues from ordinary activities are increases in economic benefits during a period that are generated through performance of ordinary activities and/or other revenues of CREDIVALORES that increase equity.

Revenues are recognized:

- When services have been provided and/or when the risks and benefits associated with the sold goods have been transferred. When the service is provided within the same reporting period, it is not necessary to record the level of progress, and instead 100% of the revenues are recorded in the same period.
- When it is probable that economic benefits associated with the activity will be received.
- When it is possible to reliably establish their amount.

- The value of revenues is normally determined by means of an agreement between the Company and a third party. They are measured at the fair value of the consideration received or receivable, taking into account any discount, bonus or rebate provided by the Company.

As set forth in IFRS 15, Credivalores uses the following approach to establish the classification, recognition and measurement of revenues from ordinary activities:

1. Identify the contracts with customers.
2. Identify the performance obligations associated with the contracts.
3. Establish the transaction price.
4. Assign the transaction price to each performance obligation identified.
5. Recognize revenues when Credivalores satisfies the performance obligations by means of transfer to the client of control over the goods and the services or the supply to satisfaction of the promised services.

The following tables show the different activities that the Company carries out:

Type of transaction	Description	IFRS standard
Financial interest on loans		
Crediuno	Interest on the Crediuno line of credit	**IFRS 9**
Credipoliza	Interest on the Credipoliza line of credit	
Tucredito	Interest on the Crediuno line of credit	
Tigo	Interest on the Tigo line of credit.	
Commissions		
Financial consultancy fees	Credit study fees	**IFRS 9**
Insurance returns	Insurance sales commissions upon placing loans.	
Chain store commissions	Brokerage and channel (chain store) commissions.	
Collection and handling fees	Fees for collections processes through legal proceedings.	
Internal commission	Internal commission generated by intermediation channels.	
SME commission	Deferred commission on placement of loans under the Micro-Credit line	
FEE	Fee for handling the credit card, advance payments and offsetting through the channels of the Crediuno credit line.	
Brokerage fee	It is the brokerage fee charged in the contract signed with FGA.	**IFRS 15**
Management fees		
Crediuno	Management and handling fees for the Crediuno line.	**IFRS 9**
Payroll deduction loans	Management fees and disbursement fees for the Payroll credit line.	
Credipoliza	Administration and handling fees for the Credipoliza line.	
Plus life insurance	Management fee on the Plus life insurance policy of the Crediuno line.	
Discount transactions		

(Stated in millions of Colombian pesos)

Loan portfolio sales	Corresponding to sales premiums from loan portfolio sales.	**IFRS 9**
	Financial Instruments	
Derivatives	Revenues from valuation of derivatives.	**IFRS 9**
Financial returns	Financial returns on Investments in Mutual Funds.	
Currency	Gain from re-expression of exchange rate differences	
	Royalties	
Use of trademarks	Royalties for using trademarks such as "Crediservicios".	**IFRS 15**
	Dividends	
Dividends	Dividends are received from companies in which an equity interest of less than 25% is held (companies that are not controlled and over which no significant influence is exercised)	**IFRS 9**

5.15.2 Revenues from ordinary activities

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

5.15.2.1 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.

5.16 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 6 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

6.1. New standards, amendments and interpretations included in the accepted accounting principles in Colombia, application of which must be assessed starting on January 1, 2019, though early adoption is permitted.

Decree 2170 of December/2017 included in the financial reporting regulatory technical framework a new standard issued by the International Accounting Standards Board (IASB), to be applied prospectively starting on January 1, 2019, though early adoption is permitted.

The following is the impact assessment of this new standard, according to the analysis performed by the Company.

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.

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

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.

The key principles of IFRS 17 are that an entity:

a. Identify as insurance contracts those according to which the entity accepts a significant insurance risk from the other party (the holder of the insurance policy), agreeing to compensate the holder of the insurance policy if an uncertain future event occurs (the insured event) that affects you adversely.

b. It will separate the implicit derivatives that are specified, the different investment components and the performance obligations different from the insurance contracts.

c. Divide the contracts into groups that you will recognize and measure.

d. Recognize and measure groups of insurance contracts for: (i) A present value adjusted for the risk of future cash flows (cash flows from compliance), which incorporates all available information on the cash flows from compliance, in a way that is consistent with observable market information; more (if this value is a liability) or less (if this value is an asset), or (ii) An amount that represents the non-accumulated (accrued) gain in the group of contracts (the contractual service margin).

e. It will recognize the profit of a group of insurance contracts throughout the period in which the entity provides the insurance coverage and as the entity releases the risk. If a group of contracts contains or becomes a producer of losses, an entity will immediately recognize such losses.

f. It will present separately the revenue from ordinary activities for insurance, the expenses of the insurance service and the expenses or financial income for insurance.

g. It will disclose information to allow users of financial statements to evaluate the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. To this end, an entity shall disclose quantitative and qualitative information on: (i) the amounts recognized in its financial statements from insurance contracts; (ii) significant judgments and changes in those judgments, made in applying the Standard; and (iii) the nature and extent of the risks of the contracts within the scope of this Standard.

The Company does not expect impacts from this rule, taking into account that it has not identified that it develops insurance contracts, in any case detailed analyzes are being carried out.

IFRIC 23 Uncertainty regarding the Treatment of Income Taxes

IFRIC 23 was issued in May 2017, this Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty regarding the treatment of income tax. In this circumstance, an entity recognizes and measures its asset or liability for deferred or current taxes by applying the requirements of IAS 12 on the basis of taxable profit (tax loss), tax bases, unused fiscal losses, unused tax credits and tax rates determined by applying this Interpretation.

The Company will evaluate the potential impacts of this interpretation in its financial statements, without having identified situations that may require changes in the financial statements.

NOTE 7. 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.

(Stated in millions of Colombian pesos)

- 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.

7.1 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 of December 31, 2018 and December 31, 2017, on a recurring basis.

	December 31,	
	2018	2017
ASSETS	**Level 2**	**Level 2**
Investments in equity instruments	20.034	21.187
Hedging derivatives		
Currency forward	13.518	773
Options	52.774	-
Cross Currency Swap	98.194	-
Consumer		
Payroll deduction loans	18.227	17.065
Total fair value recurring assets	**202.857**	**39.025**
LIABILITIES		
Hedging derivatives		
Hedging Forwards	-	17.686
Trading Forwards	26.762	-
Cross Currency Swap	-	-
Total fair value recurring liabilities	**26.762**	**17.686**

7.2 Fair value determination

The methodology applicable to instruments for Credivalores is:

7.2.1 **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.

7.2.2 **Swap Valuation:** the reasonable value of the derivative comes from an internal model. The valuations of the Interest Rate Swaps (IRS) and the Cross Currency Swaps (CCS) are performed assuming a long and a short position on a bond; including in each case the principal of the operation. For the projection and discount of the cash flows we use current rates, to calculate the reasonable value of the derivative financial instrument.

7.2.4 **Option Valuation:** The reasonable value of the derivative comes from an internal model. The valuation of an option on its expiry date is the maximum between the premium and the difference between the exercise price and the spot price. For the projection and discount of the cash flows we use the current rates, to calculate the reasonable value of the derivative financial instrument.

7.2.5 **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

7.2.5 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		
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	

	Valuation technique	Significant inputs (1)
		- Unit value

7.2.6 Derivative financial instruments

Credivalores defined Level 2 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
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

7.3 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:

- **Forward Instruments**

	December 31	
Variables	**2018**	**2017**
	Range	**Range**
Tasa Representativa del Mercado (TRM)	Max. 3,289.69 - Min. 2,705.34	Max. 3,092.65 - Min. 2,837.90

(Stated in millions of Colombian pesos)

Devaluation Rate (in Pesos)		
Daily Fwd Curve USDCOP (30 days)	4.77 - 2.04	11.85 - 13.05
Daily Fwd Curve USDCOP (60 days)	8.89 - 5.51	23.12 - 24.23
Daily Fwd Curve USDCOP (90 days)	13.04 - 9.92	33.16 - 35.25
Daily Fwd Curve USDCOP (180 days)	24.35 - 24.48	64.65 - 67.91
Daily Fwd Curve USDCOP (360 days)	50.75 - 51.87	124.15 - 134.27
Discount Rate (in basis points)		
Daily SwapCC Curve IBR (30 days)	4.12% - 4.19%	5.40% - 6.47%
Daily SwapCC Curve IBR (60 days)	4.13% - 4.14%	5.31% - 6.29%
Daily SwapCC Curve IBR (90 days)	4.14% - 4.08%	5.22% - 6.12%
Daily SwapCC Curve IBR (180 days)	4.19% - 4.04%	5.18% - 5.87%
Daily SwapCC Curve IBR (360 days)	4.39% - 4.05%	5.03% - 5.57%

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. 2018	15.757	(23.710)
December 31. 2017	23.827	(62.707)

- **Cross Currency Swap**

Variables	**December 31 2018**
	Range
Tasa Representativa del Mercado (TRM)	Max. 3,289.69 - Min. 2,705.34
Devaluation Rate (in Pesos)	
Daily SwapCC Curve IBR (30 days)	4.12% - 4.19%
Daily SwapCC Curve IBR (60 days)	4.13% - 4.14%
Daily SwapCC Curve IBR (90 days)	4.14% - 4.08%
Daily SwapCC Curve IBR (180 days)	4.19% - 4.04%
Daily SwapCC Curve IBR (360 days)	4.39% - 4.05%
Discount Rate (in basis points)	
Daily SwapCC Curve USDOIS (30 days)	2.45% - 1.85%
Daily SwapCC Curve USDOIS (60 days)	2.40% -1.70%
Daily SwapCC Curve USDOIS (90 days)	2.40% -1.76%
Daily SwapCC Curve USDOIS (180 days)	2.42% -1.85%
Daily SwapCC Curve USDOIS (360 days)	2.44% -2.02%

Fair value	**Favorable impact**	**Unfavorable impact**
December 31. 2018	111.520	(94.110)

- **Options**

Variables	**December 31, 2018**
	Rango
Tasa Representativa del Mercado (TRM)	Max. 3,289.69 - Min. 2,705.34
Devaluation Rate	
Daily SwapCC Curve IBR (30 days)	4.12% - 4.19%
Daily SwapCC Curve IBR (60 days)	4.13% - 4.14%
Daily SwapCC Curve IBR (90 days)	4.14% - 4.08%
Daily SwapCC Curve IBR (180 days)	4.19% - 4.04%
Daily SwapCC Curve IBR (360 days)	4.39% - 4.05%
Discount Rate	

Daily SwapCC Curve USDOIS (30 days)	2.45% - 1.85%
Daily SwapCC Curve USDOIS (60 days)	2.40% -1.70%
Daily SwapCC Curve USDOIS (90 days)	2.40% -1.76%
Daily SwapCC Curve USDOIS (180 days)	2.42% -1.85%
Daily SwapCC Curve USDOIS (360 days)	2.44% -2.02%
Volatility	
Opcd_USDCOP Curve (30 days)	12.45% - 11.80%
Opcd_USDCOP Curve (60 days)	12.40% - 12.43%
Opcd_USDCOP Curve (90 days)	12.33% - 12.9%
Opcd_USDCOP Curve (180 days)	12.70% - 12.21%
Opcd_USDCOP Curve (360 days)	13.09% -12.22%

Fair value	Favorable impact	Unfavorable impact
December 31. 2018	26.747	12.190

The sensitivity analysis of changes in the reasonable value of these variables is the estimated result to reflect the situation in the favorable and unfavorable scenario for the assumptions in the internal valuation method applied for Credivalores – Crediservicios S.A.S.

The fair value sensitivity analysis to assess derivatives for December 2018 and 2017 shows the positive and negative outlook in which the Company was exposed to the results of these two scenarios. For 2018 and 2017, the real fair value was 18.337 and 17.686, respectively. Said results are in the acceptable range in accordance with the models' estimate compared to variable change with regards to real results.

7.4 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:

	December 31, 2018		December 31, 2017	
Fair value	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Fair Value Estimate**
Assets				
Loan Portfolio (Gross)				
Consumer	1.299.476	1.334.225	1,166,501	1.030.031
Microcredit	6.461	6.573	14,250	1.170
Total	**1.305.937**	**1.340.798**	**1,180,751**	**1.031.201**
Liability				
Financial obligations	1.564.633	1.672.978	1,167,146	1.246.528
Total	**1.564.633**	**1.672.978**	**1,167,146**	**1.246.528**

NOTE 8. 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

8.1 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
    - Director of Analytics and Strategy Models
    - 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

8.2 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.
- 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.

(Stated in millions of Colombian pesos)

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.

8.2.1 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, 2018 and December 31, 2017 as follows:

	December 31, 2018	**December 31, 2017**
Cash and cash equivalents	195.058	121.498
Financial instruments net	202.431	39.025
Loan portfolios		
Consumer loans	1.299.476	1.166.501
Microcredit portfolio	6.461	14.250
Accounts receivable, net	330.651	183.511
Total financial assets with credit risk	**2.034.077**	**1.524.785**
Off-balance-sheet credit risk at nominal value		
Unpaid approved credits	455.058	320.137
Total exposure to off-balance-sheet credit risk	**455.058**	**320.137**
Total maximum exposure to credit risk	**2.489.135**	**1.844.922**

8.2.2 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.

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 of December 2018, the Credivalores Crediservicios S.A.S. portfolio is comprised of 56.2% payroll deduction loans; 36.2% credit cards; 7.3% insurance-policy financing; and 0.5% microcredit loans.

Our products are targeted primarily at individuals with medium-to-low earnings who have limited access to Colombia’s traditional financial system.

(Stated in millions of Colombian pesos)

Important 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, 2018

	As of December 31, 2018			As of December 31, 2017		
Region	**Consumer**	**Microfinance**	**Total**	**Consumer**	**Microfinance**	**Total**
Valle	269.851	1.337	**271.188**	249.532	1.832	251.364
Bogotá	198.340	-	**198.340**	177.573	-	177.573
Meta	106.070	557	**106.627**	111.084	845	111.929
Atlántico	88.617	415	**89.032**	57.580	-	57.580
Antioquia	73.427	-	**73.427**	59.081	-	59.081
Santander	64.744	-	**64.744**	73.315	601	73.916
Boyacá	57.481	-	**57.481**	58.028	-	58.028
Cesar	50.618	72	**50.690**	47.905	163	48.068
Bolívar	36.629	-	**36.629**	32.665	-	32.665
Córdoba	26.096	367	**26.463**	21.990	-	21.990
Risaralda	23.265	-	**23.265**	19.544	429	19.973
Magdalena	23.144	-	**23.144**	25.824	-	25.824
Tolima	15.888	318	**16.206**	13.546	450	13.996
La Guajira	15.547	-	**15.547**	9.677	-	9.677
Norte de Santander	13.390	494	**13.884**	12.234	611	12.845
Caldas	13.563	-	**13.563**	11.420	-	11.420
Sucre	12.733	270	**13.003**	11.083	407	11.490
Quindío	12.696	-	**12.696**	11.103	-	11.103
Huila	11.082	414	**11.496**	10.625	613	11.238
Caquetá	10.395	303	**10.698**	7.056	392	7.448
Cauca	10.011	-	**10.011**	8.091	-	8.091
Cundinamarca	8.581	-	**8.581**	9.063	-	9.063
San Andrés	5.953	-	**5.953**	3.504	-	3.504
Casanare	3.953	-	**3.953**	4.139	-	4.139
Nariño	1.927	233	**2.160**	2.250	380	2.630
Putumayo	508	-	**508**	558	-	558
Arauca	420	-	**420**	292	-	292
Guaviare	244	-	**244**	192	-	192
Chocó	106	-	**106**	80	-	80
Vichada	59	-	**59**	37	-	37
Amazonas	41	-	**41**	18	-	18
Vaupés	29	-	**29**	11	-	11
Guainía	17	-	**17**	14	-	14
Totales	**1.155.424**	**4.780**	**1.160.204**	**1.049.114**	**6.723**	**1.055.837**

Another noteworthy characteristic is the portfolio's geographical diversity: Valle del cauca accounts for the largest share with 23.4% of the total followed by Bogota at 17.1%.

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.

53% of our portfolio is made up of retirees (life pension) while 35.5% 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.

8.2.3 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 that year.

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

Under the guidelines of the accounting standard IFRS 9, Credivalores was changing its model of impairment loss incurred to expected loss, which is set based on a classification of operations in three stages:

- Stage 1-assets without significant deterioration or in normal situation.
- Stage 2-assets with a significant increase.
- Stage 3-assets with objective evidence of impairment.

The fundamental concept of the new model is based on an approach of dual measurement, depending on the Stage of the financial instrument classification: for Stage 1 damage is equal to the credit losses expected at 12 months, to stage 2 and 3 is equal to the credit losses expected lifetime. The following figure outlines the criteria of the standard.

For loss lifetime of the asset is used the same methodology of credit loss expected for a year, but instead of covering only the first year, calculated on the expected life of the contract including extension of the instrument options.

For the calculation of the expected loss of clearance and credit card products Credivalores has decided to use the depreciation Granular approach, considering the following aspects:

- The exhibition and the corresponding risk parameters are calculated individually for each period.
- Intended that the exhibition and the corresponding risk parameters are consistent within each period but may vary between periods.
- The estimate of the EL is individual per period.
- 12 months EL and EL calculations in life, are made by adding the individual EL for each respective risk horizon (one year, lifetime).
- Fixed according to its amortization payment frequency: monthly, quarterly, semi-annual, annual, among others.
- The amortization approach granular capture the dynamic behavior of the parameters of risk in a high granularity (more detailed).

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:

- Reduce the reprocesses, increasing approval indicator in the 10 points with respect to 2017, 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.
- 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 2018 was 321.348 customers presenting a growth of 14.3% compared to the year 2017.

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.

(Stated in millions of Colombian pesos)

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.

8.2.4 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.

As of December 31,2018

Status	Tu Crédito	CrediUno	CrediPóliza	Microcrédito	Total managed portfolio	On balance sheet Portfolio
CURRENT	699.156	376.137	84.043	114	1.159.450	940.026
1-30	5.318	14.886	5.107	75	25.386	23.568
31-60	4.231	15.804	3.192	36	23.263	21.800
61-90	4.477	9.968	1.463	33	15.941	14.812
91 A 180	10.574	19.576	1.986	51	32.187	31.114
181 A 360	14.110	16.910	2.364	79	33.463	32.047
> A 360	47.534	50.403	3.460	4.392	105.790	96.837
Totals	**785.400**	**503.684**	**101.615**	**4.780**	**1.395.480**	**1.160.204**

As of 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
Totals	**697.608**	**484.886**	**111.006**	**6.723**	**2.394**	**1.302.617**	**1.055.837**

8.2.5 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.

Several improvements to the process were conducted in 2018:

- 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.

(Stated in millions of Colombian pesos)

- Is included in the model of measurement of internal consultants, the variables of productivity and quality.
- A unified operating process (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.

8.3 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**	**2018**	**2017**
Banco de Bogotá	Checking	3.849	2.402
Bancolombia	Checking	4.489	3.220
Banco GNB Sudameris Colombia	Checking	87	65
Red Multibanca Colpatria	Savings	266	38
Banco BBVA	Checking	314	113
Banco De Occidente	Checking	31	223
Bancomeva	Checking	61	17
Banco Santander	Checking	1.979	-
Available in Free-standing Trusts		7.746	8.616
		18.822	**14.694**

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 of loss due to credit-related factors.
2	Banco de Bogotá	AAA		
3	Banco Colpatria	AAA		
4	Banco de Occidente	AAA		
5	Banco Corpbanca	AAA		
6	Bancolombia	AAA		
7	Banco Santander	AAA		

(Stated in millions of Colombian pesos)

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.

8.4 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.

As of December 31, 2018 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, 2018**	**December 31, 2017**
Equity Securities	20.034	21.187
Derivatives instruments	164.486	773
Loan Portfolio	18.337	17.065
Total	**202.857**	**39.025**
Financial liabilities	26.762	17.686
Total	**26.762**	**17.686**
Net Position	**229.619**	**21.339**

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

Interest rates

(Stated in millions of Colombian pesos)

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.

Short-term Obligations CVCS

Entity	December 31, 2018	Interest rate
National entity		
Banco de Bogotá	6.947	IBR + 6.5%
Banco de Occidente	10.000	IBR + 4.25%
Bancolombia	4.861	DTF + 7.5%
Bancoomeva	2.000	DTF + 8%
Banco Santander	6.667	IBR + 6.5%
Total National entity	**30.475**	
Total Short-term Obligations	**30.475**	

Long-Term Obligations CVCS

Entity	December 31, 2018	Interest rate
National entity		
Banco de Bogotá	5.627	IBR + 6.5%
Bancolombia	19.398	IBR + 6.85%
Total National entity	**25.025**	
Free- Standing trusts		
PA TU Crédito Sindicado	173.670	DTF + 5.5%
Total Free- Standing trusts	**173.670**	
Total Long-Term Obligations	**198.695**	
Total Financial Obligations	**229.170**	

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 2018. 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, 2018 (4.308%).

(Stated in millions of Colombian pesos)

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, 2018 as reference .

The results are set out below:

Scenarios	**Interests**
Effect of 20 BPS decrease in variable rate	(335.707)
Effect of 20 BPS increase in variable rate	333.579
Total Scenarios	**(2.128)**

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	(335.707)
Effect of devaluation and increase, 15 BPS, variable rate	337.831
Total Scenarios	**2.124**

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.

Long-Term Obligations (USD)

Entity	**December 31, 2018**
Foreign Entity	
ECP Notes	243.731
Total Entity Foreign	**243.731**
Free- Standing trusts	
PA Crediuno IFC	35.581
Total Free- Standing trusts	**35.581**
Bond Issuance	
Bond Issuance Inaugural 144 A/Reg. S	812.437
Bond Issuance 144 A/Reg. S Retap	243.731
Total Bond Issuance	**1.056.169**
Total Long-Term Obligations Exposed USD	**1.335.481**

Sensitivity Analysis

(Stated in millions of Colombian pesos)

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 in the exchange rate in 2018. The following methodology was used 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, 2018.

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, 2018 (4.308%).

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, 2018.

The results are set out below:

Item	Total Debt
Initial Scenario (Balance at December 31, 2018)	1.533.755
Scenario 1 (Effect of revaluation)	1.524.413
Scenario 2 (Effect of revaluation)	1.543.097
Difference Scenario 1 vs. Initial Scenario	**(9.342)**
Difference Scenario 2 vs. Initial Scenario	**9.342**

(1) Volatility obtained from the daily average for the previous three years, including Q4 2018

8.5 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, 2018 are set out below:

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

As of December 31, 2018, 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 of December 31, 2018, 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 as of December 31, 2018 and December 31, 2017.

	December 31, 2018				
	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	25	25	-	-	-
Banco de Bogotá	3.851	3.851	-	-	-
Bancolombia S.A.	4.489	4.489	-	-	-
Banco GNB Sudameris Colombia	87	87	-	-	-
BBVA Colombia	314	314	-	-	-
Red Multibanca Colpatria S.A.	266	266	-	-	-
Banco De Occidente	31	31	-	-	-
Bancoomeva	61	61	-	-	-
Banco Santander	1.979	1.979	-	-	-
Alianza Fiduciaria	179	179	-	-	-
Credifinanciera	14.960	-	-	14.960	-
Available in Free-standing Trusts	7.798	7.798	-	-	-
Fic's	15.364	-	15.364	-	-
Agrocaña	4.671	-	-	-	4.671
Valores Bancolombia	6.129	6.129	-	-	-
Scotiabank	11.433	-	-	11.433	-
Fiducolombia Free-standing	143.456	143.456	-	-	-
Inverefectivas	10.366	-	-	-	10.366
Total liquid assets	**225.459**	**168.665**	**15.364**	**26.393**	**15.037**

	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

(Stated in millions of Colombian pesos)

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**

(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-18	
Net Liquidity	**215.092**
Assets (CVCS + Free-standing Trust) (Portfolio)	1.305.937
Indicator 1	**16.5%**

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

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

Exposure Limit
Indicator 1 Dec-18

(Stated in millions of Colombian pesos)

Net Liquidity	215.092
Liabilities (CVCS + Free-standing Trust)	1.564.633
Indicator 2	**13.7%**

In the three-month period ended December 31, 2018 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, 2018

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	195.058	-	-	-	195.058
Equity Instruments at fair value	15.363	-	-	4.671	20.034
Investments in Associates and Affiliates	-	-	-	10.366	37.485
Financial Assets at amortized cost	60.807	306.649	373.710	863.100	1.604.266
Total assets	**271.228**	**306.649**	**373.710**	**878.137**	**1.829.724**

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	63.380	146.009	156.557	1.647.302	2.013.247
Financial Liabilities at fair value - Derivatives instruments	-	-	-	26.763	26.763
Total Liabilities	**63.380**	**146.009**	**156.557**	**1.674.065**	**2.040.010**

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**

8.6 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, operating risk event logging.
c. Governance bodies: disseminating information.
d. Training: Company employees

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.

During 2018, the Company's Operating Risk Management System was reviewed, and it was decided to update the risk management approach, initially by adjusting the methodology for risk identification, measurement, control and monitoring. The current operating risk event reporting and logging system was also revised, with the aim of implementing a system that is more easily understood by all Company employees. The Operating Risk area also participated in a review of the internal procedure used in cases of fraud, which is currently being adjusted and further defined by the participating areas.

The operating risks management approach is based on implementing an Operating Risk Culture at all levels of the organization, to which end awareness-raising campaigns and advisory sessions were held regarding operating risk management best practices through intranet. The SARO course was held through the e-learning platform and SARO discussion groups were held with assigned Risk Managers and certification of reading of the SARO manual by new employees.

The assurance stage of the operating risk system involves the auditing department, 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..

8.6.1 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 customer care service, in order to achieve its strategic objectives.

8.6.1.1 Identification Policies

a. Upon launching new products or redefining existing ones, the Company follows all 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 that may arise must also be identified at 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.

8.6.1.2 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.

8.6.1.3 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.

8.6.1.4 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.

8.6.1.5 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.

8.7 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.

In 2018, the SARLAFT area updated its Manual with the following policy: Credivalores according to the Superintendence of Companies establishes a Self-Management System for the Risk of Money Laundering and Terrorism Financing - SAGRLAFT and as a good corporate practice it hosted a Management System for Money Laundering and Financing of Terrorism - SARLAFT. That is, Credivalores intends to act under a regulation with greater robustness to that established by the Superintendence of Companies, anticipating the possible changes leading to the improvement of the system by the control entities.

SARLAFT's management model is oriented to the development and execution of prevention and mitigation measures to control this type of actions of all employees, customers, associates, shareholders and suppliers linked to the Company.

In order to guarantee the prevention of Money Laundering and Terrorism Financing, the Company periodically updates automatic lists (OFAC, UN, Others)

To strengthen the Culture of SARLAFT, in the fourth quarter of 2018, training was conducted for all employees, through the virtual platform. This training was included in the Company's induction programs for new officers.

The quarterly reports were issued to the Board of Directors regarding the management of SARLAFT and, in the same way, the Suspicious Operation report (in Absence) was issued to the Financial Analysis and Information Unit (UIAF).

NOTE 9. 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.

(Stated in millions of Colombian pesos)

Cash and cash equivalent balances encompass the following as of December 31, 2018 and December 31, 2017:

	December 31,	
	2018	**2017**
Cash	25	24
Banks	18.821	14.694
Mutual funds and joint portfolio (9.1)	149.819	81.690
Certificates of Deposit	14.960	-
Time Deposit	11.433	25.540
	195.058	**121.948**

As at December 31, 2018 and December 31, 2017, there were no restrictions on bank accounts.

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

	December 31,	
	2018	**2017**
Valores Bancolombia	6.129	1.472
Bancolombia	-	12.045
Alianza Fiduciaria S1	179	-
Encargo Bogotá	2	-
Credinvest	53	-
Inversiones PA Factoring	26.230	-
Sub-Total	**32.593**	**13.517**

	December 31,	
Entity	**2018**	**2017**
Servitrust GNB Sudameris S.A.	-	557
Participación en Fic's	117.226	67.616
Sub-Total	**117.226**	**68.173**
Total 9.1	**149.819**	**81.690**

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

Manager	Dec-18	Dec-17	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.

(Stated in millions of Colombian pesos)

NOTE 10. FINANCIAL INSTRUMENTS

10.1 AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	December 31, 2018	December 31, 2017
Equity instruments (10.1)	15.363	16.530
Derivative instruments (Note 16)	164.486	773
	179.423	**17.303**

10.1 Equity instruments

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 Investment	Minimum Balance	Annual Return 2018	Annual Return 2017	At December 31, 2018	At December 31, 2017
Credicorp Capital	At sight	500,000	N/A	3.98%	5.9%	-	3
BTG Pactual I Z Class	Closed	5,000,000	2,000,000	146.53%	352.9%	6.104	6.010
BTG Pactual II Z Class	Closed	5,000,000	2,000,000	126.45%	300.5%	2.398	3.668
Fiduciaria Popular	At sight	200,000	200,000	3.86%	5.6%	650	73
Fiduciaria la Previsora S,A,	At sight	200,000	200,000	-	5.7%	-	7
Open Portfolio BTG						6.211	6.718
Credinvest Tramo IV						-	51
TOTAL						**15.363**	**16.530**

10.2 Heritage instruments

	December 31, 2018	December 31, 2017
Agrocaña Shares (Note 10)	4.671	4.657
	4.671	**4.657**

The Company owns 5.03% of Agrocañas S.A. share capital, with 3,300 outstanding shares as of December 31, 2018. These are not listed on the stock exchange, and are therefore measured at cost.

NOTE 11. INVESTMENTS IN ASSOCIATES

The detail of the investments in associates is as follows:

	December 31, 2017	December 31, 2017
Inverefectivas S.A (a)	10.366	10.295
Asesorías Financieras Asficrédito (b)	-	27.190
	10.366	**37.485**

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 3,189.92 as of December 31, 2018.

(Stated in millions of Colombian pesos)

	December 31, 2018		December 31, 2017	
	Share of ownership interest	**Book value**	**Share of ownership interest**	**Book Value**
Associates				
Inverefectivas S,A	25%	10.295	25%	10.295
		10.295		**10.295**

(a) 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 December 31 de 2018 and December 31, 2017:

	December 31,	
Associate	**2018**	**2017**
Balance at the beginning of the year	**37.485**	**9.408**
Participation in Other comprehensive income	30	935
Increase (decrease) (i)	(27.189)	27.189
Adjustments for exchange differences	40	(47)
Year-end balance	**10.366**	**37.485**

The condensed financial information of the associates is as follows:

December 31, 2018	**Assets**	**Liabilities**	**Equity**	**Income**	**Expenses**	**Net income**
Inverefectivas S.A	13.160	-	13.160	490.563	51.683	438.880

December 31, 2017	**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)

NOTE 12. 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, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Consumer	1.299.476	1.166.501
Microcredit	6.461	14.250
Impairment	(163.413)	(128.080)
Total financial assets at amortized cost	**1.142.524**	**1.052.671**
TuCrédito payroll deduction loans at fair value	18.337	17.065
	18.337	**17.065**

The Financial Position Statement includes portfolio held in Free-standing trusts net totaling 231.931 at December 31, 2018 and 366.792 at December 31, 2017. 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, 2018 and December 31, 2017

	December 31 2018	December 31 2017
Initial Balance	128.080	105.191
Adopting IFRS 9	47.055	-
Allowance of the period charged against to profit or loss	47.975	67.312
Recovered provisions	(543)	(44.423)
Write-offs	(59.154)	-
Closing balance	**163.413**	**128.080**

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

At December 31, 2018

Modality	Capital	Transaction costs	Interest Accrued	Commissions	Impairment	Total
Consumer loans	1.155.425	42.955	91.531	9.526	(157.177)	**1.142.260**
Microcredit	4.780	38	1.681	1	(6.236)	**264**
Total financial assets at amortized cost	**1.160.205**	**42.993**	**93.212**	**9.527**	**(163.413)**	**1.142.524**

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)

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

December 31, 2018

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer	351.240	369.853	255.468	322.876	1.299.437
Microcredit	5.674	769	57	-	6.500
Total Gross Loan Portfolio	**356.914**	**354.128**	**255.525**	**322.876**	**1.305.937**

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**

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

December 31, 2018

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
Consumer	312.885	306.164	233.801	302.574	1.155.424
Microcredit	4.191	537	53	-	4.781
Total Gross Loan Portfolio	**317.076**	**306.701**	**233.854**	**302.574**	**1.160.205**

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**

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:

	At December 31, 2018		
Modality	**Loan Capital**	**Sold**	**Total**
Consumer	1.155.425	235.275	1.390.699
Microcredit	4.780	-	4.781
Total Financial Assets at amortized cost	**1.160.205**	**235.275**	**1.395.480**

	At December 31, 2017		
Modality	**Loan Capital**	**Sold**	**Total**
Consumer	1.049.114	246.778	1.295.892

(Stated in millions of Colombian pesos)

Microcredit	6.724	-	6.724
Total Financial Assets at amortized cost	**1.055.837**	**246.778**	**1.302.616**

Arrears but not impaired

As of December 31, 2018 and 2017, a summary of the overdue portfolio by days past due is as follows:

	At December 31, 2018			At December 31, 2016		
	Consumer	**Microcredit**	**Total**	**Consumer**	**Microcredit**	**Total**
Non expired loans	939.913	114	**940.027**	880.312	470	**880.782**
Arrears but not impaired	45.256	111	**45.367**	48.292	398	**48.690**
Non-performing loans under 360	77.810	163	**77.973**	44.976	773	**45.749**
Non-performing loans over 360	92.446	4.392	**96.838**	75.534	5.082	**80.616**
	1.155.425	**4.780**	**1.160.205**	**1.049.114**	**6.723**	**1.055.837**

NOTE 13. ACCOUNTS RECEIVABLE, NET

The detailed information of accounts receivables as of December 31, 2018 and December 31, 2017 is as follows:

	December 31,	
	2018	**2017**
Debtors (13.1)	271.301	120.131
Related economic (13.2)	64.605	63.503
From Partners and Shareholders	1.815	1.825
Prepayments and Advances	285	191
Payment by client account (13.3)	2.082	1.179
Employee	6	11
Allowance for doubtful accounts (13.4)	(9.443)	(3.329)
	330.651	**183.511**

13.1 The balance for other accounts receivable of 271.301 million at December 31 2017 and 120.131 million at December 31, 2017 correspond primarily to loan collection balances from the Free-standing Trusts pending transfer to CVCS.

13.2 The following is the detail by third of linked economic:

	December 31,	
	2018	**2017**
Finanza inversiones S.A.S	24.674	22.051
Brestol S.A.S	22.440	22.440
Agroindustriales del Cauca	8.600	-
Inversiones Mad capital S.A.S	7.552	1.484
Sferika S.A.S	514	514
Asficor S.A.S	276	276
Agro el arado S.A	202	202
Seinjet Neirus David	201	201
Inversiones Dana S.A.	146	146
Asesorías Financieras de Crédito S.A.S	-	16.189
	64.605	**63.503**

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

December 31,

(Stated in millions of Colombian pesos)

	2018	**2017**
Life Insurance Payroll deduction loans	813	849
Crediuno Insurance	1.097	327
Life Insurance SMEs	-	3
Tigo Insunrance	172	-
	2.082	**1.179**

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

	December 31,	
	2018	**2017**
Balance at start of period	(3.329)	-
Provision charged to income accounts	(6.114)	(3.329)
Balance at end of period (13.4.1)	**(9.443)**	**(3.329)**

13.4.1. Detail Impairment

Below is a breakdown of the provisioned items applying simplified approach (IFRS 9) to December 31, 2018:

Third Party	**Impairment**	**%**
Metroagua	263	100,0%
Asficor SAS	276	100,0%
Mad Capital S.A.	286	100,0%
Sferika SAS	449	87,3%
PA Credilibranzas – (Servitrust GNB Sudameris S.A.)	808	100,0%
Inversiones MAD Capital SAS	1.198	100,0%
Agrointegrales del Cauca	5.662	65,8%
Below 250 million	503	91,5%
Total	**9.443**	

NOTE 14. PROPERTY AND EQUIPMENT

The Company's property, plant and equipment at December 31, 2018 and December 31, 2017, respectively, are as follows:

	December 31,	
	2017	**2017**
Transport Equipment	117	117
Office equipment and Accessories	1.740	1.565
Computer equipment	316	1.010
Network and communication equipment	1.679	663
Machinery, plant and equipment in assembly	49	371
Goods received on finance lease agreements	4.966	4.878
Subtotal	**8.867**	**8.604**
Accumulated depreciation	(8.079)	(7.691)
Total	**788**	**913**

The breakdown for equipment movement is shown below:

	December 31, 2017	**Purchases**		**December 31, 2018**

			Adjustment	
Transport Equipment	117	-	-	117
Office equipment and Accessories	1.565	21	154	1.740
Electronic equipment	1.010	98	(792)	316
Network and communication equipment	663	1.378	(362)	1.679
Machinery, plant and equipment in assembly	371	5	(327)	49
Goods received on finance lease agreements	4.878	88	-	4.966
	8.604	**1.590**	**(1.327)**	**8.867**

	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**

The following is the depreciation movement for 2018 and 2017, respectively:

	December 31, 2017	Depreciation	December 31, 2018
Office equipment and Accessories	1.640	13	1.653
Electronic equipment	1.047	(184)	863
Telecommunications equipment	285	361	646
Goods on Finance Lease Agreements	4.719	198	4.917
	7.691	**388**	**8.079**

	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**

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, 2018 and December 31, 2017, 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:

(Stated in millions of Colombian pesos)

Assets under finance lease agreements were acquired with Leasing Bancolombia S.A. A total of 4 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.

	Cost	Accumulated depreciation	Carrying amount
Computing equipment	2.416	(2.416)	-
Vehicles	2.550	(2.501)	49
Balance as of December 2018	**4.966**	**4.917**	**49**

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

The following is a summary of the minimum payments due in the coming years for finance lease assets at December 31, 2018 and December 31, 2017:

	December 31, 2017	December 31, 2017
Less than one year	39	76
More than one year, less than five	10	83
Total	**49**	**159**

NOTE 15. OTHER INTANGIBLE ASSETS

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

OVERVIEW OF VALUATION

As indicated earlier, in 2015 the Company acquired the business unit CREDIUNO and CREDIUNO AVANCES, which were used to develop the Company’s commercial activities, focusing on the origination, placement and management of credit card consumer loans. Initially, in its financial statements the Company recorded the cost paid for the brand in the amount of COP 23,800 million. However, on further analysis it was found that given the nature of the transaction additional assets had been acquired, initially recognized as exclusivity contracts with Public Services Companies (ESP, for the original in Spanish) and access to customer databases that enable the Company to continue developing the credit card business through the Crediuno product. Consequently, in 2018 Credivalores decided to perform a new valuation in order to update the values of the acquired assets and to restate its financial statements, as if such recognition had been made initially as defined in IAS 8.

i. General aspects of the valuation analysis

Valuation was performed of the identified intangible assets of exclusivity contracts with sponsors and databases by means of forecasts of discounted cash flows. Based on the values obtained from the discounted forecasts, cash flows were assessed in the aggregate, and then tangible assets were discounted from the total valuation of the business (including the carrying value assigned to the brand), in order to identify the residual value compared to the estimated fair value of the business.

(Stated in millions of Colombian pesos)

The difference obtained is the residual value of the intangible assets, which was distributed as follows:

- It was assigned based on the principle of proportionality of revenues, in order to establish a specific value for each main sponsor exclusivity contract, and

- The residual value was assigned to the database, given that this asset enables the development of the business, profiling and growth of the business unit's financial products.

The following is a description of the parameters and methodologies used to obtain the results that are displayed further below.

ii. Application of the discounted cash flow methodology

This methodology recognizes the value of an asset based on the expected future economic benefits to be obtained. Such benefits may include revenues, savings, royalties and/or gains in asset disposal. The indicative values are derived from discounting the business unit's expected cash flows (pre-tax earnings) and depends on the parameters of the applicable business model.

For the effects of the analysis, a scenario of direct origination was used based on the historic performance of the business unit, since it already had an operating performance history, and it was adjusted to the Company's model, which had been developed under its guidance since late 2015 up to the date of this report. Additionally, adjustments were made to the commercial and growth outlooks provided by the Company, validating them against references in the financial services segment in emerging markets in Damodaran.

Ingresos y Utilidades Credivalores & CREDIUNO	2016	2017	2018
Total Ingresos Credivalores ($MM)	$269,013	$289,865	$340,948
Total Ingresos CREDIUNO ($MM)	$122,801	$161,075	$176,758
Proporción CREDIUNO (Ingresos)	46%	56%	52%

Nota. Dirección Financiera, Credivalores (2019). Cifras en Millones de Pesos.

Based on the above parameters and variables, the forecasts and discounted cash flows of each period were developed for the CREDIUNO business unit acquired by the Company. The adjusted value of reference for each period is obtained based on the analysis of each year of reference (2015-2018) and disaggregation of the carrying values of the assets.

iii. Summary of results and recommendations derived from the valuation

The estimated value was established as a result of the valuation exercise of the database and exclusivity contracts with sponsors, based on market standards of reference, and serves as reference to manage the acquired assets associated with the CREDIUNO brand and which may be used as reference to perform accounting adjustments of equity analysis of the Company at fair value within a realistic business scenario at fair market prices.

Following the forecast of cash flows, their discounting to present value for each period of the study, and its breakdown into tangible and intangible assets based on the principle of proportionality of revenues for the business unit CREDIUNO, thereby determining the intangible assets of the acquired business, the following results were obtained for each year:

(Stated in millions of Colombian pesos)

Componentes de valor de CREDIUNO	Dic 2015	Dic 2016	Dic 2017	Dic 2018
Valor de Mercado CREDIUNO (con 10% Vr. Terminal)	$168,218	$165,452	$178,139	$187,753
Capital Social (Proporción)	$105,668	$105,453	$121,406	$124,331
Intangibles de Balance (Marca, con amortización))	$23,800	$21,420	$19,040	$16,660
Residual de Otros Intangibles	$38,751	$38,579	$37,693	$46,763
Contratos de exclusiva (por proporcionalidad castigado con WACC)	$16,044	$14,125	$12,642	$14,930
EMSA	$4,879	$3,858	$3,255	$3,414
EMCALI	$5,228	$4,502	$3,824	$4,646
EPSA	$2,642	$2,460	$2,309	$2,730
EBSA	$1,799	$1,777	$1,695	$1,981
AMB	$1,495	$1,528	$1,558	$2,159
Saldo intangibles (base de datos)	$22,707	$24,454	$25,051	$31,833

In the future, the Company will perform periodic valuations, as is normally performed with other types of assets, in order to update the financial reports – and their tax effects - in terms of possible adjustments for impairment or valuation, particularly under the framework of the applicable IFRS provisions.

From the perspective of amortization, given that the contracts enable extensions and that they are not renewed, it is suggested that they be amortized over 10 years, and in the event they are not renewed, the remaining balance must be deducted. Also, for the database intangible asset, it would initially be an asset with indeterminate life, as it is the foundation for business operations and business analytics. Based on the age profile of customers (e. g. between 30 and 40 years old on average), and on the life expectancy in Colombia of 74 (according to the World Bank and Dane), the database asset could be amortized over 30 or 40 years.

For the effects of restatement at December 31, 2017 the assets were incorporated starting in December 2015, as follows: Exclusivity contracts for COP 16,044 and databases for COP 22,700. The former will be amortized as a function of the expected growth of revenues associated with the business unit over the next 15 years. The latter have a useful life of 30 years.

	December 31,	
	2018	**2017**
Software licenses	1.332	449
Technology and insurance projects	2.944	1.927
Litigious Rights	570	-
Prima Call	17.886	-
Other	2.497	2.304
Sub Total	**25.229**	**4.680**
Contracts	15.311	15.622
Data Bases	20.437	21.193
Trademarks Acquired (1)	16.665	21.367
Sub Total	52.413	**58.182**
	77.642	**62.862**

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

	December 31,	
	2018	**2017**
Amortization	7.021	3.468

(Stated in millions of Colombian pesos)

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.

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

	December 31,	
	2018	**2017**
ASSETS		
Hedging forward contracts (16.1)	13.518	773
Hedging Options (16.2)	52.774	-
Hedging Swaps (16.3)	98.194	
Sub-Total	**164.486**	**773**
LIABILITY		
Hedging forward contracts (16.1)	-	17.686
Hedging Negotiation (16.1)	26.762	-
Hedging Swaps (16.3)	-	-
Sub-Total	**26.762**	**17.686**

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

Operations of Hedging

Credivalores activities are exposed to financial risks including: liquidity risk, foreign currency risk and interest rate risk. Therefore, the Administration and the Board of Directors have approved and applied a policy of financial risk management to mitigate the negative effects of the uncertainty and the volatility of the financial markets in the financial results of the company. The financial risk management policy sets out the use of a wide variety of financial derivatives to cover the risks inherent in fluctuations in the exchange rate and the interest rate of the financial obligations in currency other than weights Colombians in the financial statements of the company.

CVCS used a Cross Currency Swap on the principal and interest payments of notes with a coupon of 9.75% issued in July 2017 for an amount of US$ 250.000.000, and a Coupon Only Swap and a Call Spread, which corresponds to a combination of positions on options to cover payments of interest and principal of the reopening of the notes by US$ 75.000.000 held in February 2018. The options are derivative contracts through which the buyer acquires the right to buy or sell an underlying asset at a price established, on a date and specific periods strike or a financial asset. Under the option contract, buyer pays the premium for acquiring a right to exercise the option and the seller receives the premium, acquiring an obligation with the buyer of the option.

According to the guidelines of this policy, the following is the list of derivative instruments implemented June 2018 to cover foreign exchange risks and the risks of interest rate of the outstanding notes expiring in July 2022:

	2018						
	Theoretical Hedging				**Annual Interest Rate**		
Type of instrument	**Credivalores Receives**	**Credivalores Pay**	**Liquidation**	**Start date**	**Expiration date**	**Credivalores Receives**	**Credivalores Pay**
Currency swap	USD 135.000.000	COP 375.722.550.000	Non Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,89%
Currency swap	USD 15.000.000	COP 41.746.950.000	Non Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,89%
Currency swap	USD 100.000.000	COP 304.096.970.083	Non Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,86%

(Stated in millions of Colombian pesos)

2018							
Type of Instrument	**Credivalores' Position**	**Type of Option**	**Hedged amount USD**	**Effective Date**	**Maturity Date**	**Strike Price**	**Delivery**
Call option	Buyer	European	US$ 37.500.000	22-Mar-18	25-Jul-22	COP$ 2.849,01	Non-Delivery
Call option	Buyer	European	US$ 37.500.000	22-Mar-18	25-Jul-22	COP$ 2.849,01	Non-Delivery
Call option	Seller	European	US$ 37.500.000	22-Mar-18	25-Jul-22	COP$ 3.500,00	Non-Delivery
Call option	Seller	European	US$ 37.500.000	22-Mar-18	25-Jul-22	COP$ 3.500,00	Non-Delivery

16.1 Forward Contracts For Hedging

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

- **Fair-value hedge accounting**

Fair value

	December 31, 2018		**December 31, 2017**	
ASSETS	**Nominal Amount USD**	**Fair Value**	**Nominal Amount USD**	**Fair Value**
Forward Contracts for Hedging				
Purchase of foreign currency	69	13.518	61	650
Total forward contracts for hedging - assets	**69**	**13.518**	**61**	**650**

- **Cash-flow hedge accounting**

Cash flow

	December 31, 2018		**December 31, 2017**	
ASSETS	**Nominal Amount USD**	**Fair Value**	**Nominal Amount USD**	**Fair Value**
Forward Contracts for Hedging				
Purchase of foreign currency	-	-	12	123
Total forward contracts for hedging - assets	**-**	**-**	**12**	**123**

	December 31, 2018		**December 31, 2017**	
LIABILITIES	**Nominal Amount USD**	**Fair Value**	**Nominal Amount USD**	**Fair Value**
Forward Contracts for Hedging				
Purchase of foreign currency	-	-	273	(17.686)
Total forward contracts for hedging – liabilities	**-**	**-**	**273**	**(17.686)**

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.

- *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 IFRS 9, 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	69	Fair value	69

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 IFRS 9 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%.

(Stated in millions of Colombian pesos)

Real Derivative		
Fair Value November 2018	**Fair Value December 2018**	**Fair Value Change (Nov - Dec) 2018**
12.417	13.518	675

Hypothetical Derivative			
Fair Value November 2018	**Fair Value December 2018**	**Fair Value Change (Nov - Dec) 2018**	**Dollar Offset Nov - Dec 2018**
(12.417)	(13.518)	(675)	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.

16.2 Derivate Financial Instruments Options

The activities carried out by CVCS generated significant positions in the derivatives portfolio, performing transactions for hedging purposes where the underlying are exchange rates and interest rates. Options are contracts between two parties, one of them has the right but not the obligation, to carry out an operation of purchase or sale according to previously agreed terms.

The company closed operations with options as derivative financial instruments to manage and mitigate the fluctuations in the fair value of the debt in the P&L. The options are measured through cash flow coverage.

Detail of derivative with options financial instruments and their accounting is as follows:

	December 31, 2018	**December 31, 2017**
ASSETS		
Premium Call Spread option	52.774	-
Sub Total	**52.774**	**-**

	December 31, 2018	**December 31, 2017**
LIABILITIES		
Premium Call Spread option	26.762	-
Sub Total	**26.762**	**-**

Is the derivative financial instrument to cover exposure to risk in foreign currency until maturity.

(1) Options Contracts For Hedging

Derivatives with options hedge the principal amount of the reopening of the 144 A / Reg S Notes for US$75,000,000carried out on February 14, 2018. These financial instruments are valued under the methodology and market value provided by the counterparties, the type of measurement is cash flow.

(Stated in millions of Colombian pesos)

The company will maintain the options until maturity, to hedge the exposure to risk in foreign currency, in line with maturity of the Notes hedged. The objective and strategy of the Administration is to analyze and evaluate the appropriate method for the valuation of financial instruments, depending on the type of operation and negotiation performed.

16.3 Derivate Financial Instruments Cross Currency Swap

Credivalores - Crediservicios S.A.S, executed operations with derivative financial instruments to manage and mitigate the fluctuations in the fair value of the debt position in the P&L. The cross currency swaps in place hedge the exposure to the risk of exchange rate, which is measured at market (fair value hedging) value, on the initial amount issued of the 144A / Reg S Notes of US$250,000,000 and on the interest payments of the US$75,000,000 reopening, which is measured as a cash flow hedge.

Derivative financial instruments through cross currency swaps and its hedge accounting is the following:

	December 31, 2018	December 31, 2017
LIABILITIES		
Hedging Contracts Cross Currency Swaps (a)	86.623	-
Hedging Contracts Coupon Only Swap (b)	11.571	-
Sub-Total	**98.194**	**-**

CVCS will keep the cross currency swaps, to hedge the exposure to foreign currency and interest rate risk until maturity, in line with the maturity of the Note hedged.

a. Contracts hedging Cross Currency Swaps

Derivatives through Cross Currency Swaps operations hedge the debt (principal and interests) of the 144 A / Reg S Notes issued on July 27, 2017 with a nominal value of US 250,000,000 and a coupon of 9.75%.

- **Liabilities Fair value hedge accounting**

	December 31, 2018		December 31, 2017	
LIABILITIES	**Nominal amount USD**	**Fair Value**	**Nominal amount USD**	**Fair Value**
Contracts hedging Cross Currency Swaps	250	86.623		-
Total	**250**	**86.623**		**-**

b. Contracts hedging Coupon Only Swap

Derivatives through a Coupon Only Swap operation hedge the interest payments of the reopening of the 144 A / Reg S Notes completed on February 14, 2018, with a nominal value of US 75,000,000.

- **Liabilities Cash flow hedge accounting**

	December 31, 2018		December 31, 2017	
LIABILITIES	**Nominal amount USD**	**Fair Value**	**Nominal amount USD**	**Fair Value**

Contracts hedging Coupon Only Swap	75	11.571	-	-
Total	**75**	**11.571**	**-**	**-**

NOTE 17. FINANCIAL OBLIGATIONS

Below, we present the balances of financial obligations as of December 31, 2018 and December 31, 2017

	December 31,	
	2018	**2017**
Issuance of bonds	1.056.169	746.000
Foreign banks	243.731	304.368
Financial obligations in free standing trusts	209.252	56.769
Promissory notes – Local banks	113.550	104.872
Finance lease agreements	189	330
Other financial obligations	20	-
Transaction cost	(58.803)	(45.193)
	1.564.108	**1.167.146**

The balance of Credivalores Crediservicios S.A.S. financial obligations and of the Free-standing Trusts at December 31, 2018 and December 31, 2017 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 December 2018 and long-term obligations are loans that come due after December 2019.

a) Short-term financial obligations.

Entity	December 31, 2018	Interest rate	Maturity	December 31, 2017	Interest rate	Maturity
National entity						
Banco Agrario	-			6.173	DTF + 3,4%	2018
Banco de Bogotá	6.947	IBR + 6.5%	2019	10.542	IBR + 5.6%	2018
Banco Colpatria	58.050	IBR + 9.2%	2019	10.000	IBR + 5.3%	2018
Banco De Occidente	10.000	IBR + 4.25%	2019	6.153	IBR + 3.8%	2018
Banco ITAU	-			3.237	DTF + 7,8%	2018
Bancolombia	4.861	DTF + 7.5%	2019	23.365	DTF + 6,7%	2018
Bancoomeva	2.000	DTF + 8%	2019	432	DTF + 6,7%	2018
Banco Santander	6.667	IBR + 6.5%	2019			
Total National Entity	**88.525**			**59.902**		
Foreign Entity						
ECP Program Notes	-			199.928	6,6% EA	2018
Total Foreign Entity	**-**			**199.928**		
Free-standing trusts						
PA CrediUno IFC	-			3.518	9,91% EA	2018
Total Free-standing trusts	**-**			**3.518**		
Finance lease agreements						
Leasing Bancolombia	90	8,42% EA	2019	94	8,42% EA	2018

(Stated in millions of Colombian pesos)

Total Financial Leasing Financiero	**90**	**94**
Overdraft	**20**	**-**
Total Short-term obligations	**88.635**	**263.442**

CVCS had short-term financial obligations during the periods ended December 31, 2017 and December 31, 2016 totaling 88.635 and 263.442, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per NIIF 9.

b) Long-term obligations

Long-term obligations

Entity	December 31, 2018	Interest rate	Maturity	December 31, 2017	Interest rate	Maturity
National entity						
Banco de Bogotá	5.627	IBR+6,5 %	2020	8.441	IBR+6,5 %	2019/20
Bancolombia	19.398	IBR + 6.85%	2019	13.194	DTF + 7,5%	2019
Bancoomeva	-			6.667	DTF + 8%	2019
Banco Santander	-			16.667	IBR + 6.5%	2019
Total National Entity	**25.025**			**44.969**		
Foreign Entity						
ECP Program Notes	243.731	8,25% EA	2020 y 2021	104.440	8,3% EA	2020
	243.731			**104.440**		
Free-standing trusts						
PA CrediUno IFC	35.581	11,91% EA	2020 y 2021	53.252	11,91% EA	2020 y 2021
PA TuCrédito Sindicado	173.670	DTF + 5,5%	2023 y 2028	-		
Total Free-standing trusts	**209.251**			**53.252**		
Finance lease agreements						
Leasing Bancolombia	100	8,42% EA	2020 y 2022	236	8,42% EA	2019 y 2020
Total Financial Leasing	**100**			**236**		
International Bonds						
144 A/Reg. S	1.056.169	9,75% EA	2022	746.000	9,75% EA	2022
Total International bonds	**1.056.169**			**746.000**		
Cost of Transaction to be Amortized IFP	**1.534.276**			**948.897**		
Total financial obligations	(58.803)			(45.193)		
Cost of Transaction to be Amortized IFP	**1.564.108**			**1.167.146**		

The Company had long-term financial obligations during the periods ended December 31, 2018 and December 31 2017 totaling 1.534.276 and 948.897, respectively. Associated costs incurred in the acquisition of loans are classified as transaction costs pending IFP amortization for the periods ended December 31, 2018 and December 31, 2017, valued at 58.803 and 45.193, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per NIIF 9.

The total balance of financial obligations for the periods ended December 31, 2018 and December 31, 2017 is 1.564.108 and 1.167.146 respectively, which will be paid off as described above.

Obligations stated in foreign currency

Entity	Nominal Value December 31, 2018		Nominal Value December 31, 2017	
ECP Program Notes (a) (a)	75	243.731	102	304.368
International Finance Corporation (IFC)	12	35.581	20	56.796

(Stated in millions of Colombian pesos)

Issuance of bonds 144 A/ Reg S (b)	325	1.056.169	250	746.000
Total	**USD**	**1.335.481**	**USD**	**1.107.164**

(a) Euro Commercial Paper Program Notes

Pursuant to Item 8 of the Pricing Term Sheet dated March 17, 2017, in connection with Tranche X issued under our US$150,000,000 Euro Commercial Paper Program ("ECP Program"), Credivalores decided to exercise the right of optional redemption at par of US$55,000,000 of principal of these notes on March 22, 2018 using the proceeds of the reopening of the 9.75% Notes due July 2022. As a result of this optional redemption, the total balance under the ECP Program as of June 30, 2018 was US 47,000,000.

Later, on April 19, 2018 CVCS issued a new note under the ECP Program for US$40,000,000 due on April 19, 2021 with a coupon rate of 8.25%.

In addition, CVCS decided to exercise the right of optional redemption at par of US$12,000,000 outstanding of Tranche X on June 22, 2018 using additional resources from the reopening of the 9.75% Notes due July 2022.

These optional redemptions and the new issuance of notes under the ECP Program, resulted in new a balance of this Program of US$75,000,000 as of December 31 , 2018.

(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 Superintendence 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.

Furthermore, 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.

Principal	Coupon	First Coupon Payment – 27/01/2018	Second Coupon Payment - 27/07/2018	Third Coupon Payment - 27/01/2019
250.000.000	9,75%	12.187.500	12.187.500	12.187.500
75.000.000	9,75%		3.656.250	3.656.250
	Total in USD	**12.187.500**	**15.843.750**	**15.843.750**
	FX Rate	2.805,40	2.882,84	3.160,52
	Total in Pesos	**34.190.812.500**	**35.134.612.500**	**38.518.837.500**

c) Covenants

The Offering Memorandum of the 144A / Reg S Notes contains certain restrictive covenants, which among other things, limit our ability to (i) incur in additional debt, (ii) make dividend payments, redeem capital and make certain investments, (iii) transfer and sell assets, (iv) sign any type of agreement which could limit the ability of the subsidiaries to pay dividends or make capital distributions, (v) create guarantees or pledge assets, (vi) consolidate, merge or sell assets, and (vii) engage in transactions with affiliates. The Indenture which rules the Notes contains certain customary events of default.

In addition, in December 2012 the Company signed a peso indexed loan with the IFC for an amount of US$25,000,000, which was then amended in May 2015 to increase the amount up to US$45,000,000. This facility includes certain covenants, such as: risk weighted solvency ratio, a ratio of equity to assets, a ratio of exposition to a specific economic group, a ratio of exposition to related parties, a ratio of fixed assets to equity, a ratio of aggregate foreign currency exposition, a ratio of aggregate interest rate risk and a liquidity risk ratio.

During 2017 and as of December 31, 2018 met all covenants previously explained.

- **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, 2018 and December 31, 2017:

	2018	**2017**
Free-standing trusts	49.669	49.669
Local banks	15.166	15.166
Finance lease agreements	55	55

(Stated in millions of Colombian pesos)

Foreign currency obligation	30.959	30.959
Third parties	700	700
Shareholders	4.171	4.171
Issuance of bonds	24.249	24.249
Amortization Transaction costs	21.717	21.717
Total	**146.686**	**146.686**

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 18. 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 of December 31, 2018 and December 31, 2017:

	December 31,	
	2018	**2017**
Short-term benefits (a)	1.096	1.154
	1.096	**1.154**

a. The breakdown of employee benefit payments at December 31, 2018 and December 31, 2017 is as follows:

	December 31,	
	2018	**2017**
Holidays	650	634
Severance pay	380	465
Interest on severance pay	43	54
Salaries	23	1
	1.096	**1.154**

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

NOTE 19. OTHER PROVISIONS

CVCS's provisions at December 31, 2018 and December 31, 2017, respectively are provided below.

	December 31,	
	2018	**2017**
Litigations subject to executive proceedings	108	84
Other provisions	235	218
	343	**302**

The movement of legal and other provisions are provided below for the periods ended December 31, 2018 and December 31 2017:

(Stated in millions of Colombian pesos)

	Legal provisions	Other provisions	Total provisions
Balance held at December 31, 2017	**84**	**218**	**302**
Increase in provisions during the period	24	17	41
Balance held at December 31, 2018	**108**	**235**	**343**

	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**

Provisions correspond mainly to labor, civil and administrative processes filed by third parties instead of CVCS, on which the forecasts as of December 31, 2016 were recognized for 84 and increased according to the probability of occurrence for 2018 to 302 For these It is not possible to determine a disbursement schedule due to the diversity of processes in 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.

NOTE 20. CURRENT AND DEFERRED TAX LIABILITIES

20.1 Components of current tax liabilities

Current tax liabilities for the years ended December 31, 2018 and December 31, 2017 is as follows:

	December 31,	
	2018	**2017**
Tax on industry and Commerce	1.684	1.100
Sales tax	513	-
	2.197	**1.100**

19.2 Components of income tax expense

Income tax expense for the years ended December 31, 2018 and December 31, 2017 is as follows:

	December 31,	
	2018	**2017**
Income Tax	2.792	2.692
Subtotal - taxes from the current period	**2.792**	**2.691**
Net deferred tax from the period	**(1.789)**	(1.470)
Total	**4.581**	**1.222**

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, 2018 and December 31, 2016, other comprehensive income was recognized in equity.

(Stated in millions of Colombian pesos)

20.3 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:

In December 2016, 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 Financing Law of December 18, 2018 establishes the following income tax items for the following years.

- The corporate income tax rate is gradually reduced from 33 % to 30 % over the next four years. VAT on investments in capital goods will be deductible starting in 2019.
- Gradually over the next three years, the tax on presumed income will be eliminated and a new mechanism for tax normalization of capital held abroad is established.
- For income tax effects, it is presumed that the taxpayer's taxable income is as a minimum three point five percent (3.5%) of net assets held on the last day of the previous tax year. The percentage used to calculate presumed taxable income mentioned in this article will be reduced to one point five percent (1.5%) in tax years 2019 and 2020; and to zero percent (0 %) starting in tax year 2021.
- Greater controls are established on tax evasion through measures such as electric invoicing. The Company has established Electronic Invoicing since January 01, 2018.
- The general income tax rate that applies to national companies, permanent business establishments of foreign entities and foreign legal entities with or without residence in the country and that are required to file annual income tax returns shall be thirty three percent (33%) in tax year 2019, thirty two percent (32%) in tax year 2020, thirty one percent (31%) in tax year 2021 and thirty percent (30%) starting in tax year 2022.
-

The Company reconciled the total effective rate without deferred tax, which was 38% for 2018 and 40% for 2016, as detailed below:

	2018	**2017**
Earnings (loss) before tax	11.932	3.028
Income Tax rate	37%	40%
Income Tax	**4.415**	**1.211**

(Stated in millions of Colombian pesos)

More (less) tax impact on:		
Non-deductible expense	83	11
Valuations of financial instruments	(6.964)	(2.267)
Utilizations- Provisions	(5)	(238)
Non-deductible tax	1.075	525
Wealth tax	-	229
Fines and sanctions	120	249
Assumed interest	40	50
Tax Portfolio Expenses	4.537	-
Loan adjustments and financial obligations	741	1.055
Excess of presumptive income	539	397
Total income tax provisions charged to income	**4.581**	**1.222**
Effective rate	**38%**	**40%**

20.4 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, 2018 and December 31, 2017, based on the tax rates in force for the years in which said temporary differences are to be reversed.

Year ended December 31, 2018

	Balance held at December 31, 2017	Income (Expense) in income statement	Unrealized income (expense) in OCI	Balance as of December 31, 2018
Deferred tax assets				
Difference between accounting and tax	2.525	(538)	-	1.987
Difference between accounting and tax bases - loans	4.100	482	-	4.582
Impairment to financial assets	6.417	849	6.850	14.116
Property, Plant and Equipment	-	218	-	218
Subtotal	**13.042**	**1.011**	**6.850**	**20.903**
Deferred tax liability				
Reasonable Value Cost	-	2.380	3.671	6.051
Impairment of financial assets	-	420	-	420
Subtotal	**-**	**2.800**	**3.671**	**6.491**
Net Total	**13.042**	**(1.789)**	**3.179**	**14.432**

Year ended December 31, 2017

	Balance held at December 31, 2016	Income (Expense) in income statement	Unrealized income (expense) in OCI	Balance as of 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)	-	-

(Stated in millions of Colombian pesos)

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**

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

The deferred tax is recognized based on the differences between the book values of the assets and liabilities in the financial statements and their corresponding social bases (known as temporary differences).

The tax rate applied to calculate the deferred tax is as follows:

Year to reverse temporary differences	Tax	Concept
2019	33%	Tax (2019)
2022	30%	Tax (2022)

20.5 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 2018			December 2017		
	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	**18.345**	**3.179**	**21.523**	**(14.953)**	**2.410**	**(12.543)**

20.6 Tax uncertainties

The Company's income tax returns for the fiscal years 2017 and 2016 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 enough to cover any claims that could arise.

20.7 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:

(Stated in millions of Colombian pesos)

- ✓ Discrimination of assets held by the Company abroad at January 1, 2018, the value of which shall exceed 3,580 TVA (Tax Value Units), 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, 2018, 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.

NOTE 21. OTHER LIABILITIES

Below the detail of other liabilities:

	December 31,	
	2018	**2017**
Raise to apply	23.839	1.311
Values received for third parties	8.855	5.672
Advance payment bonus	7.139	-
Collection of managed portfolios	5.116	-
Checks pending collection	984	-
Credit card guarantee	363	-
Outstanding disbursement	2	-
Total	**46.298**	**6.983**

NOTE 22. 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.

Authorized, and Paid in Capital

CVCS's subscribed and paid capital as of December 31, 2018 was represented by 4,385,998, and as of December 31, 2017 it was represented by 4,279,022 shares, each at a nominal price of $28,254.

Credivalores Crediservicios S.A.S.

Shareholder	December 31, 2018 Number of shares	%	December 31, 2017 Number of shares	%
Acon Consumer Finance Holdings S de RL	870.987	19.86%	870.444	20,34%
Crediholding S,A,S,	1.497.987	34.15%	1.497.987	35,01%
Lacrot Inversiones 2014 S,L,U	1.593.760	36.34%	1.486.784	34,75%
Acon Consumer Finance Holdings II S, L	184.167	4.20%	184.167	4,30%

(Stated in millions of Colombian pesos)

Treasury shares	239.640	5.46%	239.640	5,60%
Total	**4.385.998**	**100%**	**4.279.022**	**100%**

	December 31	
	2018	**2017**
Number of authorized shares	4.700.000	4.700.000
Subscribed and paid shares	4.385.998	4.279.022
Nominal value	28.254	28.254
Subscribed and paid capital (nominal value)	123.992	120.899
Paid-in capital	58.442	58.442
Total capital plus premium	**182.364**	**179.341**

Reserves

Of the accounts that comprised the equity reserves as of December 31, 2018 and 2017 were constituted of the following:

	2018	**2017**
Legal reserve (1)	5.793	5.793
Occasional reserves:	21	21
Total Reserves	**5.814**	**5.814**

Dividends Declared

During 2018 and 2017 no dividends have been decreed

NET EARNINGS PER SHARE

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

	December 31	
	2018	**2017**
Ordinary shares (a)	1.639.573	1.532.597
Preferred shares (a)	2.506.785	2.506.785
Repurchased treasury shares	239.640	239.640
Total earnings per share	**1.773**	**200**

(a) The value of the shares at December 2018 and 2017 correspond to the total number of outstanding shares held by CVCS, 4.146.358 y 4.039.382 respectively.

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, 2018

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	19.85%
Crediholding S.A.S	-	-	-	-	1.497.987	1.497.987	34.15%
Lacrot Inversiones 2014 S.L.U.	-	923.665	563.119	-	1.497.987	1.593.760	36.34%
Treasury Shares	-	-	-	239.640	-	239.640	5.46%
Acon Consumer Finance Holdings II, S.L.	-	184.167	-	-	-	184.167	4.20%
Total	**835.834**	**1.107.832**	**563.119**	**239.640**	**1.639.573**	**4.385.998**	**100%**

(Stated in millions of Colombian pesos)

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%**

22.1 Other Comprehensive Income (OCI)

Below is the detail:

	December 31,	
	2018	**2017**
Tax	3.992	814
Income tax OCI	**3.992**	**814**
Other comprehensive income	**(2.633)**	**(20.979)**
Actions	1.273	2.034
Financial instruments	(3.906)	(23.013)
Financial instruments Forward	(12.342)	(23.013)
Financial instruments Cross Currency Swap	2.040	-
Financial instruments Options	(3.379)	-
Financial instruments Coupon Only swap	9.775	-
Total	**1.359**	**(20.165)**

NOTE 23. REVENUE

Below is a detail of the revenue for the years ended as of December 31, 2018 and 2018:

	December 31,	
	2018	**2017**
Interests (23.1)	241.414	205.632
Commissions and fees (23.2)	99.534	84.233
	340.948	**289.865**

23.1 Interest

	December 31	
	2018	**2017**
CrediUno interest	66.419	28.125
CrediPoliza interest	16.271	5.010
TuCrédito interest	51.817	28.388
Tigo interest	10.005	-
TuCrédito transaction costs	(5.954)	(8.279)
CrediPoliza transaction costs	(394)	(895)
CrediUno transaction costs	(5.548)	(12.266)
TuCrédito fair value	1.271	12.687

(Stated in millions of Colombian pesos)

Sub-total Consumer loans	**133.887**	**52.770**
Microcredit interest	202	935
Microcredit loans transaction costs	(227)	(483)
Sub-total Microcredit	**(25)**	**452**
Factoring	152	-
Subtotal Factoring	**152**	**-**
CrediUno late payment interest	490	605
CrediPoliza late payment interest	697	577
TuCrédito late payment interest	364	472
Tigo late payment interest	125	-
Consumer loan defaults	**1.676**	**1.654**
CrediYa late payment interest	163	206
Microcredit loan defaults	**163**	**206**
Financial returns	3.657	5.210
BTG Pactual Financial returns	9.889	12.052
Current interests, Free-standing Trust	63.251	116.846
Other income, Free-standing Trust	2.696	4.953
Current interests left off-balance	10.526	11.489
Income from Guarantees	15.541	-
Other	**105.560**	**150.550**
Total Interests	**241.413**	**205.632**

23.2 Commissions and fees

	December 31	
	2018	**2017**
Administration fee – credit card	62.911	55.771
Collection fees	14.647	11.293
Administration fee - life insurance plus	5.405	5.284
Brokerage Commission	5.510	849
Financial Consultancy – Returns from Debtor life insurance	3.727	5.250
Financial Consultancy- Returns Voluntary insurance policies	2.918	2.825
Shared financial consultancy fees	2.721	1.132
Internal commission	1.411	1.182
Returned commission	249	490
Department store income and credit card channels income	20	51
Microcredit SME's loan fees	13	100
Other financial consultancy	2	6
	99.534	**84.233**

NOTE 24. OTHER INCOME

At the end of each period, movements corresponded to:

	December 31	
	2018	**2017**
Collection charges TuCrédito	413	388
Certifications	240	85
Reimbursed claims Aval FGA	112	220
Sickness Leave	94	45

(Stated in millions of Colombian pesos)

Refund insurance	21	40
Provision Recovery	-	137
Vendor Discount	5	5
Other	22	37
	907	**957**

NOTE 25. OTHER EXPENSES

At the end of each period, movements corresponded to:

	December 31	
	2018	**2017**
Fees	22.263	20.139
Technical assistance	11.308	12.758
Taxes	9.780	15.445
Leases	4.190	3.787
Public services	3.699	3.431
Temporary Services	2.980	2.981
Commissions	2.977	4.103
Consultation with Risk Centers	2.679	-
Publicity and advertising	1.900	3.931
Transport	1.364	1.391
Travel expenses	1.343	1.315
Yields Invertors	1.615	1.048
Maintenance	945	962
Office supplies	548	776
Insurance	766	657
Fines, penalties and awards	325	623
Janitorial and Secutiry services	537	577
Adaptation and installation	449	148
Cost of representation	446	776
Donations	79	11
Utilities	12	8
Legal expense	110	283
Electronic data processing	134	-
Other	2.158	2.493
	72.607	**77.643**

NOTE 26. NET FINANCIAL INCOME

	December 31	
	2018	**2017**
Financial performances	2.215	1.472
Financial income	309	904
Exchange rate differences	8.638	(7.887)
Total Financial Income	**11.162**	**(5.511)**
Forwards valuation	(28.943)	(6.518)
Total Financial Expense	**(28.943)**	**(14.405)**
Net Financial Income (expense)	**(17.781)**	**(12.030)**

NOTE 27. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

(Stated in millions of Colombian pesos)

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, 2018 and December 31, 2017:

	2018	**2017**
Unpaid approved credits	455.058	320.137

Contingent assets

At the end of December 31 2018, the Company has a Guarantee with the Fondo de Garantías de Antioquia – FGA, which has a value of 1.319 million in accordance with the agreement's policies.

NOTE 28. 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.

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 of December 31, 2018 and December 31, 2017 with related parties are including in the following charts, with headings for definitions of the related parties recorded in the previous sections.

(Stated in millions of Colombian pesos)

	December 2018		December 2017	
	Shareholders	Members of the Board of Directors (a)	Shareholders	Members of the Board of Directors (a)
Accounts receivable	1.815	-	1.824	-
Accounts payable	-	42	-	58
Operating expenses	-	247	5.089	280

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

Item	December 31 2018	December 31 2017
Salaries	5.164	5.603
Short-term employee benefits	721	756
Total	**5.885**	**6.359**

a. Members of the Board of Directors (principals and alternates, along with their related parts) as of December 31, 2018.

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 Ferraro	Carlos Manuel Ramón
7	Lawrence Robert Rauch	No appointment

Legal Representatives

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

NOTE 29. EVENTS THAT OCCURRED AFTER THE REPORTED PERIOD

No events occurred after December 31, 2018 and prior the presentation of these financial statements that could significantly affect the Company's income and equity. However, we report:

Relevant Events

29.1. Diagnosis of the Business Model

During 2018, the Company performed a detailed diagnosis of its business model, operating processes, technical support and organizational structure, in order to ensure an adequate operating, control, monitoring and risk management arrangement. The following are the main outcomes of the diagnosis:

- The operation of the Operations Department was redesigned to strengthen the back-office area and creating a robust structure to manage the operations control process.

- An end-to-end operating model was implemented that includes agreement management, credit factory and disbursement processes. CPL. Collections, payment and loan portfolio management were placed under the responsibility of a single area in order to standardize and reduce the complexity of the processes.

- Collections, disbursements and payment recording processes were automated in order to report payments and the status of placements, cancellations and loan adjustments in a timely manner; control the traceability and effectiveness of disbursements; and assure correct and timely application of loan payments.

- The guarantees management process was optimized to achieve greater efficiency and control in processing, filing and custody of the documentation.

- The Risks and Collections department was strengthened.

- The Internal Auditing area was strengthened.