MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Financial Statements, included elsewhere in this offering memorandum. Our Annual Financial Statements have been prepared in accordance with IFRS for non-financial entities. See "*Presentation of Financial and Other Information.*"

Factors Affecting our Results of Operations

Interest Income and Similar

Our revenues are mainly comprised of:

- *Interest income*: corresponds to interest income generated by our on-balance payroll loan portfolio, credit card portfolio, insurance financing and microcredit loan portfolio.
- *Commissions and fees*: corresponds to credit card monthly fees, charged to clients with outstanding balance in credit cards issued by us and revenues resulting from sales of insurance products (i.e., life insurance and voluntary insurance) through our network.
- *Earnings from loan portfolio sales*: corresponds to revenues (i.e., upfront payments) from sales of payroll loans used as part of our funding strategy until mid-2016.

Net Interest Margin (NIM) Analysis

The calculation of interest income includes: interest income from our own portfolio and from the portfolio held through trusts and the valuation of financial instruments, net of transaction costs. Financial costs (interest) or interest expense includes our own interest expense and those from our trusts.

Loan Portfolio Performance

The performance of our loan portfolio depends on our ability to collect each expected installment payment on a timely basis, which in turn depends, in part, on the strength of our origination and credit approval processes. Since our incorporation in 2003, we have developed and improved our proprietary underwriting standards and credit review system and have built an infrastructure to support the implementation of our credit review process for each of our loan portfolios. Our proprietary credit review process has, in part, enabled us to maintain low NPL ratios in our loan portfolio. Our NPL ratios for our total managed loan portfolio were 3.29% and 3.43% as of December 31, 2015 and 2016, respectively, and 3.85% as of March 31, 2017.

At March 31, 2017, 5.1% of our managed loan portfolio was restructured. Restructuring is formalized with each customer by changing the amounts of credit installments, the dates for partial payments of credit and the loan repayment periods, to ensure the customer is able to make consistent payments over the course of the loan term. When we restructure loans for our customers, we analyze the customer's current payment capacity and willingness to pay and calculate the probability of success of the new payment arrangement.

Interest Rate Fluctuations

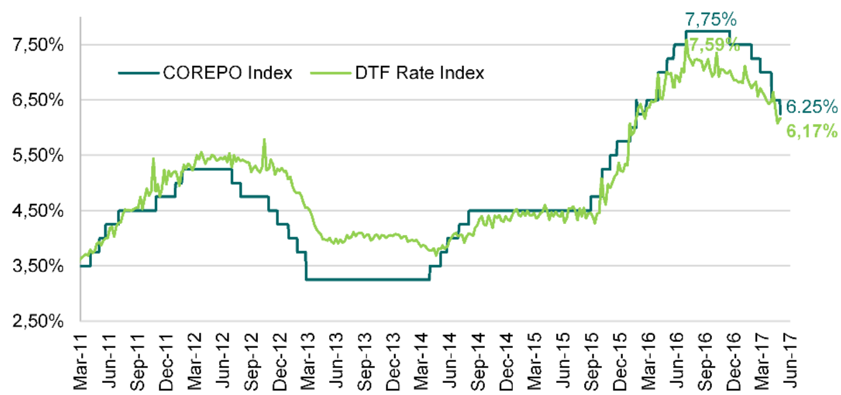
Interest rate fluctuations in Colombia have a significant effect on our business, financial condition and results of operations. While our interest-earning assets bear fixed and floating interest rates; all of our interest-bearing liabilities currently carry fixed and floating interest rates equal to the DTF rate plus a spread, and are subject to frequent re-pricing. The DTF rate is the benchmark interbank interest rate applicable to borrowing from and lending to the Colombian Central Bank in transactions denominated in pesos, and is updated weekly by the Colombian Central Bank.

The following table presents the high, low and average DTF rate during each of the periods indicated.

	DTF Rate			
	High	**Low**	**Average**	**End of Period**
2012	5.79%	4.95%	5.34%	5.27%
2013	5.22%	3.91%	4.24%	4.07%
2014	4.42%	3.69%	4.06%	4.34%
2015	5.37%	4.27%	4.55%	5.22%
2016	7.59%	5.21%	6.74%	6.86%
2017 (through March)	7.12%	6.57%	6.80%	6.65%

Source: Colombian Central Bank

The Colombian Central Bank started raising its target interest rate during the second half of 2015, bringing it from 4.5% to 5.75%. During 2016 the Colombian Central Bank increased its interest rate to 7.75% in August, kept it unchanged until mid-December and reduced it by 0.25% to 7.5% at year end. Since then, the Colombian Central Bank has reduced the overnight lending rate by 1.25% to 6.25% as of May 30, 2017, as inflation started to converge to its target range.



Source: Colombian Central Bank

A significant portion of our assets are linked to the DTF rate; accordingly, changes in the DTF (which is highly correlated to Central Bank's target rate), affect our net interest income. As the economy recovered and the output gap began to close, the Colombian Central Bank increased its interest rate throughout 2011, starting in February of that year, and through to the first quarter of 2012. As the economy began to slow down more than expected, due to the intensification of the economic crisis in Europe during 2012, the Colombian Central Bank decreased the interest rate by 100 basis points during the second half of that year, lowering it to 4.25% as of December 31, 2012.

Additional cuts of 100 basis points took place during 2013, bringing the policy rate to 3.25% as of December 31, 2013. The policy rate has increased by 125 basis points since then, to 4.50% on August 29, 2014, as the rate of inflation increased during the first half of 2014 towards the Colombian Central Bank's 3% target, and as the recovery of economic activity consolidated. It remained unchanged at 4.50% during the next 12 months, as inflation continued to accelerate while the economic outlook for 2015 deteriorated due to the collapse in oil prices. Inflation began to rise more rapidly, however, in the second half of 2015, mainly driven by the impact of the El Niño weather phenomenon on food and energy prices and by higher prices of imported goods due to the sharp depreciation of the exchange rate.

As a result, the Colombian Central Bank began to tighten monetary policy in September 2015, hiking its policy rate by 125 basis points to 5.75% as of December 2015 and 200 additional basis points during 2016 to 7.75%. The average DTF rate was 4.21% during 2011, 5.35% during 2012, 4.24% during 2013, 4.07% during 2014, 4.55% during 2015 and 6.71% during 2016. The average DTF rate as of May 30, 2017 was 6.64% and is expected to decrease in the short-term as the Colombian Central Bank has already started its easing cycle of rate cuts as inflation and the economy continues to slow down.

Seasonality

On a general basis, the second half of the year exhibits higher disbursements from our three products due to an increasing demand to purchase consumer goods after pensioners and public sector employees receive additional pensions and wages benefits in June according to law and the anticipation of expenditure related to the year-end holiday season. In turn, the first quarter of the year is usually slow in disbursements and demand for new credit as the vacation season extends during the first months of the year.

Critical Accounting Estimates

Preparing financial statements in accordance with FRAS-IFRS requires our management to make certain estimates and assumptions that affect the amount of assets, liabilities, income and expenses reported during the period.

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

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

Financial Assets Business Model

Our 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.

We have developed a diversified platform with collection channels designed to minimize the risk of default and optimize the quality of our 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 promoting growth. We have 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 *Credipóliza* product.

We apply meaningful judgments in managing financial assets and to evaluate if our financial assets comply with the conditions established in our business model so they can be classified at fair value or at amortized cost. Some of our financial assets have been classified as investments at fair value and others at amortized cost. According to our 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 our assets and liabilities, when it is necessary to finance significant capital disbursements and when there are seasonal liquidity needs.

Allowance for Loan Losses

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

We will consider specific and collective impairment of an asset as evidence. All significant individual loans are evaluated for specific impairment, and if they are not found to be impaired specifically, they are evaluated collectively.

Loans that are not relevant individually are examined for impairment collectively in groups that share similar risks. For the evaluation of impairment, we use statistical models of historical trends to determine the probability of default.

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

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

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

- Exposure at default (EAD) is the amount of risk incurred at the moment of the counterparty's (client's) non-payment.
- Probability of default (PD) is the probability that the counterparty will pay late his monthly installments (capital and/or interest). The probability of default is associated to the rating/scoring or level of default of each counterparty/operation.
- Loss given default (LGD) is the estimate of loss in the case of non-payment. It mainly depends on the characteristics of the counterparty and the valuation of the guarantees.
- Loss identification period (LIP) corresponds to the time that passes between the moment an event occurs that creates a determined loss and the moment said loss becomes evident at a specific level. LIPs are analyzed for portfolios with homogenous risk.

Deferred Income Tax

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

Estimates for Contingencies

We estimate and register an estimate for contingencies to cover possible losses due to labor cases, civil proceedings, fiscal claims and others according to the circumstances that, based on the opinion of external legal advisors and/or internal attorneys, are considered probable losses and can be reasonably estimated. Given the nature of the claims, cases, and/or proceedings it is not possible to make an accurate prediction or reasonably quantify an amount of loss sometimes. For this reason, the actual amount of the disbursements made due to claims, cases, and/or proceedings is generally different than the estimated amounts that were initially provisioned. Said differences are recognized in the year they are incurred. See Notes 3 and 17 to our Annual Financial Statements.

New Accounting Policies and Standards

Below is a summary of certain new and amended standards that have been issued by the IASB and are effective for annual periods starting on or after January 1, 2017. We are in the process of assessing the potential impact of these pronouncements on our financial statements. See Note 5 to our Annual Financial Statements.

Decrees 2496 of December 24, 2015 and 2131 of December 22, 2016 introduced a new accounting framework reflecting the new standards, modifications or changes to IFRS issued by the IASB between the years 2015 and 2016. These amendments to the reporting framework must be applied for financial periods starting January 1, 2017, although they can be adopted early.

IFRS 9 Financial Instruments and associated amendments to various other standards

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortized cost and fair value. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018.

Phase 1: Classification and measurement of financial assets and financial liabilities

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value. All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss). For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

In the case of financial liabilities, the classification and measurement criteria defined under IAS 39 will remain without major differences under IFRS 9. However, any changes in the fair value of financial liabilities which had been classified at fair value with changes through profit or loss, due to the entity credit risk, will be generally classified in other comprehensive income.

Phase 2: Impairment methodology

A new expected credit loss (ECL) model will be implemented which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition entities will record a day-one loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

Phase 3: Hedge accounting

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. IFRS 15 will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programs;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the se of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the se of IFRS 15. Instead, they are within the se of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is adopted early).

As mentioned above, the new revenue standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For more information, see Note 5 to our Annual Financial Statements.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. It will supersede the following lease standards and interpretations upon its effective date:

- IFRS 16 Leases;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- SIC-15 Operating Leases – Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Identification of a Lease

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Control is considered to exist if the customer has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset. The standard provides detailed guidance to determine whether those conditions are met, including instances where the supplier has substantive substitution rights, and where the relevant decisions about how and for what purpose the asset is used are predetermined.

Lease Accounting

IFRS 16 introduces significant changes to lessee accounting, by removing the distinction between operating and finance leases under IAS 17 and requiring a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

If a lessee elects not to apply the general requirements of IFRS 16 to short-term leases (*i.e.*, one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low-value assets, the lessee should recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, similar to the current accounting for operating leases.

Lessor Accounting

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, which continue to require a lessor to classify a lease either as an operating lease or a finance lease. In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosure is also required.

Results of Operations for the Three Months Ended March 31, 2017 Compared to the Three Months Ended March 31, 2016

Interest Income and Similar

For the three months ended March 31, 2017, our revenues were mainly comprised of interest income (71.8%), commissions from sales of insurance products and fees from credit cards (28.2%). Revenues from portfolio sales decreased to zero, as a result of our decision to suspend these sales as a source of additional funding in order to strengthen our on-balance sheet portfolio.

The following chart summarizes our interest income for the periods described therein:

	For the Three Months Ended March 31,			
	2017	**2017**	**2016**	**Percent Change**
	(in millions of US$) (1)	**(in millions of Ps.)**		
Interest income	16.6	47,761	31,386	52%
Commissions and fees	6.5	18,799	11,269	67%
Revenues from portfolio sales	-	-	11,597	(100)%
Interest income and similar	**23.1**	**66,560**	**54,252**	**23%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

For the three months ended March 31, 2017, interest income and commissions and fees increased 52.2% and 66.8%, respectively, consistent with the increase in the number of active credit cards, a larger amount of average owned loan portfolio and an increase in the share of the credit cards out of the total loan portfolio as a result of our strategic alliance with VISA. Under this alliance, our credit card clients are allowed to use their credit cards in any retailer that accepts VISA, while previously our credit cards were only accepted in a limited number of retailers.

Under IFRS, results from trusts are accounted in each line item of our statement of income. Therefore, their interest income and expenses are part of the total interest income and of the financial costs (interest).

Financial Costs (Interest)

For the three months ended March 31, 2017, financial costs (interest) increased 28.7%, from Ps.26,044 million (US$9.0 million) for the three months ended March 31, 2016 to Ps.33,530 million (US$11.6 million) for the same period in 2017 as a result of higher interest rates in Colombia during the first quarter of 2017 as compared to the same period in 2016, due to the 0.50% increase in the overnight repo rate of the Colombian Central Bank between March 2016 and March 2017 and an 8.9% increase in the balance of our financial obligations during this period.

Net Interest Margin (NIM)

We analyze our net interest margin (NIM) as follows:

	For the three months ended March 31,			
	2017	**2017**	**2016**	**Percent Change**
	(in millions of US$) (1)	**(in millions of Ps.)**		
Interest income, excluding transaction costs and fair value	18.9	54,344	45,199	20.2%
Financial costs (interest)	(11.6)	(33,530)	(26,044)	28.7%
Net interest margin, excluding transaction costs and fair value (NIM)	**7.2**	**20,814**	**19,155**	**8.7%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Net interest margin, excluding transaction costs and fair value (NIM) increased 8.7% during the three months ended March 31, 2017 as compared to the same period in 2016 due to the increase in interest rates, especially the DTF, which affected both the interest income as well as the interest expense. However, it is important to consider that with regards to the net interest margin, the financial costs are more heavily affected by increases in the DTF than the interest income, given that they absorb the impact first. Hikes in the DTF affect our financial obligations immediately, while there is a lag for the increase in rates to be reflected into the cap rate and, thus, into the rate we can charge our clients.

In addition, during the first quarter of 2017, we continued to adjust our pricing strategy in the payroll loans and credit cards products, increasing rates for clients as a way to control excess demand caused by the liquidation of other financial non-banking institutions in the payroll loan market.

Impairment of Financial Assets Loan Portfolio

Impairment of financial assets loan portfolio increased 15.3% from Ps.11,123 million (US$3.9 million) in March 2016 to Ps.12,827 million (US$4.5 million) due to the results of the expected loss model for the period.

Gains from Operating Activities

Gains from operating activities increased 16.3%, from Ps.17,085 million (US$5.9 million) for the three months ended March 31, 2016 to Ps.19,870 million (US$6.9 million) for the same period in 2017, primarily due to the increase in interest income as previously explained.

The following chart summarizes our gains from operating activities for the periods described therein:

	For the Three Months Ended March 31,			
	2017	2017	2016	Percent Change
	(in millions of US$) (1)	(in millions of Ps.)		
Interest income and similar	23.1	66,560	54,252	22.7%
Financial costs (interest)	(11.6)	(33,530)	(26,044)	28.7%
Net interest and similar	**11.5**	**33,030**	**28,208**	17.1%
Impairment of financial assets loan portfolio	(4.5)	(12,827)	(11,123)	15.3%
Impairment of other accounts receivable	(0.1)	(333)	-	-
Gains from operating activities	**6.9**	**19,870**	**17,085**	16.3%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Total Financial Income and Total Financial Costs

Total financial income and total financial costs include: (i) the effect of valuation and exchange rate differences resulting from financial derivatives used to hedge our financial liabilities in foreign currency and (ii) financial income from the investment of our available cash.

Total financial income increased 83.0%, from Ps.7,976 million (US$2.8 million) for the three months ended March 31, 2016 to Ps.14,598 million (US$5.1 million) for the same period in 2017, primarily due to the increase in the exchange rate differences account due to the compensation of the non-delivery forwards (NDFs) outstanding, as the underlying obligation in foreign currency became due in March 2017. Total financial cost increased 97.5% from Ps.8,966 million (US$3.1 million) for the three months ended March 31, 2016 to Ps.17,710 million (US$6.1 million) for the same period in 2017, mainly due to the impact of the forwards' valuation.

Consequently, the net financial cost increased from Ps.990 million (US$34,372) in the three months ended March 31, 2016 to Ps.3,112 million (US$1.1 million) in the three months ended March 31, 2017.

	For the Three Months Ended March 31,			
	2017	2017	2016	Percent Change
	(in millions of US$) (1)	(in millions of Ps.)		
Gains from operating activities	**6.9**	**19,870**	**17,085**	16.3%
Financial income				
Exchange rate differences	5.0	14,322	7,885	81.6%
Forward valuation	-	-	-	-
Loan portfolio impairment recoveries	0.1	183	58	215.5%
Financial income	0.0	93	33	181.8%
Total financial income	**5.1**	**14,598**	**7,976**	83.0%
Financial costs				

Forward valuation	(6.1)	(17,710)	(8,966)	97.5%
Total financial costs	**(6.1)**	**(17,710)**	**(8,966)**	97.5%
Net financial costs	**(1.1)**	**(3,112)**	**(990)**	**214%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Other Income and Other Expenses

Other income, which includes recovered provisions from non-performing loans, decreased 8.9% from Ps.9,476 million (US$3.3 million) to Ps.8,635 million (US$3.0 million) between March 2016 and March 2017.

Employee benefits decreased 5.9%, due to a decrease in the number of sales representatives compared to the same period of 2016. Expenses for depreciation and amortization also decreased 0.1% in the same period. Furthermore, other expenses, which include expenses for publicity and advertising, fees, temporary services, leases, taxes, technical assistance and administrative expenses of the free-standing trusts, increased 20.4% from Ps.14,892 million (US$5.2 million) to Ps.17,936 million (US$ 6.2 million) due to the increase in VAT, as a result of the tax reform passed by Congress in 2016, which impacted general prices of administrative services during the first quarter of 2017.

	For the Three Months Ended March 31,			
	2017	**2017**	**2016**	**Percent Change**
	(in millions of US$) (1)	**(in millions of Ps.)**		
Other income	**3.0**	**8,635**	**9,476**	**(8.9)%**
Other expenses				
Employee benefits	(1.6)	(4,522)	(4,807)	(5.9)%
Expense for depreciation and amortization	(0.3)	(921)	(922)	(0.1)%
Other (2)	(6.2)	(17,936)	(14,892)	20.4%
Other expenses	**(8.1)**	**(23,379)**	**(20,621)**	**13.4%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

(2) Breakdown of other expenses not available for the March 2016 and 2017 financial statements.

Net Income

Net income for the three months ended March 31, 2017 was Ps.1,668 million (US$579,118), an increase of 7.5% compared to the same period in 2016, mainly driven by the changes described above. Income tax decreased 89.8% from Ps.3,398 million (US$1.2 million) to Ps.346 million (US$ 120,129) between March 2016 and March 2017, mainly due to changes in the deferred taxes balance of the other comprehensive income account of the shareholders' equity related to hedge accounting.

Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Interest Income and Similar

For the year ended December 31, 2016, our interest income and similar was mainly comprised of (i) interest income (64.3%), (ii) commissions and fees (22.6%), (iii) revenues from portfolio sales (5.0%) and (iv) indemnities (8.1%).

	For the Year Ended December 31,			
	2016	**2016**	**2015**	**Percent Change**
	(in millions of US$) (1)	**(in millions of Ps.)**		
Interest income	60.0	172,945	162,833	6.2%

Commissions and fees	21.1	60,666	46,029	31.8%
Revenues from portfolio sales	4.7	13,526	26,485	(48.9)%
Indemnities	7.6	21,876	156	13923.1%
Interest income and similar	**93.4**	**269,013**	**235,503**	**14.2%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Interest income and similar increased 14.2% due to higher commissions and fees, interest income and other income as follows:

Interest income: For the year ended December 31, 2016, our interest increased by 6.2% from Ps.162,833 million (US$56.5 million) to Ps.172,945 million (US$60.0 million) due to higher loan portfolio origination and balance together with higher loan portfolio origination rates that increased from 22.22% to 23.55%, on a nominal basis. Figures as of December 31, 2016 include transaction costs for loan origination and fair value of loan portfolio for Ps.25,273 million (US$8.8 million).

Commissions and fees: Commissions and fees correspond mainly to fees related to the sale of mandatory insurance products through our network (debtor life insurance, voluntary insurance products, etc.), collection fees and administration fees. Administration fees are monthly fees charged in our credit card business to those clients with an active credit card with outstanding balance, therefore it is a recurring income that increases based on the number of credit cards issued. During 2016, commissions and fees increased by 31.8%, to Ps.60,666 million (US$21.1 million), mostly due to our strategy to maximize income from sources other than interest. During 2016, not only the number of active credit cards increased by 13.6% and reached 206,780 cards, but also the monthly management fees charged to clients were increased approximately by 25%. The credit card business has also benefitted from the alliance with VISA whereby clients can now use the card in any retailer that runs through the VISA networks, as opposed to just in the retailers with whom Credivalores had alliances.

In addition, during 2016, the launch of a new insurance product to protect the credit card holder against theft of its credit card, represented additional fees of Ps.4,210 million (US$1.5 million).

Revenues from portfolio sales: For the year ended December 31, 2016, revenues from portfolio sales decreased by 48.9% from Ps.26,485 million (US$9.2 million) to Ps.13,526 million (US$4.7 million) as a result of our decision to wind down sales of our portfolio to financial institutions, in order to strengthen the on-balance sheet portfolio.

Historically, portfolio sales were an important source of funding, which has been replaced with other secured and unsecured sources of funding. According to preliminary calculations, we have estimated that the interest income from the on balance portfolio will compensate the initial income from portfolio sales within an 18 month timeframe. In addition, the portfolio kept on balance will continue generating interest income afterwards.

Other income (indemnities): Includes revenues from insurance companies, including the strategic partnership with Metlife for the sale of voluntary insurance products.

Financial Costs (Interest)

Financial costs (interest) reached Ps.126,222 million (US$43.8 million) for the year ended December 31, 2016, due to higher financial obligations, together with an increase in the DTF -the base rate of our main financial liabilities, which increased 2.20% based on the average levels of 2015 and 2016. Financial obligations increased to support our portfolio growth and to offset the decrease in cash flow from portfolio sales, which resulted in higher working capital requirements.

In addition, transaction costs related to new financings from the ECP program and the syndicated secured loans, and local financings resulted in higher financial costs.

Net Interest Margin (NIM)

We analyze our net interest margin (NIM) as follows:

	For the Year Ended December 31			
	2016	2016	2015	Percent Change
	(in millions of US$) (1)	(in millions of Ps.)		
Interest income, excluding of transaction costs and fair value	69.0	198,772	140,203	41.8%
Financial costs (interest)	(43.8)	(126,222)	(56,116)	124.9%
Net interest margin, excluding transaction costs and fair value (NIM)	**25.2**	**72,550**	**84,087**	**(13.7)%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Net interest margin (excluding transaction costs and fair value) (NIM) decreased by 13.7% as compared to December 31, 2015 due to higher financial cost as explained above. However, it is important to consider that with regards to the net interest margin, the financial costs are more heavily affected by increases in the DTF than the interest income, given that they absorb the impact first. Hikes in the DTF affect our financial obligations immediately, while there is a lag for the increase in rates to be reflected into the cap rate and, thus, into the rate we can charge our clients.

Besides the increase in the DTF, during 2016 we experienced an additional working capital requirement due to the reduction in portfolio sales to financial institutions. When we used portfolio sales, we had lower cash requirements throughout the origination cycle because payment of the principal and interest was received in advance; as opposed to maintaining the portfolio on our balance sheet, where the first installment is received within 60 to 90 days from disbursement. This adjustment in working capital requirements has been incorporated into the new capital structure of the operation and we expect a balanced growth of interest income and interest expense.

In addition, during the second half of 2016, we started to adjust our pricing strategy in the payroll loans product increasing rates for clients as a way to control excess demand caused by the liquidation of other financial non-banking institutions in the payroll loan market.

Impairment of Financial Assets Loan Portfolio

During 2016, impairment of financial assets loan portfolio decreased 15.7% from Ps.27,603 million (US$9.6 million) in 2015 to Ps.23,261 million (US$8.1 million) due to recoveries of the guarantee (*aval*) that we have had with the Fondo de Garantias de Antioquia (FGA) since 2011 as a protection against loan defaults from clients with higher risk profiles. Once a loan enters into default, we can claim a reimbursement from the FGA for the outstanding balance of the loan. For this, we receive monetary compensation and record a provision recovery that reduces the balance of the provision on our books. During 2016, claims to the FGA were Ps.19,756 million (US$6.9 million) and the remaining balance at the end of the year was Ps.1,249 million (US$433,644).

Gains from Operating Activities

Gains from operating activities decreased by 21.2%, from Ps.151,784 million (US$53 million) in 2015 to Ps.119,530 million (US$42 million) in 2016, primarily due to lower revenues from portfolio sales and higher financial costs of interests, as explained above.

The following chart summarizes our gains from operating activities for the periods described therein:

	For the Year Ended December 31			Percent Change
	2016	2016	2015	
	(in millions of US$) (1)	(in millions of Ps.)		
Interest income and similar	93.4	269,013	235,503	14.2%
Financial costs (interest)	(43.8)	(126,222)	(56,116)	124.9%
Net interest and similar	**49.6**	**142,791**	**179,387**	(20.4)%
Impairment of financial assets loan portfolio	(8.1)	(23,261)	(27,603)	(15.7)%
Gains from operating activities	**41.5**	**119,530**	**151,784**	(21.2)%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Financial Income and Financial Costs

Financial income and financial costs reflect the effect of the valuation and exchange rate differences resulting from financial derivatives used to hedge our financial liabilities in foreign currency.

Financial income decreased 73.4%, from Ps.44,407 million (US$15.4 million) in 2015 to Ps.11,832 million (US$4.1 million) in 2016, and financial costs increased 411.0% from Ps.2,860 million (US$992,973) in 2015 to Ps.14,615 million (US$5.1 million) in 2016. Consequently, the net financial cost decreased from a financial income of Ps.41,547 million (US$14.4 million) to a financial cost of Ps.2,783 million (US$966,239) between 2015 and 2016.

	For the Year Ended December 31			Percent Change
	2016	2016	2015	
	(in millions of US$) (1)	(in millions of Ps.)		
Financial income:				
Exchange rate differences	3.8	10,980	-	100.0%
Forward valuation	-	-	42,903	(100.0)%
Loan portfolio impairment recoveries	0.2	558	1,574	(64.5)%
Financial income	0.1	294	(70)	(520.0)%
Total financial income	**4.1**	**11,832**	**44,407**	(73.4)%
Financial costs				
Exchange rate differences	-	-	(2,860)	(100.0)%
Forward valuation	(5.1)	(14,615)	-	100.0%
Total financial costs	**(5.1)**	**(14,615)**	**(2,860)**	411.0%
Net financial costs	**(1.0)**	**(2,783)**	**41,547**	**(106.7)%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

During 2015, Ps.47,390 million (US$16.5 million) of exchange rate differences were classified as other expenses. After adjusting financial costs to include this figure, the net financial income/expense for 2015 would have resulted in a net financial cost of Ps.5,843 million (US$2.0 million), equivalent to a 52.4% decrease in the net financial costs between December 31, 2015 and December 31, 2016.

Other Income and Other Expenses

Other income, which includes recovered provisions from non-performing loans, increased considerably from Ps.353 million (US$122,559) to Ps.9,553 million (US$ 3.3 million) between December 31, 2015 and December 31, 2016.

Other expenses are comprised of employee benefits, depreciation and amortization and other. Others are comprised mainly of commissions, technical assistance consultancy fees for the implementation of software (core and loan administration) and cost control initiatives consulting services, other expenses of the free-standing trusts (tax on financial transactions and commissions), taxes, fees, insurance, and advertising.

Total other expenses decreased from Ps.155,966 million (US$54.2 million) in 2015 to Ps.102,870 million (US$35.7 million) in 2016, mainly due to a decrease in commissions recorded in 2016, which included exchange rate differences for Ps.47,390 million (US$16.5 million).

	For the Year Ended December 31			Percent Change
	2016	2016	2015	
	(in millions of US$) (1)	(in millions of Ps.)		
Other income	3.3	9,553	353	2606.2%
Other expenses				
Employee benefits	(6.9)	(20,005)	(34,838)	(42.6)%
Expense for depreciation and amortization	(1.3)	(3,824)	(1,609)	137.7%
Other	(27.4)	(79,041)	(119,519)	(33.9)%
Commissions	(1.2)	(3,491)	(49,032)	(92.9)%
Other administrative expenses	(26.2)	(75,550)	(70,487)	7.2%
Total Other expenses	**(35.7)**	**(102,870)**	**(155,966)**	**(34.0)%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Taxes

Income tax increased from Ps.3,793 million (US$1.3 million) in 2015 to Ps.6,230 million (US$2.2 million) in 2016 mainly due to the higher deferred tax resulting from the implementation of hedge accounting. Under hedge accounting, any loss from the hedge is not considered for tax purposes in each period but upon cancellation of the derivative. During 2016, the deferred income tax was Ps.4,995 million (US$1.7 million).

Net Income

Net income decreased by 49.3% from Ps.33,925 million (US$11.8 million) in 2015 to Ps.17,200 million (US$6.0 million) in 2016. The decrease was driven primarily by the changes described above.

Analysis of Cash Flows

The following table summarizes our generation and use of cash for the periods presented:

	For the Three Months Ended March 31,		For the Year Ended December 31	
	2017	2016	2016	2015
	(in millions of Ps.)			
Net cash provided by (used in) operating activities	(1,113)	(53,494)	(264,259)	(173,022)
Net cash provided by (used in) investing activities	(1,176)	(1,538)	(943)	(37,860)
Net cash provided by financing activities	96,573	80,545	278,088	237,817
Net cash inflow	94,284	25,513	12,886	26,935

Cash Flows for the Three Months Ended March 31, 2017 Compared to the Three Months Ended March 31, 2016

Taking into account our cash flows from operations, cash flows from financing activities and cash flows from investing activities, we had a net cash inflow of Ps.94,284 million for the three months ended March 31, 2017, compared to a net cash inflow of Ps.25,513 million for the three months ended March 31, 2016.

Operating Activities. Our net cash provided by operating activities improved compared to March 31, 2016 but still resulted in a negative number of Ps.1,113 million for the three months ended March 31, 2017 from Ps.(53,494) million for the same period in 2016. This change was primarily due to an increase in revenues from higher interest rates of loans, in commissions and management fees of credit cards and lower disbursements of loan s and an increase in accounts receivable.

Investing Activities. Our net cash used in investing activities increased for the three months ended March 31, 2017 to Ps.(1,176) million from Ps.(1,538) million for the same period in 2016. This change was primarily due to a slight decrease in investments in property and equipment and intangibles.

Financing Activities. Our net cash provided by financing activities increased for the three months ended March 31, 2017 to Ps.96,573 million from Ps.80,545 million for the same period in 2016. This change was primarily due to the issuance of tranches IX and X of the ECP Program for a total of US$57.0 million in March 2017 to refinance an outstanding maturity of US$33.5 million, resulting in a net increase of the sources of funding during the first quarter of 2017 compared to the first quarter of 2016.

Cash Flows for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Taking into account our cash flows from operations, cash flows from financing activities and cash flows from investing activities, we had a net cash inflow of Ps.12,886 million for the year ended December 31, 2016, compared to a net cash inflow of Ps.26,935 million for the year ended December 31, 2015.

Operating Activities. Our net cash provided by operating activities decreased to a negative figure of Ps.264,259 million for the year ended December 31, 2016 from a negative number of Ps.173,022 million for the year ended December 31, 2015. This change was primarily due to a decrease in accounts payable and in other liabilities.

Investing Activities. Our net cash used in investing activities improved for the year ended December 31, 2016 to Ps.943 million from Ps.(37,860) million for the year ended December 31, 2015. This change was primarily due to divestments in associates such as Asficor S.A.S. and Microfinanzas & Desarrollo.

Financing Activities. Our net cash provided by financing activities increased for the year ended December 31, 2016 to Ps.278,088 million from Ps.237,817 million for the year ended December 31, 2015. This increase was primarily due to the growth in financial obligations in free-standing trusts.

Liquidity and Capital Resources

Since our formation, we have consistently sought to diversify our funding sources. In order to maintain adequate levels of availability, we have developed funding facilities with a consistent approach to match the duration of assets and liabilities and to reduce our average cost of financing. Currently, we receive funding from multiple local and international sources, including top-class committed shareholders, local bank debt and multilateral financing with the IFC, and we have recently tapped the international capital markets through our ECP Program. Currently, we focus on increasing funding from unsecured facilities that can generate additional cash flow to fund our portfolio growth.

As of March 31, 2017, we had uncollateralized bank credit lines with eight banks, amounting to Ps.193,502 million (US$67.2 million), of which Ps.145,485 million (US$50.5 million) were outstanding. We also had lines of credit for collateralized transactions and for portfolio sales with eight banks of Ps.861,100 million (US$299.0 million), of which Ps.617,406 million (US$214.4 million), including the IFC loan facility, were outstanding.

In 2016, we decided to change our funding strategy for our payroll loan business by ending portfolio sales to financial institutions. Eliminating revenues from portfolio sales reduced income in the short-term and had an impact on some indicators such as assets and efficiency ratios. However, we believe this change will lead to a stronger balance sheet and improvements in our fundamental variables through improvements in our credit ratings due to a more sustainable and scalable funding strategy, strengthening of funding sources, and long-term increases in cash flow resulting from a more efficient financing structure.

The table below presents our projected cash flow related to outstanding loans in our loan portfolio (Collections) as well as to the outstanding financial liabilities as of March 31, 2017, including interest and principal at maturity (Obligations), during the second, third and fourth quarters of 2017 and the first quarter of

2018, on a quarterly basis and in an aggregate amount over those periods. As set forth in the table, our collections, assuming no material change in the default rate of our loan portfolio, are expected to exceed our financial obligations during each quarter.

	2017			2018	
	Second Quarter	**Third Quarter**	**Fourth Quarter**	**First Quarter**	**Aggregate**
		(in millions of Ps.)			
Collections	215.645	247.792	268.284	281.027	1.012.747
Obligations	156.356	175.886	184.126	192.872	709.241

As of March 31, 2017, our weighted debt maturity is 1.8 years. In contrast, our weighted debt maturity was 1.9 years as of December 31, 2016, and 2.0 years as of December 31, 2015.

As of March 31, 2017, Ps.617,406 million (US$214.4 million), or 52%, of our outstanding indebtedness (excluding accrued interest) was secured by collateral.

As of March 31, 2017, we had an aggregate principal amount of Ps. 499,214 million (US$173. 3 million) of contractual obligations denominated in U.S. dollars.

Loan with Gramercy (Lacrot)

On October 26, 2016, Lacrot Inversiones 2014, S.L.U. (“Lacrot”), as lender, and us, as one of the borrowers, along with Finanza Inversiones S.A.S, as co-borrowers, entered into a single-draw convertible term loan in a principal amount of US$20 million, which was fully funded at closing, with a maturity of six months as of closing and interest rate of 9.500%. We used the proceeds from this loan for working capital. Lacrot is an investment fund managed by Gramercy.

On February 28, 2017, the documentation of the convertible loan was amended to increase the total amount by US$20 million with a six-month maturity starting on March 9, 2017 at the same interest rate of 9.500%.

In March 2017, we decided to exercise our option to capitalize Ps.53,511 million (US$18.6 million) of this facility into equity. The capitalization was recorded in our financial statements as of April 30, 2017. Following this capital injection, as of April 30, 2017, our shareholders’ equity was Ps.244,250 million (US$84.8 million).

International Funding

As of March 31, 2017, we had a total aggregate principal amount of US$108.5 million outstanding under our ECP Program.

In May 2017, we closed two issuances under our ECP Program in an aggregate amount of US$35 million with both new and existing investors. One of the transactions was the reopening of the 8.25% notes issued in March 2017 and due in September 2018 for an additional US$10 million, bringing the total aggregate principal outstanding under those tranches to US$67 million. The other transaction was a US$25 million private placement that is subject to the following covenants: limitation of incurrence of additional indebtedness, limitation on restricted payments and limitation on liens. Regarding the limitation of incurrence of additional indebtedness, we may incur indebtedness if we maintain a capitalization ratio of at least 13.00%. With respect to the limitation on liens, the permitted liens clause allows us to incur indebtedness if we maintain a ratio of total unencumbered assets (including intangible assets and deferred taxes) to total unsecured indebtedness of at least 125.0%.

In December 2012, we entered into a peso-linked loan facility with IFC for an amount of up to US$25 million, which was amended in May 2015 to increase the amount up to US$45 million. This is a secured facility with collateral of 115% for the first tranche and 110% for the second tranche. The rate of the facility was originally based on a weighted average of the Colombian peso-linked Base Rates plus a spread of 5.5% for the first tranche and 5.9% for the second tranche. However, the interest rate risk of the loan was hedged to a fixed interest rate in pesos according to each one of the disbursements with rates ranging between 9.45% and 12.47% in pesos. In addition, the facility includes several covenants out of which the following are the most relevant: risk weighted capital adequacy ratio of not less than 12.0%, equity to asset ratio of not less than 12.0%, economic group exposure ratio of not more than 7.0%, related party exposure ratio of not more than 10.0%, fixed assets over equity ratio of not more than 35%, aggregate FX risk ratio of not more than 25%, aggregate interest rate risk ratio between (20%) and 20% and the liquidity ratio of not less than 8%.

Local Funding

In October 2016, we closed a Ps.130,000 million syndicated loan for *Crediuno* and *Credipóliza* with local financial institutions. This was the third renewal of this loan, which we believe shows the commitment of the lenders and their belief on the strength of the financing structure of these loans. We used the proceeds from this financing for working capital and new loan origination. As of March 31, 2017, the aggregate principal amount outstanding under this loan was Ps.107,586 million (US$37.4 million).

Contractual Obligations

The table below sets forth information regarding our contractual obligations (excluding accrued interest) as of December 31, 2016:

	Total	**2017**	**2018**	**2019**	**2020 and Thereafter**
			(in millions of Ps.)		
Debt (excluding accrued interest and mark-to-market):					
Short-term debt	457,071	457,071	-	-	-
Long-term debt	635,215	-	158,872	175,571	300,772
Operating leases	682	-	266	362	55
Total contractual obligations (excluding accrued interest and mark-to-market)	**1,092,968**	**457,071**	**159,137**	**175,933**	**300,827**

Balance Sheet

We use part of our loan portfolio to secure financing structures as shown in the chart below.

The following chart sets forth our capitalization breakdown of Ps.1,443,639 million (US$ 501.2 million) as of March 31, 2017:

Assets

	As of March 31,		**As of December 31,**		**Percentage Change March 2017 / December 2016**
	2017	**2017**	**2016**	**2015**	
	(in millions of Ps.)	**(in millions of US$) (1)**	**(in millions of Ps.)**		
Cash and cash equivalents	217,248	75.4	122,964	110,078	76.7%
Total financial assets at fair value	24,664	8.6	26,155	49,295	(5.7)%
Total loan portfolio, net	933,314	324.0	953,874	774,486	(2.2)%
Accounts receivable, net	211,874	73.6	189,482	126,618	11.8%
Total financial assets at amortized cost	1,145,188	397.6	1,143,356	901,104	0.2%
Investments in associates and affiliates	9,062	3.1	9,408	31,240	(3.7)%
Current tax assets	3,652	1.3	2,799	13	30.5%
Deferred tax assets, net	14,893	5.2	13,982	5,764	6.5%
Property and equipment, net	872	0.3	1,017	1,462	(14.3)%

Intangible assets other than goodwill, net	28,060	9.7	28,836	26,904	(2.7)%
Total assets	**1,443,639**	**501.2**	**1,348,517**	**1,125,860**	**7.1%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Cash and Cash Equivalents

Cash and cash equivalents, valued at fair value under FRAS-IFRS include our liquidity and short term investments of our trusts, which are held on investment funds.

As of March 31, 2017, cash and cash equivalents amounted to Ps.217,248 million (US$75 million), and represent 15.0% of our total assets.

	As of March 31,		As of December 31,		
	2017	**2017**	**2016**	**2015**	**Percentage Change March 2017 / December 2016**
	(in millions of US$) (1)	**(in millions of Ps.)**			
Cash in hand	0.0	22	22	22	0.0%
Banks	7.7	22,187	19,755	16,434	12.3%
Trust rights	65.6	189,034	95,112	93,622	98.7%
Certificates of deposit	2.1	6,005	8,075		-25.6%
Total cash and equivalents	**75.4**	**217,248**	**122,964**	**110,078**	**76.7%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Total Financial Assets at Amortized Cost (Net Accounts receivable and Loan Portfolio)

Our loan portfolio (payroll loans, credit cards and insurance premium financing) and other accounts receivable are classified as total financial assets at amortized cost.

Total financial assets valued at amortized cost, increased by 26.9% from Ps.901,104 million (US$313 million) to Ps.1,143,356 million (US$397 million), mainly as an increase in the loan portfolio. As valued under FRAS-IFRS, the net loan portfolio increased by 23.2%, from Ps.774,486 million (US$268.9 million) for the year ended December 31, 2015, to Ps.953,874 million (US$331.2 million) for the year ended December 31, 2016. The increase was principally driven by the growth of the payroll and credit card loan portfolio.

As of March 31, 2017, total financial assets at amortized cost comprised 79.3% of total assets, and grew 0.2% compared to December 31, 2016, which was explained by the increase in our loan portfolio.

The table below sets forth information regarding our total financial assets at amortized cost:

	As of March 31, 2017		As of December 31,		
	2017	**2017**	**2016**	**2015**	**Percent Change March 2017 / December 2016**
	(in millions of US$) (1)	**(in millions of Ps.)**	**(in millions of Ps.)**		
Assets					
Financial assets at amortized cost					
Loan portfolio, net					
Consumer loans	356.3	1,026,300	1,044,230	819,497	(1.7)%
Microcredit loans	4.8	13,924	14,835	40,933	(6.1)%
Impairment	(37.1)	(106,910)	(105,191)	(85,944)	1.6%
Total loan portfolio, net	**324.0**	**933,314**	**953,874**	**774,486**	**(2.2)%**
Accounts receivable, net	**73.6**	**211,874**	**189,482**	**126,618**	**11.8%**
Total financial assets at amortized cost	**397.6**	**1,145,188**	**1,143,356**	**901,104**	**0.2%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

The balance for accounts receivable, net increased 49.6% from Ps.126,618 (US$44.0 million) as of December 31, 2015 to Ps.189,482 million (US$65.8 million) as of December 31, 2016, and increased 11.8% from Ps.189,482 million (US$65.8 million) as of December 31, 2016 to Ps.211,874 million (US$73.6 million) as of March 31, 2017. The balance for accounts receivable, net includes loan collection balances (principal, interest, fees and commissions) due to the free-standing trusts pending transfer to Credivalores for Ps.132,697 million (US$46.1 million) as of March 31, 2017, Ps.114,000 million (US$39.6 million) as of December 31, 2016 and Ps.101,143 million (US$35.1 million) as of December 31, 2015. In addition, accounts receivable include advances to suppliers, receivables from the sale of Asficor, a collections company previously owned by us, a loan with Finanza Inversiones and other items for Ps.76,044 million (US$26.4 million) as of March 31, 2017, Ps.72,053 million (US$25.0 million) as of December 31, 2016 and Ps.20,124 million (US$7.0 million) as of December 31, 2015.

Impairment of financial assets increased 1.6%, from Ps.105,191 million (US$36.5 million) on December 31, 2016, to Ps.106,910 million (US$37.1 million) on March 31, 2017. For the evaluation of impairment, we use statistical models that include historical trends of probability of default and probability of recovery.

In addition to the impairment of financial assets, we entered into an agreement with the *Fondo de Garantías de Antioquia*, entity that acts as guarantor for loans of certain of our clients with higher risk profiles. The cost of the guaranty is paid by the client and amounts paid are held by a mercantile trust fund. Such amounts are considered a reserve that we have set up to protect our portfolio in case of deterioration of the loans granted and are recorded in the financial statements as a contingent asset. The amounts held due in these accounts were:

	As of March 31,		As of December 31,		
	2017	**2017**	**2016**	**2015**	**Percentage Change March 2017 / December 2016**
	(in millions of US$) (1)	**(in millions of Ps.)**			
FGA reserves	0.8	2,305	1,249	12,066	85.3%

Impairment of financial assets	37.1	106,910	105,191	85,944	1.6%
Impairment + FGA reserves	**37.9**	**109,215**	**106,440**	**98,010**	**2.6%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Non-performing Loan Portfolio

Our loan portfolio is classified as non-performing when loans are 60 days or more past due, and is recognized as non-performing up to the amount of the capital and interest due at that date. Our non-performing loans and calculations related thereto do not take into account loans over 360 days past due (as described below) nor do they include past due interest.

Overdue balances of borrowers are recorded in the non-performing portfolio in the event of non-compliance with payment terms in which a loan installment or payment is past-due for specified periods. Loans are generally recorded as non-performing after 60 days of billing periods reporting non-compliance. For comparison purposes with the financial system, our NPL calculation excludes loans due over 360 days given that we do not perform recurring write-offs of our portfolio due to the high recovery levels achieved by our internal collection processes and less favorable tax conditions applicable to write-offs as compared to the financial institutions.

As of December 31, 2016, the NPL ratio for our total managed loan portfolio was 3.43%, a slight increase as compared to 3.29% as of December 31, 2015. This increase was primarily due to increase in NPLs under our insurance premium financing product, resulting from operating difficulties at certain insurance companies which caused delays in payments under revoked policies. The NPL ratio for the insurance premium financing product increased from 1.45% as of December 31, 2015 to 2.18% as of December 31, 2016. In contrast, the NPL ratio for our payroll loan product improved by 13%, from 2.79% on December 31, 2015 to 2.43% on December 31, 2016, and the NPL ratio for our credit card product remained stable at 4.58%.

The following tables set forth an analysis of our non-performing managed loan portfolio by product as of December 31, 2016 and 2015:

December 31, 2016:

	(in millions of Ps.)						
Days Overdue	**Payroll Loans**	**Credit Card**	**Insurance Premium**	**Micro Finance**	**Crediyá**	**Total Managed Loan Portfolio**	**On Balance Sheet Portfolio**
Performing	568,788	367,651	73,009	2,602	0	1,012,050	801,933
1-30	7,068	13,235	6,842	1,236	-	28,381	25,726
31-60	4,227	7,463	1,671	329	-	13,690	11,945
61-90	2,165	2,171	217	286	-	4,839	4,058
91-180	5,625	9,011	298	729	-	15,663	13,611
181-360	6,632	7,476	1,300	1,546	7	16,961	15,354
> 360	38,863	25,830	9,340	2,949	2,452	79,434	70,406
Total	**633,368**	**432,837**	**92,677**	**9,677**	**2,459**	**1,171,018**	**943,033**
					NPLs > 60 days	**116,897**	**103,429**
					NPLs > 60 and < 360	**37,463**	**33,023**
					NPL Index (>60 days, excl. > 360 days)	**3.43%**	**3.78%**

December 31, 2015:

	(in millions of Ps.)						
Days Overdue	**Payroll Loans**	**Credit Card**	**Insurance Premium**	**Micro Finance**	**Crediyá**	**Total Managed Loan Portfolio**	**On Balance Sheet Portfolio**
Performing	580,391	303,587	68,615	44,287	48	996,928	664,750

1-30	6,133	16,316	4,759	1,799	13	29,021	24,318
31-60	3,162	7,548	1,048	349	12	12,119	9,878
61-90	4,174	2,895	468	232	12	7,780	5,349
91-180	7,180	4,528	346	610	31	12,695	9,352
181-360	5,555	8,300	284	688	46	14,872	12,263
> A 360	29,303	20,126	8,924	1,263	2,591	62,207	54,634
Total	**635,898**	**363,300**	**84,444**	**49,228**	**2,753**	**1,135,623**	**780,544**

NPLs > 60 days	**97,554**	**81,598**
NPLs > 60 and < 360	**35,347**	**26,964**
NPL Index (>60 days, excl. > 360 days)	**3.29%**	**3.71%**

Other Assets

Other assets include investments in associates and affiliates and tax assets. As of March 31, 2017, Credivalores maintained a 25% stake in Inverefectivas S.A. equivalent to Ps.9,062 million (US$3.1 million).

Long Term Assets

Long term assets remained constant between 2015 and 2016, showing a slight decrease of 0.02% from Ps.43,825 million (US$15.2 million) for the year ended December 31, 2015, to Ps.34,130 million (US$11.8 million) for the year ended December 31, 2016.

	As of March 31,		As of December 31,		
	2017	**2017**	**2016**	**2015**	**Percentage Change March 2017 / December 2016**
	(in millions of US$) (1)	**(in millions of Ps.)**			
Long Term Assets					
Deferred tax assets, net	**5**	14,893	13,982	5,764	6.5%
Property and equipment, net	**0**	872	1,017	1,462	(14.3)%
Intangible assets other than goodwill, net	**10**	28,060	28,836	26,904	(2.7)%
Long term assets	**15**	**43,825**	**43,835**	**34,130**	**0.0%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Liabilities

Our primary sources of funding are working capital credit lines with local financial institutions, note issuances in the international capital markets under our up to US$150.0 million ECP Program, collateralized loans incurred through our free-standing trusts (*patrimonios autónomos*), and portfolio sales (up to the first half of 2016).

We continue to evaluate other financing sources to diversify our funding, like issuance of debt securities and international credit lines.

As of March 31, 2017, liabilities were mainly comprised of financial obligations, which accounted for 94% of our total liabilities. Total liabilities increased 7.9%, from Ps.1,159,394 million (US$403 million) as of December 31, 2016, to Ps.1,250,689 million (US$434 million) on March 31, 2017, and 22.1% between December 31, 2015 and December 31, 2016.

	As of March 31,		As of December 31,		
	2017	2017	2016	2015	Percentage Change March 2017 / December 2016
	(in millions of US$) (1)	(in millions of Ps.)			
Liabilities					
Total financial liabilities at fair value	6	16,805	16,958	-	-0.9%
Total financial obligations	410	1,181,547	1,084,974	806,886	8.9%
Employee benefits	0	1,072	1,198	1,459	(10.5)%
Other provisions	0	84	1,021	1,975	(91.8)%
Accounts payable	14	41,315	47,633	83,746	(13.3)%
Current tax liabilities	2	6,690	4,503	3,368	48.6%
Other liabilities	1	3,176	3,107	52,475	2.2%
Total liabilities	**434**	**1,250,689**	**1,159,394**	**949,909**	**7.9%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Financial Debt

We classify our financial indebtedness under financial obligations. Interest bearing loans and obligations are carried at amortized cost.

	As of March 31,		As of December 31,		
	2017	2017	2016	2015	Percentage Change March 2017 / December 2016
	(in millions of US$) (1)	(in millions of Ps.)			
Financial obligations in free-standing trusts	190	545,908	543,788	368,798	0.4%
Promissory notes – national banks	51	145,485	146,162	180,253	(0.5)%
Finance lease agreements	0	657	755	1,508	(13.0)%
Foreign banks	173	499,214	400,545	258,918	24.6%
Other financial obligations	2	6,964	1,718	10,474	305.4%
Transaction cost	(6)	(16,681)	(7,994)	(13,065)	108.7%
Total financial obligations	**410**	**1,181,547**	**1,084,974**	**806,886**	**8.9%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Financial obligations including accrued interest and transaction costs increased 34.5%, from Ps.806,886 million (US$280.1 million) for the year ended December 31, 2015, to Ps.1,084,974 million (US$376.7 million) for the year ended December 31, 2016. The additional indebtedness allowed us to increase our total owned loan portfolio by 20.8% and managed loan portfolio by 3.1%. During 2016, the notes placed under the ECP Program increased their share of our total indebtedness. For the year ended December 31, 2016, 37.0% of our total financial obligations was comprised of drawings under our working capital obligations with local financial institutions and our ECP Program equivalent to Ps.401,222 million (US$139.3 million) and 57.0% of financial obligations of our trusts (*patrimonios autónomos*) and an IFC loan facility equivalent to Ps.618,804 million (US$214.8 million).

Between December 31, 2016 and March 31, 2017, financial obligations (including accrued interest and transaction costs) increased by 8.9% and reached Ps.1,181,547 million (US$410.2 million), of which 38.8% was comprised of local financial obligations and notes issued under the ECP Program, equivalent to Ps.457,991 million (US$159.0 million) and 52.3% of financial obligations of our trusts and an IFC loan facility, equivalent to Ps.617,406 million (US$214.4 million). Local financial obligations and ECP Program notes increased by 14.1%, while financial obligations of our trusts and in the IFC facility decreased by 0.2%.

As of March 31, 2017, the debt in foreign currency was comprised of Ps.312,506 million (US$108.5 million) of notes issued under the ECP Program, Ps.71,498 million (US$24.8 million) of a loan facility with the IFC and Ps.115,210 million (US$40.0 million) of a convertible loan with Gramercy, of which 85.4% was hedged with non-deliverable forwards. The ECP Program under Regulation S was established in 2013 for an amount of up to US$150.0 million, and allows us to issue notes thereunder with tenors of up to three years. See "Business—Funding."

Equity

Our equity has increased constantly due to net profit reinvestments and capital injections from shareholders.

From December 31, 2015 to December 31, 2016, our total equity increased 7.5%, mainly due to retained earnings and the net income from 2016.

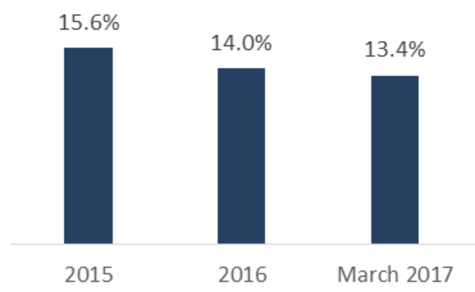
Total equity increased 2.0%, from Ps.189,123 million (US$66 million) on December 31, 2016, to Ps.192,950 million (US$67 million) on March 31, 2017. This was mainly explained by retained earnings and the net income during the three months ended March 31, 2017. Beginning in 2016, we adopted hedge accounting and its effects (forward points) are reflected in the equity accounts under other comprehensive income.

	As of March 31,		As of December 31,		Percentage Change March 2017 / December 2016
	2017	2017	2016	2015	
	(in millions of US$) (1)	(in millions of Ps.)			
Equity					
Share capital	**36**	104,989	104,989	104,989	0.0%
Reserves	**2**	5,814	5,814	5,814	0.0%
Additional paid-in capital	**7**	20,842	20,842	20,842	0.0%
Other Comprehensive income (OCI)	**(0.6)**	(1,585)	(3,744)	284	57.7%
Accumulated earnings	**21**	61,222	44,022	10,097	39.1%
Earnings for the period	**1**	1,668	17,200	33,925	-90.3%
Total Equity	**67**	**192,950**	**189,123**	**175,951**	**2.0%**

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of March 31, 2017 of Ps.2,880.24 to US$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Shareholders' Equity to Total Assets Ratio

Over the past few years, our shareholders' equity to total assets ratio has remained above 13%. The chart below shows our shareholders' equity to total assets since 2014. As of April 30, 2017, after our most recent capital injection, our shareholders' equity was Ps.244,250 million (US$84.8 million).



Off Balance Sheet Arrangements

As of March 31, 2017, we had Ps.200,093 million (US$69.5 million) in loan portfolio sales to third parties, which are included under our managed loan portfolio. We continue to perform the collection and the servicing of the loans, but since these portfolios have been sold without repurchase agreements (*pactos de recompra*), they are accounted as off balance sheet transactions.

Capital Expenditures

For the year ended December 31, 2017, we do not expect to have any material capital expenditures.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks associated with our assets, liabilities and operations, including risks related to interest rates, credit, inflation and exchange rates. We continually assess our exposure to market risk that arises in connection with our operations and financial activities.

Credit Risk

Our 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, we use statistical models to identify risk factors, accurately profile our current and potential clients and determine the level of risk to which we 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. Estimations of our provisions are based on statistical models of expected losses for our main products, payroll deduction loans and credit cards. For financing insurance policies, we use transition matrices.

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.

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

As of March 31, 2017 the following characteristics of our managed loan portfolio allow us to mitigate the credit risks:

- The 25 largest debtors accounted for 0.55% of the loan portfolio, and the largest single client represented 0.063%.
- About 47% of the total managed loan portfolio was comprised of public-sector employees and pensioners, with high job stability as these payments are included in the annual national budget.
- The average loan size (portfolio/total clients) was Ps.1.8 million (US$625).
- Highly diversified geographical location in small and middle size cities in Colombia. Bogota accounts for 24% of the total portfolio, followed by Valle del Cauca with 8.8% and Antioquia with 7.9%.

To identify the level of credit risk, we have 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 our 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 clients without bank accounts for whom there is no financial information allowing access to a larger market than that traditionally covered by the banking industry.

The payroll loan credit approval model was updated in late 2016, and will be implemented in the last quarter of 2017. This new model contains improvements on its predecessor allowing the behavior of the financial sector to be differentiated from that of the real or telecom sector. We have five credit approval models for our credit-card product, one per region. We also have a statistical model to estimate payment capacity based on levels of utility consumption, economic strata level, and risk profile.

Our risk department is responsible for controlling all stages of the credit approval process, ensuring that the verification and analysis processes comply with the quality standards and policies defined by our Risk Committee. In June 2016, we implemented an origination system for payroll deduction loans known as Bizagi, an IT tool that automates and controls the entire credit flow, providing process quality, greater efficiency and online monitoring of each stage of the process. In addition the originator allows:

- remote access for on-site client profiling;
- online consultation of the status of each loan application;
- management of pre-approved campaigns;
- digitization of all applications (document manager);
- parametrization by agreement of document requirements and business rules;
- parametrization of process flows by profile and agreement type;
- specialized modules for each process: location, verification, guarantees, ratification, and supervision;
- integration with external processes: insurer, identity validation, georeferencer, credit bureau;
- control of productivity and response-time alerts for each role in the process; and
- access control and information security.

Market Risks

We have been able to meet our liquidity needs acquiring working capital and lines of credit from local, foreign and multilateral entities. Given the exposition to variable interest rates we constantly monitor the behavior of 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.).

Market risk arises from the open positions of our 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 over which payments on capital are amortized, the point at which the risk materialized.

As of March 31, 2017, December 31, 2016 and December 31, 2015, we had had the following financial assets and liabilities at fair price subject to trade risk:

Financial assets and liabilities at fair value exposed to trading risk held:	March 31, 2017 (in million Ps.)	December 31, 2016 (in million Ps.)	December 31, 2015 (in million Ps.)
Equity Securities	22,134	20,958	24,192
Derivatives instruments	3	817	12,478
Loan Portfolio	2,527	4,380	12,625
Total	**24,664**	**26,155**	**49,295**
Financial liabilities	16,805	16,958	-
Total	**16,805**	**16,958**	**-**
Net Position	**7,859**	**9,197**	**49,295**

Interest Rate Risk

Out of our total loan portfolio, 52% consists mainly of loans bearing floating interest rates under payroll loans and the remaining 48% are credit cards and insurance premium financing loans at fixed interest rates. However, the credit cards interest rate is adjusted quarterly according to changes in the cap rate, thus the interest rate risk is contained in this product.

Our financial obligations are exposed to the interest rate risk when financing is acquired at variable indexed rates that may be subject to volatilities affecting our financial margin. We conducted a sensitivity analysis on our interest expenses of a 100 basis points movement in the variable indexed rates of financial obligations until maturity with the following results:

Scenarios	Interest (million Ps.)
Effect of 100 bps decrease in variable rate	-537
Effect of 100 bps increase in variable rate	542
Combined Effect on Interest Expense	**5**

Exchange Rate Risk

In addition, our financial obligations are also exposed to exchange rate risk due to appreciation or depreciation of the peso against the currency in which the financial obligation is denominated. Our hedging policy, approved by the board of directors, mandates to hedge all foreign currency denominated debt to pesos within a period of 90 days after the settlement date. However, we might be exposed to the exchange rate risk for a short period of time while the hedging on principal and interest is completed.

We have conducted another sensitivity analysis in order to combine the effects of interest rate and exchange rate risks on our interest expense, with the following results:

Rate and devaluation effect scenario (variable rate and foreign currency obligations)	**Interest Expense (in million Ps.)**
Effect of appreciation and decrease in variable interest rate (15 bps)	-10,063
Effect of depreciation and increase in variable interest rate (15 bps)	11,073
Combined effect	**1,010**