

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page (the “Offering Memorandum”), and you are advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. THE OFFERING MEMORANDUM AND THE OFFER OF THE SECURITIES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (“MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (AS AMENDED, THE “INSURANCE MEDIATION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION (EU) 2017/1129 (AS AMENDED, THE “PROSPECTUS REGULATION”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIN INVESTORS IN THE EEA, HAS BEEN PREPARED AND THEREFORE THE OFFERING OR SELLING OF THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION. IN ADDITION, IN THE UNITED KINGDOM THE OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT: (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM; (II) INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE “ORDER”); OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). ANY SECURITIES WILL ONLY BE AVAILABLE TO, AND ANY INVITATION, ORDER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THE OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act) and (2) you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers named in this Offering Memorandum (the “Initial Purchasers”) or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the Initial Purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between this Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

US\$300,000,000

credivalores
Credivalores - Crediservicios S.A.
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8.875% Senior Notes due 2025

Credivalores – Crediservicios S.A. (the “Company”) is offering US\$300,000,000 aggregate principal amount of its 8.875% senior notes due 2025 (the “notes”). We will pay interest on the notes semi-annually in arrears on February 7 and August 7 of each year, beginning on August 7, 2020. The notes will mature on February 7, 2025.

We may redeem the notes, in whole or in part, at any time on or after February 7, 2023, at the applicable redemption prices set forth in this offering memorandum, plus any additional amounts then due and accrued and unpaid interest to, but excluding, the date of redemption. Prior to February 7, 2023, 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 February 7, 2023, we may redeem up to 35% of the notes using the proceeds of certain equity offerings at a redemption price equal to 108.875% 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, we 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 we have exercised our 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 our senior unsecured general obligations and will (i) rank equally in right of payment with all of our 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 our existing and future subordinated indebtedness, if any; (iii) be effectively subordinated in right of payment to all of our 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 (*patrimonios autónomos*); 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.

Concurrently with this offering, Credit Suisse Securities (USA) LLC (“Credit Suisse”), as principal, has launched a cash tender offer (the “Tender Offer”) for any and all of the Company’s US\$325,000,000 aggregate principal amount of 9.750% senior notes due 2022 (the “2022 Senior Notes”) validly tendered and accepted by Credit Suisse on or before February 14, 2020 and a consent solicitation to, among other things, eliminate most of the restrictive covenants and certain of the events of default contained in the indenture governing the 2022 Senior Notes (the “Consent Solicitation”). We have agreed that the net proceeds we receive in connection with the offering will be decreased by an amount equal to the consideration payable to Credit Suisse by the Company in exchange for 2022 Senior Notes purchased by Credit Suisse in connection with the Tender Offer. The Company intends to use the remainder of the proceeds to repay certain indebtedness and for general corporate purposes. The Tender Offer and Consent Solicitation are not being made pursuant to this offering memorandum. The closing of the Tender Offer and Consent Solicitation is contingent upon the closing of this offering.

No public market currently exists for the notes. We intend to apply to have the notes listed and quoted on the Singapore Exchange Securities Trading Limited (the “SGX-ST”).

Investing in the notes involves risks. See “Risk Factors” beginning on page 21.

Issue Price: 99.505% plus accrued interest, if any, from February 7, 2020.

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

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, we are offering the notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act (“Rule 144A”) and outside the United States to non-U.S. persons in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See “Transfer Restrictions” for additional information about eligible offerees and transfer restrictions.

We expect that the notes will be delivered in book-entry form through The Depository Trust Company (“DTC”) on or about February 7, 2020.

Joint Lead Managers and Joint Book-Runners

Credit Suisse

Morgan Stanley

Co-Manager

BCP Securities

The date of this offering memorandum is February 3, 2020.

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We and the initial purchasers have not authorized anyone to provide any information other than that contained in this offering memorandum. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. This document may only be used where it is legal to sell the notes. Neither we nor any of the initial purchasers is making an offer to sell the notes in any jurisdiction where such an offer is not permitted.

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Credivalores,” the “Company,” the “issuer,” “we,” “us,” “our” or similar terms refer to Credivalores – Crediservicios S.A. on an unconsolidated basis.

NOTICE TO INVESTORS

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the notes.

Neither we nor the initial purchasers are making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and investors outside the United States so they can consider a purchase of the notes. This offering memorandum may be used only for the purposes for which it has been published. By accepting delivery of this offering memorandum, you acknowledge that the use of the information in this offering memorandum for any purpose other than to consider a purchase of the notes is strictly prohibited. These undertakings and prohibitions are for our benefit, and we may enforce them. U.S. federal securities laws restrict trading in our securities while in possession of material non-public information with respect to us. By accepting delivery of this offering memorandum and by purchasing the notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this offering memorandum. The notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the notes, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely upon your own examination of our company and of the terms of the offering and the notes, including the merits and risks involved.

Neither we nor the initial purchasers are making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, financial, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, accounting, business and tax advice regarding any investment in the notes.

We reserve the right to withdraw this offering of notes at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

None of the U.S. Securities and Exchange Commission (“SEC”), the SFC or any state or foreign securities commission or any other regulatory authority has approved or disapproved the offering of the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a stock corporation (*sociedad anónima*) organized under Colombian law. All or a substantial part of our assets and operations are located, and all or a substantial part of our revenues are derived from sources, outside the United States. Certain of our directors and all or substantially all of our officers named herein reside outside of the United States and all or a significant portion of the assets of these persons and of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or upon us, or to enforce against them or against us, judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws or otherwise.

The Colombian Supreme Court will determine whether to recognize a U.S. judgment predicated on U.S. securities laws through a procedural system known under Colombian law as “*exequatur*.” Enforcement of U.S. judgments may require a separate court procedure in Colombia.

The Colombian Supreme Court will recognize a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements set forth in Articles 605, 606 and 607 of the General Code of Procedure, Law 1564 of 2012 (“GCP”), provided that the parties affected by the judgment were summoned in the *exequatur* proceeding in accordance with applicable rules.

Reciprocity may be either diplomatic (*i.e.*, if there is a treaty with the State in which the decision was issued) or legislative or *de facto* (*i.e.*, if no treaty is applicable, then the Court will examine whether there is a legal provision in the country where the decision was rendered that provides for the possibility of accepting and respecting decisions rendered by Colombian judges, or if the recognition of Colombian judgments emerges from standards set forth via jurisprudence). Legal reciprocity can be proved with affidavits of declarations from lawyers of the jurisdiction where the judgment was rendered. Usually, the Supreme Court will first consider whether diplomatic reciprocity exists and in the absence of such form of reciprocity, it will evaluate the existence of legal reciprocity or treaties in which the signatory parties are the states involved in the dispute. Hence, reciprocity can be demonstrated either through the existence of an applicable treaty with a foreign country or through proof that similar judgments rendered in Colombia would be enforced in said country, in accordance to its domestic laws. Once the Supreme Court has determined that reciprocity requirement is met then it will turn to analyze the requirements set forth in article 606 of the GCP. This Article provides that in order for the *exequatur* to be granted in Colombia, plaintiffs must provide evidence that the foreign decision at issue meets the following requirements:

- not be related to *in rem* rights over assets located in Colombia at the commencement of the proceedings in which the decision was rendered (GCP Article 606.1);
- be consistent with Colombian public policy provisions (*i.e.*, provisions considered to be international public policy), with the exception of procedural rules (GCP Article 606.2);
- be final under the law of the country where it was issued. The copy of the judgment provided to the Colombian Supreme Court must be legalized and translated into Spanish by an authorized translator, duly registered at the Ministry of Foreign Affairs (GCP Article 606.3);
- not refer to matters subject to the exclusive jurisdiction of Colombian judges (GCP Article 606.4): this assessment must be made based on the law applicable as of the date of issuance of the foreign judgement, rather than on the law applicable as of the date of recognition of said judgement;
- not be concerned with disputes already decided by national judges, or subject to judicial proceedings in Colombia (GCP Article 606.5); and
- be the result of a proceeding duly notified to the Respondent, in which the latter could answer the claim, in accordance with the law of the country of origin (GCP Article 606.6). Pursuant to GCP Article 606.6, the fulfilment of the last requirement is presumed in light of the final character of the decision, which in turn is determined in accordance with the laws of the State where the judgment was rendered.

Failure to satisfy any of the requirements set forth above would result in the *exequatur* claim being dismissed without prejudice.

Proceedings for enforcement of a money judgment by attachment or execution against any assets or property located in Colombia would be within the exclusive jurisdiction of Colombian courts, under the assumption that the Colombian Supreme Court has granted exequatur upon the foreign judgment. In the course of an exequatur procedure, both the plaintiff and the defendant are afforded the opportunity to request that evidence be collected in connection with the requirements listed above. In addition, before the judgment is rendered, each party may file final allegations in support of its position. Notwithstanding, the GCP does not provide for a re-examination or re-litigating of the merits of the original action during the exequatur procedure. However, the Colombian legal system is not based on precedents and exequatur decisions are made on a case-by-case basis.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. However, the Colombian Supreme Court, which is the only Colombian court that can recognize foreign judgments, has accepted that *legal reciprocity* exists when it has been proven that laws or judicial decisions of the U.S. state where the judgment was rendered provide for recognition of foreign judgments of the same nature of the judgment under review.

Notwithstanding the foregoing, we cannot assure you that a Colombian court would recognize or enforce a U.S.-based judgment with respect to the notes based on U.S. securities laws. In addition, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts.

AVAILABLE INFORMATION

We are not subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). To permit compliance with Rule 144A in connection with resales of notes, we will be required under the indenture under which the notes are issued (the “indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Transfer Restrictions”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act, unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Carrera 10 No. 65-98, Piso 4, Bogotá D.C., Colombia.

The indenture will further require that we furnish to the trustee (as defined herein) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our request, the trustee will be required under the indenture to mail these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of the Notes.”

We intend to apply to have the notes listed and quoted on the SGX-ST. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with the notes, and to furnish to them all such information as the rules of the SGX-ST may require in connection with the listing of the notes.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains a number of estimates and forward-looking statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “foresee,” “seeks,” “predict,” “project,” “potential,” or the negative of these terms, and other similar terms are used in this offering memorandum to identify such forward-looking statements.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. We make no representation or warranty as to the accuracy or completeness of such estimates or forward-looking statements. Our estimates and forward-looking statements may be influenced by a number of following factors, including, but not limited to:

- changes in Colombian, regional and international business and economic, political or other conditions;
- developments affecting Colombian and international capital and financial markets;
- changes to accounting principles, laws, regulations, taxation and governmental policies related to our activities, including, but not limited to, interest rate regulations and consumer protection laws;
- movements in exchange rates;
- increases in inflation rates;
- competition in the Colombian markets for consumer loans, credit card services, and related industries;
- our ability to freely determine the interest rates we charge to our clients;
- our ability to implement our operating strategy and business plan;
- our level of capitalization and reserves;
- increases in defaults by our clients, as well as any increase in our allowance for loan losses;
- our clients’ ability to pay their loans and the stability of their sources of income;
- availability of funds and related funding costs;
- offer and demand for our products and services;
- adverse legal or regulatory disputes or proceedings;
- increases in provisions for contingent liabilities;
- natural disasters and internal security issues affecting countries where we operate;
- loss of any key member of our senior management; and
- other potential risk factors presented under “Risk Factors” in this offering memorandum.

Estimates and forward-looking statements speak only at the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this offering memorandum might not occur and our future results and our

performance may differ materially from those expressed in these forward-looking statements due to the factors mentioned above, among others. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements. The estimates and/or forward-looking statements shall be deemed to be modified in their entirety by any written or oral that we may make in the future.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to “Colombian pesos,” “pesos” or “Ps.” refer to the lawful currency of Colombia. All references to “U.S. dollars,” “dollars” or “US\$” are to United States dollars. See “Exchange Rates and Foreign Exchange Controls” for information regarding exchange rates for the Colombian currency. Our functional currency is the Colombian peso.

This offering memorandum translates certain Colombian peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The conversion of amounts expressed in Colombian pesos as of a specified date at the then prevailing exchange rate may result in the presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date. Unless otherwise noted in this offering memorandum, all such Colombian peso amounts have been translated into U.S. dollars at the rate of Ps. 3,462.01 to US\$1.00, which was the representative market rate calculated on September 30, 2019. The representative market rate is computed and certified by the SFC on a daily basis and represents the weighted average of the buy/sell foreign exchange rates negotiated on the previous day by certain financial institutions authorized to engage in foreign exchange transactions. Such conversion should not be construed as a representation that the Colombian peso amounts presented herein correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate.

Financial Statements

This offering memorandum includes:

- our interim unaudited condensed financial statements as of September 30, 2019 and for the nine months ended September 30, 2019 and 2018, together with the notes thereto (the “Interim Financial Statements”); and
- our annual audited financial statements as of and for the years ended December 31, 2018 and 2017 and our annual audited financial statements as of and for the years ended December 31, 2016 and 2015, in each case together with the notes thereto (together, the “Annual Financial Statements,” and, together with our Interim Financial Statements, the “Financial Statements”).

Our annual financial statements as of and for the years ended December 31, 2018 and 2017 have been audited by PwC Contadores y Auditores Ltda., independent auditors, as stated in their audit report appearing therein. Our annual financial statements as of and for the years ended December 31, 2016 and 2015 have been audited by PricewaterhouseCoopers Ltda., independent auditors, as stated in their audit report appearing therein. Our Interim Financial Statements have been subject to a limited review by PwC Contadores y Auditores Ltda. Our historical results are not necessarily indicative of results to be expected for future periods.

Accounting Principles

We have prepared our Annual Financial Statements included herein in accordance with Financial Reporting and Accounting Standards accepted in Colombia (“FRAS-IFRS”), as provided by Law 1314 of 2009. FRAS-IFRS are based on International Financial Reporting Standards (“IFRS”), together with their corresponding interpretations as issued by International Accounting Standards Board (“IASB”), and contain basic rules corresponding to their versions in Spanish which were released on January 1, 2016. We adopted a FRAS-IFRS transition date of January 1, 2014 in accordance with IFRS 1—“First Time Adoption of International Financial Reporting Standards.”

The Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. These Interim Financial Statements do not include all the information required for a complete set of FRAS-IFRS financial statements and should be read in conjunction with the Company’s last annual consolidated financial statements as of and for the year ended December 31, 2018.

The IFRS standards that apply to us differ from those applicable locally to financial institutions, given that we are not supervised by the SFC. The guidelines for valuation of assets and liabilities, including loan portfolio and provisions, differ from those required for financial institutions, which continue applying the methodology established by the SFC.

Furthermore, since FRAS-IFRS are based on IFRS in effect as of December 31, 2016, certain rules subsequently issued by the IASB are not applicable under FRAS-IFRS. Therefore our financial statements under FRAS-IFRS differ from financial statements under IFRS in the following principal aspects:

- The wealth tax, in effect in Colombia from 2015 to 2017, in the case of entities, and to 2018 in the case of individuals, is no longer in effect as of 2019 and onwards. Under FRAS-IFRS, we may choose to either (a) recognize the expense associated with the payment of the wealth tax in our income statement for each accrued fiscal period or (b) offset it against shareholders' equity reserves on our balance sheets. However, under IFRS, according to IFRIC 21, wealth tax liabilities must be recorded against the statement of income. We recognize the expense associated with the payment of the wealth tax in our income statement.
- Unconsolidated financial statements prepared under FRAS-IFRS classify debt securities into one of two categories: fair value through profit or loss or amortized cost. Entities with non-controlling or non-significant influence in equity securities must elect to record fair value changes in other comprehensive income, in accordance with the guidance set out in IFRS 9.
- Financial statements prepared under FRAS-IFRS have not yet adopted IFRIC 23, which will become effective for financial statements after January 1, 2020. Under IFRS, the effective transition date is for reporting periods beginning on or after January 1, 2019.

Non-IFRS Financial Measures

We include certain ratios in this offering memorandum which we believe provide investors with important information regarding our operations, such as return on equity ("ROE"), return on assets ("ROA"), net interest margin, and operational efficiency and asset quality indicators, among others. These measures should not be construed as an alternative to IFRS measures and should also not be compared to similarly titled measures reported by other companies, which may evaluate such measures differently from how we do. Some of these ratios are also used in this offering memorandum to compare us to our principal competitors.

Certain Portfolio and Other Operating Data

We have included in this offering memorandum certain financial and operating data relating to the breakdown of our loan portfolio, our non-performing loan portfolio, our products and our clients which are not derived from our financial statements. None of such financial and operating data contained in this offering memorandum have been audited or reviewed by PwC Contadores y Auditores Ltda.

Market Share and Other Information

We obtained the market and competitive position data, including market forecasts, presented throughout this offering memorandum from market research, publicly available information and industry publications. We have presented this data on the basis of information from third-party sources that we believe are reliable, including, among others, the International Monetary Fund ("IMF"), the SFC, the Colombian Stock Exchange, the Colombian National Bureau of Statistics (*Departamento Administrativo Nacional de Estadística*, or "DANE"), and the World Bank. Industry and government publications, including those referenced herein, generally state that the information presented has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Unless otherwise indicated, gross domestic product ("GDP") figures with respect to Colombia in this offering memorandum are based on the 2005 base year data series published by DANE. Although we have no reason to believe that any of this information or these reports is inaccurate in any material respect, we have not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. Neither we nor the initial purchasers make any representation or warranty as to the accuracy of such information.

We are a company that participates mainly in the consumer loans market, including the credit card business. Our payroll loan market share is determined by comparing us and similar entities to the payroll loans segment of banks that report their results to the SFC. Our credit card market share is determined by comparing the amount outstanding and number of credit cards issued with financing companies, as reported to the SFC.

In the payroll loans business, we consider our principal competitors in Colombia to be certain banks and, to a lesser extent, non-bank financial institutions. In the credit card business, we consider our principal competitors in Colombia to be banks and retailers.

Other Conventions

Certain figures included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic summation of the figures that precede them.

References to “billion” in this offering memorandum are to 1,000,000,000 and to “trillion” are to 1,000,000,000,000.

SUMMARY

This summary highlights selected information contained in this offering memorandum and may not include all of the information that is important to you. For a more complete understanding of us, our business and this offering, you should read this entire offering memorandum, including the sections entitled “Summary Financial Information,” “Risk Factors,” “Selected Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and our Financial Statements included elsewhere in this offering memorandum.

Overview

We are a leading non-bank financial institution in Colombia focused on providing under-banked segments of the population access to consumer credit and micro-insurance through loan products designed to minimize loan losses. We have a successful track record of over 16 years in consumer lending, serving low- and middle- income households. As of September 30, 2019, our managed loan portfolio was Ps.1,490,396 million (US\$430.5 million), with over 809,698 clients (which we calculate by product). We define our “managed loan portfolio” as our on-balance sheet collateralized and uncollateralized loans and off-balance sheet loans that we have originated and sold but remain under our servicing and management. In addition, as a result of our strong origination capacity, since our inception through September 30, 2019, we have generated an aggregate originated loan portfolio of Ps.8,650,714 million (US\$2.5 billion), which includes the managed loan portfolio and additional loan portfolio sales not serviced and managed by us.

We focus on consumer lending through a diversified platform comprised of three main products/lines of business:

- *Tucrédito*: payroll loans, mainly to public service employees and pensioners, which represented 61.1% of our total managed loan portfolio as of September 30, 2019;
- *Crediuno*: a branded credit card business which represented 33.9% of our total managed loan portfolio as of September 30, 2019; and
- *Credipóliza*: insurance premium financing, which represented 4.7% of our total managed loan portfolio as of September 30, 2019.

Our products have been designed with collection channels that mitigate the risk of non-payment in order to allow us to grow while maintaining healthy portfolio quality ratios.

We originate almost 100% of our loan portfolio directly and, accordingly, our growth has been almost 100% organic. We have established strategic alliances for the origination and collection of each of our loan products that give us access to a potential client base of approximately 7.5 million potential clients. For *Tucrédito*, our payroll loan product, we have operating agreements with approximately 613 employers, including public and private sector entities, that give us access to over 3.2 million potential clients. For *Crediuno*, our credit card product, we have invoicing and collections agreements with six utility companies that have an aggregate of approximately 2.6 million potential clients. We also have an agreement to provide consumer financing with TIGO, a wireless telecommunications operator in Colombia, which provides access to an additional 1.7 million potential clients, bringing our potential client base for the *Crediuno* product to approximately 4.3 million clients. For *Credipóliza*, our insurance premium financing product, we have alliances with the largest insurance companies and a network of insurance brokers in Colombia.

Our strategy of digital transformation and data analytics development, has driven the redesign and digitalization of our origination processes, allowing us to achieve greater efficiency and flexibility for our clients. It has also created a differentiated underwriting process based on a more robust data base for our scoring models on some of our products and greatly enhanced our time to market. In May 2019, we first implemented a 100% digital origination process for our credit card business through our commercial channels, increasing the number of applications submitted to the loan underwriting process from our sales representatives by 108.6% as of September 30, 2019. We equipped our sales force with tablets to facilitate the profiling of our clients at retailers and points of sale. In this way, we are able to obtain instant feasibility confirmation and we are able to collect data from our clients with georeferencing and automatic validations of information. We also implemented digital and facial

biometrics for identity validation on site. In addition, in September 2019, we launched a 100% digital platform for the renewal process of selected payroll loans under a self-service model for mobile devices, which currently represent about 60% of the total renewals per month. We expect to decrease origination costs, increase salesforce efficiency and retain more clients with our digital platform, as this new channel will allow us to present new offers and financing alternatives to our current clients who have additional indebtedness capacity. In December 2019, we created the Digital Transformation department to provide a more formal structure to the implementation of our digital transformation strategy, which we expect to cover origination for all our business lines in the near future. We hired the head of this department in January 2020. As of September 30, 2019, approximately 56% of our new loan originations were completed through digital channels.

We have extensive geographic coverage in Colombia, with an emphasis on small and mid-sized towns and cities with high growth potential and where our target market is underserved by the financial industry. We have 50 branches and 51 in-store points of sale and mobile units in Colombia. In addition, we offer the TIGO financing product in over 134 TIGO “Experience Centers.”

In August 2015, we entered into an alliance with VISA to further strengthen our credit card business and to expand the universe of retailers that accept our credit card. We were the first non-bank financial institution to issue VISA credit cards in Colombia for the low- and middle- income segments of the population.

In 2016, we decided to change our funding strategy for our payroll loan business by ending portfolio sales to financial institutions under which we used to receive an upfront payment resulting from a premium over the face value of the loan portfolio sold. 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 has led to a stronger balance sheet and improvements in our fundamental variables 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. In 2018 and 2019, we started registering portfolio transfers under a funding structure we have with a mutual fund administered by BTG Pactual in the Colombian capital markets. We transfer payroll loan portfolios to this mutual fund and in turn we receive the funding to originate additional loans and an equity stake at the fund, which is subordinated to the rest of the investors in the fund. Under this funding structure, we receive recurrent revenue resulting from the net margin between the interest income of the portfolio transferred and the financial cost of the funding received, and an equity return from the fund. We record the net margin and the equity return in our financial statements on a monthly basis. This structure has contributed to the diversification strategy of our funding sources in Colombian pesos, while maintaining competitive average costs of debt.

In addition to Crediholding S.A.S. (see “Principal Shareholders”), our main shareholders include international private equity firms with ample experience investing in companies in the financial sector and in middle-market companies in emerging markets: ACON Investments, L.L.C. (“ACON”) with over US\$5.4 billion of assets under management and Gramercy Funds Managements LLC (“Gramercy”) with approximately US\$5.6 billion of assets under management. ACON owns 24.11% of our capital stock and Gramercy owns 36.43%. Their philosophy is to be active investors and form partnerships with the management teams to provide support and maximize growth potential.

ACON acquired 32.9% of our stock in 2010 through a capital injection of Ps.28,993 million (US\$8.4 million), and in 2014 Gramercy acquired 25.2% of our stock through a capital injection of Ps.42,841 million (US\$12.4 million), through the issuance of additional shares, increasing our equity. After the injection of Ps.42,841 million (US\$12.4 million) of capital in 2014, in 2015 Gramercy and ACON injected an additional Ps.3,720 million (US\$1.1 million) and Ps.5,580 million (US\$1.6 million) of capital into the company, respectively. Furthermore, in October 2016 Gramercy granted us a convertible loan facility in the amount of Ps.60,014 million (US\$17.3 million) due in April 2017. In March 2017, we decided to exercise our option to capitalize Ps.53,510 million (US\$15.5 million) of this facility into equity. The capitalization was recorded in our financial statements as of April 30, 2017. In September 2018, Gramercy injected an additional Ps.3,023 million (US\$0.9 million) of capital into the Company, and in June 2019, three shareholders, ACON, Gramercy and Crediholding, injected a total of Ps.12,000 million (US\$3.5 million) of capital into the Company on a pro rata basis. The participation of ACON and Gramercy has strengthened our capital structure, promoted strong growth and improved our total shareholders’ equity to total assets ratio.

Financial Highlights

The table below presents certain financial and other information about our loan portfolio:

	As of and for the nine months ended September 30,		As of and for the year ended December 31,			
	2019	2019	2018	2018	2017	2016
	(unaudited)					
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income and similar (2)	80.8	279,769	98.7	341,714	290,558	269,013
LTM interest income	109.3	378,525	98.7	341,714	290,558	269,013
Managed Loan Portfolio: (3)						
Tucrédito	262.9	910,302	226.9	785,400	697,608	633,368
Crediuno	145.9	505,120	145.5	503,684	484,886	432,837
Credipóliza	20.4	70,653	29.4	101,616	111,006	92,677
Others	1.2	4,321	1.4	4,780	9,117	12,136
Total	430.5	1,490,396	403.1	1,395,480	1,302,617	1,171,018
Owned Loan Portfolio: (4)						
Tucrédito	171.8	594,897	158.9	550,125	450,830	405,383
Crediuno	145.9	505,120	145.5	503,684	484,885	432,837
Credipóliza	20.4	70,653	29.4	101,616	111,005	92,677
Others	1.2	4,321	1.4	4,780	9,117	12,136
Total	339.4	1,174,991	335.1	1,160,205	1,055,837	943,033

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.
- (2) Derived from our Financial Statements included elsewhere in this offering memorandum. Includes interest income, commissions and fees, revenues from portfolio sales and indemnities.
- (3) Managed loan portfolio includes our on-balance sheet collateralized and uncollateralized loans and off-balance sheet loans that we have originated and sold but remain under our servicing and management.
- (4) Owned loan portfolio includes our on-balance sheet collateralized and uncollateralized loan portfolio, as reflected in our Financial Statements. Derived from our Financial Statements included elsewhere in this offering memorandum.

The table below presents our number of clients by product for the periods indicated:

	As of September 30, 2019	As of December 31,	
	(unaudited)	2018	2017
<i>Tucrédito</i>	75,423	78,103	73,746
<i>Crediuno</i>	585,086	647,060	556,750
<i>Credipóliza</i>	35,605	46,312	51,344
Others.....	2,289	2,449	9,801
Total credit product clients	698,403	773,924	691,641
Insurance clients.....	111,295	116,092	129,769
Total clients	809,698	890,016	821,410

As of September 30, 2019, we had 698,403 clients of credit products, which represent 10.3% of the total Colombian population with consumer loans outstanding according to the SFC, and 111,295 clients of insurance products sold through our network. As of the same date, our managed loan portfolio was Ps.1,490,396 million (US\$430.5 million) and our owned loan portfolio (defined as our on-balance sheet collateralized and uncollateralized loan portfolio, as reflected in our Financial Statements) was Ps.1,174,991 million (US\$339.4 million). As of the same date, our sold portfolio (which we continue to service and manage) amounted to (excluding sales without any recourse to the Company) Ps.234,801 million (US\$67.8 million), or 15.8% of our total managed loan portfolio.

As of December 31, 2018, we had 773,924 clients of credit products and 116,092 clients of insurance products sold through our network. As of the same date, our managed loan portfolio was Ps.1,395,480 million (US\$403.1

million) and our owned loan portfolio was Ps.1,160,205 million (US\$335.1 million). Our sold portfolio (which we continue to service and manage) was Ps.235,275 million (US\$68.0 million) as of the same date.

Our revenues are comprised of interest income from our product portfolio (payroll loans, credit cards and insurance financing), management fees from credit cards issued under our *Crediuno* brand, commissions from the sale of insurance products through our network, revenues from our trusts for secured financing, and revenues from financial instruments. For the nine months ended September 30, 2019, the average rates we charged on our loans were 22.94% for *Tucrédito*, 27.5% for *Crediuno* and 26.95% for *Credipóliza*.

As of September 30, 2019, in connection with past due loans existing as of that date, we had a loan loss allowance balance of Ps.183,870 million (US\$53.1 million). In addition to such allowance, on August 9, 2011 we entered into an alliance agreement with the *Fondo de Garantías de Antioquia* (“FGA”), an entity that acts as guarantor of all payroll loans we originate and of some of our credit card clients. The cost of the guaranty is paid by the respective client. A portion of the amounts paid is held by a mercantile trust fund and is considered a reserve that we have established to protect our portfolio in case of deterioration of the loans granted. The remaining portion of the amounts paid corresponds to brokerage fees that we receive from the FGA as compensation for increasing their assets under management. Since the establishment of the agreement, the FGA has received a total of Ps.78,325 million (US\$22.6 million) in guarantees from our clients. The amount held in the FGA account as of September 30, 2019 was Ps.7,988 million (US\$2.3 million). As of September 30, 2019, out of the total managed loan portfolio, we had Ps.216,016 million (US\$62.4 million) in loans past due over 60 days, 88.8% of which were covered by impairments for loan losses and the FGA.

In January 2018, we adopted IFRS 9, which changed the incurred loss model to the expected loss model to calculate the impairment expense for the loan portfolio, resulting in an increase in net impairment expenses compared to previous years.

Between June 2018 and March 2019, our non-performing loan (“NPL”) levels for the credit card business increased and as a result we adopted more conservative and restrictive underwriting policies for our credit card business in October 2018 and February 2019 to control further deterioration of this loan portfolio, which in turn resulted in a decrease in the origination and in the portfolio balance. However, since June 2019 we have seen a decrease in NPLs in the total portfolio, mainly driven by an improvement in the quality of the credit card portfolio as a result of several measures adopted to control credit and operational risks. In the third quarter of 2019, we experienced growth in our credit card portfolio, resulting in a 39.8% increase in origination quarter over quarter.

Our interest income and similar, including revenue from contracts with customers (commissions and fees), was Ps.341,714 million (US\$98.7 million) in 2018, an increase of 17.6% from Ps.290,558 million (US\$83.9 million) in 2017. Our net income for the year ended December 31, 2018 was Ps.7,351 million (US\$2.1 million), an increase of 808.7% from Ps.809 million (US\$0.2 million) in the year ended December 31, 2017. Our interest income and similar, including revenue from contracts with customers (commissions and fees), was Ps.279,769 million (US\$80.8 million) for the nine months ended September 30, 2019, an increase of 15.2% from Ps.242,958 million (US\$70.2 million) for the same period in 2018. Our net income for the nine months ended September 30, 2019 was Ps.3,520 million (US\$1.0 million), a decrease of 65.4% compared to the Ps.10,167 million (US\$2.9 million) reported for the same period in 2018.

Our shareholders’ equity was Ps.300,211 million (US\$86.7 million) as of September 30, 2019. As of the same date, our total shareholders’ equity to total assets ratio was 13.7%.

Funding

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, multilateral financing from the International Finance Corporation (“IFC”), our euro commercial paper program (“ECP Program”) and the issuance of US\$250 million of 9.750% Senior Notes due 2022 in July 2017 and US\$75 million in a reopening in February 2018 (together, the “2022 Senior Notes”). We have relationships with seven local financial institutions, and we have strengthened our relationship with the IFC through an upsize of our credit facility in 2015 and the execution of hedging transactions in 2018 to mitigate the exposure to foreign exchange risk in our financial

obligations. With the issuance of the 2022 Senior Notes, we were able to consolidate our debt facilities and significantly improve our debt profile from a maturity point of view, which resulted in significant interest savings. In order to mitigate the risk of adverse foreign exchange fluctuations, we hedged the principal and interest of the 2022 Senior Notes issued in 2017 through cross currency swaps in January 2018 with several counterparties. The cross-currency swaps allowed us to hedge the foreign exchange risk on the principal and interests of the inaugural issuance until maturity converting the fixed interest rate in U.S. dollars to a floating interest rate in pesos. In March 2018, we hedged the interest payments of the 2022 Senior Notes issued in the 2018 reopening through a coupon only swap until maturity at a floating rate in Colombian pesos and the principal was hedged through call spreads also until maturity.

We have used both collateralized and uncollateralized funding for our growth and operations. Prior to the issuance of the 2022 Senior Notes in July 2017, the main type of collateralized funding we used were free-standing trusts (*patrimonios autónomos*) owned and created by us under Colombian law and administered by a trustee (*sociedad fiduciaria*), to which we transfer a portion of the loans we originate and which in turn obtains loans with financial institutions (banks, multilateral agencies or other) secured by the loan portfolio transferred to such trusts. These free-standing trusts are accounted for as pass-through entities under FRAS-IFRS, and their assets and liabilities are reflected on our balance sheet. In August and September of 2017, in line with our decision to increase the share of uncollateralized sources of funding, we prepaid Ps.500,940 million (US\$144.7 million) of secured indebtedness under our free-standing trusts (*patrimonios autónomos*) with proceeds from the issuance of the 2022 Senior Notes. As of September 30, 2019, Ps.238,455 (US\$68.9 million) of our loan portfolio was held through our free-standing trusts, and Ps.21,020 (US\$6.1 million) of such amount was pledged as security in connection with our IFC credit facility.

As of September 30, 2019, we had Ps.1,745,931 million (US\$504.3 million) in financial liabilities excluding transaction costs, including Ps.22,329 million (US\$6.4 million) of secured indebtedness under our loan facility with the IFC, Ps. 209,609 million (US\$60.5 million) of secured indebtedness under our syndicated facility for payroll loan origination with four local financial institutions and Ps.1,513,993 million (US\$437.3 million) of unsecured indebtedness.

In order to fund our growth, we previously engaged in sales of loan portfolios, where we sold a portion of our payroll loan portfolio to Colombian financial institutions supervised by the SFC. In such transactions, we would negotiate a discount rate with the buyer (lower than the rate of our payroll loans) and discount the future cash flows of the portfolio. We would receive both the resulting premium and the face value of the portfolio sold, and the sale would be recorded in our income statement as revenue from portfolio sales. During the second half of 2016, we decided to suspend these sales as a source of additional funding in order to strengthen our portfolio. However, in 2018 and 2019 we started registering portfolio transfers under a funding structure we have with a mutual fund administered by BTG Pactual in the Colombian capital markets. We transfer payroll loan portfolios to this mutual fund and in turn we receive the funding to originate additional loans and an equity stake at the fund, which is subordinated to the rest of the investors in the fund. This funding structure differs from the previous portfolio sales completed before 2016 since instead of an upfront premium, we receive recurrent revenue resulting from the net margin between the interest income of the portfolio transferred and the financial cost of the funding received, and an equity return from the fund. We record the net margin and the equity return in our financial statements on a monthly basis.

In 2013, aiming to diversify our unsecured sources of funding and access the international capital markets, we launched our ECP Program with a maximum amount of US\$150 million. As of September 30, 2019, we had successfully completed 15 issuances under our ECP Program with both existing and new investors in a cumulative aggregate principal amount of US\$307 million.

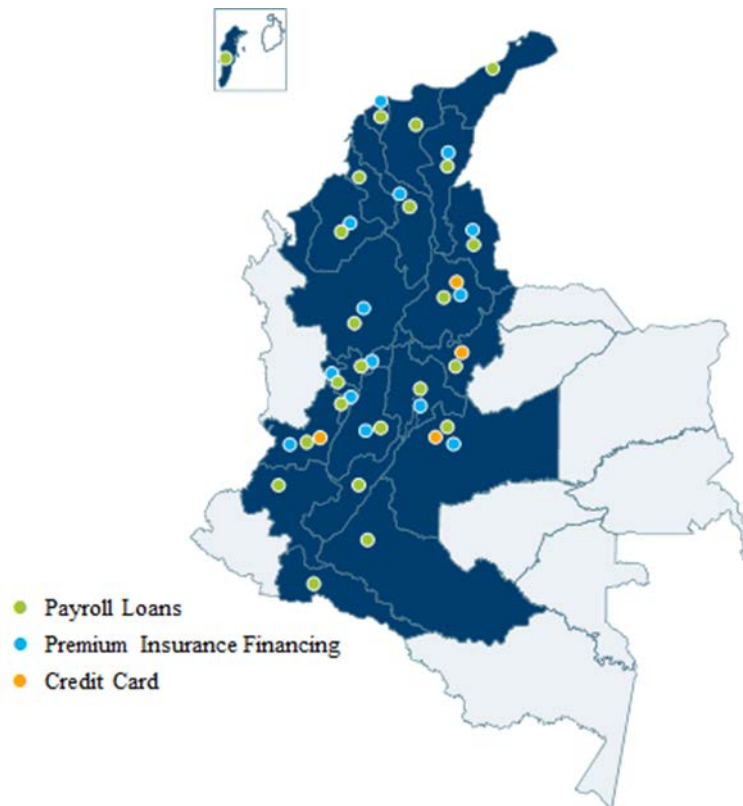
As of September 30, 2019, 19.1% of our total indebtedness was denominated in Colombian pesos and 80.9% was denominated in U.S. dollars, of which 100% was subject to cross- currency swaps on the interests and principal, call spreads and non-delivery forwards (“NDFs”) to hedge our exposure to the fluctuation of the U.S. dollar against the Colombian peso.

Our Target Market

We target consumers in social segments 1, 2 and 3 of the Colombian population, which corresponds to middle- and low-income socio-economic segments. Our target market accounts for more than 79% of the population of Colombia. See “Macroeconomic and Industry Overview”.

Our typical client has limited access to financing from banks and other traditional credit providers, partly because traditional credit lenders and banks find it costly to serve clients interested in only one credit product and/or clients with small financing needs. Furthermore, in some cases, the low-income population is apprehensive of going to a bank’s branch or a bank-related financial institution due to cultural reasons, such as an unfavorable perception of the financial industry among that segment of the population, and/or cumbersome and slow approval processes for opening accounts. In contrast, we rely on our sales force and new digital channels to approach our clients, and we are able to offer them agile and tailor-made credit solutions, compared to banks and other financial institutions. The alliances we have with large employers, utility companies and retailers nationwide in Colombia provide us with unique information for the underwriting process and advance modeling systems for each of the products in our portfolio. Our key parameters for credit evaluation include socio-economic and demographic information, as well as information on credit bureaus; however, the parameters vary by product. For payroll loans, we need to determine our clients’ level of indebtedness, and the main parameters we use for the credit evaluation process also include employment history, time at the current employment, type of employer and position, among others. For credit cards, we rely on valuable information from utility and mobile phone companies regarding each client’s service usage and payment habits.

The following map shows our active locations by product:



While approximately 29% of our business is carried out in Bogotá, the remaining 71% of our business is in so-called “intermediate cities,” which comprise semi-rural cities with a population between 200,000 and 1 million people, where banking/consumer finance penetration is low. According to the SFC, as of December 31, 2018, 31.2% of adult people living in cities in Colombia, but only 2.72% living in rural areas, had at least one credit product. This results in a low penetration of the banking system and a significant opportunity for further financial services penetration in these cities.

Products and Services

Our business model consists of offering to the low- and middle- income segments of the population and to individuals that require immediate liquidity a range of flexible, specialized and tailored credit and financing alternatives, which includes payroll deduction loans (*Tucrédito*); financing of goods and services through a branded credit card (*Crediuno*), which is collected through the client's utility bill, and insurance premium financing (*Credipóliza*). We have created origination, underwriting, monitoring and collection tools and policies in line with the risk profiles of our potential borrowers.

Our ability to collect payroll loans in a timely manner depends upon irrevocable payment instructions given by individual borrowers to their employers prior to disbursement. According to *Ley 1527, Ley de Libranza* (the "Colombian Payroll Loan Law"), the deduction "follows" the borrower even in the case of a change of employer. In that event, the new employer is required to continue deducting the amounts due to the lender; otherwise the employer becomes jointly liable.

Credit card repayments are collected through the client's public utility bill based on the strategic alliances and agreements with six public utility companies in different regions of Colombia for invoicing and collection of amounts due. We believe that this collection channel grants priority of payment for the installments of our credit card over other credit cards.

Our risk policies require that all payroll loans and credit cards we grant to clients have life insurance for the beneficiary of the loan to cover the amount of the loan granted in case of death. The insurance is offered to our clients by our own sales force during the credit application process. Even though our clients have the right to choose their own insurance providers, in most cases they prefer to buy the insurance offered through our network.

In addition to life insurance, our sales teams at the origination stage offer clients a portfolio of additional voluntary insurance policies (*i.e.*, accident and health, burial, dental, etc.) through our network. Approximately 68% of clients accept additional coverage due to the convenient payment method we offer, whereby insurance costs are included in the loan installments.

We reach clients of public utility companies through our large sales force with a door-to-door strategy, offering a similar portfolio of voluntary insurance coverage. Our sales force makes around 51,600 visits per month and achieves a high efficiency ratio due to our diverse portfolio of products as well our convenient and affordable payment method and small monthly charges, with an average cost of base coverage at around US\$4 per month, which is added to the client's public utility bill. These insurance products are offered through alliances with large insurance companies. These alliances not only provide us with a lucrative marketing channel, but also a valuable opportunity to collect relevant data that can be used to pre-approve financial products for potential clients.

Our Competitive Strengths

We believe that our main competitive strengths are the following:

- We are a leading specialized consumer finance company in Colombia, with a proven business model targeting an underserved market with high growth potential. In our more than 16 years of experience, we have disbursed approximately US\$2.5 billion in loans. Our growth has been organic, based on the same core products, or extensions of them, in which we have developed operational know-how and efficiencies.
- We focus on a target market that is too costly for most banks to capture due to small average loan size. Our average loan size as of September 30, 2019 was Ps.2.1 million (US\$616).
- We have high asset quality driven by strong collection channels established at loan origination: we use collection channels that minimize repayment risk for 95% of our loan portfolio, with 63.5% of collections taking place via payroll and utility companies.
- We have non-performing loans ("NPLs") that compare well to the consumer loan market for our niche market, driven by well-planned credit process, strict underwriting policies and the collection channels established at origination.

- We have agreements for payroll lending with approximately 613 employers that give us access to a potential client base of 3.2 million people.
- We have alliances with six utility companies and one telecom company to offer our *Crediuno/Visa* credit card, giving us access to 4.3 million clients and valuable information from them regarding demographics, payment habits, energy consumption, household composition and domicile, which we incorporate in our credit analysis.
- Our differentiated underwriting process based on a more robust data base for our scoring models significantly enhances efficiency and response time to clients.
- Our recently developed digital origination capabilities complement well with an extensive network of commercial alliances with national coverage and a robust sales force of more than 1,620 representatives across the country, allowing us to reach clients efficiently and effectively in our target geographical areas. Our digital origination and renewal capabilities in key products have translated into increased client consultations and a faster credit execution process, while at the same time decreased our origination costs.
- We have one of the largest exclusive sales forces in Colombia, enabling us to reach clients on a personal basis with higher productivity using our recently launched digital tools.
- We have a diversified payroll loan portfolio by product and geography and a low concentration by client, as our top 25 largest clients represent only 0.56% of our total managed loan portfolio. 52.5% of our total managed loan portfolio consists of loans to pensioners and public sector employees that have stable job histories and predictable cash flows.
- We have an innovative lending model with a focus on strong and stable collection channels for each one of our credit products, as well as extensive geographical presence in Colombia, especially in small and intermediate cities.
- We operate in the Colombian market which has a mature market for consumer loans and a stable and conservative regulatory framework for payroll loans compared to other countries in Latin America where this credit product exists. In Colombia, the stability of the regulatory framework for the product mix offered by us relies on three pillars: a national law to regulate payroll loans (Law 1527 of 2012, as amended), a national law for consumer protection (Law 1480 of 2011, as amended) and the existence of a cap on interest rates on any type of loan, which is regulated by the Colombian Central Bank (*Banco de la República de Colombia*) and certified by the SFC.
- We have an experienced management team and strong corporate governance policies led by qualified board members.
- Our financial strategy is supported by established international private equity firms which are our shareholders.
- We have access to a diversified funding structure, including longstanding relationships with major local and international institutions, in addition to our recurring issuances in the international capital markets. We are one of the few Colombian high-yield issuers with an international corporate rating.
- We have adequate capitalization levels and a robust balance sheet, with a total shareholders' equity to total assets ratio of 13.7% as of September 30, 2019, which is above the 13.06% average level of consumer lending financing companies in Colombia as of the same date based on SFC data.
- We have an attractive business profile compared with the Colombian bank market, with net interest margin and loan portfolio quality that compare well to the rest of the Colombian financial industry.

Our Strategy

We have a defined business strategy and continuously implement initiatives to consolidate our position in the market. Our business strategy is focused on offering agile and innovative credit solutions to the rapidly emerging

low and low–middle income population, which is underserved by the traditional financial industry, with strong collection channels that mitigate risk.

Compared with the Colombian bank market, we believe we have achieved above-average loan growth, reflecting a combination of an underpenetrated market, a vast amount of poorly-organized competitors and growing GDP per capita (still well-below the regional average).

We believe we are well positioned to take advantage of the expected growth in the Colombian payroll loans, credit card and insurance premium financing business and to strengthen our existing product portfolio. In particular, we expect to continue to absorb a significant share of the demand for payroll loans within our target market that was previously served by other non-bank financial institutions, which were liquidated between 2016 and 2017 by Colombian regulators due to lending and funding violations.

We intend to continue showing growth rates of our loan portfolio above the average growth rate of the Colombian financial industry. We also intend to improve our operational efficiency and benefit from the recent investments we have made in technology by redesigning and digitalizing our origination processes to continue serving our clients and differentiating our services from the competition.

- *Grow our payroll loan business.* We intend to increase the penetration among the employees of the companies and government agencies where we have agreements to provide payroll loans. We currently have 613 active operating agreements with employers, which provide us access to 3.2 million employees and pensioners. As of September 30, 2019, we had a penetration rate of 2.4% (75,423 clients), which we believe will allow for future growth. In September 2019, we launched a 100% digital platform for the renewal process of selected payroll loans under a self-service model for mobile devices, which currently represent about 60% of the total renewals per month. We expect to decrease origination costs and retain more clients with our digital platform, as this new channel will allow us to present new offers to our current clients who have additional indebtedness capacity. Furthermore, the exit of informal players in the payroll loan market (as described under “Macroeconomic and Industry Overview—Payroll Loan Sector—Recent Developments in the Payroll Loan Market in Colombia”), represents a business opportunity to increase our market share for payroll loans.
- *Expand our credit card business.* We intend to enhance our credit card business as a result of the consolidation of our credit card network with the VISA network, which has increased the usage and the size of purchase amounts by our credit card clients. In addition, as a result of the implementation in 2019 of a 100% digital origination process for our credit card business through our commercial channels, we expect to increase the productivity of our sales force, decrease the response time to our clients and obtain a reduction in origination costs. As of September 30, 2019, we believe we had a penetration rate of 18.1% within our six existing exclusive agreements with utility companies (excluding TIGO) for the origination and collection of credit card payments and of 6.4% of our potential TIGO clients, which we believe creates a very attractive opportunity for future growth.
- *Technological innovation and data analytics development.* We intend to capitalize on the recent investments in technology we have made and on new information technology (“IT”) tools we have been implementing, such as Datawarehouse, a 100% digital origination process for Crediuno, a 100% digital renewal process of selected payroll loans under a self-service model for mobile devices and new ERP and Core systems for all products, which we believe will allow us to have more efficient origination, administration and servicing processes as well as client understanding for risk management and development of commercial strategies.
- *Consolidate our strategy for insurance premium financing.* Since 2015, we changed our strategy for loan origination of the Credipóliza product, focusing more on the origination through individual brokers and only under certain agreements with insurance companies to control operational risks. We intend to continue increasing brokers’ retention through loyalty and incentive programs to increase loan origination and productivity.
- *Preserve and continue diversifying our sources of funding.* Throughout our history we have maintained diversified sources of funding and a strong equity base. Our strong balance sheet has allowed us access to multiple sources of local funding, together with more favorable conditions on secured loans. Since 2013,

we further diversified our sources of funding by accessing the international capital markets through issuances under our ECP Program. In 2014, we were assigned an international corporate rating by Standard and Poor's, and then in 2018 Fitch Ratings did the same, making us one of the few Colombian high-yield issuers with an international rating, which allowed us to reach a broader pool of investors. As of September 30, 2019, we had completed 15 issuances under our ECP Program and in December 2019 we completed the 16th issuance under our ECP Program, with both new and existing investors that have either renewed or increased their exposure to us. In July 2017, we also accessed the international capital markets with the issuance of US\$250 million of our 2022 Senior Notes and we issued an additional US\$75 million of our 2022 Senior Notes in a reopening in February 2018. During 2019, we structured a payroll loan securitization under a stand-alone structure that involves a true sale of the payroll loan portfolio, in the local capital markets for up to Ps.150,000 million (US\$43.3 million). In December 2019, we obtained approval from the SFC to register the securities arising from this securitization before the National Registry of Securities and Issuers and we expect to price this transaction during the first half of 2020. As of September 30, 2019, our total shareholders' equity to total assets ratio was 13.7%. We believe our strong total shareholders' equity to total assets ratio shows the commitment of our shareholders who have been supporting the business through capital contributions and earnings reinvestment. In the past eight years, we have not distributed any dividends.

Concurrent Tender Offer and Consent Solicitation

Concurrently with this offering, Credit Suisse, as principal, has launched a cash Tender Offer for any and all of the Company's US\$325,000,000 aggregate principal amount of the 2022 Senior Notes validly tendered and accepted by Credit Suisse on or before February 14, 2020 upon the terms and subject to the conditions set forth in an Offer to Purchase and Consent Solicitation Statement, dated January 17, 2020 (as it may be amended or supplemented from time to time, the "Statement"), and in the related Letter of Transmittal and Consent (as the same may be amended or supplemented from time to time, the "Letter of Transmittal" and collectively with the Statement, the "Offer Documents"). Concurrently with the Tender Offer, and on the terms and subject to the conditions set forth in the Statement, Credit Suisse will solicit consents of holders of the 2022 Senior Notes that would, among other things, eliminate most of the restrictive covenants and certain of the events of default contained in the indenture governing the 2022 Senior Notes. We have agreed that the net proceeds we receive in connection with the offering will be decreased by an amount equal to the consideration payable to Credit Suisse by the Company in exchange for 2022 Senior Notes purchased by Credit Suisse in connection with the Tender Offer. The Company intends to use the remainder of the proceeds to repay certain indebtedness and for general corporate purposes. The Tender Offer and Consent Solicitation are not being made pursuant to this offering memorandum. The closing of the Tender Offer and Consent Solicitation is contingent upon the closing of this offering.

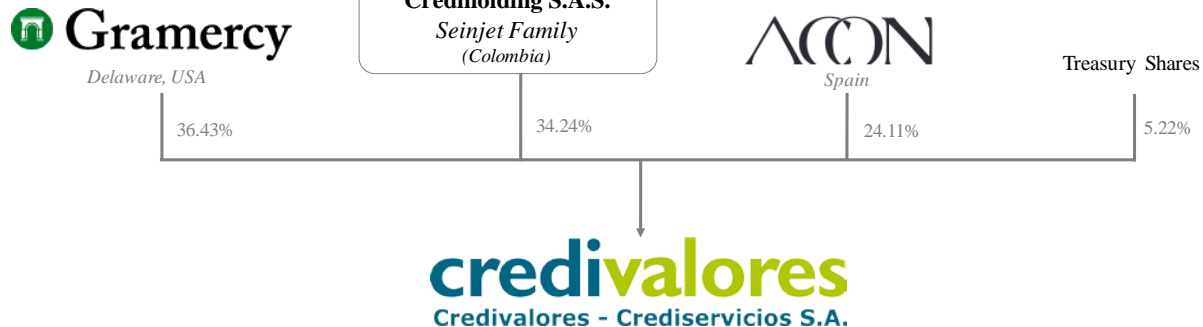
Recent Developments

In June 2019, we completed a legal corporate transformation from a simplified stock company (*sociedad por acciones simplificada*) to become a stock company (*sociedad anónima*) under Colombian law. This transformation will grant us access to the domestic capital markets allowing the company to registry bonds and securities before the National Registry of Securities and Issuers from the SFC.

In December 2019, we issued a US\$15 million note under our ECP Program maturing in June 2021. The proceeds of this transaction were used for general corporate purposes, including portfolio origination.

Corporate Structure

The following chart shows our corporate structure as of September 30, 2019. We also hold 5.22% of our shares in treasury.



As of the date of this offering memorandum, we have no subsidiaries. We previously had one subsidiary, Microfinanzas & Desarrollo S.A.S., an entity specialized in microcredits, which was dissolved on May 10, 2017.

We also hold investments with no significant influence in Inverefectivas (25%), a Panamanian investment company, equivalent to Ps.11,093 million (US\$3.2 million).

Corporate Information

Our corporate offices are located at Carrera 10 No. 65-98, Piso 4, Bogotá D.C., Colombia, and our telephone number is +57 (1) 313 7500. Our website is www.credivalores.com.co. The information on our website is not a part of, and is not incorporated by reference into, this offering memorandum.

THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Notes” section of this offering memorandum contains a more detailed description of the terms and conditions of the notes.

Issuer	Credivalores – Crediservicios S.A.
Notes Offered	US\$300,000,000 aggregate principal amount of 8.875% senior notes due 2025.
Offering Price	99.505%, plus accrued interest, if any, from February 7, 2020.
Issue Date	February 7, 2020.
Maturity Date	February 7, 2025.
Interest Rate.....	Interest on the notes will accrue at a rate of 8.875% per annum.
Interest Payment Dates	February 7 and August 7 of each year, beginning on August 7, 2020.
Ranking	The notes will:

- be the general unsecured obligations of the issuer;
- rank equal in right of payment with all other existing and future Senior Indebtedness (as defined under “Description of the Notes”) of the issuer (subject to certain obligations for which preferential treatment is given under Colombian insolvency laws);
- rank senior in right of payment to all existing and future Subordinated Indebtedness (as defined under “Description of the Notes”) of the issuer, if any;
- be effectively subordinated to all existing and future Secured Indebtedness (as defined under “Description of the Notes”) of the issuer to the extent of the value of the assets securing such Indebtedness (as defined under “Description of the Notes”), including all Indebtedness and other liabilities of any Special Purpose Finance Trust (as defined under “Description of the Notes”); and
- be structurally subordinated to all existing and future Indebtedness and trade payables of the Company’s Subsidiaries (as defined under “Description of the Notes”), if any, that are not Guarantors (as defined under “Description of the Notes”).

As of September 30, 2019, the issuer had total Indebtedness excluding transaction costs of Ps.1,745,931 million (US\$504.3 million), of which Ps.231,938 million (US\$67.0 million) was secured by collateral. After giving effect to the offer and sale of the notes and the application of the net proceeds from this offering as described under “Use of Proceeds,” as of September 30, 2019 the issuer would have had total Indebtedness excluding transaction costs of Ps2,037,366 million (US\$588.5 million), of which

	Ps.231,938 million (US\$67.0 million) would have been secured by collateral.
Change of Control	Upon the occurrence of a Change of Control Triggering Event (as defined under “Description of the Notes”), the issuer will be required to make an offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus any Additional Amounts (as defined under “Description of the Notes”) then due, if any, plus any accrued and unpaid interest through the purchase date. See “Description of the Notes—Change of Control Triggering Event.”
Optional Redemption	<p>On or after February 7, 2023, we may redeem the notes, in whole or in part, at any time at the redemption prices set forth in “Description of the Notes—Optional Redemption,” plus any Additional Amounts then due, if any, and any accrued and unpaid interest to, but excluding, the date of redemption.</p> <p>Prior to February 7, 2023, we may, at our option, redeem the notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus a make-whole amount, any Additional Amounts then due, if any, and any accrued and unpaid interest to, but excluding, the date of redemption.</p> <p>In addition, prior to or on February 7, 2023, we may redeem up to 35% of the aggregate principal amount of the notes (including any additional notes) with the net proceeds from certain equity offerings by us, at a redemption price equal to 108.875% of the aggregate principal amount thereof, plus any accrued and unpaid interest to, but excluding, the date of redemption, plus any Additional Amounts.</p> <p>See “Description of the Notes—Optional Redemption.”</p>
Tax Redemption	The issuer may redeem the notes, in whole but not in part, at a redemption price equal to 100% of their principal amount, plus any Additional Amounts then due, if any, and any accrued and unpaid interest to, but excluding, the date of redemption, if tax laws currently in effect are modified and the change results in us becoming obligated to pay Additional Amounts in excess of those attributable to a Colombian income tax withholding with respect to the notes. See “Description of the Notes—Optional Redemption—Optional Redemption for Changes in Withholding Taxes.”
Additional Amounts	Payments of interest on the notes (and amounts deemed interest, such as any discount on the principal amount of the notes) to investors that are non-residents of Colombia for tax purposes will not be subject to Colombian withholding taxes. See “Taxation—Colombian Tax Considerations.” Subject to certain specified exceptions, the issuer will pay Additional Amounts, if any, as may be required so that the net amount received by the holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount each holder of notes would have received if such withholding or deduction had not applied. See “Description of the Notes—Additional Amounts.”

Certain Covenants	<p>The indenture governing the notes will limit, among other things, the issuer’s ability and the ability of any of its Restricted Subsidiaries (as defined under “Description of the Notes”) to:</p> <ul style="list-style-type: none"> • incur additional indebtedness; • pay dividends or redeem capital stock; • make other restricted payments; • make certain acquisitions or investments; • enter into certain transactions with affiliates; • transfer or sell assets; • secure our indebtedness and the indebtedness of our subsidiaries; • guarantee debts; and • sell, consolidate, merge or transfer all or substantially all of their assets. <p>These covenants are subject to a number of important exceptions and qualifications. See “Description of the Notes—Certain Covenants.”</p>
Events of Default.....	The indenture will set forth the events of default applicable to the notes. See “Description of the Notes—Events of Default.”
Further Issuances.....	Subject to the limitation contained in the indenture, the issuer may from time to time and without providing notice to or obtaining the consent of the holders of the notes issue an unlimited principal amount of Additional Notes (as defined under “Description of the Notes”) of the same series as the notes initially issued in this offering, provided that unless such Additional Notes are issued under a separate CUSIP number, either such Additional Notes are part of the same “issue” for U.S. federal income tax purposes or are issued pursuant to a “qualified reopening” for U.S. federal income tax purposes.
Use of Proceeds.....	<p>We have agreed that the net proceeds we receive in connection with the offering will be decreased by an amount equal to the consideration payable to Credit Suisse by the Company in exchange for 2022 Senior Notes purchased by Credit Suisse in connection with the Tender Offer.</p> <p>Any remaining funds are expected to be used by us for repayment of debt and general corporate purposes. See “Use of Proceeds.”</p>
Taxation.....	For a summary of the U.S. federal income tax consequences and the Colombian federal income tax consequences of an investment in the notes, see “Taxation.”
Form and Denomination.....	We will issue the notes in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and the notes will, once issued, be represented by one or more global notes. The global notes representing the notes will be deposited with a

	custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. See “Book-Entry, Delivery and Form.”
Settlement.....	The notes will be delivered in book-entry form through the facilities of DTC for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, <i>société anonyme</i> , Luxembourg (“Clearstream”).
Transfer Restrictions	The issuer has not and will not register the notes under the Securities Act or the securities laws of any other jurisdiction. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer Restrictions.”
Governing Law.....	The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.
Trustee, Registrar, Paying Agent and Transfer Agent	The Bank of New York Mellon.
Listing	We intend to apply to have the notes listed and quoted on the SGX-ST.
Risk Factors.....	You should consider carefully all of the information set forth in this offering memorandum and, in particular, you should evaluate the specific factors under “Risk Factors,” for a description of the principal risks involved in making an investment in the notes.

SUMMARY FINANCIAL INFORMATION

The following tables present certain summary financial information as of the dates and for each of the periods indicated. The results included below and elsewhere in this offering memorandum are not necessarily indicative of our future performance. This data is qualified in its entirety by reference to, and should be read together with “Presentation of Financial and Other Information,” “Selected Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this offering memorandum. Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

Our balance sheet data as of September 30, 2019 and the income statement data for the nine months ended September 30, 2019 and 2018 are derived from our Interim Financial Statements included elsewhere in this offering memorandum. Our balance sheet data as of December 31, 2018 and 2017 and the income statement data for the years ended December 31, 2018, 2017 and 2016 are derived from our Annual Financial Statements included elsewhere in this offering memorandum.

In our financial statements as of and for the years ended December 31, 2018 and 2017, we restated our financial statements as of December 31, 2017, as explained in note 2 to such financial statements. The restatement relates to the acquisition of the Crediuno-Avances business unit in 2016. Under IFRS 3 (“Business Combination” accounting standards) the acquisition of this business unit represented capital gains related to data bases, intangible assets for clients and exclusivity contracts, which initially were not recognized in the financial statements of 2016 according to IFRS 3. During 2017, we were able to collect information to determine the reasonable value of this transaction, allowing us to proceed with the restatement of financials for fiscal year 2017. All 2017 financial figures used in this offering memorandum reflect this restatement. Figures as of December 31, 2016 used in this offering memorandum correspond to the annual audited financial statements for that year and have not been restated.

We have prepared our Annual Financial Statements included elsewhere in this offering memorandum in accordance with FRAS-IFRS for non-financial entities.

	For the Nine Months Ended September 30,			For the Year Ended December 31			
	2019	2019	2018	2018	2018	2017	2016
	(in millions of US\$) (1)	(unaudited) (in millions of Ps.)		(in millions of US\$) (1)	(in millions of Ps.)		
Income statement data:							
Interest income and similar (2)	80.8	279,769	242,958	98.7	341,714	290,558	269,013
Financial costs (interest)	(42.2)	(146,166)	(133,771)	(46.5)	(160,957)	(146,686)	(126,222)
Net interest	38.6	133,603	109,187	52.2	180,757	143,872	142,791
Impairment of financial assets loan portfolio	(13.7)	(47,403)	(29,754)	(13.7)	(47,432)	(22,889)	(23,261)
Restructured loans	-	-	-	-	-	(2,571)	-
Expense on accounts receivable provisions	(0.7)	(2,268)	-	(1.8)	(6,114)	(3,329)	-
Gross financial margin	24.2	83,932	79,433	36.7	127,211	115,083	119,530
SG&A							
Employee benefits	(3.5)	(12,103)	(13,687)	(5.1)	(17,624)	(18,414)	(20,005)
Depreciation and amortization expense	(1.5)	(5,041)	(4,634)	(2.1)	(7,409)	(5,230)	(3,824)
Depreciation of right of use assets	(0.4)	(1,217)	-	-	-	-	-
Other	(16.1)	(55,705)	(51,950)	(21.0)	(72,607)	(77,644)	(79,041)
Total other expenses	(21.4)	(74,066)	(70,271)	(28.2)	(97,640)	(101,288)	(102,870)

Net operating income	2.8	9,866	9,162	8.5	29,571	13,795	16,660
Other income	0.3	1,190	98	0.1	451	1,168	9,553
Other income recoveries	-	-	-	-	-	-	558
Financial income	0.1	305	398	0.6	2,215	1,472	294
Exchange rate differences	(0.0)	(42)	8,274	2.5	8,638	(7,886)	10,980
Financial income	0.4	1,453	8,770	3.3	11,304	(5,246)	21,385
Derivative instrument valuation	(1.5)	(5,335)	(6,183)	(8.4)	(28,943)	(6,518)	(14,615)
Financial expense	(1.5)	(5,335)	(6,183)	(8.4)	(28,943)	(6,518)	(14,615)
Net financial income (expense)	(1.1)	(3,882)	2,587	(5.1)	(17,639)	(11,764)	6,770
Net income before income tax	1.7	5,984	11,749	3.4	11,932	2,031	23,430
Income tax	(0.7)	(2,464)	(1,582)	(1.3)	(4,581)	(1,222)	(6,230)
Net income for the period	1.0	3,520	10,167	2.1	7,351	809	17,200

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.
- (2) Includes revenue from contracts with customers for the nine months ended September 30, 2019 and earnings from portfolio sales and indemnities for the year ended December 31, 2016.

	As of September 30,		As of December 31,		
	2019	2019	2018	2018	2017
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of US\$) (1)	(in millions of Ps.)	
Balance sheet data:					
Assets:					
Cash and cash equivalents	43.2	149,436	56.3	195,058	121,948
Financial assets at fair value through profit or loss					
Equity instruments	4.0	13,880	5.8	20,034	21,187
Derivatives instruments	99.3	343,638	52.7	182,372	773
Loan portfolio	6.0	20,675	5.3	18,337	17,065
Total financial assets at fair value	109.2	378,193	63.8	220,743	39,025
Financial assets at amortized cost					
Consumer loans	390.7	1,352,709	375.4	1,299,476	1,166,501
Microcredit loans	1.7	5,923	1.9	6,461	14,250
Impairment	(53.1)	(183,870)	(47.2)	(163,413)	(128,080)
Total Loan portfolio, net	339.3	1,174,762	330.0	1,142,524	1,052,671
Accounts receivable, net	113.3	392,129	95.5	330,651	183,511
Total financial assets at amortized cost	452.6	1,566,891	425.5	1,473,175	1,236,182
Investments in associates and affiliates	3.2	11,093	3.0	10,366	37,485
Current tax assets	4.7	16,215	3.5	12,059	8,191
Deferred tax assets, net	-	-	4.2	14,432	2,526
Property, plant and equipment, net	0.4	1,282	0.2	788	913
Right of use assets	1.8	6,106	-	-	-

Intangible assets other than goodwill, net	16.2	56,150	17.3	59,756	62,862
Total assets	631.2	2,185,366	573.8	1,986,377	1,509,132
Liabilities and equity					
Liabilities:					
Financial liabilities at fair value:					
Derivative instruments	14.6	50,545	7.7	26,762	17,686
Total financial liabilities at fair value	14.6	50,545	7.7	26,762	17,686
Financial liabilities at amortized cost					
Financial obligations	489.6	1,695,062	451.8	1,564,108	1,167,146
Lease liabilities	1.8	6,379	-	-	-
Total financial liabilities at amortized cost	491.5	1,701,441	451.8	1,564,108	1,167,146
Employee benefits provisions	0.4	1,351	0.3	1,096	1,154
Other provisions	0.3	896	0.1	343	302
Accounts payable	19.6	67,691	27.7	95,897	60,444
Current tax liabilities	0.9	2,948	0.6	2,197	1,100
Deferred tax liabilities, net	0.0	49	-	-	-
Other liabilities	17.4	60,234	13.4	46,298	6,983
Total liabilities	544.5	1,885,155	501.6	1,736,701	1,254,815
Equity:					
Share capital	37.4	129,638	35.8	123,922	120,899
Treasury Shares	(3.7)	(12,837)	(3.7)	(12,837)	(12,837)
Reserves	5.4	18,651	5.4	18,651	18,651
Additional paid-in capital	18.7	64,726	16.9	58,442	58,442
Other comprehensive income (OCI)	9.5	32,773	(0.6)	(2,241)	(20,165)
Retained earnings	18.4	63,740	16.3	56,388	88,518
Earnings for the period	1.0	3,520	2.1	7,351	809
Total equity	86.7	300,211	72.1	249,676	254,317
Total liabilities and equity	631.2	2,185,366	573.8	1,986,377	1,509,132

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

The following tables show our debt maturities, excluding lease agreements, as of September 30, 2019 (unaudited):

	Secured Debt	Unsecured Debt	Bonds	ECP Program	Total
	(in millions of Ps.)				
2H 2019	25,378	40,000	-	-	65,378
1H 2020	29,798	32,711	-	121,711	184,220
2H 2020	27,707	6,647	-	-	34,354
2021	44,251	11,500	-	139,098	194,849
2022	41,921	19,429	1,130,172	-	1,191,522
2023	41,921	6,325	-	-	48,246
2024	20,962	-	-	-	20,962
Total	231,938	116,612	1,130,172	260,809	1,739,531

	Secured Debt	Unsecured Debt	Bonds	ECP Program	Total
	(in millions of US\$)				
2H 2019	7.3	11.6	-	-	18.9
1H 2020	8.6	9.4	-	35.2	53.2
2H 2020	8.0	1.9	-	-	9.9
2021	12.8	3.3	-	40.2	56.3
2022	12.1	5.6	326.4	-	344.2
2023	12.1	1.8	-	-	13.9
2024	6.1	-	-	-	6.1
Total	67.0	33.7	326.4	75.3	502.5

	As of and for the Nine Months Ended September 30, 2019 (unaudited)		As of and for the Year Ended December 31,			
	(in millions of US\$) (1)	(in millions of Ps.)	2018 (in millions of US\$) (1)	2018	2017	2016
			(in millions of Ps.)			
Other financial data:						
Owned loan portfolio (principal only) (2)	339.4	1,174,991	335.1	1,160,205	1,055,837	943,033
FGA reserve (3)	2.3	7,988	0.4	1,319	1,205	1,249
Impairment of financial assets	53.1	183,870	47.2	163,413	128,080	105,191
Total unencumbered assets (4)	546.1	1,890,761	493.3	1,707,951	1,378,831	586,842
Interest income and similar (5)	80.8	279,769	98.7	341,714	290,558	269,013
Net interest and similar	38.6	133,603	52.2	180,757	143,872	142,791
LTM net income	0.2	704	2.1	7,351	809	17,200
Commissions and fees	21.2	73,495	29.0	100,300	84,926	60,666

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

(2) Owned loan portfolio includes our on-balance sheet collateralized and uncollateralized loan portfolio, as reflected in our Financial Statements. Derived from our Financial Statements included elsewhere in this offering memorandum.

(3) Fondo de Garantias de Antioquia (FGA) is an entity owned by the Chamber of Commerce of Medellin, the Medellin Mayor's Office, the National Fund of Guarantees and the National Federation of Merchants (Fenalco) among others, which acts as a guarantor of all payroll loans we originate and of some of our credit card clients. FGA assumes risk up to a set limit and is responsible of recording the corresponding guarantees and indemnities and paying out on claims received. We are responsible for managing the risk, processing the loans, allocating guarantees, administering the collection of loans and collateral, processing indemnities and invoicing on behalf of FGA. Once a loan enters default, we can claim a reimbursement from FGA for the outstanding balance of the loan. As a result, we receive monetary compensation and record it as revenue under the income for guarantees item in our income statement.

(4) Total consolidated assets (excluding Intangible Assets, any net deferred tax assets and any other assets securing other Indebtedness of the Company loan portfolio held through our free-standing trusts) not securing any portion of our secured indebtedness.

(5) Includes interest income from own portfolio, commissions and fees, revenues from portfolio sales and indemnities.

	As of and for the Nine Months Ended September 30, 2019 (unaudited)		As of and for the Year Ended December 31,			
	(in millions of US\$) (1)	(in millions of Ps.)	2018 (in millions of US\$) (1)	2018	2017	2016
				(in millions of Ps.)		
Net interest margin (NIM):						
Interest income, excluding transaction costs and fair value	61.6	213,429	72.9	252,266	214,868	198,772
Financial costs (interest)	(42.2)	(146,166)	(46.5)	(160,957)	(146,686)	(126,222)
Net interest margin (NIM)	19.4	67,263	26.4	91,309	68,182	72,550

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

	As of and for the Nine Months Ended September 30, 2019 (unaudited)	As of and for the Year Ended December 31,		
		2018	2017	2016
Ratios:				
Efficiency ratio (1)	50.8%	49.9%	66.8%	69.4%
ROA (2)	0.03%	0.4%	0.1%	1.3%
ROE (3)	0.2%	2.9%	0.3%	9.1%
Equity / assets (end of period)	13.7%	12.6%	16.9%	14.0%
Capitalization ratio (4)	30.5%	25.1%	27.4%	22.6%
NPLs / total managed loans (5)	5.9%	6.3%	4.2%	3.4%
Reserves / NPLs (6)	88.8%	87.9%	91.5%	91.1%

- (1) Calculated as other expenses plus employee benefits, divided by net interest and similar.
- (2) Calculated as net income for the last twelve months divided by the total assets at the end of the period.
- (3) Calculated as net income for the last twelve months divided by the shareholders' equity at the end of the period.
- (4) Calculated as total shareholder's equity divided by net loan portfolio (defined as owned loan portfolio less impairment of financial assets and FGA reserve) (as defined under "Description of the Notes").
- (5) Calculated as NPLs of our managed loan portfolio over total managed loan portfolio. Our non-performing loans include principal only and include managed loans past due for over 60 days adjusted for operational nature of business. For comparative purposes, loans due for over 360 days are not considered in the calculation, given that we do not perform recurrent write-offs of loans.
- (6) Calculated as reserves (including impairments as stated in the Financial Statements and FGA reserves) over NPLs of managed loan portfolio.

RISK FACTORS

An investment in the notes offered hereunder involves certain risks. You should carefully consider the following discussion of risks, as well as all the other information presented in this offering memorandum, before investing in the notes. In general, investing in the securities of issuers in countries considered emerging markets such as Colombia involves certain risks not typically associated with investing in securities of U.S. companies. The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial also may impair our business operations or our ability to make payments on the notes and under other existing or future indebtedness.

This offering memorandum also contains forward-looking statements that involve risks. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including risks faced by us described in this offering memorandum.

Risks Relating to Colombia

Adverse economic and political conditions in Colombia may have an adverse effect on our results of operations and financial condition.

We are a Colombian company and most of our operations, properties and clients are located in Colombia. As a consequence, our results of operations and financial condition are materially affected by economic and political conditions in Colombia. The quality of our assets, financial condition and results of operations significantly depend on macroeconomic and political conditions prevailing in Colombia. The demonstrations and protests from different sectors (including students, unions, environmental organizations, artists and representatives from the opposition) that took place in November and December 2019 against the Colombian government led to the establishment of a dialogue between government officials and leaders of the demonstrations to discuss the petitions from the people. President Duque announced formal channels of communication with different representatives from the demonstrations to discuss the petitions and reach certain agreements by March 2020. Although the current Colombian political scenario is stable and macroeconomic fundamentals remain strong, adverse economic and political conditions may have an adverse effect on our business.

Colombia is subject to economic, political and other uncertainties, including changes in monetary, exchange control and trade policies that could affect the overall business environment in Colombia, which would, in turn, affect our results of operations and financial condition and, ultimately, our ability to meet our obligations under the notes.

Decreases in the growth rate of the Colombian economy, periods of negative growth, material increases in inflation or interest rates or significant fluctuations in the exchange rate could result in lower demand for, or affect the pricing of, our services and products. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, in which case our profitability could be affected.

In Colombia, inflation rates have fluctuated significantly in recent years. The inflation rate reached a 15-year high in mid-2016 at 9.0% before declining to 5.8%, 4.1% and 3.2% for the years ended December 31, 2016, 2017 and 2018, respectively. As of September 30, 2019, the inflation rate was 3.23%. We cannot assure you that inflation rates will remain stable.

The Colombian economy remains vulnerable to external shocks, including any global economic crisis and those that could be caused by future significant economic difficulties of its major regional trading partners or by more general “contagion” effects.

A significant decline in economic growth of any of Colombia’s major trading partners—in particular, the United States, China and Ecuador—could have a material adverse effect on each country’s balance of trade and economic growth. Lower economic growth than expected may result in asset quality deterioration and could negatively affect our business.

The United States is Colombia's largest export market, accounting for 26.6% of Colombia's exports. A decline in the United States' demand for imports could negatively affect Colombian exports and Colombia's economic growth, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, because international investors' reactions to the events occurring in one emerging market country sometimes have demonstrated a "contagion" effect with respect to other emerging market countries, in which an entire region or class of investment is disfavored by international investors, Colombia could be affected by negative economic or financial developments in other emerging market countries.

There can be no assurance that any global financial crisis or similar events in emerging market countries will not adversely affect investor confidence in emerging markets or the economies of the principal countries of Latin America, including Colombia. There can be no assurance that these events will not adversely affect Colombia's economy and in turn have a material adverse effect on our business, results of operations and financial condition.

According to the IMF, the key external risks that could affect the Colombian economy, which would, in turn, impact our business, include commercial tensions between the United States and China and the Euro Zone, decreased confidence of businesses, restrictive financial condition, higher political uncertainty in both emerging and developed markets, the exit of the United Kingdom from the European Union ("Brexit") negotiations and the policies of the new Mexican administration.

Exports from Colombia fell from 2014 to 2018, due to recent fluctuations in commodity prices and volatility in exchange rates that have led to a decline of 23.6% in exports between 2014 and 2018. In particular, the oil industry remains an important determinant of the country's economic growth. Substantial or extended declines in international oil prices or oil production falls have had and may continue to have an adverse effect on the overall performance of the Colombian economy, on the economic conditions in the regions that have traditionally benefited from oil exploration, and could have an adverse impact on the results of operations and financial condition of oil industry companies. Furthermore, continued declines in market prices, such as those experienced during the past year, pose significant challenges to Colombia's near-term outlook and may impair the ability of some of our clients to repay their debt obligations.

Furthermore, the political and economic climate in Latin America, including countries facing political unrest such as Venezuela, Bolivia, Chile, Ecuador and Argentina, may negatively affect international investor perception of the region. Between 2014 and 2018, Colombia had an average economic growth of 2.7%, a decrease from an average of 4.3% between 2009 and 2013. This decrease in average growth was due primarily to a decrease in the oil and gas extraction activity since 2014, which decreased by 45.1% in the period from 2014 to 2017. In the medium term, the Colombian economy is expected to grow more rapidly, at a rate of 3.6%, as estimated by the IMF and within the 3.0% target set by the Central Bank. Nevertheless, the Colombian economy continues to be vulnerable to risks, including, lower economic growth globally, harsher financial condition and continued migratory pressure from Venezuela.

We cannot assure you that the growth achieved by the Colombian economy over the past decade will continue in future periods. A reversal of the rate of growth of the Colombian economy, a slowdown in the growth in customer demand, an increase in market competition, or changes in governmental regulations, could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. All of these conditions could lead to a general decrease in demand for borrowings.

In addition, the effect on consumer confidence of any actual or perceived deterioration of household incomes in the Colombian economy may have a material adverse effect on our results of operations and financial condition.

If the United States imposes sanctions on Colombia in the future, our business may be adversely affected.

Colombia is among several nations whose eligibility to receive foreign aid from the United States is dependent on its progress in stemming the production and transit of illegal drugs, which is subject to an annual review by the President of the United States. Although Colombia is currently eligible for such aid, Colombia may not remain eligible in the future. A finding by the President of the United States that Colombia has failed demonstrably to meet its obligations under international counter-narcotic agreements may result in the imposition of economic and trade sanctions on Colombia which could result in adverse economic consequences in Colombia including potentially

threatening our ability to obtain necessary financing to develop our business and further heightening the political and economic risks associated with our operations.

Developments and the perception of risk in other countries may adversely affect the market price of securities issued by Colombian companies, including the notes.

Securities issued by Colombian companies may be affected by economic and market conditions in other countries, including the United States and other Latin American and emerging market countries. Securities issued by Colombian issuers are also likely to be affected by economic and political conditions in Colombia's neighbors: Venezuela, Ecuador, Peru, Brazil and Panama. Although economic conditions in these Latin American and other emerging market countries may differ significantly from economic conditions in Colombia, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Colombian issuers, including the notes.

Due to financial and economic crises that may occur in countries around the world (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998, the Argentine financial crisis of 2001, the 2009 worldwide financial crisis, the crisis in Brazil in 2016 and the ongoing crisis in Venezuela) and which may have an adverse effect on the economies of emerging markets, investors may view investments in emerging markets with heightened caution. As a result of financial and economic crises in other countries including, among others, the United States or countries with emerging market economies, flows of investments into Colombia may be reduced. Crises in other countries may hamper investors' enthusiasm for securities of Colombian issuers, which may in turn adversely affect the price for the notes and make it difficult for us to access the international capital markets, finance our operations and capital expenditures and/or refinance our liabilities.

Ongoing negotiations around Brexit continue to pose risks, as those negotiations (and an eventual exit of the United Kingdom from the European Union) could generate indirect macroeconomic imbalances by fostering instability in the international markets, a reduction in foreign investments, an increase in the cost of financing and volatility in foreign exchange. Similarly, the United States' increase in tariffs on Chinese imports could also have a ripple effect on global trade. The combined effect of these events could negatively impact the market price of securities issued by Colombian entities, including ours.

Colombia has experienced and continues to experience internal security issues that have had or could have a negative effect on the Colombian economy.

Colombia has experienced and continues to experience, in a lesser degree, internal security issues, primarily due to the activities of dissident groups of the former Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*) ("FARC") and the National Liberation Army (*Ejército de Liberación Nacional*) ("ELN"), paramilitary groups and drug cartels. In remote regions of the country with minimal governmental presence, these groups have exerted influence over the local population and funded their activities by protecting, and rendering services to drug traffickers. The Colombian government commenced peace talks with the FARC in August 2012, and peace negotiations with ELN began in November 2016. The Colombian government and the FARC signed a peace agreement on September 26, 2016, which was amended by the Colombian Congress on November 30, 2016 and is currently being implemented after four years of negotiation. As a result, during the transition process, Colombia may experience internal security issues, and drug-related crime and guerilla and paramilitary activities, which may have a negative impact on the Colombian economy. In addition, the peace agreement reached with the FARC may be modified by current or future governments, including President Duque's administration. Although the Colombian Congress has approved certain regulations implementing the final peace agreement, including laws governing the Special Peace Justice System (*Jurisdicción Especial para la Paz*), laws enacted by the Colombian Congress in this regard may differ from the provisions of the peace agreement. If there are deviations from the peace agreement, there can be no assurance that criminal actions will not escalate in Colombia. Pursuant to the peace agreements negotiated between the FARC and the Colombian Government in 2016, the FARC occupies five seats in the Colombian Senate and five seats in the Colombian House of Representatives. We cannot predict which policies will be adopted by the Colombian Government and whether the policies would have a negative impact on the Colombian economy or our business, financial condition and results of operations.

The implementation of the peace agreement with the FARC will require the enactment of new laws and regulations, which may impact our activity in ways we cannot anticipate. The impact of such new legislation is still

unknown, and further regulations may be required for such legislation to be implemented. New laws or regulations enacted in connection with the implementation of the peace agreement may impact our activity and may have a negative effect on our financial condition and results of operations and our ability to repay the notes.

Mr. Iván Duque Márquez was elected President of Colombia in 2018 after defeating Gustavo Petro 54% to 42% in the second round of voting. Mr. Duque took office in August 2018 and under his government, the Colombian economy has reached a GDP growth rate of 3.3% during the third quarter of 2019, inflation rate has remained within the target of the Central Bank at 3.84% as of November 2019, public debt as a percentage of GDP reached 54.3% as of the first half of 2019 and the fiscal deficit for 2019 is expected to reach 2.7% of GDP.

Any breakdown in peace, or renewed or continuing drug-related crime and guerilla or paramilitary activities may have a negative impact on the Colombian economy. Our business or financial condition could be adversely affected by rapidly changing economic or social conditions related to such circumstances, including the Colombian government's ability to implement the peace agreement with the FARC. Such changes could include the passing of legislation that could increase our tax burden and impact the overall Colombian economy.

Our business or financial condition could be adversely affected by rapidly changing economic or social conditions, including the Colombian government's response to the post conflict if any, which may result in legislation that increases the tax burden of Colombian companies.

Government policies and actions as well as judicial decisions in Colombia could significantly affect the local economy and, as a result, our results of operations and financial condition.

Our results of operations and financial condition may be adversely affected by changes in Colombian governmental policies and actions, and judicial decisions, involving a broad range of matters, including interest rates, exchange rates, exchange controls, inflation rates, taxation, banking and pension fund regulations and other political or economic developments affecting Colombia. The Colombian government has historically exercised substantial influence over the economy, and its policies are likely to continue to have a significant effect on Colombian companies, including us. The president of Colombia has considerable power to determine governmental policies and actions relating to the economy, and may adopt policies that could negatively affect us. On May 25, 2018, Colombia was accepted as a member of the Organization for Economic Cooperation and Development (the "OECD"), however, there can be no assurance that the Duque administration will adopt policies following the standards set forth by the OECD to its members. Future governmental policies and actions, or judicial decisions, could adversely affect our results of operations or financial condition.

Changes in economic policies in Colombia could affect our business, financial condition and results of operations.

Our financial condition and results of operations may be adversely affected by changes in the political climate of Colombia to the extent that such changes affect the economic policies, growth, stability, outlook or regulatory environment.

Since 2017, and considering the amendments under Law 1943 of 2018, dividends distributed by Colombian legal entities to residents and non-residents from profits generated as of fiscal year 2017 are subject to dividends tax (in the case of non-residents the applicable tax rate is 7.5% if profits were taxed at the level of the distributing entity, or 33% (for the 2019 tax year) plus 7.5% after the 33% is levied if profits were not taxed at the level of the distributing entity).

Despite the tax reform implemented in 2017, which included raising the VAT rate from 16% to 19%, below average economic activity and low oil prices maintained pressure on fiscal goals. President Duque's administration inherited high levels of spending, and if they fail to make significant reductions in investments, Colombia may be unable to meet its fiscal deficit targets.

We cannot provide any assurances that political or social developments in Colombia over which we have no control, will not have a material adverse effect on our economic situation and will not adversely affect the business, financial condition and results of operations of our subsidiaries and their ability to pay dividends or make other distributions to us. This could have a material adverse effect on our business, results of operations, financial condition and our ability to make payments on the notes.

Factors such as Colombia's growing public debt and fluctuating exchange rates could adversely affect the Colombian economy.

Colombia's fiscal deficit and growing public debt could adversely affect the Colombian economy. As of December 31, 2018, the Colombian Government's total direct internal funded debt was approximately 34.5% of GDP, compared to approximately 32.2% of GDP at December 31, 2017.

According to the MHCP's *Marco Fiscal de Mediano Plazo 2019*, the Colombian central government's fiscal deficit as of December 31, 2018 was 3.1% of GDP. The fiscal deficit target was set at 2.4% of GDP for 2019 and at 2.2% of GDP for 2020. The current medium term fiscal deficit target is 1% of GDP.

Although the country has implemented various tax reforms in the last five years, such as Law 1943 of 2018 (the "Financing Law"), which was declared unconstitutional in October 2019 and was replaced by Law 2010 of 2019 (the "Economic Growth Law"), the national government continues to face budgetary restrictions that could result in additional tax reforms and have an adverse impact on our results of operations.

Colombia has a floating U.S. dollar to Colombian peso exchange rate. The U.S. dollar to Colombian peso exchange rate has fluctuated in recent years, seeing a 31.6% depreciation of the Colombian peso in 2015 followed by a 4.7% and 0.56% appreciation in 2016 and 2017, respectively. In 2018, the U.S. dollar depreciated by 9% to an average exchange rate of Ps.\$3,150 to U.S.\$1.00. This behavior was related primarily to oil prices, economic growth in the United States, Federal Reserve interest rates and its monetary normalization policy, aversion to financial risk in emerging economies and trade tensions between the United States and other economies such as China and the European Union. Because the Colombian economy depends on external flows of capital and for financing and its balance of trade, continued volatility in foreign exchange rates could negatively impact its economy.

We cannot assure you that any measures taken by the Colombian Government and the Central Bank would be sufficient to control any resulting fiscal or exchange imbalances. Any further disruption in Colombia's fiscal and trade balance may therefore cause Colombia's economy to deteriorate and adversely affect our business, financial situation and results.

Any further downgrade in the credit rating of Colombia could adversely affect the Colombian economy.

The outlook of Colombia's credit rating was changed to negative by S&P and Fitch in 2016 and by Moody's in February 2018. However, in March 2017, Fitch upgraded its rating outlook for Colombia from negative to stable due to the perceived reduction in macroeconomic imbalances as a result of the sharp reduction in the current account deficit, diminished uncertainties surrounding Colombia's fiscal consolidation path due to the tax reform measures passed in December 2016, and the expectation that inflation will meet the Central Bank's target. In December 2017, S&P downgraded the rating of its long-term foreign currency sovereign credit ratings on Colombia from "BBB" to "BBB-," on the grounds of Colombia's weakened fiscal and external profiles generating diminished policy flexibility. Additionally, on February 22, 2018, Moody's changed Colombia's rating outlook from stable to negative. This change was driven by (i) the expectation of a slower pace of fiscal consolidation and weakening fiscal metrics, and (ii) the risk that the new government, after the 2018 presidential elections, will not have an effective mandate to pass additional fiscal measures to preserve Colombia's fiscal strength. As of the date of this offering memorandum, Colombia's long-term debt denominated in foreign currency is rated "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. Any further downgrade of Colombia's credit rating could adversely affect the Colombian economy, our operations and the market value of securities of Colombian issuers, including the notes.

New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia could adversely affect our results of operations and financial condition.

New tax laws and regulations, and uncertainties with respect to future tax policies, could adversely affect our results of operations and financial condition. In recent years, the Colombian Congress has imposed additional taxes in a variety of areas, such as taxes on financial transactions and taxes to fund Colombia's fight against terrorism and the peace negotiations with guerrilla forces. Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties. Any change in tax

regulations or the interpretation thereof could have a material adverse effect on our results of operations and financial condition.

In October 2019, the Colombian Constitutional Court held that the 2018 tax reform enacted by the Colombian Congress was unconstitutional due to procedural irregularity in the approval process by the Colombian Congress. The 2018 tax reform governed the 2019 taxable year but ceased as of January 1, 2020. Nonetheless, the tax rules introduced by the 2018 tax reform (and repealed by the Constitutional Court) were again reinstated by the Colombian Congress in the Economic Growth Law. The Economic Growth Law was approved by the Congress on December 27, 2019. We cannot assure you that such reform will not have an adverse impact on our results of operations or financial condition.

Exchange rate fluctuations could adversely affect the Colombian economy, and therefore, our results of operations.

The Colombian peso has been subject to significant devaluations and appreciations in the past and may be subject to similar fluctuations in the future. As of December 31, 2016, 2017 and 2018, and September 30, 2019, the exchange rate of the Colombian peso against the U.S. dollar was Ps.3,000.71 per US\$1.00, Ps.2,984.0 per US\$1.00, Ps.3,249.75 per US\$1.00 and Ps.3,462.01 per US\$1.00, respectively. Substantially all of our revenues are denominated in Colombian pesos. As of September 30, 2019, 80.9% of our outstanding debt was denominated in U.S. dollars, so a significant decrease in the value of the Colombian peso as compared to the U.S. dollar will increase our debt service costs. Although we have implemented a hedging policy aiming to mitigate this risk, we cannot assure you that we will maintain our current hedge positions in the future or that our hedging policy will successfully mitigate the effects of fluctuations in the exchange rate of the Colombian peso against the U.S. dollar.

A devaluation of the Colombian peso relative to the U.S. dollar could create inflationary pressures in Colombia and result in the adoption by the Colombian government of measures such as increasing interest rates. Restrictive macroeconomic policies could adversely affect the stability of the Colombian economy, as well as adversely impact our results of operations and profitability. A significant devaluation or appreciation of the Colombian peso in relation to the U.S. dollar could adversely affect the Colombian economy, which could have a material adverse effect on our results of operations and financial condition.

Natural disasters, acts of war or terrorism, or other external events could disrupt our businesses and affect our results of operations and financial condition.

Colombia is exposed to natural disasters, such as earthquakes, volcanic eruptions, tornadoes, tropical storms and hurricanes. Heavy rains or abnormally low rainfall in Colombia, attributable in part to the *La Niña* and *El Niño* weather patterns, have resulted in severe flooding and mudslides, and prolonged droughts in the past and may continue to contribute to flooding, mudslides, droughts or other natural disasters on an equal or greater scale in the future. In addition to severe weather and natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business and may, among other things, impair the ability of our clients to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, cause us to incur additional expenses and/or result in loss of revenue. In the event of such circumstances, our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our businesses, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised. Natural disasters, acts of war or similar events could also result in substantial volatility in our results of operations for any fiscal quarter or year.

The Colombian Central Bank may impose requirements on the ability of Colombian residents (including us) to obtain loans in foreign currency.

Under Colombian exchange control operations, the Colombian Central Bank is allowed to require a mandatory deposit in connection with loans denominated in a foreign currency obtained by Colombian residents, including us. Although there is not currently a mandatory deposit requirement in effect, a mandatory deposit requirement was set at 40.0% in 2008 after the Colombian peso appreciated against foreign currencies. We cannot predict or control future actions by the Colombian Central Bank, which may involve the establishment of a different mandatory

deposit percentage. The use of such measures by the Colombian Central Bank may be a disincentive for us and our clients to obtain loans in foreign currency. We cannot predict the effects that such policies will have on the Colombian economy. In addition, we cannot assure you that the Colombian peso will not depreciate or appreciate relative to other currencies in the future.

Risks Relating to our Business and Industry

Changes in economic conditions could materially and adversely affect consumer demand and thus demand for loan products.

Our primary business is the origination and servicing of consumer loans. Demand for our products depends on economic conditions in Colombia, including GDP, growth rates, inflation, VAT taxes, unemployment, the cost of energy and other utilities, the availability of consumer credit, interest rates, consumer confidence, debt levels, retail trends and foreign currency exchange rates. These economic conditions are beyond our control. If there is a downturn in economic conditions, demand for consumer goods will likely decline. A decline in demand for consumer goods would likely reduce demand for payroll loans and credit cards usage. Our ability to receive payments on our loans in full and on time is also dependent on the financial condition of our clients, which is in turn heavily dependent on economic conditions. The occurrence of any of these events may materially and adversely affect our revenues, as we may not be able to generate sufficient demand to originate payroll deduction loans in an amount sufficient to satisfy any amounts payable under the notes.

Colombian insolvency laws may limit our ability to collect on monetary obligations and enforce rights against collateral or under guarantees.

Colombian insolvency laws provide that creditors of an insolvent debtor are required to initiate collection proceedings within the bankruptcy or reorganization process if initiated by such debtor. Therefore, according to “Pull Forum” (*Fuero de atracción*) set forth in article 20 of the Insolvency Law (Law 1116 of 2006), all collection proceedings outstanding at the beginning of the bankruptcy or reorganization process must be suspended and will be pulled to the insolvency proceeding before the Superintendence of Corporations. Therefore, any creditors are prevented from enforcing their rights against the assets of the insolvent debtor.

Once a non-merchant individual has ceased paying his or her debts, according to the General Code of Procedure (*Código General del Proceso*), that individual can initiate a voluntary insolvency proceeding before a notary public or mediator to reach an out-of-court agreement with creditors. The terms of any agreement reached with a group (two or more) of creditors that represent more than 50% of the total amount of the claims will be mandatorily applicable to all relevant creditors. The Colombian insolvency law and the General Code of Procedure in these cases also provide for increased debtor protections, including an automatic stay for a maximum of 90 days. A perception that loans to individuals may be difficult to recover could cause us to enhance credit requirements and result in decreased lending to individuals by making access to credit more expensive or more onerous. Furthermore, increased difficulties in enforcing debt and other monetary obligations due to Colombian insolvency laws could have an adverse effect on our results of operations and financial condition.

Our revenues depend significantly on our existing collaboration agreements with employers and public utility companies.

If we are not capable of maintaining our existing collaboration agreements with employers and of leveraging our sales force to enhance the penetration rate among the employees of the companies and government agencies for granting payroll loans and having optimal operational efficiencies with them, our ability to originate new payroll loans may be diminished and our timely performance of our payment obligations under the notes could be materially adversely affected. However, according to the Colombian Payroll Loan Law each employee has the right to select the entity providing a payroll loan and its employer is required to enter into an agreement with such entity in order to disburse and collect the loan.

Although we have been successful in renewing our agreements with utility companies in the past and we have executed agreements with new companies like TIGO, Electrohuila and Enerpeira if we are not unable of entering into and maintaining agreements with public utility companies for the collection of our credit card portfolio, our

ability to originate and collect loans may be diminished and our timely performance of our payment obligations under the notes could be materially adversely affected.

We and our sales force may be subject to penalties or sanctions due to our advertising or lending practices.

As an entity engaged in consumer lending and financial marketing, we have been and may be subject to sanctions by the Superintendency of Industry and Commerce (*Superintendencia de Industria y Comercio*) for consumer lending practices or unfair competition. Pursuant to applicable law, we may be subject to penalties imposed by the Superintendency of Industry and Commerce if we offer information that is incorrect, false, incomplete or susceptible to confusion with regard to our products, or if we engage in advertising that offers our products or services to customers that have expressly requested not to receive such advertising. The advertising carried out by our sales force in order to originate loans could be deemed unclear under applicable law, including with respect to our role as the ultimate creditor, specific interest rates and the terms of loans. Any of the above could affect our public perception, result in penalties or sanctions or have an adverse effect on our business, financial condition and results of operations.

In the ordinary course of our business, we may be subject to litigation from time to time.

In the ordinary course of our business, we may be subject to litigation and administrative proceedings, including proceedings initiated by the Colombian customer protection authority (*Superintendencia de Industria y Comercio*). Any such litigation or proceedings may continue without resolution for long periods of time and may consume substantial amounts of our senior management's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. The commencement of any such litigation or proceedings, or an adverse result in any litigation or proceedings that may be pending, could have a material adverse effect on our business, results of operations and financial condition.

Past performance may not be indicative of our future results.

We have included information in this offering memorandum relating to our past financial performance. In considering this information, you should bear in mind that past performance is not necessarily indicative of future results, and that there can be no assurance that we will achieve comparable results. Future conditions may require actions that differ from those contemplated at this time. See "Business." There may be differences between investors' expectations and actual results because events and circumstances frequently do not occur as expected, and those differences may be material and adverse. In addition, general economic conditions, which are not predictable, can also have a material adverse impact on the reliability of management's projections. We may use the proceeds of this offering at a slower or faster rate than we have historically been able to deploy capital, which may negatively affect our ability to create long-term value for our shareholders. Such different rates of using funds are another reason we may not be able to achieve similar returns to the track record described in this offering memorandum.

We may not be able to timely collect payroll loans from borrowers upon a borrower's termination of employment.

Our ability to timely collect payroll loans depends heavily upon irrevocable payment instructions given by individual borrowers to their employers prior to disbursement. The termination of the borrower's employment for any reason (including the borrower's retirement), may result in salaries not being paid to a borrower and, thus, the inability of such borrower to repay a loan. After the occurrence of a borrower's termination of employment, we can still collect payments directly from the borrower or through its new employer, because payroll loans are personal obligations of the borrower. Colombia has a stable regulatory framework for payroll loans, according to the Colombian Payroll Loan Law the deduction "follows" the borrower even in the case of a change of employer. In the event a borrower changes employers, the new employer is required to continue deducting the amounts due to the lender, otherwise the employer becomes jointly liable.

However, if a borrower terminates its employment we may be unable to obtain timely repayment of the applicable payroll loan which may have a material adverse effect on our ability to meet our business, results of operations, prospects and financial condition. Our inability to timely collect from borrowers may affect our ability to timely satisfy our obligations and, if such defaults were to become frequent, as a result of economic or social conditions or otherwise, it could have a material adverse impact on our financial condition and results from operations, including our ability to timely meet our obligations under the notes.

Our business is subject to operational risks.

Our business depends on our ability to process large numbers of transactions efficiently and accurately. While we review the truthfulness and accuracy of the information provided by credit applicants as part of our origination process, operational risks and losses could result from fraud, employee error, failure to properly document transactions or to obtain proper internal authorization, breaches of conduct of business policies, equipment failures, natural disasters or the failure of external systems, among others, and could lead to the loss of the principal amount disbursed, in whole or in part. Although we have implemented operational risk processes and systems based on the best practices and standards of the financial industry, those may be ineffective, which could have a material adverse impact on our financial condition and results from operations, including our ability to meet our obligations under the notes.

Our revenues depend heavily on our human resources, infrastructure, technology, data collection, processing and storage systems, the failure of any of which could materially and adversely affect our risk management and internal control system.

Our business is highly dependent on our ability to timely collect and process a large amount of information related to our existing customer base, including transaction processes that may increase in complexity with increasing volume of business. The proper functioning of financial controls, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process, our risk management and internal control systems, as well as our ability to respond on a timely basis to changing market conditions.

Although we continuously invest in our IT systems, we may experience difficulties in upgrading, developing and expanding our IT systems on a timely and cost-effective basis to accommodate our growing customer base. If we cannot maintain an effective data collection and management system, or if we cannot upgrade that system as necessary to meet the changing circumstances of our business, then our business, financial condition and results of operations could be affected, which may have a material adverse effect on our ability to meet our obligations under the notes.

Interruption or failure in our IT systems may adversely affect our operations.

Our success is heavily dependent on the efficient and uninterrupted operation of our computer and communications hardware systems. Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, computer viruses, physical or electronic break-ins, cyber-security breaches or other similar events or disruptions. Any of these events could cause system interruptions, delays and losses of critical data and could prevent us from operating at optimal levels or at all. Furthermore, our disaster recovery planning may not be sufficient for all eventualities, and we may have inadequate insurance coverage or insurance limitations that could prevent us from being fully compensated for losses from a major interruption or other damage to our systems. If any of these events were to occur, we could incur substantial expenses and our operations, as well as our business, results of operations, prospects and financial condition could be adversely affected.

Our inability to maintain, improve or upgrade our information technology infrastructure and credit risk management systems in a timely manner could adversely affect our competitiveness, financial position and results of operations.

Our ability to operate and remain competitive depends on, among other factors, our ability to maintain and upgrade our information technology infrastructure in a timely and cost-effective manner. We must continually make investments and improvements to our information technology infrastructure in order to remain competitive. The information available to our management through our existing information systems may not be timely or sufficient to manage risks or to plan for, and respond to, future changes in market conditions and other developments in our operations. We may experience difficulties in upgrading, developing and expanding such systems quickly enough to accommodate our growing customer base and range of products and services. Any failure to maintain, improve or upgrade our information technology infrastructure and management information systems in a timely manner, or the inappropriate manipulation of the data in our systems, could materially and adversely affect our competitiveness,

financial position and results of operations. We have not conducted a recent and independent analysis of our systems confirming that there is no risk that the data stored in these systems cannot be manipulated inappropriately.

If we do not control our financial risks, we may be unable to manage our business profitably.

Our success in providing financial services depends on our ability to manage and control our financial risks, which include liquidity, market and credit risk. If we fail to manage and adequately control these risks, we may incur losses that could have a material adverse effect on our results of operations and financial condition and, ultimately, our ability to meet our obligations under the notes.

We have market risk exposure as a result of changes in interest rates, foreign currency rates, asset prices or other financial instruments. Our financial margin and the market value of certain of our assets and liabilities are subject to variations due to interest rate volatility. Changes in interest rates affect our interest income, the volume of loans we generate and our interest expense. For example, when interest rates rise, we must pay higher interest on our borrowings while interest earned on our loans does not rise as quickly, causing our financial margin, which comprises the majority of our revenue, to temporarily decrease. Fluctuations in interest rates and prevailing market prices may have an adverse effect on our business, results of operations, prospects and financial condition.

We are subject to fluctuations in interest rates. Imbalances in the interest rates and maturity between our loan portfolio and our sources of funds could adversely affect us and our capacity to expand our business.

We are exposed to interest rate and maturity mismatches between our loans and sources of funding. Out of our total loan portfolio, 12.2% consists mainly of loans bearing floating interest rates under payroll loans and the remaining 87.8% are loans at fixed interest rates. Our net interest income from our loans depends mainly on the spread between our cost of funding and the interest rates we charge to our customers. An increase in interest rates, or general uncertainty about changes in interest rates, could affect demand for credit, and thus affect demand for our loan products.

Any mismatch between the maturity of our loan portfolio and our sources of funds could magnify the effect of any imbalance in interest rates and could present a liquidity risk if we fail to obtain funding on an ongoing basis. An increase in our total cost of funds could result in an increase in the interest rates on our loans, which could, as a result, affect our ability to attract new customers and could limit the expansion of our business. A decrease in the growth of our loan portfolio could materially and adversely affect our ability to pay our liabilities, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

The board of directors of the Colombian Central Bank has authority to raise or lower interest rates, in order to intervene in the Colombian economy. Although interest rates in Colombia have remained stable recently, we cannot assure you that interest rates will remain stable. Any change in the interest rates could negatively affect our business and financial condition.

We are subject to credit risk, and if we are unable to effectively control the level of non-performing loans in the future, our business, results of operations, prospects and financial condition may be adversely affected.

Although we have rigorous and standardized credit processes in place and collection channels that mitigate risk of nonpayment, some of our payroll loans and credit card receivables could be partially or totally impaired as a result of the borrowers' default on their obligations. We use an internally designed credit risk management system that estimates the probability of default for every loan based on a borrower profile based on demographic and economic variables. However, this process involves subjective and complex judgments, including projections of economic conditions and assumptions on the ability of our borrowers to repay their loans. This process is also subject to human error as our employees may not always be able to assign an accurate credit rating to a client, which may result in exposure to higher credit risk than indicated by our risk rating system. We may not be able to timely detect these risks before they occur, or due to limited resources or available infrastructure, our employees may not be able to effectively implement our credit risk management system, which may increase our exposure to credit risk.

Non-performing loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control the level of these loans in our loan portfolio. Although the amount of our non-performing loans is lower than that of the Colombian financial industry, we cannot assure you that this amount may not increase

in the future. If the quality of our total loan portfolio deteriorates, we may be required to increase our impairments, which would adversely affect our business, results of operations, prospects and financial condition.

Our current business model relies heavily on our ability to originate new loans.

Currently our income is materially dependent on our ability to originate new loans on terms attractive to us. If we are unable to originate new loans on favorable terms, our results of operations and financial position may be adversely affected, since we do not engage in full banking activities that could compensate for a decrease of the income derived from our loan origination business.

We could fail to fully or timely detect money laundering, terrorism financing and other illegal or inappropriate activities that could result in incurring additional liability and could harm our business and reputation.

We are subject to and must comply with all applicable laws against money laundering, terrorism financing and other regulations in Colombia. These laws and regulations require, among other things, that we adopt and implement policies and procedures which involve “know-your-client” requirements and reporting suspicious and material transactions to the applicable regulatory authorities. While we have adopted policies and procedures intended to detect and prevent the use of our network for money laundering activities and by terrorists, and the size of the loans granted are relatively small for money laundering activities, these policies and procedures may fail to fully eliminate the risk that we have been or are currently being used by other parties, without our knowledge, to engage in activities related to money laundering or other illegal or inappropriate activities. To the extent we have not detected or do not detect such illegal activities, the relevant Colombian governmental agencies to which we report, such as the Financial Information and Analysis Unit (*Unidad de Información y Análisis Financiero*, or UIAF) of the Colombian Ministry of Finance (*Ministerio de Hacienda y Crédito Público*), have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could be adversely affected if our clients use us for money laundering activities or illegal or inappropriate purposes.

We cannot ensure that our “best practices” and ethics policy for hiring and operations, and the internal control and practices derived from such policy will always be effective in preventing corrupt business practices by our employees and/or distributors in relation to their activities carried out during their dealings with public or private agencies. This could adversely affect our reputation, business, financial condition and results of operations.

Loans to low-income individuals pose unique risks not generally associated with other forms of lending.

Our customers are typically low and lower-middle income individuals who have limited access to traditional sources of credit. We use strong collection channels and other relevant information (*i.e.*, from utilities companies and employers) to determine the clients’ risk profiles. In the future we may experience higher levels of non-performing loans and may be required to record higher impairments, which may materially and adversely affect our results of operations and financial position. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future, which could have an adverse effect on our business, financial condition and results of operations.

The credit card industry entails significant risks, including the possibility of over-indebtedness of customers, which could have a material adverse effect on us.

The credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers, despite our focus on strict origination policies and credit analysis of our clients including information from the payment habits of their utility bills that help us determine their capacity of payment. The credit card industry is characterized by higher consumer default than other segments of the credit markets, and defaults are highly related to macroeconomic indicators that are beyond our control. Part of our current growth strategy is to increase volume and number of cards in the credit card portfolio, which may increase our exposure to risk in our loan portfolio. We may be faced with unexpected losses that could have an adverse effect on our results of operations and financial condition, if Colombia economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers (including by targeting certain sectors).

A contraction in the credit markets could affect our capacity to fund our operations.

A contraction in the credit markets could affect our capacity to fund our operations and adversely affect our business, financial condition and results of operations in spite of our efforts to maintain diversified and sufficient credit lines with local and international banks. Although 52.2% of our managed loan portfolio is placed among pensioners and public sector employees that have a stable job history and a secure source of income, increased unemployment caused by a contraction of credit markets could negatively impact the financial situation of our current clients which could, in turn, cause an increase in delinquent loans, reducing the profitability of our loan portfolios and the solvency of our clients, adversely affect our loan approval rate and, in turn, may have a material adverse effect on our results of operations and financial condition and, ultimately, on our ability to meet our obligations under the notes.

Reductions in our credit ratings could increase our cost of borrowing funds and impair our ability to raise new funds and renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and low concentrations of our investment portfolio, the level and volatility of our earnings, our capitalization, the quality of our management, the liquidity of our balance sheet and our ability to access a broad array of funding sources. Our lenders may be sensitive to the risk of a downgrade in our credit ratings. We cannot assure you that our ratings will remain for any given period of time or that such ratings will not be lowered or withdrawn. The assigned ratings may be raised or lowered depending, among other factors, on the rating agencies' respective assessment of our financial strength, as well as their assessment of Colombian sovereign risk generally.

Adverse changes in our credit ratings could increase the cost of refinancing existing obligations, raising funds in the capital markets and borrowing funds from private lenders, which may result in a material adverse effect on our business, results of operations and financial condition, and, ultimately, may impair our ability to meet our obligations under the notes.

Servicing our indebtedness, including the notes, will require a significant amount of cash.

Our ability to make payments on our indebtedness, including the notes, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. Our business may not be able to generate sufficient cash flow from operations and future borrowings may not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness at or before maturity and may not be able to complete such refinancing on commercially reasonable terms or at all. We may not have sufficient resources to repay our indebtedness as it becomes due or sufficient time to finance the repayment thereof. We are required to use a portion of our cash flow from operations to pay interest on our current and future indebtedness, which may require us to reduce funds available for other purposes, including new loan origination. If we are unable to generate cash to service, repay or refinance our indebtedness, our business, financial condition or results of operations may be materially and adversely affected.

Competition from financial institutions and Fintechs may adversely affect our profitability and position.

We face competition from existing and new lenders that target our existing and prospective payroll loan customers. Existing competitor financial institutions include banks and cooperatives as well as commercial entities and informal loan providers. New competitors include Fintechs dedicated mainly to payroll loan and credit card origination within our target market. We expect competition to continue to increase as we continue expanding our operations in Colombia. Some of our existing competitors may have more resources and name recognition than us and have access to lower-cost sources of funding. The lower cost of funding of such competitors may allow them to offer payroll loans with lower interest rates or to engage in predatory practices such as lending below costs. Pricing (as reflected primarily in the applicable interest rate and to a lesser extent in related transaction fees) is an important competitive feature in the lending business. New lenders such as Fintechs, may develop more flexible and user friendly underwriting processes to originate payroll loans and credit cards among our target market with lower origination costs. Stronger price competition in the future could cause the rate of voluntary prepayments in our portfolio to increase and to exceed the rate at which payroll loans have been prepaid in the past, if the difference in

interest rates exceeds the costs of refinancing with other lenders. Competition in our market may result in an adverse effect on our business, financial condition and results of operations and in turn ultimately have a material adverse effect on our ability to meet our obligations under the notes.

We depend on our principal officers and key employees.

The loss of any of our experienced principal officers, key employees and senior managers could negatively affect our ability to execute our business strategy. In addition, in line with our planned expansion, our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing, collections and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to maintain our quality and reputation or to sustain or expand our operations. For example, we have experienced and continue to experience high rates of turnover among our sales force, which may in turn impact our productivity. Our business, results of operations, prospects and financial condition could therefore be adversely affected if we cannot continue to attract and retain these necessary personnel.

We are not currently subject to significant regulation as a bank or other financial institution in Colombia. Changes to Colombian governmental regulations, could adversely affect our business, results of operations, prospects and financial condition.

There may be significant future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us. Financial services and banking laws regulations are subject to ongoing review and revision, including changes in response to global regulatory trends. As a result, governments have been actively considering new banking laws and regulations, and reviewing and revising existing laws and regulations, particularly in relation to the regulation of non-bank financial institutions, interest rate regulations, capital adequacy and accounting standards. The adoption of new laws or regulations or changes in the interpretations or enforcement of existing laws or regulations may have an adverse effect on our results of operations and financial condition.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue certain business opportunities, increase the level of reserves we are required to maintain or capital adequacy requirements, affect the value of assets that we hold, require us to increase our prices and, therefore, reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us. Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services.

If we are not able to access sources of funding or successfully complete transactions to strengthen our capital structure, our business, financial condition and results of operations may be adversely affected.

We rely significantly on several sources of funding. Therefore, we are constantly looking for alternative forms to raise funds to finance our operations, including bank credit lines, publicly and privately issued debt and equity securities and private equity investments, among other sources of capital. We also strategically evaluate transactions from time to time to strengthen our capital structure. Adverse financial conditions, including the existence of a liquidity crisis, could limit our access to new or sustained funding. Any decrease in the availability of one or more of our funding sources, or if we are unable to complete any strategic transactions with respect to our capital structure, could have an adverse effect on our business, financial condition and results of operations.

We may also require additional capital in the future in order to grow our loan portfolio, remain competitive or enter into new businesses. In addition, we may need to raise additional capital to increase our equity base in the event that we experience large, unexpected losses in our loan portfolio. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital-raising activities by financial institutions; and

- economic, political and other conditions in Colombia and elsewhere.

We may not be able to obtain additional capital in a timely manner, on acceptable terms or at all, which could have an adverse effect on our business, financial condition and results of operations.

Future acquisitions or significant investments may not be successfully implemented or could disrupt our operations.

As we plan to continue growing our businesses, we may consider other strategic acquisitions or investments (including investments in regulated businesses) from time to time in Colombia and abroad. We face a variety of uncertainties and challenges relating to acquisitions and investments, including achieving expected synergies, retaining key employees, integrating operational and financial systems, maintaining levels of revenue and profitability, securing governmental approvals and minimizing exposure to potential liabilities. These risks, and the possibility that integration of any acquired business could require a significant amount of the time and resources of our management and employees, could disrupt our ongoing business and could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to bring an enforcement action on the collateral securing our financial contracts or if the value of collateral under certain of our financing contracts is inadequate, our results of operations and financial condition could be adversely affected.

If we are unable to bring an enforcement action on collateral on a timely basis or at all, or if proceedings related thereto are delayed, our results of operations and financial condition may be adversely affected. Additionally, the value of such collateral may be adversely affected by a number of conditions such as damage, loss, deterioration, devaluation, oversupply or reduced demand for such asset. There can be no assurance that the value of such collateral will not decline. There can also be no assurance that the assumptions relied on by appraisers assessing the value of such collateral are accurate measures of the market and thus the value of such collateral may be evaluated inaccurately. Consequently, the price at which we are able to sell any collateral in the event of an attachment or foreclosure may be lower than the valuation of such collateral and this may have a material adverse effect on our financial condition and results of operations.

Any failure to protect our registered trademarks and intellectual property may materially adversely affect us.

We believe that our commercial advertisements, trademarks and other intellectual property are fundamental to our name recognition and the continued success of our business. Any infringement of our intellectual or industrial property rights or any failure to register or maintain these rights in the jurisdictions in which we operate may result in: (i) litigation, requiring that we dedicate substantial time and resources to defend our intellectual and industrial property; and/or (ii) the potential loss of our ability to use our trademarks. The success of our business depends in part upon our continued ability to use our trademarks to increase brand awareness and further develop our brand in our markets. We cannot assure you that all of the steps that we have taken to protect our trademarks in Colombia and other countries will be adequate to prevent the infringement of our trademarks by others. The unauthorized reproduction of our trademarks could diminish the value of our brand and our market recognition, our competitive advantages or our goodwill, which could adversely affect our business, results of operations, prospects and financial condition.

Risks not contemplated in our insurance policies may affect our business.

Although we take actions to ensure that our insurance policies cover most of the risks related with our business, it is possible that the terms and conditions of the insurance policies we have will not cover a specific event or incident. If any uninsured events occur with respect to a significant portion of our assets or business, such lack of coverage could have a material adverse effect on our financial condition and results of operations.

Risks Relating to the Notes

Payments on the notes will be effectively junior to any of our secured indebtedness and structurally junior to debt obligations of our subsidiaries.

The notes, and the obligations of any future note guarantors, will constitute our, and any such future note guarantors', senior unsecured general obligations and will rank equal in right of payment with all of our other existing and future senior indebtedness, other than obligations preferred by statute (such as tax and labor claims). Although the holders of the notes will have a direct, but unsecured claim on our assets and property, payment on the notes will be subordinated in right of payment to any of our existing or future secured indebtedness, including all indebtedness and other liabilities of our free-standing trusts (*patrimonios autónomos*), to the extent of the assets securing such indebtedness. Although the indenture governing the notes will contain restrictions on the incurrence of additional liens, these restrictions will be subject to important qualifications and exceptions, and the liens that we may incur in compliance with these restrictions or liens that arise from governmental or creditor action, could be substantial. Payment by us in respect of the notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our subsidiaries.

If we become insolvent or are liquidated, or we become subject to bankruptcy proceedings, or if payment under any of our secured indebtedness is accelerated, the relevant lenders would be entitled to exercise the remedies available to a secured lender. Accordingly, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured indebtedness before any proceeds would be available to us to make payments on the notes. After such application of the proceeds from collateral, it is possible that there would be no assets remaining from which claims of the holders of the notes could be satisfied.

The notes may not be guaranteed by certain of our future subsidiaries.

In addition, under Colombian law, our obligations under the notes are subordinated to certain statutory preferences, including claims for salaries, wages, secured obligations (to the extent of the collateral provided), social security, taxes and court fees and expenses. In the event of our liquidation, such statutory preferences will have preference over any other claims, including claims by any holder of the notes.

Further, if any assets remain after payment of these lenders, the remaining assets would be available to creditors preferred by statute, such as holders of tax and labor claims, and might be insufficient to satisfy the claims of the holders of the notes and holders of other unsecured debt including trade creditors that rank equal to holders of the notes.

Our substantial level of indebtedness could impair our financial condition.

We currently have, and after this offering will have, a substantial amount of indebtedness. Our significant level of indebtedness could have important consequences to you, including:

- requiring a substantial portion of our cash flows from operations be used for the payment of interest on our indebtedness, therefore reducing the funds available to us for the operations or other capital needs;
- limiting our flexibility in planning for, or reacting to changes in our business because our available cash flow after paying principal and interest on our indebtedness may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a greater percentage of our cash flow to paying principal and interest on our indebtedness;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on favorable terms;

- restricting our ability to take advantage of opportunities that would permit us to acquire other businesses;
- placing us at a competitive disadvantage to other relatively less leveraged competitors that have more cash flow available to fund working capital, capital expenditures and general corporate requirements; and
- any borrowings we make at variable interest rates, including our revolving credit facility, leave us vulnerable to increases in interest rates generally.

The occurrence of any of these and other risks related to our indebtedness may have a material adverse effect on our business, results of operations and financial condition.

We may incur substantially more indebtedness, which could further exacerbate the risks associated with our level of indebtedness.

As of September 30, 2019, we had Ps.1,745,931 million (US\$504.3 million) in financial liabilities excluding transaction costs, including Ps.22,329 million (US\$6.4 million) of secured indebtedness under a loan facility with the IFC, Ps.209,609 million (US\$60.5 million) of secured indebtedness under our syndicated facility for payroll loan origination with four local financial institutions and Ps.1,513,993 million (US\$437.3 million) of unsecured indebtedness. We may be able to incur substantial additional debt in the future. Although the agreements governing our outstanding indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute “indebtedness” as defined in the relevant documents. Adding new debt to our current indebtedness levels would increase our leverage. The related risks that we now face could intensify.

The instruments governing our indebtedness, including the notes offered hereby, contain cross-default provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default under an unrelated debt instrument.

The indenture will contain numerous restrictive covenants. Instruments governing our other indebtedness also contain certain affirmative and negative covenants and require us and our subsidiaries to meet certain financial ratios and tests. Our failure to comply with the obligations contained in the indenture or other instruments governing our indebtedness could result in an event of default under the applicable instrument, which could then result in the related debt and the debt issued under other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which may not be available to us on favorable terms, on a timely basis or at all. Alternatively, such default could require us to sell our assets and otherwise curtail operations in order to pay our creditors.

The notes are subject to transfer restrictions, which could limit your ability to resell your notes.

The notes have not been registered under the Securities Act or any state securities laws and we are not required to and currently do not plan on making any such registration in the immediate future. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “Transfer Restrictions” for a full explanation of such restrictions.

The notes have not been and will not be registered with the RNVE and the notes will not be listed on the Colombian Stock Exchange. The notes will not be offered to persons in Colombia by means of a public offering, but may be offered in a private placement pursuant to an exemption therefrom under Colombian law and the notes will not be sold to more than 99 Colombian persons. The offering will not be subject to review or authorization by the SFC.

There is no active market for the notes and if an active trading market does not develop for the notes you may not be able to resell them.

The notes are new securities that may not be widely distributed and for which there is currently no active trading market. We intend to apply to have the notes listed and quoted on the SGX-ST. Even if the notes become listed on this exchange, we may delist the notes. An active market may not develop for the notes and there can be no assurance as to the liquidity of any market that may develop for the notes. If a market for the notes does not develop, holders may be unable to resell such securities for an extended period of time, if at all, and the market price and liquidity of the notes may be adversely affected. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. Any such disruptions could adversely affect the prices at which the notes may be sold.

Further, even if a market were to exist, the notes could trade at prices that may be lower than the initial issue price depending on many factors, including prevailing interest rates, the markets for similar securities, general economic conditions in the United States and Colombia and our financial condition, performance and prospects.

Trading prices for the notes may be highly volatile.

The prices at which the notes may trade will depend on many factors, including, among others, prevailing interest rates, general economic conditions, our performance and financial results and markets for similar securities. Historically, the markets for debt such as the notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the notes may be subject to similar disruptions, which may have an adverse effect on the price of the notes.

We may not be able to make payments in U.S. dollars.

In the past, the Colombian economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Colombian government does not currently restrict the ability of Colombian or foreign persons or entities to convert Colombian pesos to foreign currencies, including U.S. dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Colombian government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. dollars to meet our U.S. dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Colombian economy.

Payment of judgments against us in Colombia may be made in Colombian pesos, which may expose you to exchange rate risks.

Article 86 of Resolution 1 of 2018 issued by the Colombian Central Bank provides that, in case of legal proceedings in Colombia, the conversion of foreign currency-denominated obligations of Colombian residents, such as us, would be made by using the foreign exchange rate prevailing on the payment date. Accordingly, if proceedings are brought and a judgment is entered against us in Colombia, we may be required to discharge these obligations in Colombian pesos. As a result, investors may be exposed to exchange rate risks.

If we were subject to Colombian bankruptcy or insolvency law, holders of the notes may find it difficult to collect payment on the notes.

If we were to be held subject to Colombian bankruptcy or insolvency law by a Colombian authority, our obligations under the notes would be subject to the outcome of, and priorities recognized in, the relevant proceedings, and would be subject to certain statutory preferences including tax, social security and labor claims and claims of secured creditors. In addition, in the event of bankruptcy or insolvency, our obligations may be subject to an automatic stay or compliance thereunder which may delay or affect the ability of the holders of the notes to collect payment on the notes.

The indenture will impose significant operating and financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

The indenture will contain covenants that restrict our ability to take various actions, such as limiting our ability to:

- incur additional indebtedness;
- pay dividends or redeem capital stock;
- make other restricted payments;
- make certain acquisitions or investments;
- enter into certain transactions with affiliates;
- transfer or sell assets;
- secure our indebtedness and the indebtedness of our subsidiaries;
- guarantee debts; and
- sell, consolidate, merge or transfer all or substantially all of their assets.

Our ability to comply with these covenants will likely be affected by many factors, including events beyond our control, and we may not satisfy those requirements. Our failure to comply with these covenants could result in an event of default, which could permit acceleration of the notes.

These restrictions will also limit our ability to plan for or react to market conditions, meet capital needs and otherwise restrict our activities or business plans. These restrictions may also adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest, and impair our growth.

We may be unable to purchase the notes upon change of control event, which would result in defaults under the indenture.

The terms of the notes require us to make an offer to repurchase the notes upon the occurrence of a specified change of control event at a purchase price equal to 101% of the principal amount of the notes, plus accrued interest to the date of the purchase. Any financial arrangements we may enter may require repayment of amounts outstanding upon the occurrence of a change of control event and limit our ability to fund the repurchase of your notes in certain circumstances. It is possible that we will not have sufficient funds at the time of any change of control to make the required repurchase of notes or that restrictions on our other financing arrangement will not allow the repurchase of notes or that restrictions in our other financing arrangements will not allow the repurchases. If we fail to repurchase the notes in such circumstances, we would default under the indenture which may, in turn, trigger cross-default provisions in our other debt instruments. See “Description of the Notes—Change of Control Triggering Event.”

You may not be able to effect service of process on us, our directors or our officers or to enforce in Colombian courts judgments obtained against us in the United States.

We are a stock corporation (*sociedad anónima*) organized under Colombian law. Certain of our directors and all or substantially all of our officers reside outside the United States. Substantially all of the assets of such persons are located in Colombia. Substantially all of our assets are located in Colombia. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside of Colombia upon us, our directors or officers or to enforce against us or our directors or officers in any jurisdiction outside of Colombia judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the U.S. federal and state securities laws. In addition, you should not assume that courts in Colombia (1) would enforce

judgments of U.S. courts obtained in actions against us based upon the civil liability provisions of applicable U.S. federal and state securities laws or (2) would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

There is also substantial doubt that the courts of Colombia would enter judgment in original actions brought in those courts predicated on U.S. federal or state securities laws. Moreover, certain remedies available under provisions of the U.S. securities laws may not be admitted or enforced by Colombian courts.

Colombian courts will enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as *exequatur*. Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements set forth in articles 605 through 607 of Law 1564 of 2012, or the Colombian General Code of Procedure (*Código General del Proceso*), which provides that the foreign judgment will be enforced if certain conditions are met, as described in detail in “Enforcement of Foreign Judgments.”

We may invest or spend our net proceeds from this offering in ways that may not yield an acceptable return to you.

We intend to use the net proceeds of this offering for the purposes described under “Use of Proceeds.” You will have no opportunity to evaluate our decisions and may not agree with the manner in which we spend such proceeds. We may invest or spend our net proceeds from this offering in ways that may not yield an acceptable return to you.

The indenture will contain periodic reporting requirements that will be different and less burdensome than would be applicable to us if we had agreed to register the notes following the closing of the offering.

We do not presently file periodic reports and other information with the SEC, and the indenture will not require us to file such reports or other information. The indenture will require us to provide annual and quarterly financial information, including English language translations, to the holders of notes and the trustee. The requirements of the indenture, however, will be more limited in certain respects than those applicable to public companies under the Exchange Act. See “Description of the Notes—Certain Covenants—Reports to Holders.”

We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the notes.

The ratings of the notes are not a recommendation to purchase hold or sell the notes, and the ratings do not comment on market price or suitability for a particular investor. The ratings of the notes are subject to change and may be lowered or withdrawn. A downgrade in or withdrawal of the ratings of the notes will not be an event of default under the indenture. The assigned ratings may be raised or lowered depending, among other things, on the rating agency’s assessment of our financial strength, as well as its assessment of Colombian sovereign risk generally.

It is possible that any future note guarantees by any future subsidiaries may not be enforceable.

Any future note guarantees would provide a basis for a direct claim against the guarantor. However, it is possible that such guarantees may not be enforceable. The laws of Colombia may in some cases prevent the guarantees from being valid, binding and enforceable against such subsidiary guarantors in accordance with their terms. In the event that such guarantor was declared bankrupt, the guarantee may be deemed to have been a fraudulent transfer and declared void if such subsidiary guarantor failed to receive fair consideration or reasonably equivalent value in exchange for such guarantee. In addition, under Colombian bankruptcy law, if any of the

subsidiary guarantors are judicially declared bankrupt, each of such subsidiary guarantors' obligations under its guarantee will be subordinated to secured creditors and certain statutorily preferred creditors, such as those holding labor, tax and social security related claims, which will have preference over any other claims, including claims by any investor in respect of the notes or such guarantees.

If we enter into a bankruptcy, insolvency, intervention, administrative takeover for management or for liquidation purposes or similar proceeding, holders of subordinated and unsubordinated debt may be given the same priority.

In a bankruptcy, insolvency, intervention, administrative takeover for management or for liquidation purposes or restructuring proceedings under Colombian law, subordination agreements may be disregarded. In such a case, subordinated and unsubordinated creditors (including holders of the notes) may have the same priority. The indenture allows us to incur subordinated debt, and to refinance, repay, redeem, repurchase or otherwise acquire or retire for value certain subordinated indebtedness. For example, we may incur an unlimited amount of subordinated debt. If we were to undergo bankruptcy, liquidation, restructuring or administrative takeover proceedings, holders of our debt that were contractually subordinated to our prior payments, including such intercompany debt, may have the same rights as holders of our unsubordinated debt under the notes. Therefore, we cannot assure you that you will not lose your priority over any subordinated debt.

USE OF PROCEEDS

We have agreed that the net proceeds we receive in connection with the offering will be decreased by an amount equal to the consideration payable to Credit Suisse by the Company in exchange for 2022 Senior Notes purchased by Credit Suisse in connection with the Tender Offer. Any remaining funds are expected to be used for repayment of debt and general corporate purposes.

EXCHANGE RATES AND FOREIGN EXCHANGE CONTROLS

Exchange Rates

The Colombian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of Colombian pesos by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. The SFC calculates the representative market rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including certain of our financial subsidiaries, for the purchase and sale of U.S. dollars. On September 30, 2019 the representative market rate was Ps.3,462.01 per US\$1.00, and on December 31, 2018 the representative market rate was Ps.3,249.75 per US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Colombian pesos/U.S. dollars.

The following table presents, for the periods indicated, the low, high and period-end exchange rates published by the SFC, all expressed in nominal Colombian pesos per U.S. dollar.

Month	High	Low	Period End
July 2019	3,296.85	3,169.51	3,296.85
August 2019	3,477.53	3,291.79	3,427.29
September 2019	3,462.01	3,356.15	3,462.01
October 2019	3,497.34	3,380.90	3,389.94
November 2019	3,522.48	3,318.47	3,522.48
December 2019	3,522.48	3,277.14	3,277.14
January 2020	3,411.45	3,253.89	3,411.45
February 2020 (through February 3)	3,423.24	3,423.24	3,423.24

The following table presents the average Colombian pesos/U.S. dollar representative market rate for each of the five most recent years, calculated by using the average of the exchange rates on the last day of each month during the period, and the representative year-end market rate for each of the five most recent years, as published by the SFC, all expressed in nominal Colombian pesos per U.S. dollar.

Year Ended December 31,	High	Low	Period End
2015.....	3,356.00	2,360.58	3,149.47
2016.....	3,434.89	2,833.78	3,000.71
2017.....	3,092.65	2,837.90	2,984.00
2018.....	3,289.69	2,705.34	3,249.75
2019.....	3,522.48	3,072.01	3,277.14

This offering memorandum contains translations of certain Colombian peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The convenience translations should not be construed as a representation that the Colombian peso amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the specified rate or at all. See “Presentation of Financial and Other Information.”

Foreign Exchange Controls

In 1990, the Colombian government initiated a policy of gradual currency liberalization. Foreign currency holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Colombian Central Bank to the spot foreign exchange market conducted by certain authorized financial institutions.

The general legal principles of Colombia’s foreign exchange and international investments regulations (“Foreign Regulations”) were established by Law 9 of 1991. Pursuant to this law, the Board of Directors of the Colombian Central Bank enacted Resolution 1 of 2018 as amended (“Resolution 1”), which is considered the main legal framework governing Colombia’s FX Regulations.

Resolution 1 establishes two types of markets for foreign currency exchange: (i) the free market, which consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX Market (as defined in (ii) below) (the “Free Market”). The Free Market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September

1, 1990; and (ii) the controlled market (the “FX Market”), which consists of: (a) all foreign currencies originated in operations considered to be controlled operations and, therefore, which may only be transacted through foreign exchange intermediaries, or through registered compensation accounts, or (b) foreign currencies originated in operations which although not required to be transacted through the FX Market, are voluntarily channeled through such market. This market is made up of the following foreign exchange operations, which must be channeled through the FX market: (1) import and export of goods, (2) foreign investments in Colombia, (3) foreign indebtedness agreements entered into by Colombian residents, as well as the financial costs associated with such indebtedness, (4) direct investments abroad by Colombian residents, (5) derivatives transactions, (6) guaranties granted in foreign currency and (7) financial investments in foreign securities or assets abroad and their yield, unless such investments are made in foreign currency originated in operations in the Free Market.

Under Colombian FX Regulations, foreign exchange intermediaries (“FX Intermediaries”) are authorized to enter into foreign exchange transactions (“FX Transactions”) to convert Colombian pesos into foreign currencies or foreign currencies into Colombian pesos. According to Article 7 of Resolution 1, as amended, the following institutions are considered FX Intermediaries: (i) commercial banks, (ii) mortgage banks, (iii) financial corporations, (iv) commercial finance companies, (v) Financiera de Desarrollo Nacional or FDN, (vi) Banco de Comercio Exterior de Colombia S.A.-BANCOLDEX, (vii) financial cooperatives, (viii) local stock brokerage firms and (ix) exchange intermediation and special financial services companies. These institutions are considered authorized intermediaries and, therefore, are allowed to buy and sell foreign currency originated in foreign exchange transactions, according to the parameters and limits set forth by Article 8 of Resolution 1. Exchange intermediation companies are also considered authorized intermediaries; however, these companies have a limited regime and are not authorized to buy and sell foreign currency for controlled operations.

Compensation accounts are accounts opened abroad by Colombian residents (individuals and legal entities), which are registered with the Colombian Central Bank to channel foreign currency originated in either controlled operations on the FX Market or the Free Market. Colombian law allows the Colombian Government and the Colombian Central Bank to intervene in the foreign exchange market if the value of the Colombian peso is subject to significant volatility. The Colombian Government and the Colombian Central Bank may also limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. See “Risk Factors—Risks Relating to Colombia—Government policies and actions as well as judicial decisions in Colombia could significantly affect the local economy and, as a result, our results of operations and financial condition.”

In addition to its past interventions in the FX Market, the Colombian Central Bank regulations establish a deposit requirement on all foreign loans granted to Colombian residents, as an instrument to control the fluctuation of the Colombian peso against the U.S. dollar. To this end, the Colombian Central Bank has on some occasions required that a certain percentage of the debt incurred (depending on the maturity of the debt) to be deposited in Colombian pesos or foreign currency with the Colombian Central Bank in a non-interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). A debtor of foreign loans can early prepay or redeem the certificate given by the Colombian Central Bank evidencing the deposit, but said prepayment or early redemption will imply a discount. The discount is reduced as the term for maturity is reduced. Even though the deposit requirement is currently equal to zero of the disbursements made under the loan, which means that there is currently no deposit that has to be made with the Colombian Central Bank by the debtor of foreign loans, the same may be modified by the Colombian Central Bank at any time.

Fluctuation of Colombian Peso against U.S. Dollar and Measures Adopted by the Colombian Government

The Colombian government has considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Colombian Central Bank may seek to implement measures aimed at controlling further fluctuation of the Colombian peso and promoting domestic price stability. A prediction cannot be made on the policies that may be adopted by the Colombian government and whether those policies may negatively affect the Colombian economy or our business or financial performance. Furthermore, we cannot assure you that the Colombian peso will not depreciate or appreciate relative to the U.S. Dollar and to other currencies in the future.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, commercial paper, short-term and long-term debt, shareholders' equity and capitalization:

- on an actual basis as of September 30, 2019;
- as adjusted to give effect to the issuance of a bullet note under our ECP Program in December 2019 for an amount of US\$15 million and the issuance of the notes and the application of the net proceeds therefrom, after deducting discounts and commissions to the initial purchasers but before the payment of other offering expenses.

The information set forth below on an actual basis as of September 30, 2019 is derived from our Interim Financial Statements as of September 30, 2019.

You should read this table in conjunction with “Presentation of Financial and Other Information,” “Summary Financial Information,” “Selected Financial Information,” “Selected Statistical Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this offering memorandum.

	As of September 30, 2019			
	(unaudited)			
	Actual	As Adjusted (1)	Actual	As Adjusted (1)
	(Ps. millions)		(US\$ millions) (2)	
Cash and cash equivalents	149,436	336,519	43.2	97.2
Short-term debt:				
ECP Program (notes in US\$) (3)	121,711	-	35.2	-
Bank loans and borrowings from other entities	86,075	86,075	24.9	24.9
Long-term debt:				
ECP Program (notes in US\$) (3)	139,098	51,930	40.2	15.0
Bank loans and borrowings from other entities	268,875	268,875	77.7	77.7
9.75% Notes due 2022 (4)	1,130,172	591,883	326.4	171.0
Notes issued hereby	-	1,038,603	-	300.0
Transaction costs	(44,490)	(44,490)	(12.9)	(12.9)
Total financial obligations (5)	1,701,441	1,992,876	491.5	575.6
Total shareholders' equity	300,211	300,211	86.7	86.7
Total capitalization (6)	2,001,652	2,293,087	578.2	662.4

- (1) As adjusted to give effect to this offering and the application of the net proceeds therefrom, after deducting the purchase price to the initial purchasers of the notes but before the payment of other offering expenses.
- (2) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.
- (3) The as adjusted column includes the issuance of a bullet note under our ECP Program in December 2019 for an amount of US\$15 million with quarterly interest payments in March, June, September and December and a final maturity in June 2021. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—International Funding.”

- (4) Assuming 47.4% of the outstanding 2022 Senior Notes are validly tendered at or before the early tender deadline with all investors receiving the total consideration (including the early tender payment) and that payment for all such tendered 2022 Senior Notes is made on February 6, 2020.
- (5) Net of transaction costs.
- (6) Total debt plus shareholders' equity.

SELECTED FINANCIAL INFORMATION

The following tables present certain selected financial information as of the dates and for each of the periods indicated. The results included below and elsewhere in this offering memorandum are not necessarily indicative of our future performance. This data is qualified in its entirety by reference to, and should be read together with “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes included elsewhere in this offering memorandum. Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

Our balance sheet data as of September 30, 2019 and the income statement data for the nine months ended September 30, 2019 and 2018 are derived from our Interim Financial Statements included elsewhere in this offering memorandum. Our balance sheet data as of December 31, 2018 and 2017 and the income statement data for the years ended December 31, 2018, 2017 and 2016 are derived from our Annual Financial Statements included elsewhere in this offering memorandum.

In our financial statements as of and for the years ended December 31, 2018 and 2017, we restated our financial statements as of December 31, 2017, as explained in note 2 to such financial statements. The restatement relates to the acquisition of the Crediuno-Avances business unit in 2016. Under IFRS 3 (“Business Combination” accounting standards) the acquisition of this business unit represented capital gains related to data bases, intangible assets for clients and exclusivity contracts, which initially were not recognized in the financial statements of 2016 according to IFRS 3. During 2017, we were able to collect information to determine the reasonable value of this transaction, allowing us to proceed with the restatement of financials for fiscal year 2017. All 2017 financial figures used in this offering memorandum reflect this restatement. Figures as of December 31, 2016 used in this offering memorandum correspond to the annual audited financial statements for that year and have not been restated.

We have prepared our Annual Financial Statements included elsewhere in this offering memorandum in accordance with FRAS-IFRS for non-financial entities.

	For the Nine Months Ended September 30,			For the Year Ended December 31			
	2019	2019	2018	2018	2018	2017	2016
	(unaudited)						
	(in millions of US\$) (1)	(in millions of Ps.)		(in millions of US\$) (1)	(in millions of Ps.)		
Income statement data:							
Interest income and similar (2)	80.8	279,769	242,958	98.7	341,714	290,558	269,013
Financial costs (interest)	(42.2)	(146,166)	(133,771)	(46.5)	(160,957)	(146,686)	(126,222)
Net interest	38.6	133,603	109,187	52.2	180,757	143,872	142,791
Impairment of financial assets loan portfolio	(13.7)	(47,403)	(29,754)	(13.7)	(47,432)	(22,889)	(23,261)
Restructured loans	-	-	-	-	-	(2,571)	-
Expense on accounts receivable provisions	(0.7)	(2,268)	-	(1.8)	(6,114)	(3,329)	-
Gross financial margin	24.2	83,932	79,433	36.7	127,211	115,083	119,530
SG&A							
Employee benefits	(3.5)	(12,103)	(13,687)	(5.1)	(17,624)	(18,414)	(20,005)
Depreciation and amortization expense	(1.5)	(5,041)	(4,634)	(2.1)	(7,409)	(5,230)	(3,824)
Depreciation of right of use assets	(0.4)	(1,217)	-	-	-	-	-
Other	(16.1)	(55,705)	(51,950)	(21.0)	(72,607)	(77,644)	(79,041)
Total other expenses	(21.4)	(74,066)	(70,271)	(28.2)	(97,640)	(101,288)	(102,870)

Net operating income	2.8	9,866	9,162	8.5	29,571	13,795	16,660
Other income	0.3	1,190	98	0.1	451	1,168	9,553
Other income recoveries	-	-	-	-	-	-	558
Financial income	0.1	305	398	0.6	2,215	1,472	294
Exchange rate differences	(0.0)	(42)	8,274	2.5	8,638	(7,886)	10,980
Financial income	0.4	1,453	8,770	3.3	11,304	(5,246)	21,385
Derivative instrument valuation	(1.5)	(5,335)	(6,183)	(8.4)	(28,943)	(6,518)	(14,615)
Financial expense	(1.5)	(5,335)	(6,183)	(8.4)	(28,943)	(6,518)	(14,615)
Net financial income (expense)	(1.1)	(3,882)	2,587	(5.1)	(17,639)	(11,764)	6,770
Net income before income tax	1.7	5,984	11,749	3.4	11,932	2,031	23,430
Income tax	(0.7)	(2,464)	(1,582)	(1.3)	(4,581)	(1,222)	(6,230)
Net income for the period	1.0	3,520	10,167	2.1	7,351	809	17,200

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.
- (2) Includes revenue from contracts with customers for the nine months ended September 30, 2019 and earnings from portfolio sales and indemnities for the year ended December 31, 2016.

	As of September 30,		As of December 31,		
	2019	2019	2018	2018	2017
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of US\$) (1)	(in millions of Ps.)	
Balance sheet data:					
Assets:					
Cash and cash equivalents	43.2	149,436	56.3	195,058	121,948
Financial assets at fair value through profit or loss					
Equity instruments	4.0	13,880	5.8	20,034	21,187
Derivatives instruments	99.3	343,638	52.7	182,372	773
Loan portfolio	6.0	20,675	5.3	18,337	17,065
Total financial assets at fair value	109.2	378,193	63.8	220,743	39,025
Financial assets at amortized cost					
Consumer loans	390.7	1,352,709	375.4	1,299,476	1,166,501
Microcredit loans	1.7	5,923	1.9	6,461	14,250
Impairment	(53.1)	(183,870)	(47.2)	(163,413)	(128,080)
Total Loan portfolio, net	339.3	1,174,762	330.0	1,142,524	1,052,671
Accounts receivable, net	113.3	392,129	95.5	330,651	183,511
Total financial assets at amortized cost	452.6	1,566,891	425.5	1,473,175	1,236,182
Investments in associates and affiliates	3.2	11,093	3.0	10,366	37,485
Current tax assets	4.7	16,215	3.5	12,059	8,191
Deferred tax assets, net	-	-	4.2	14,432	2,526

Property, plant and equipment, net	0.4	1,282	0.2	788	913
Right of use assets	1.8	6,106	-	-	-
Intangible assets other than goodwill, net	16.2	56,150	17.3	59,756	62,862
Total assets	631.2	2,185,366	573.8	1,986,377	1,509,132
Liabilities and equity					
Liabilities:					
Financial liabilities at fair value:					
Derivative instruments	14.6	50,545	7.7	26,762	17,686
Total financial liabilities at fair value	14.6	50,545	7.7	26,762	17,686
Financial liabilities at amortized cost					
Financial obligations	489.6	1,695,062	451.8	1,564,108	1,167,146
Lease liabilities	1.8	6,379	-	-	-
Total financial liabilities at amortized cost	491.5	1,701,441	451.8	1,564,108	1,167,146
Employee benefits provisions	0.4	1,351	0.3	1,096	1,154
Other provisions	0.3	896	0.1	343	302
Accounts payable	19.6	67,691	27.7	95,897	60,444
Current tax liabilities	0.9	2,948	0.6	2,197	1,100
Deferred tax liabilities, net	0.0	49	-	-	-
Other liabilities	17.4	60,234	13.4	46,298	6,983
Total liabilities	544.5	1,885,155	501.6	1,736,701	1,254,815
Equity:					
Share capital	37.4	129,638	35.8	123,922	120,899
Treasury Shares	(3.7)	(12,837)	(3.7)	(12,837)	(12,837)
Reserves	5.4	18,651	5.4	18,651	18,651
Additional paid-in capital	18.7	64,726	16.9	58,442	58,442
Other comprehensive income (OCI)	9.5	32,773	(0.6)	(2,241)	(20,165)
Retained earnings	18.4	63,740	16.3	56,388	88,518
Earnings for the period	1.0	3,520	2.1	7,351	809
Total equity	86.7	300,211	72.1	249,676	254,317
Total liabilities and equity	631.2	2,185,366	573.8	1,986,377	1,509,132

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

The following tables show our debt maturities, excluding lease agreements, as of September 30, 2019 (unaudited):

	Secured Debt	Unsecured Debt	Bonds (in millions of Ps.)	ECP Program	Total
2H 2019	25,378	40,000	-	-	65,378
1H 2020	29,798	32,711	-	121,711	184,220
2H 2020	27,707	6,647	-	-	34,354
2021	44,251	11,500	-	139,098	194,849
2022	41,921	19,429	1,130,172	-	1,191,522
2023	41,921	6,325	-	-	48,246
2024	20,962	-	-	-	20,962
Total	231,938	116,612	1,130,172	260,809	1,739,531

	Secured Debt	Unsecured Debt	Bonds (in millions of US\$)	ECP Program	Total
2H 2019	7.3	11.6	-	-	18.9
1H 2020	8.6	9.4	-	35.2	53.2
2H 2020	8.0	1.9	-	-	9.9
2021	12.8	3.3	-	40.2	56.3
2022	12.1	5.6	326.4	-	344.2
2023	12.1	1.8	-	-	13.9
2024	6.1	-	-	-	6.1
Total	67.0	33.7	326.4	75.3	502.5

	As of and for the Nine Months Ended September 30, 2019 (unaudited)		As of and for the Year Ended December 31,			
	(in millions of US\$) (1)	(in millions of Ps.)	2018 (in millions of US\$) (1)	2018	2017	2016
				(in millions of Ps.)		
Other financial data:						
Owned loan portfolio (principal only) (2)	339.4	1,174,991	335.1	1,160,205	1,055,837	943,033
FGA reserve (3)	2.3	7,988	0.4	1,319	1,205	1,249
Impairment of financial assets	53.1	183,870	47.2	163,413	128,080	105,191
Total unencumbered assets (4)	546.1	1,890,761	493.3	1,707,951	1,378,831	586,842
Interest income and similar (5)	80.8	279,769	98.7	341,714	290,558	269,013
Net interest and similar	38.6	133,603	52.2	180,757	143,872	142,791
LTM net income	0.2	704	2.1	7,351	809	17,200
Commissions and fees	21.2	73,495	29.0	100,300	84,926	60,666

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.
- (2) Owned loan portfolio includes our on-balance sheet collateralized and uncollateralized loan portfolio, as reflected in our Financial Statements. Derived from our Financial Statements included elsewhere in this offering memorandum.
- (3) Fondo de Garantias de Antioquia (FGA) is an entity owned by the Chamber of Commerce of Medellin, the Medellin Mayor's Office, the National Fund of Guarantees and the National Federation of Merchants (Fenalco) among others, which acts as a guarantor of all payroll loans we originate and of some of our credit card clients. FGA assumes risk up to a set limit and is responsible of recording the corresponding guarantees and indemnities and paying out on claims received. We are responsible for managing the risk, processing the loans, allocating guarantees, administering the collection of loans and collateral, processing indemnities and invoicing on behalf of FGA. Once a loan enters default, we can claim a reimbursement from FGA for the outstanding balance of the loan. As a result, we receive monetary compensation and record it as revenue under the income for guarantees item in our income statement.
- (4) Total consolidated assets (excluding Intangible Assets, any net deferred tax assets and any other assets securing other Indebtedness of the Company loan portfolio held through our free-standing trusts) not securing any portion of our secured indebtedness.
- (5) Includes interest income from own portfolio, commissions and fees, revenues from portfolio sales and indemnities.

	As of and for the Nine Months Ended September 30, 2019 (unaudited)		As of and for the Year Ended December 31,			
	(in millions of US\$) (1)	(in millions of Ps.)	2018 (in millions of US\$) (1)	2018	2017	2016
				(in millions of Ps.)		
Net interest margin (NIM):						
Interest income, excluding transaction costs and fair value	61.6	213,429	72.9	252,266	214,868	198,772
Financial costs (interest)	(42.2)	(146,166)	(46.5)	(160,957)	(146,686)	(126,222)
Net interest margin (NIM)	19.4	67,263	26.4	91,309	68,182	72,550

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Ratios:	As of and for the Nine Months Ended September 30, 2019 (unaudited)	As of and for the Year Ended December 31,		
		2018	2017	2016
Efficiency ratio (1)	50.8%	49.9%	66.8%	69.4%
ROA (2)	0.03%	0.4%	0.1%	1.3%
ROE (3)	0.2%	2.9%	0.3%	9.1%
Equity / assets (end of period)	13.7%	12.6%	16.9%	14.0%
Capitalization ratio (4)	30.5%	25.1%	27.4%	22.6%
NPLs / total managed loans (5)	5.9%	6.3%	4.2%	3.4%
Reserves / NPLs (6)	88.8%	87.9%	91.5%	91.1%

- (1) Calculated as other expenses plus employee benefits, divided by net interest and similar.
- (2) Calculated as net income for the last twelve months divided by the total assets at the end of the period.
- (3) Calculated as net income for the last twelve months divided by the shareholders’ equity at the end of the period.
- (4) Calculated as total shareholder’s equity divided by net loan portfolio (defined as owned loan portfolio less impairment of financial assets and FGA reserve) (as defined under “Description of the Notes”).
- (5) Calculated as NPLs of our managed loan portfolio over total managed loan portfolio. Our non-performing loans include principal only and include managed loans past due for over 60 days adjusted for operational nature of business. For comparative purposes, loans due for over 360 days are not considered in the calculation, given that we do not perform recurrent write-offs of loans.
- (6) Calculated as reserves (including impairments as stated in the Financial Statements and FGA reserves) over NPLs of managed loan portfolio.

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 FRAS-IFRS for non-financial entities. The Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. 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 and insurance financing, claims for reimbursement from FGA for defaulted loans whose provision was administered by FGA, interest from recovered loans and the net margin between the interest income of the payroll loan portfolios transferred and the financial cost of the funding received in a funding structure in place with a mutual fund administered by BTG Pactual in the Colombian capital markets. We transfer payroll loan portfolios to this mutual fund and in turn we receive the funding to originate additional loans and an equity stake in the fund, which is subordinated to the rest of the investors in the fund. Until mid-2016 we generated revenue from sales of payroll loans used as part of our funding strategy (i.e., upfront payments) which are recorded as earnings from loan portfolio sales. Beginning in 2018, we started generating recurrent revenue from the net margin between the interest income of the payroll loan portfolios transferred and the financial cost of the funding received from the above-mentioned mutual fund administered by BTG Pactual, which is recorded as other interest income. This funding structure differs from the previous portfolio sales completed before 2016 since instead of an upfront premium, we receive recurrent revenue resulting from the net margin between the interest income of the payroll loan portfolios transferred and the financial cost of the funding received, and an equity return from the fund. We record the net margin and the equity return in our financial statements on a monthly basis.
- *Revenues from contracts with customers:* corresponds to credit card monthly fees and commissions charged to clients with an 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 and brokerage fees received from the FGA agreement in connection with their serving as guarantor of the payroll loans we originate.

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 4.25% and 6.33% as of December 31, 2017 and 2018, respectively, and 5.85% as of September 30, 2019.

On September 30, 2019, 5.4% 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

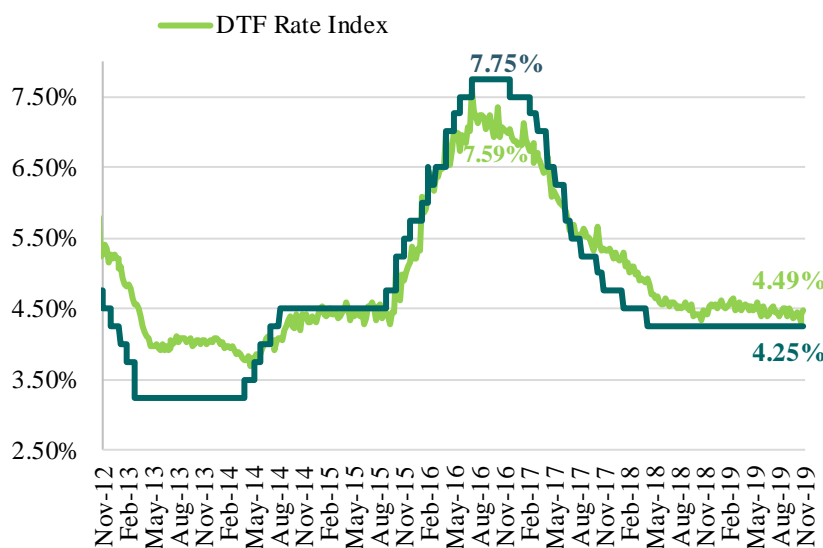
Interest rate fluctuations in Colombia have a significant effect on our business, financial condition and results of operations. While our interest-earning assets bear fixed and floating interest rates; all of our interest-bearing liabilities currently carry fixed and floating interest rates equal to 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
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	7.12%	5.31%	6.10%	5.21%
2018	5.29%	4.35%	4.72%	4.54%
2019 (January-September)	4.64%	4.40%	4.51%	4.51%

Source: Colombian Central Bank

The Colombian Central Bank increased its interest rate to 7.75% in 2016, decreased it to 4.75% in 2017 and decreased it to 4.25% in 2018. The overnight lending rate was 4.25% as of November 2019.



Source: Colombian Central Bank

A 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.

The average DTF rate was 6.74% during 2016, 6.10% during 2017, 4.72% during 2018 and 4.51% during the nine months ended September 30, 2019. Economic growth expectations from the Central Bank were revised to 3.0% from 3.5%, below the government's expectation of a 3.6% GDP growth in 2019. However, on November 14, 2019, the National Department of Statistics revealed that the GDP growth in the third quarter of 2019 was 3.3%, above market consensus. This growth was driven mainly by commerce, government and defense and financial activities, which grew at rates of 5.9%, 4.3% and 8.2% year over year, respectively. With the inflation rate at 3.84% as of November 2019, the Central Bank may consider additional interest rate increases to control inflation expectations in 2020.

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 loan products in a quick and innovative manner 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, and access to data that enriches the underwriting process, thus promoting growth. We have 613 active operating agreements with employers, 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 recognize loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at Fair Value Through Profit or Loss (FVTPL):

- Loans and lease receivables and other accounts receivable.
- No credit impairment loss is recognized on equity investments.

Credivalores measures loss allowances at an amount equal to lifetime Expected Credit Loss (ECL) (stage 2 and stage 3), except for the following, for which they are measured as 12-month ECL (Stage 1):

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than loans and lease receivables) on which credit risk has not increased significantly (Significant Increase in Credit Risk- SICR) from their initial recognition.

A financial asset is classified as a low credit risk asset if the issuer is related to an investment grade credit rating. The 12-month ECL are the portion of ECL that result from default events on a financial instrument within the 12 months after the reporting date.

At each reporting date, Credivalores assesses whether financial assets carried at amortized cost and debt financial assets carried at Fair Value with Changes in Other Comprehensive Income (FVOCI) are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by Credivalores on terms that Credivalores' entities would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 120 days or more is considered impaired.

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.

1. Exposure at Default (EAD) is the amount of risk incurred at the moment of the counterparty's (client's) non-payment.
2. 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.
3. 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.
4. Significant Increase in Credit Risk (SICR), occurs when there is quantitative or qualitative evidence of a deterioration of the counterpart, that triggers a change from 12-month ECL to lifetime ECL.

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 19 to our Annual Financial Statements.

New Accounting Standards Implemented

Below is a summary of the new standards that have been implemented by the Company for annual periods starting on or after January 1, 2017. See Note 3 to our Annual Financial Statements.

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 became 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 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 set of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the set of IFRS 15. Instead, they are within the set 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 3 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.

Accounting Standards Issued But Not Yet Effective

Conceptual Framework

The IASB issued the Conceptual Framework in March 2018, which is effective for annual periods beginning on or after January 1, 2020. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. Our management is currently evaluating the impact of the changes that the amendment of Conceptual Framework would have on us and our financial statements.

IFRS 17 – Insurance Contracts

IFRS 17, Insurance Contracts, establishes the principles for the recognition, measurement, presentation and information disclosure for insurance contracts. It also requires similar principles to 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 properly represents those contracts to evaluate the impact of contracts within the scope of IFRS 17 on the financial position, financial performance and the cash flows of an entity. IFRS 17 applies to annual periods beginning after January 1, 2021. Early application is permitted.

The Company does not expect any impact from this rule, considering that it has not identified that it develops insurance contracts.

IFRIC 23 Uncertainty regarding the Treatment of Income Taxes

IFRIC 23 was issued in May 2017, and 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 on its financial statements, but has not yet identified any situations that may require changes in the financial statements.

Results of Operations for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Interest Income and Similar

For the nine months ended September 30, 2019, our revenues were comprised of interest income (73.7%) and revenue from contracts with customers, which includes commissions from sales of insurance products and fees from credit cards (26.3%).

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

	<u>For the Nine Months Ended September 30,</u>			<u>Percent Change</u>
	<u>2019</u>	<u>2019</u>	<u>2018</u>	
	<u>(in millions of US\$) (1)</u>	<u>(unaudited)</u> <u>(in millions of Ps.)</u>		
Interest income	59.6	206,274	169,021	22.0%
Commissions and fees	21.2	73,495	73,937	(0.6%)
Interest income and similar	80.8	279,769	242,958	15.2%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

For the nine months ended September 30, 2019, interest income increased 22.0% and revenue from contracts with customers, including commissions and fees, decreased 0.6%. Interest income increased as a result of longer dated payroll loans, and an increase in claims for reimbursement from FGA for defaulted loans whose provision was administered by the FGA, sales of written-off loans, interest from recovered loans and the net margin between the interest income of the payroll loan portfolios transferred and the financial cost of the funding received under a funding structure with BTG Pactual. We experienced a decline in commissions and fees due to a lower credit card portfolio balance, resulting from self-imposed measures in the origination to better control NPLs.

Longer dated payroll loans have allowed us to charge higher costs of guarantees to the clients under the FGA agreement, resulting in a higher profitability of the product when considering the lower cost of risk associated with payroll loans.

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 nine months ended September 30, 2019, financial costs (interest) increased 9.3%, from Ps.133,771 million (US\$38.6 million) for the nine months ended September 30, 2018 to Ps.146,166 million (US\$42.2 million) for the same period in 2019 as a result of an increase in the total financial obligations, from local currency facilities available with Colombian financial institutions, to fund loan portfolio growth.

Net Interest Margin (NIM)

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

	<u>For the nine months ended September 30,</u>			<u>Percent Change</u>
	<u>2019</u>	<u>2019</u>	<u>2018</u>	
	<u>(in millions of US\$) (1)</u>	<u>(unaudited)</u> <u>(in millions of Ps.)</u>		
Interest income, excluding transaction costs and fair value	61.6	213,429	179,015	19.2%
Financial costs (interest)	(42.2)	(146,166)	(133,771)	9.3%
Net interest margin, excluding transaction costs and fair value (NIM)	19.4	67,263	45,244	48.7%

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 48.7% during the nine months ended September 30, 2019 as compared to the same period in 2018 due to adjustments in our pricing strategy in the payroll loans and credit cards products, increasing rates for clients, and also as a result of longer dated payroll loans, brokerage fees, sales of written off loans and payroll loan portfolio transfers under a funding structure with BTG Pactual. Financial costs (interest) increased due to higher balances of financial obligations in local currency to fund loan portfolio growth.

Impairment of Financial Assets Loan Portfolio

Impairment expense of financial assets loan portfolio increased 59.3% from Ps.29,754 million (US\$8.6 million) for the nine months ended September 30, 2018 to Ps.47,403 million (US\$13.7 million) for the same period in 2019 due to the adoption of IFRS 9 in January 2018, which uses the expected loss model to calculate the expense in provisions for the loan portfolio, increasing the impairment expense, especially in periods of asset quality deterioration for the credit card product such as occurred during the first half of 2019.

Gross Financial Margin

Gross financial margin increased 5.7%, from Ps.79,433 million (US\$22.9 million) for the nine months ended September 30, 2018 to Ps.83,932 million (US\$24.2 million) for the same period in 2019, primarily due to the large increase in interest income offset by the growth in impairment expenses, as previously explained.

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

	For the Nine Months Ended September 30,			Percent Change
	2019	2019	2018	
	(unaudited)			
	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income and similar (2)	80.8	279,769	242,958	15.2%
Financial costs (interest)	(42.2)	(146,166)	(133,771)	9.3%
Net interest and similar	38.6	133,603	109,187	22.4%
Impairment of financial assets loan portfolio	(13.7)	(47,403)	(29,754)	59.3%
Impairment of other accounts receivable	(0.7)	(2,268)	-	N/A
Gross financial margin	24.2	83,932	79,433	5.7%

- (1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

- (2) Includes revenue from contracts with customers.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses are comprised of employee benefits, depreciation and amortization and other expenses. Other expenses 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.

Employee benefits decreased 11.6% for the nine months ended September 30, 2019, due to a reduction in the number of employees due to initiatives for digital innovation in our business model implemented since May 2019.

We started by redesigning and digitalizing our origination processes to achieve higher efficiency and agility for our clients. We prioritized the digital origination process for the credit card business through our commercial channels but recently we also launched a 100% digital platform for the renewal process of selected payroll loans under a self-service model for mobile devices, which represent about 60% of the total renewals per month. Expenses for depreciation and amortization increased 8.8% in the same period and expenses for depreciation of right of use assets resulting from the adoption of IFRS 16 in 2019 were Ps.1,217 million (US\$0.4 million). Furthermore, other expenses increased 7.2% from Ps.51,950 million (US\$15.0 million) to Ps.55,705 million (US\$16.1 million) due to the increase in expenses related to legal, insurance and technical assistance.

	For the Nine Months Ended September 30,			Percent Change
	2019	2019	2018	
	(unaudited)			
	(in millions of US\$) (1)	(in millions of Ps.)		
SG&A				
Employee benefits	(3.5)	(12,103)	(13,687)	(11.6%)
Expense for depreciation and amortization	(1.5)	(5,041)	(4,634)	8.8%
Depreciation for right of use assets	(0.4)	(1,217)	-	N/A
Other	(16.1)	(55,705)	(51,950)	7.2%
Total Other expenses	(21.4)	(74,066)	(70,271)	5.4%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Net Operating Income

As a result of the above, net operating income increased 7.7% from Ps. 9,162 million (US\$ 2.6 million) for the nine months ended September 30, 2018 to Ps. 9,866 million (US\$2.8 million) for the same period in 2019.

Net Financial Income or Financial Expenses

Net financial income or financial expenses include: (i) the effect of valuation and exchange rate differences resulting from financial derivatives used to hedge our financial liabilities in foreign currency, (ii) financial income from the investment of our available cash and (iii) other income which includes collection charges from payroll loans and interest from recovered loans from previous periods.

Financial income decreased 83.4%, from Ps.8,770 million (US\$2.5 million) for the nine months ended September 30, 2018 to Ps.1,453 million (US\$0.4 million) for the same period in 2019, primarily due to a decrease in the positive impact of the exchange rate differences account due to the 16.5% depreciation of the peso against the U.S. dollar between September 2018 and September 2019. Financial expenses decreased 13.7% from Ps.6,183 million (US\$1.8 million) for the nine months ended September 30, 2018 to Ps.5,335 million (US\$1.5 million) for the same period in 2019, mainly due to the impact of the forwards' valuation.

Consequently, the net financial result changed from a net financial income of Ps.2,587 million (US\$0.7 million) in the nine months ended September 30, 2018 to a net financial expense of Ps.3,882 million (US\$1.1 million) in the nine months ended September 30, 2019.

For the Nine Months Ended September 30,			
2019	2019	2018	Percent Change
(unaudited)			
	(in millions of US\$) (1)	(in millions of Ps.)	

Net Operating Income	2.8	9,866	9,162	7.7%
Other income	0.3	1,190	98	1114.3%
Financial Income	0.1	305	398	(23.4%)
Exchange rate differences	(0.0)	(42)	8,274	(100.5%)
Financial income	0.4	1,453	8,770	(83.4%)
Financial expenses				
Derivative instruments valuation	(1.5)	(5,335)	(6,183)	(13.7%)
Financial expenses	(1.5)	(5,335)	(6,183)	(13.7%)
Net financial Income (expense)	(1.1)	(3,882)	2,587	(250.1%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Taxes

Income tax increased 55.8% from Ps.1,582 million (US\$0.5 million) to Ps.2,464 million (US\$0.7 million) between September 2018 and September 2019, mainly due to the impact of the valuation of financial instruments in the deferred taxes balance.

Net Income

Net income for the nine months ended September 30, 2019 was Ps.3,520 million (US\$1.0 million), a decline of 65.4% compared to the same period in 2018, mainly driven by the changes described above.

Results of Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Interest Income and Similar

For the year ended December 31, 2018, our interest income and similar was comprised of (i) interest income (70.6%) and (ii) revenue from contracts with customers, which includes commissions and fees (29.4%).

	For the Year Ended December 31,			Percent Change
	2018 (in millions of US\$) (1)	2018 (in millions of Ps.)	2017	
Interest income	69.7	241,414	205,632	17.4%
Commissions and fees	29.0	100,300	84,926	18.1%
Interest income and similar	98.7	341,714	290,558	17.6%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Interest income and similar increased 17.6% due to higher commissions and fees and interest income as follows:

Interest income: For the year ended December 31, 2018 our interest increased by 17.4% from Ps.205,632 million (US\$59.4 million) in 2017 to Ps.241,414 million (US\$69.7 million) in 2018 due to a pricing strategy based on regional differentiation allowing us to increase interest income, commissions and fees on the overall portfolio and due to higher loan portfolio origination and balance. Figures as of December 31, 2018 include transaction costs for loan origination and fair value of loan portfolio for Ps.12,123 million (US\$3.5 million).

Revenue from contracts with customers (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 2018, commissions and fees increased by 18.1%, to Ps.100,300 million (US\$29.0 million), mostly due to our strategy to maximize income from sources other than interest in light of a decreasing usury rate. During 2018, not only the number of active credit cards increased by 13% and reached 235,009 cards, but also the monthly management fees charged to clients were increased by approximately 20.0%. 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.

Financial Costs (Interest)

Financial costs (interest) reached Ps.160,957 million (US\$46.5 million) for the year ended December 31, 2018, due to a higher balance of financial obligations from the reopening of the 2022 Senior Notes for an additional US\$75 million, the issuance of a new note under the ECP Program in the amount of US\$40 million due in April 2021 and the use of peso denominated facilities (secured and unsecured) with financial institutions to fund loan 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 the reopening of the 2022 Senior Notes, 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,			Percent Change
	2018	2018	2017	
	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income, excluding of transaction costs and fair value	72.9	252,266	214,868	17.4%
Financial costs (interest)	(46.5)	(160,957)	(146,686)	9.7%
Net interest margin, excluding transaction costs and fair value (NIM)	26.4	91,309	68,182	33.9%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 by 33.9% as compared to December 31, 2017 due to higher interest income as explained above.

Impairment of Financial Assets Loan Portfolio

During 2018, impairment of financial assets loan portfolio increased 107.2% from Ps.22,889 million (US\$6.6 million) in 2017 to Ps.47,432 million (US\$13.7 million) due to the adoption of IFRS 9 in January 2018, which uses the expected loss model to calculate the expense in provisions for the portfolio, and to a deterioration of the NPLs, especially in the credit card business.

NPLs were affected in 2018 by two specific events:

- 1) A deterioration of the credit card NPLs in two specific cities: Bucaramanga, located close to the border with Venezuela, and Villavicencio, located in the southeastern part of Colombia. The Venezuelan

immigration affected the economic environment in Bucaramanga, increasing informal employment among Colombian citizens who are replaced by Venezuelans willing to receive lower wages. Villavicencio has been affected by massive layoffs from the oil and mining industry in the past two years and a general slowdown of the economy given the dependency on this activity. The unemployment rate in this city increased from 7.2% in December 2017 to 11.9% in December 2018. These two cities represented about 45% of the credit card loan portfolio as of December 31, 2018.

- 2) The second event was related to changes in the management team of our Credit Risk Department. We strengthened our collections team with new hires. This team was fully empowered to implement new standards and best practices for the credit risk management of our products. However, some of these new measures did not take into account the special characteristics of our products and market segment, leading to operational problems in the collections and monitoring areas, which affected our traditional performance.

We were able to partially control these effects during the last quarter of 2018 executing a series of measures, including: (i) hiring a new Chief Risk Officer, (ii) restrictive and more conservative origination policies in the credit card business, resulting in a lower growth of the portfolio of this product compared to the market, (iii) strengthening of the collections and risk areas and the implementation of a new collections software, and (iv) the development of new scoring models for new origination and for loan portfolio management.

During 2019 we developed additional measures to control increasing NPLs in our credit card product, including: (i) the execution of two new agreements with utility companies called Electrohuila and Enerpereira, which granted us access to more than 510,000 clients for our credit card origination that could potentially increase our client base by 24.4%, (ii) the implementation of a new digital underwriting platform for the credit card business to significantly reduce the response time in the origination process and the execution of agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under an agreement we have with TIGO, the Colombian subsidiary of international wireless operator Millicom, to provide consumer financing, including financing the purchase of handsets for its subscribers (the “TIGO Agreement”) to send notifications regarding payment dates, deadlines and finally block the mobile device if a payment is past due, and (iii) the inclusion of NPL targets per product in the variable wages of regional and zone managers of our sales force.

Gross Financial Margin

Gross financial margin increased by 10.5%, from Ps.115,083 million (US\$33.2 million) in 2017 to Ps.127,211 million (US\$36.7 million) in 2018, primarily due to a large increase in interest income and commissions and fees, 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
	2018	2018	2017	
	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income and similar (2)	98.7	341,714	290,558	17.6%
Financial costs (interest)	(46.5)	(160,957)	(146,686)	9.7%
Net interest and similar	52.2	180,757	143,872	25.6%
Impairment of financial assets loan portfolio	(13.7)	(47,432)	(22,889)	107.2%
Restructured loans	-	-	(2,571)	(100.0%)
Impairment of other accounts receivable	(1.8)	(6,114)	(3,329)	83.7%
Gross financial margin	36.7	127,211	115,083	10.5%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

(2) Includes revenue from contracts with customers.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses are comprised of employee benefits, depreciation and amortization and other expenses. Other expenses 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.

Employee benefits decreased 4.3% and depreciation and amortization increased 41.7%. Depreciation and amortization expenses increased due to larger intangible assets recognized in December 2018 from the acquisition of the Crediuno-Avances business unit in 2016. Under IFRS 3 (“Business Combination” accounting standards) the acquisition of this business unit represented capital gains related to data bases, intangible assets for clients and exclusivity contracts, which initially were not recognized in the financial statements of 2016 according to IFRS 3. During 2017, we were able to collect information to determine the reasonable value of this transaction allowing us to proceed with the restatement of financials for the fiscal years 2017 and 2016. Therefore, the increase in the intangible assets in 2016, which is amortized over time, also resulted in higher amortization expenses from 2017 forward.

Total other expenses decreased from Ps.77,644 million (US\$22.4 million) in 2017 to Ps.72,607 million (US\$21.0 million) in 2018, mainly due to a decrease in fees, technical assistance expenses and taxes.

	For the Year Ended December 31,			Percent Change
	2018	2018	2017	
	(in millions of US\$) (1)	(in millions of Ps.)		
SG&A				
Employee benefits	(5.1)	(17,624)	(18,414)	(4.3%)
Expense for depreciation and amortization	(2.1)	(7,409)	(5,230)	41.7%
Other	(21.0)	(72,607)	(77,644)	(6.5%)
Total Other expenses	(28.2)	(97,640)	(101,288)	(3.6%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Net Operating Income

Net operating income increased 114.4% from Ps.13,795 million (US\$ 4.0 million) in 2017 to Ps.29,572 million (US\$8.5 million) in 2018, as a result of the factors described above.

Net Financial Income or Financial Expenses

Net financial income or financial expenses include: (i) the effect of valuation and exchange rate differences resulting from financial derivatives used to hedge our financial liabilities in foreign currency, (ii) financial income from the investment of our available cash and (iii) other income which includes collection charges from payroll loans and interest from recovered loans from previous periods.

Financial income increased 315.5%, from an expense of Ps.5,246 million (US\$1.5 million) in 2017 to an income of Ps.11,304 million (US\$3.3 million) in 2018, mainly as a result of a change in the negative contribution of the exchange rate differences in 2017 to a positive impact on income in 2018 due to an 8.9% depreciation of the Colombia pesos against the U.S. dollar.

Financial expenses increased 344.0% from Ps.6,518 million (US\$1.9 million) in 2017 to Ps.28,943 million (US\$8.4 million) in 2018. The financial expenses in 2018 included the associated cost of the cross-currency swaps executed to hedge the exchange risk on the 2022 Senior Notes, following accounting standards, representing this cost as non-recurring. Consequently, this resulted in a 49.9% increase of the net financial expense from Ps.11,764 million (US\$3.4 million) in 2017 to Ps.17,639 million (US\$5.1 million) in 2018.

	For the Year Ended December 31,			Percent Change
	2018 (in millions of US\$) (1)	2018 (in millions of Ps.)	2017	
Financial income:				
Other Income	0.1	451	1,168	(61.4%)
Financial income	0.6	2,215	1,472	50.5%
Exchange rate differences	2.5	8,638	(7,886)	209.5%
Total financial income	3.3	11,304	(5,246)	315.5%
Financial expenses				
Derivative instruments valuation	(8.4)	(28,943)	(6,518)	344.0%
Total financial expenses	(8.4)	(28,943)	(6,518)	344.0%
Net financial income (expense)	(5.1)	(17,639)	(11,764)	49.9%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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.1,222 million (US\$0.4 million) in 2017 to Ps.4,581 million (US\$1.3 million) in 2018 mainly due a higher net income before taxes.

Net Income

Net income increased by 808.7% from Ps.809 million (US\$0.2 million) in 2017 to Ps.7,351 million (US\$2.1 million) in 2018. The decrease was driven primarily by the changes described above.

Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Interest Income and Similar

For the year ended December 31, 2017, our interest income and similar was comprised of (i) interest income (70.8%) and (ii) commissions and fees (29.2%).

	For the Year Ended December 31,			Percent Change
	2017 (in millions of US\$) (1)	2017 (in millions of Ps.)	2016	
Interest income	59.4	205,632	172,945	18.9%
Revenue from contracts with costumers (commissions and fees)	24.5	84,926	60,666	40.0%
Revenues from portfolio sales	-	-	13,526	(100.0%)
Indemnities	-	-	21,876	(100.0%)
Interest income and similar	83.9	290,558	269,013	8.0%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Interest income and similar increased 8.0% due to higher commissions and fees and interest income as follows:

Interest income: For the year ended December 31, 2017, our interest increased by 18.9% from Ps.172,945 million (US\$50.0 million) to Ps.205,632 million (US\$59.4 million) due to a higher owned loan portfolio balance, after we suspended loan portfolio sales to financial institutions as a source of funding. This was offset in part due to

lower loan portfolio origination rates that decreased from an average 26.1% to 23.5%, on an annual basis. Figures as of December 31, 2017 include transaction costs for loan origination and fair value of loan portfolio of Ps.9,236 million (US\$2.7 million).

Revenue from contracts with customers (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 2017, commissions and fees increased by 40.0%, to Ps.84,926 million (US\$24.5 million), mostly due to our strategy to maximize income from sources other than interest to offset the impact of an economic environment of lower interest rates.

Revenues from portfolio sales: For the year ended December 31, 2017, revenues from portfolio sales decreased by 100.0% from Ps.13,526 million (US\$3.9 million) in 2016 to zero 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.

Other income (indemnities): Includes revenues from insurance companies, including the strategic partnership with Metlife for the sale of voluntary insurance products. Metlife and Credivalores signed a Corporate Collaboration Agreement in December 2016 to promote, originate and collect voluntary insurance policies in Colombia among Credivalores' client base in the following ten years, and Credivalores received an upfront one-off payment for this contract in 2016.

Financial Costs (Interest)

Financial costs (interest) reached Ps.146,686 million (US\$42.4 million) for the year ended December 31, 2017, due to a higher balance of financial obligations during the first half of the year after the issuance of US\$92 million in notes under the ECP Program to serve US\$48.5 million of debt amortizations of these notes between March and June 2017 and the temporary impact of the negative carry of the issuance of the 2022 Senior Notes in July 2017 and the use of the proceeds from that issuance to prepay the free-standing trusts with local financial institutions during August and September 2017.

Net Interest Margin (NIM)

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

	For the Year Ended December 31,			Percent Change
	2017	2017	2016	
	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income, excluding of transaction costs and fair value	62.1	214,868	198,772	8.1%
Financial costs (interest)	(42.4)	(146,686)	(126,222)	16.2%
Net interest margin, excluding transaction costs and fair value (NIM)	19.7	68,182	72,550	(6.0%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 6.0% as compared to December 31, 2016 due to a 16.2% increase in financial costs that offset the 8.1% increase in interest income from a larger balance of owned portfolio. The increase in financial costs was due to the temporary double carry interest costs related to the issuance of the 2022 Senior Notes to prepay the outstanding free-standing trusts with local financial institutions.

During 2017 we continued to experience 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, since the second half of 2016, we have been adjusting our pricing strategy in the payroll loans product by increasing interest rates through loans with longer terms for clients as a way to offset an environment of lower interest rates from the Colombian Central Bank, which also reduced the cap rate for consumer loans from 33.0% in December 2016 to 31.16% in December 2017.

Impairment of Financial Assets Loan Portfolio

During 2017, impairment of financial assets loan portfolio decreased 1.6% from Ps.23,261 million (US\$6.7 million) in 2016 to Ps.22,889 million (US\$6.6 million) due to payment under the guarantees that we have had with the 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. During 2017, claims to the FGA were Ps.5,709 million (US\$1.6 million) and the remaining balance of the provision for losses with the FGA as of December 31, 2017 was Ps.1,205 million (US\$0.3 million).

Restructured loans in 2017 totaled Ps.2,571 million (US\$0.7 million) and impairment of other accounts receivable was Ps.3,329 million (US\$1.0 million) for the year ended December 31, 2017. No impairment of other accounts receivable was recorded in 2016.

Gross Financial Margin

Gross financial margin decreased by 3.7%, from Ps.119,530 million (US\$34.5 million) in 2016 to Ps.115,083 million (US\$33.2 million) in 2017, primarily due to a slight increase in net interest and similar offset by the increase in the impairment expenses for restructured loans and other accounts receivable, 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
	2017	2017	2016	
	(in millions of US\$) (1)	(in millions of Ps.)		
Interest income and similar	83.9	290,558	269,013	8.0%
Financial costs (interest)	(42.4)	(146,686)	(126,222)	16.2%
Net interest and similar	41.6	143,872	142,791	0.8%
Impairment of financial assets loan portfolio	(6.6)	(22,889)	(23,261)	(1.6%)
Restructured loans	(0.7)	(2,571)	-	N/A
Impairment of other accounts receivable	(1.0)	(3,329)	-	N/A
Gross financial margin	33.2	115,083	119,530	(3.7%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See "Exchange Rates and Foreign Exchange Controls" for information on recent fluctuations in exchange rates.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses are comprised of employee benefits, depreciation and amortization and other expenses. Other expenses 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.

Employee benefits decreased 8.0% and depreciation and amortization increased 36.8%. Depreciation and amortization expenses increased resulting from larger intangible assets recognized for the fiscal year 2018, in which we restated our 2017 and 2016 financial statements. These larger intangible assets resulted from the acquisition of

the Crediuno-Avances business unit in 2016. Under IFRS 3 (“Business Combination” accounting standards) the acquisition of this business unit represented capital gains related to data bases, intangible assets for clients and exclusivity contracts, which initially were not recognized in the financial statements of 2016 in accordance with IFRS 3. During 2017, the Company was able to collect information to determine the reasonable value of this transaction allowing us to proceed with the restatement of the 2017 and 2016 financial statements. The increase in intangible assets in 2016 also resulted in higher amortization expenses in 2017 according to the amortization method defined for this new asset.

Total other expenses decreased 1.8% from Ps.79,041 million (US\$22.8 million) in 2016 to Ps.77,644 million (US\$22.4 million) in 2017, mainly due to a decrease in fees, technical assistance expenses and taxes.

	For the Year Ended December 31,			Percent Change
	2017	2017	2016	
	(in millions of US\$) (1)	(in millions of Ps.)		
SG&A				
Employee benefits	(5.3)	(18,414)	(20,005)	(8.0%)
Expense for depreciation and amortization	(1.5)	(5,230)	(3,824)	36.8%
Other	(22.4)	(77,644)	(79,041)	(1.8%)
Total other expenses	(29.3)	(101,288)	(102,870)	(1.5%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Net Operating Income

Net operating income decreased 17.2% from Ps.16,660 million (US\$4.8 million) in 2016 to Ps.13,795 million (US\$ 4.0 million) in 2017, as a result of the factors described above.

Net Financial Income or Financial Expenses

Net financial income or financial expenses include: (i) the effect of valuation and exchange rate differences resulting from financial derivatives used to hedge our financial liabilities in foreign currency, (ii) financial income from the investment of our available cash and (iii) other income which includes collection charges from payroll loans and interest from recovered loans from previous periods.

Financial income decreased 124.5%, from an income of Ps.21,385 million (US\$6.2 million) in 2016 to an expense of Ps.5,246 million (US\$1.5 million) in 2017, mainly as a result of a change in the positive contribution of the exchange rate differences in 2016 to a negative impact on income in 2017 due to the temporary unhedged exposure to foreign currency risk on the principal and interest of the notes issued under the ECP Program issued during the second quarter of 2017, which were hedged through non-delivery forwards in July and August 2017.

Financial expenses decreased 55.4% from Ps.14,615 million (US\$4.2 million) in 2016 to Ps.6,518 million (US\$1.9 million) in 2017. However, had the negative foreign exchange difference that was recorded in financial income been recorded as financial expenses, total financial expenses would have increased to Ps.14,404 million (US\$4.2 million), to recognize the total impact of the unhedged position on the principal and interest on the notes issued under the ECP Program on the net income for 2017.

	For the Year Ended December 31			Percent Change
	2017	2017	2016	
	(in millions of US\$) (1)	(in millions of Ps.)		
Financial income:				
Other income	0.3	1,168	9,553	(87.8%)
Other income recovery	-	-	558	(100.0%)
Financial income	0.4	1,472	294	400.7%
Exchange rate differences	(2.3)	(7,886)	10,980	(171.8%)
Total financial income	(1.5)	(5,246)	21,385	(124.5%)

Financial expenses				
Exchange rate differences			-	
Derivatives instrument valuation	(1.9)	(6,518)	(14,615)	(55.4%)
Total financial expenses	(1.9)	(6,518)	(14,615)	(55.4%)
Net financial income (expense)	(3.4)	(11,764)	6,770	(273.8%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 to US\$1.00. See “Exchange Rates and Foreign Exchange Controls” for information on recent fluctuations in exchange rates.

Taxes

Income tax decreased from Ps.6,230 million (US\$1.8 million) in 2016 to Ps.1,222 million (US\$0.4 million) in 2017 mainly due to lower net income before taxes, for the reasons mentioned above.

Net Income

Net income decreased by 95.3% from Ps.17,200 million (US\$5.0 million) in 2016 to Ps.809 million (US\$0.2 million) in 2017. 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 Nine Months Ended September 30,		For the Year Ended December 31		
	2019	2018	2018	2017	2016
	(unaudited)				
	(in millions of Ps.)				
Net cash provided by (used in) operating activities	(143,738)	(183,030)	(180,097)	(23,308)	(264,259)
Net cash provided by (used in) investing activities	(5,359)	105	4,160	(28,766)	(943)
Net cash provided by financing activities	103,475	194,416	249,047	51,058	278,088
Net cash inflow	(45,622)	11,492	73,110	(1,016)	12,886

Cash Flows for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Taking into account our cash flows from operations, cash flows from financing activities and cash flows from investing activities, we had a net cash outflow of Ps.45,622 million (US\$ 13.2 million) for the nine months ended September 30, 2019, compared to a net cash inflow of Ps.11,492 million (US\$ 3.3 million) for the nine months ended September 30, 2018.

Operating Activities. Our net cash used in operating activities decreased to Ps.143,738 million (US\$41.5 million) for the nine months ended September 30, 2019 from Ps.183,030 million (US\$52.9 million) for the same period in 2018. This change was primarily due to lower disbursements of loans, especially for the credit card business due to self-imposed measures to better control our increasing NPLs, and an increase in accounts receivable, partially offset by an increase in accounts payable.

Investing Activities. Our net cash used in investing activities increased for the nine months ended September 30, 2019 to Ps.5,359 million (US\$1.5 million) as a result of the acquisition of intangible assets and the net cash flow due to the recognition of right of use assets under lease agreements resulting from the adoption of IFRS 16 during 2019. IFRS 16 requires lease contracts that grant us the right to the use an asset to be recognized as assets, if the contract meets certain criteria in terms of being extendable or with an uncertain term. The result of the application of IFRS 16 was a net outflow of cash related to the acquisition of property, plant and equipment that can be used by the Company and the corresponding recognition of a liability related to the obligation to make the payments of the lease.

Financing Activities. Our net cash provided by financing activities decreased for the nine months ended September 30, 2019 to Ps.103,475 million (US\$29.9 million) from Ps.194,416 million (US\$56.2 million) for the same period in 2018. This change was primarily due to a decrease in the need for additional financing in 2019 due to a capitalization from all our shareholders and lower origination in 2019, especially in the credit card and insurance premium products.

Cash Flows for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

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.73,110 million (US\$21.1 million) for the year ended December 31, 2018, compared to a net cash outflow of Ps.1,016 million (US\$0.3 million) for the year ended December 31, 2017.

Operating Activities. Our net cash used in operating activities increased to Ps.180,097 million (US\$52.0 million) for the year ended December 31, 2018 from Ps.23,308 million (US\$6.7 million) for the year ended December 31, 2017. This change was primarily due to an increase in loans and in accounts payable.

Investing Activities. Our net cash used in investing activities decreased from an outflow of Ps.28,766 million (US\$8.3 million) for the year ended December 31, 2017 to an inflow from investment activities in an amount of Ps.4,160 million (US\$ 1.2 million) for the year ended December 31, 2018. This change was primarily due to divestments in affiliates such as Asficrodito.

Financing Activities. Our net cash provided by financing activities increased for the year ended December 31, 2018 to Ps.249,047 million (US\$71.9 million) from Ps.51,058 million (US\$14.7 million) for the year ended December 31, 2017. This increase was primarily due to the growth in financial obligations from the reopening of the 2022 Senior Notes, the issuance of a new note under the ECP Program and the use of the local syndicated secured facility with financial institutions.

Cash Flows for the Year Ended December 31, 2017 Compared to the Year Ended December 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 outflow of Ps.1,016 million (US\$ 0.3 million) for the year ended December 31, 2017, compared to a net cash inflow of Ps.12,886 million (US\$3.7 million) for the year ended December 31, 2016.

Operating Activities. Our net cash used in operating activities decreased to Ps.23,308 million (US\$ 6.7 million) for the year ended December 31, 2017 from Ps. 264,259 million (US\$76.3 million) for the year ended December 31, 2016. This change was primarily due to a decrease in loan portfolio origination, especially during the first quarter of 2017, an increase in accounts payable and a decrease in accounts receivable payable, improving our working capital needs.

Investing Activities. Our net cash used in investing activities increased for the year ended December 31, 2017 to Ps.28,766 million (US\$ 8.3 million) from Ps. 943 million (US\$ 0.3 million) for the year ended December 31, 2016. This change was primarily due to the acquisition of an equity stake in Asficrodito.

Financing Activities. Our net cash provided by financing activities decreased for the year ended December 31, 2017 to Ps.51,058 million (US\$ 14.7 million) from Ps.278,088 million (US\$ 80.3 million) for the year ended December 31, 2016. This decrease was primarily due to the prepayment of free-standing trusts with local financial institutions partially offset by a capitalization from Gramercy and the issuance of the 2022 Senior Notes for US\$ 250 million.

Liquidity and Capital Resources

Since our formation, we have consistently sought to diversify our funding sources. We are constantly looking for alternative forms to raise funds to finance our operations, including bank credit lines, publicly and privately issued debt and equity securities and private equity investments, among other sources of capital. We also strategically evaluate transactions from time to time to strengthen our capital structure.

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, multilateral financing from the IFC, our ECP Program and the issuance of the 2022 Senior Notes. We have relationships with seven local financial institutions, and we have strengthened our relationship with the IFC through an upsize of our credit facility in 2015 and the execution of hedging transactions in 2018 to mitigate the exposure to foreign exchange risk in our financial obligations. With the issuance of the 2022 Senior Notes, we were able to consolidate our debt facilities and significantly improve our debt profile from a maturity point of view, which we believe will result in significant interest savings. In order to mitigate the risk of adverse foreign exchange fluctuations, we hedged the principal and interest of the 2022 Senior Notes issued in 2017 through cross currency swaps in January 2018 with several counterparties. The cross-currency swaps allowed us to hedge the foreign exchange risk on the principal and interests of the inaugural issuance until maturity converting the fixed interest rate in U.S. dollars to a floating interest rate in pesos. In March 2018, we hedged the interest payments of the 2022 Senior Notes issued in the 2018 reopening through a coupon only swap until maturity at a floating rate in Colombian pesos and the principal was hedged through call spreads also until maturity.

As of September 30, 2019, we had uncollateralized bank credit lines for working capital needs with five banks, amounting to Ps.143,895 million (US\$41.6 million), of which Ps.116,612 million (US\$33.7 million) were used and Ps.27,283 million (US\$7.9 million) were available to use within the next 18 months. Also, we accessed international capital markets through issuances under our ECP Program with a maximum amount of US\$150 million, of which US\$75 million was outstanding as of September 30, 2019. We also issued US\$250 million of our 2022 Senior Notes in July 2017 and an additional US\$75 million of our 2022 Senior Notes in February 2018. Our 2022 Senior Notes are subject to the concurrent Tender Offer. See “Summary – Concurrent Tender Offer and Consent Solicitation.” We also had lines of credit for collateralized transactions and portfolio sales in the amount of Ps.523,000 million (US\$151.1 million), of which Ps.444,410 million (US\$128.4 million), corresponding to a local syndicated loan for Ps.209,609 million (US\$60.5 million) and a mutual fund with BTG Pactual of Ps.234,801 million (US\$67.8 million) were used as of September 30, 2019. The rest of our financial obligations as of the same date were unsecured U.S. dollar-denominated obligations. In 2016, we decided to change our funding strategy for our payroll loan business by ending portfolio sales to financial institutions. Historically, portfolio sales were an important source of funding, which has been replaced with other secured and unsecured sources of funding.

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, in 2018 and 2019 we started registering portfolio transfers under a funding structure we have with a mutual fund administered by BTG Pactual in the Colombian capital markets. We transfer payroll loan portfolios to this mutual fund and in turn we receive the funding to originate additional loans and an equity stake at the fund, which is subordinated to the rest of the investors in the fund. This funding structure differs from the previous portfolio sales completed before 2016 since instead of an upfront premium, we receive recurrent revenue resulting from the net margin between the interest income of the portfolio transferred and the financial cost of the funding received, and an equity return from the fund. We record the net margin and the equity return in our financial statements on a monthly basis. We believe that the fact that we can maintain the recurrent income from this structure 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 September 30, 2019, including interest and principal at maturity (Obligations), during the fourth quarter of 2019 and the first, second and third quarters of 2020, on a quarterly basis and in the aggregate 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.

2019	2020			
Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Aggregate

	(in millions of Ps.)				
Collections	224,983	237,189	245,076	255,679	962,927
Obligations	108,244	156,563	198,319	136,717	599,843

As of September 30, 2019, our weighted debt maturity was 2.4 years. Our weighted debt maturity was 3.0 years as of December 31, 2018, and 3.4 years as of December 31, 2017.

As of September 30, 2019, Ps.231,938 million (US\$67.0 million), or 13.3%, of our outstanding indebtedness (excluding accrued interest) was secured by collateral.

As of September 30, 2019, we had an aggregate principal amount of Ps. 1,413,310 million (US\$408.2 million) of contractual obligations denominated in U.S. dollars.

Convertible Term 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.53,510 million (US\$15.5 million) of this facility into equity. The capitalization was recorded in our financial statements as of April 30, 2017. In August 2017, this loan was fully repaid. In September 2018, Gramercy injected an additional Ps.3,023 million (US\$0.9 million) of capital into the Company.

International Funding

As of September 30, 2019, we had a total aggregate principal amount of US\$75 million outstanding under our ECP Program.

In December 2019 we issued US\$15 million aggregate principal amount of 8.5% notes due June 2021 under our ECP Program.

In July 2017, we issued an aggregate principal amount of US\$250 million of the 2022 Senior Notes. We issued an additional US\$75 million of the 2022 Senior Notes in February 2018. The 2022 Senior Notes bear interest at a fixed rate of 9.750% per annum, which is payable on January 27 and July 27 of each year. The 2022 Senior Notes mature on July 27, 2022. The outstanding principal amount of the 2022 Senior Notes as of September 30, 2019 was US\$325 million. The 2022 Senior Notes contain certain restrictive covenants which, among other things, limit our ability to (i) incur additional debt; (ii) make certain dividend payments, redeem capital stock and make certain investments; (iii) transfer and sell assets; (iv) enter into any agreements that would limit the ability of subsidiaries to pay dividends or make distributions; (v) create liens on assets; (vi) effect a consolidation, merger or sale of assets; and (vii) enter into transactions with affiliates. The indenture governing the 2022 Senior Notes contains customary events of default. We have the right, at our option, to redeem any of the 2022 Senior Notes, in whole or in part, at any time on or after July 27, 2020, at the redemption prices set forth in the indenture governing the 2022 Senior Notes. Prior to July 27, 2020, we have the right, at our option, to redeem the 2022 Senior Notes, in whole but not in part, at a redemption price equal to the greater of (i) 100% of the principal amount of such notes and (ii) the sum of the present value at such redemption date of (a) the redemption price of the 2022 Senior Notes at July 27, 2020 plus (b) all required interest payments on the notes through July 27, 2020 (excluding accrued but unpaid interest to the date of redemption), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points, plus in each case any accrued interest on the principal amount of the 2022 Senior Notes to, but excluding, the date of redemption.

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%. As of September 30, 2019, the outstanding balance under this facility was US\$9 million.

On two occasions, we requested temporary waivers from the IFC to waive some of the obligations under our facility with the IFC as follows: (i) in August 2017, with respect to the obligation to maintaining the Aggregate Foreign Exchange Risk Ratio at 25% and the Single Currency Foreign Exchange Risk Ratio at 10% and (ii) in November 2018, with respect to the obligation to maintain an Equity to Assets Ratio of not less than 12%. On both of these occasions, the waiver was granted by the IFC.

Local Funding

In October 2016, we closed a Ps.130,000 million (US\$44.3 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. This loan was fully repaid in August 2017.

In September 2015, we also closed a Ps.270,000 million (US\$78 million) syndicated secured loan for *TuCrédito* with six local financial institutions. This facility was completely prepaid in September 2017 with the proceeds of the 2022 Senior Notes. However, we decided to preserve the legal and operative structure of this facility, whose availability period extended until August 2018. During the first half of 2018, we disbursed this facility to fund payroll loan portfolio origination, taking advantage of lower funding costs and extended maturities of this facility compared to other alternatives denominated in US dollars. Then, in November 2018 we renewed this facility with local financial institutions for an amount of Ps.223,000 million (US\$64.4 million). The loan has a 3-year availability period for revolving disbursements and a 5.5 years tenor. As of September 30, 2019, the outstanding balance under this facility was Ps.209,609 million (US\$60.5 million).

During 2019, we also structured a payroll loan securitization under a stand-alone structure that involves a true sale of the payroll loan portfolio, in the local capital market for up to Ps.150,000 million (US\$43.3 million). In December 2019, we obtained approval from the SFC to register the securities arising from this securitization before the National Registry of Securities and Issuers and we expect to price this transaction during the first half of 2020. We expect to become a frequent issuer under this funding structure in the local capital markets.

Contractual Obligations

The table below sets forth information regarding our contractual obligations (excluding accrued interest and leases) as of September 30, 2019:

	Total	2019	2020	2021	2022 and Thereafter
	(in millions of Ps.)				
Debt (excluding accrued interest and mark-to-market):					
Short-term debt	249,598	65,378	184,220	-	-
Long-term debt	1,489,933	-	34,354	194,849	1,260,730
Total contractual obligations (excluding accrued interest and mark-to-market)	1,739,531	65,378	218,595	194,849	1,260,730

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.2,185,366 million (US\$631.2 million) as of September 30, 2019:

Assets

	As of September 30,		As of December 31,		Percentage Change September 2019 / December 2018
	2019	2019	2018	2017	
	(unaudited)				
	(in millions of Ps.)	(in millions of US\$) (1)	(in millions of Ps.)		
Cash and cash equivalents	149,436	43.2	195,058	121,948	(23.4%)
Total financial assets at fair value	378,193	109.2	220,743	39,025	71.3%
Total loan portfolio, net	1,174,762	339.3	1,142,524	1,052,671	2.8%
Accounts receivable, net	392,129	113.3	330,651	183,511	18.6%
Total financial assets at amortized cost	1,566,891	452.6	1,473,175	1,236,182	6.4%
Investments in associates and affiliates	11,093	3.2	10,366	37,485	7.0%
Current tax assets	16,215	4.7	12,059	8,191	34.5%
Deferred tax assets, net	-	-	14,432	2,526	(100.3%)
Property and equipment, net	1,282	0.4	788	913	62.7%
Assets of right of use	6,106	1.8	-	-	N/A
Intangible assets other than goodwill, net	56,150	16.2	59,756	62,862	(6.0%)
Total assets	2,185,366	631.2	1,986,377	1,509,132	10.0%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 September 30, 2019, cash and cash equivalents amounted to Ps.149,436 million (US\$43.2 million), and represent 6.8% of our total assets.

	As of September 30,		As of December 31,		Percentage Change Sep. 2019 / Dec. 2018
	2019	2019	2018	2018	
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of US\$) (1)	(in millions of Ps.)	
Cash in hand	0.0	19	0.0	25	(24.0%)
Banks	5.8	19,982	5.4	18,821	6.2%
Mutual funds	33.9	117,363	43.3	149,819	(21.7%)
Certificates of deposit	3.5	12,072	4.3	14,960	(19.3%)
Time deposits	0.0	0.0	3.3	11,433	(100%)
Total cash and equivalents	43.2	149,436	56.3	195,058	(23.4%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 6.4% from Ps.1,473,175 million (US\$425.5 million) as of December 31, 2018 to Ps.1,566,891 million (US\$452.6 million) as of September 30, 2019, mainly as an increase in the accounts receivable. As valued under FRAS-IFRS, the net loan portfolio increased by 8.5%, from Ps.1,052,671 million (US\$304.1 million) for the year ended December 31, 2017, to Ps.1,142,524 million (US\$330.0 million) for the year ended December 31, 2018. The increase was principally driven by the growth of the payroll and credit card loan portfolio.

As of September 30, 2019, total financial assets at amortized cost comprised 71.7% of total assets, and grew 6.4% compared to December 31, 2018, 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 September 30,		As of December 31,		Percentage Change Sep. 2019 / Dec. 2018
	2019	2019	2018	2017	
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)		
Assets					
Financial assets at amortized cost					
Loan portfolio, net					
Consumer loans	390.7	1,352,709	1,299,476	1,166,501	4.1%
Microcredit loans	1.7	5,923	6,461	14,250	(8.3%)
Impairment	(53.1)	(183,870)	(163,413)	(128,080)	12.5%
Total loan portfolio, net	339.3	1,174,762	1,142,524	1,052,671	2.8%
Accounts receivable, net	113.3	392,129	330,651	183,511	18.6%
Total financial assets at amortized cost	452.6	1,566,891	1,473,175	1,236,182	6.4%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 80.2% from Ps.183,511 (US\$53.0 million) as of December 31, 2017 to Ps.330,651 million (US\$95.5 million) as of December 31, 2018, and increased 18.6% to Ps.392,129 million (US\$113.3 million) as of September 30, 2019. 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.258,439 million (US\$74.6 million) as of September 30, 2019, Ps.223,812 million (US\$64.6 million) as of December 31, 2018 and Ps.217,301 million (US\$78.4 million) as of December 31, 2017. In addition, accounts receivable include advances to suppliers, receivables from the sale of Asficor, a collections company previously owned by us, and Asficredito, a collections company and the outsourcing company to manage our sales force, and a loan with Finanza Inversiones and other items for Ps.66,228 million (US\$19.1 million) as of September 30, 2019, Ps.64,605 million (US\$18.7 million) as of December 31, 2018 and Ps.63,503 million (US\$18.3 million) as of December 31, 2017.

Impairment of financial assets increased 12.5%, from Ps.163,413 million (US\$47.2 million) on December 31, 2018, to Ps.183,870 million (US\$53.1 million) on September 30, 2019. 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 under our credit card product and for all the payroll loans we originate. 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 September 30,		As of December 31,		Percentage Change Sep. 2019 / Dec. 2018
	2019	2019	2018	2017	
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)		
FGA reserves	2.3	7,988	1,319	1,205	505.6%
Impairment of financial assets	53.1	183,870	163,413	128,080	12.5%
Impairment + FGA reserves	55.4	191,858	164,732	129,285	16.5%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 past due over 360 days given that up to March 2018 we did 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. After the adoption of IFRS 9 in January 2018, we started performing more recurrent write-offs of our loan portfolio, especially for the loans under the TIGO and Credipóliza products.

As of September 30, 2019, the NPL ratio for our total managed loan portfolio was 5.85%, a decrease as compared to the 6.33% level of December 31, 2018. This decrease was primarily due to several measures, including: (i) restrictive and more conservative origination policies in the credit card business implemented in October 2018 and February 2019, which improved the credit profile and the vintage analysis of the credit card business during 2019, (ii) the development of new scoring models for new origination and for loan portfolio management (iii) the execution of two new agreements with utility companies called Electrohuila and Enerpereira, which granted us access to more than 510,000 clients for our credit card origination, (iv) the implementation of a new digital underwriting platform for the credit card business to significantly reduce the response time in the origination process and the execution of agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under the TIGO Agreement to send notifications regarding payment dates, deadlines and finally block the mobile device if a payment is past due and (v) the inclusion of NPL targets per product in the variable wages of regional and zone managers of our sales force. As of December 31, 2018, the NPL ratio for our total managed loan portfolio was 6.33%, a significant increase as compared to 4.25% as of December 31, 2017. This increase was primarily due to an increase in NPLs under our credit card and insurance premium financing products, resulting from stronger signs of deterioration in the credit risk of our credit card business and operating difficulties at certain insurance companies which caused delays in payments under revoked policies. The NPL ratio for the credit card product increased from 6.26% as of December 31, 2017 to 10.25% in December 31, 2018 and the NPLs from the insurance premium financing product increased from 2.90% as of December 31, 2017 to 5.92% as of December 31, 2018.

Between 2017 and 2018, the managed loan portfolio grew 7.1%. The number of clients we served (including those with insurance products offered through our network and the alliance with Metlife) for the same period of time increased 8.4%, as a result of an increase in the number of clients from payroll loans and credit cards in spite of self-

imposed measures to better control NPLs in the insurance financing business and management decisions to operate only with certain insurance companies to control operational risks.

The following tables set forth an analysis of our non-performing managed loan portfolio by product as of September 30, 2019 and December 31, 2018 and 2017:

September 30, 2019:

(in millions of Ps.)
(unaudited)

Days Overdue	Payroll Loans	Credit Card	Insurance Premium	Micro Finance	Total Managed Loan Portfolio	On Balance Sheet Portfolio
Performing	812,209	361,719	56,589	44	1,230,561	934,876
1-30	7,960	13,038	4,416	19	25,433	22,981
31-60	8,590	7,980	1,808	8	18,386	15,176
61-90	4,399	6,255	373	10	11,037	9,723
91-180	6,832	12,245	1034	20	20,131	18,691
181-360	13,397	31,674	2,932	41	48,044	46,647
> 360	56,915	72,209	3,502	4,179	136,806	126,897
Total	910,302	505,120	70,654	4,319	1,490,396	1,174,991

NPLs > 60 days	216,017	201,958
NPLs > 60 and < 360	79,212	75,061
NPL Index (>60 days, excl. > 360 days) / Total Loan Portfolio (excl. > 360 days)	5.85%	7.16%

December 31, 2018:

(in millions of Ps.)

Days Overdue	Payroll Loans	Credit Card	Insurance Premium	Micro Finance	Total Managed Loan Portfolio	On Balance Sheet Portfolio
Performing	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	1463	33	15,941	14,812
91-180	10,574	19,576	1986	51	32,187	31,114
181-360	14,110	16,910	2,364	79	33,463	32,047
> 360	47,534	50,403	3,460	4,392	105,790	96,838
Total	785,400	503,684	101,615	4,780	1,395,480	1,160,205

NPLs > 60 days	187,381	174,810
NPLs > 60 and < 360	81,591	77,973
NPL Index (>60 days, excl. > 360 days) / Total Loan Portfolio (excl. > 360 days)	6.33%	7.33%

December 31, 2017:

(in millions of Ps.)

Days Overdue	Payroll Loans	Credit Card	Insurance Premium	Micro Finance	Crediyá	Total Managed Loan Portfolio	On Balance Sheet Portfolio
Performing	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
91-180	7,960	12,342	1,434	148		21,884	19,125
181-360	8,025	4,018	831	538		13,412	11,438
> 360	35,951	41,507	4,826	5,082	2,394	89,760	80,616
Total	697,608	484,886	111,006	6,723	2,394	1,302,617	1,055,837

NPLs > 60 days	141,252	126,364
NPLs > 60 and < 360	51,492	45,748
NPL Index (>60 days, excl. > 360 days) / Total Loan Portfolio (excl. > 360 days)	4.25%	4.69%

Other Assets

Other assets include investments in associates and affiliates and tax assets. As of September 30, 2019, Credivalores maintained a 25% stake in Inverefectivas S.A. equivalent to Ps.11,093 million (US\$3.2 million).

Long Term Assets

Long-term assets decreased between December 31, 2018 and September 30, 2019, showing a 23.4% decrease from Ps.74,976 million (US\$21.7 million) as of December 31, 2018, to Ps.57,432 million (US\$16.6 million) as of September 30, 2019.

	As of September 30,		As of December 31,		Percentage Change Sep. 2019 / Dec. 2018
	2019	2019	2018	2017	
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)		
Long Term Assets					
Deferred tax assets, net	-	-	14,432	2,526	(100.0%)
Property and equipment, net	0.4	1,282	788	913	62.7%
Intangible assets other than goodwill, net	16.2	56,150	59,756	62,862	(6.0%)
Long term assets	16.6	57,432	74,976	66,301	(23.4%)

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 including the 2022 Senior Notes and notes under our ECP Program,

collateralized loans incurred through our free-standing trusts (*patrimonios autónomos*), and portfolio sales under certain investment structures.

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

As of September 30, 2019, liabilities were mainly comprised of financial obligations, which accounted for 89.9% of our total liabilities. Total liabilities increased 8.5%, from Ps.1,736,701 million (US\$501.6 million) as of December 31, 2018, to Ps.1,885,105 million (US\$544.5 million) as of September 30, 2019, and 38.4% between December 31, 2017 and December 31, 2018.

	As of September 30,		As of December 31,		Percentage Change	
	2019	2019	2018	2017	Sep. 2019 / Dec. 2018	
	(unaudited)					
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)			
Liabilities						
Total financial liabilities at fair value	14.6	50,545	26,762	17,686	88.9%	
Total financial obligations	489.6	1,695,062	1,564,108	1,167,146	8.4%	
Lease liabilities	1.8	6,379	-	-	N/A	
Employee benefits	0.4	1,351	1,096	1,154	23.3%	
Other provisions	0.3	896	343	302	161.2%	
Accounts payable	19.6	67,691	95,897	60,444	(29.4%)	
Current tax liabilities	0.9	2,948	2,197	1,100	34.2%	
Deferred tax liabilities, net	0.0	49	-	-	N/A	
Other liabilities	17.4	60,234	46,298	6,983	30.1%	
Total liabilities	544.5	1,885,155	1,736,701	1,254,815	8.5%	

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 September 30,		As of December 31,		Percentage Change	
	2019	2019	2018	2017	Sep. 2019 / Dec. 2018	Dec. 2018 / Dec. 2017
	(unaudited)					
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)			
Issuance of Bonds	326.4	1,130,172	1,056,169	746,000	7.0%	41.6%
Foreign Banks	75.3	260,809	243,731	304,368	7.0%	(19.9%)
Financial obligations in Free-Standing Trusts	67.0	231,938	209,252	56,769	10.8%	268.6%
Promissory Notes- Local Banks	33.7	116,612	113,550	104,872	2.7%	8.3%
Finance Lease Agreements	0.0	21	189	330	(88.9%)	(42.7%)
Other Financial Obligations	-	-	20	0	(100.0%)	N/A
Transactions Costs	(12.9)	(44,490)	(58,803)	(45,193)	(24.3%)	30.1%
Total financial obligations	489.6	1,695,062	1,564,108	1,167,146	8.4%	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 September 30, 2019 of Ps.3,462.01 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 34.0%, from Ps.1,167,146 million (US\$337.18 million) for the year ended December 31, 2017, to Ps.1,564,108 million (US\$451.8 million) for the year ended December 31, 2018. The additional indebtedness allowed us to increase our total owned loan portfolio by 9.9% and managed loan portfolio by 7.1%. During 2018, the notes placed under the ECP Program increased their share of our total indebtedness. For the year ended December 31, 2018, 87.1% of our total financial obligations was comprised of drawings under our working capital obligations with local financial institutions, our ECP Program equivalent to Ps.243,731 million (US\$70.4 million) and the 2022 Senior Notes for Ps.1,056,169 (US\$305.1 million) and 12.9% of financial obligations were trusts (*patrimonios autónomos*) and an IFC loan facility equivalent to Ps.35,581 million (US\$10.3 million).

Between December 31, 2018 and September 30, 2019, financial obligations (excluding accrued interest and transaction costs) increased by 7.6% and reached Ps.1,745,931 million (US\$504.3 million), of which 86.7% was comprised of local unsecured financial obligations, notes issued under the ECP Program, the 2022 Senior Notes and leasing agreements, equivalent to Ps.1,513,993 million (US\$437.3 million) and 13.3% of financial obligations of our trusts and an IFC loan facility, equivalent to Ps.231,938 million (US\$67.0 million). Unsecured indebtedness, comprised of local financial obligations, leasing agreements, the ECP Program notes and the 2022 Senior Notes increased by 7.0%, and financial obligations of our trusts and in the IFC facility increased by 10.8%.

As of September 30, 2019, the debt in foreign currency was comprised of Ps.260,809 million (US\$75.3 million) of notes issued under the ECP Program, Ps.22,329 million (US\$6.4 million) under a loan facility with the IFC and Ps.1,130,172 million (US\$326.4 million) of the 2022 Senior Notes, of which 100% was hedged with non-deliverable forwards, cross -currency swaps and call spreads.

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, 2017 to December 31, 2018, our total equity decreased 1.8%, mainly due to the IFRS 9 adoption in January 2018, which resulted in the recognition of changes in accounting measures of Ps. 47,055 million (US\$13.6 million) and deferred taxes of Ps.14,117 million (US\$4.1 million) at the moment of adoption of the standard, given the change in the calculation model for impairments from an incurred loss model to an expected loss model. The initial impact of IFRS 9 adoption was recorded as a loss in the shareholders’ equity as a first-time adoption impact that reduced the retained earnings account. This initial impact was partially offset in the last quarter of 2018 by the OCI account, once the company adopted the valuation methodology of derivative instruments used by Colombian financial institutions.

Total equity increased 20.2%, from Ps.249,676 million (US\$72.1 million) on December 31, 2018, to Ps.300,211 million (US\$86.7 million) on September 30, 2019. This was mainly explained by retained earnings, the capitalization from shareholders completed in June 2019 in the amount of Ps.12,000 million (US\$3.5 million) and the valuation of derivative instruments in the OCI account. Beginning in 2016, we adopted hedge accounting and thus the impacts of the valuation of derivative instruments related to the interest rate fluctuation are reflected in the equity accounts under other comprehensive income.

	As of September 30,		As of December 31,		Percentage Change Sep. 2019 / Dec. 2018
	2019	2019	2018	2017	
	(unaudited)				
	(in millions of US\$) (1)	(in millions of Ps.)	(in millions of Ps.)		
Equity					
Share capital	37.4	129,638	123,922	120,899	4.6%
Treasury shares	(3.7)	(12,837)	(12,837)	(12,837)	0.0%
Reserves	5.4	18,651	18,651	18,651	0.0%

Additional paid-in capital	18.7	64,726	58,442	58,442	10.8%
Other Comprehensive income (OCI)	9.5	32,773	(2,241)	(20,165)	(1,562.4%)
Accumulated earnings	18.4	63,740	56,388	88,518	13.0%
Earnings for the period	1.0	3,520	7,351	809	(52.1%)
Total Equity	86.7	300,211	249,676	254,317	20.2%

(1) Solely for the convenience of the reader, Colombian peso amounts have been translated into U.S. dollars at the market rate as of September 30, 2019 of Ps.3,462.01 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 between 2016 and September 30, 2019. As of September 30, 2019, our shareholders’ equity was Ps.300,211 million (US\$86.7 million).



Off Balance Sheet Arrangements

As of September 30, 2019, we had Ps.315,406 million (US\$91.1 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 Ps.80,604 million (US\$23.3 million) of these portfolios have been sold without any recourse to the Company and are therefore accounted as off-balance sheet transactions. The remainder of the sold portfolio reported as part of the managed portfolio results from portfolio transfers to the BTG Pactual mutual fund that involves a collateral amount for the deterioration of the loan portfolio transferred that is gradually formed from the returns on the equity stake that the Company holds in the fund.

Capital Expenditures

As of September 30, 2019, we did not expect to have any material capital expenditures for the year ended December 31, 2019.

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 September 30, 2019 the following characteristics of our managed loan portfolio allow us to mitigate the credit risks:

- The 25 largest debtors accounted for 0.56% of the payroll loan portfolio, and the largest single client represented 0.086%.
- About 52.5% 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.2.1 million (US\$616).
- Highly diversified geographical location in small and middle size cities located in different regions in Colombia. Bogota accounts for 29% of the total portfolio, followed by Cesar with 8.2% and Antioquia with 8.0%.

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 consists of a proprietary risk scoring model and underwriting policies that help measure and control operational and credit risk according to the risk appetite defined by the board. During 2019, the policies and scoring model were reviewed and updated when necessary. For the credit card product, we developed a proprietary scoring model in 2019 that included multiple scorecards combining bureau, demographic and utilities information. 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. Our origination process is supported by IT tools that automate and control the entire credit flow, providing process quality, greater efficiency and online monitoring of each stage of the process. For payroll deduction loans, we use Bizagi and for credit cards we use Credisoft. 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, georeference, 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 September 30, 2019, December 31, 2018 and December 31, 2017, 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:	September 30, 2019 (unaudited) (in million Ps.)	December 31, 2018 (in million Ps.)	December 31, 2017 (in million Ps.)
Equity securities	13,880	20,034	21,187
Derivative instruments	325,121	164,486	773

Loan portfolio	20,675	18,337	17,065
Total	359,676	202,857	39,025
Financial liabilities	(50,545)	(26,762)	(17,686)
Total	(50,545)	(26,762)	(17,686)
Net position	309,131	176,095	21,339

Interest Rate Risk

Out of our total loan portfolio, 12.2% consists mainly of loans bearing floating interest rates under payroll loans and the remaining 87.8% are credit cards and insurance premium financing loans at fixed interest rates. However, the credit cards interest rate is adjusted on a monthly basis 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 20 basis points movement in the variable indexed rates of financial obligations until maturity with the following results:

Scenarios	Interest (million Ps.)
Effect of 20 bps decrease in variable rate	(302,443)
Effect of 20 bps increase in variable rate	301,549
Combined Effect on Interest Expense	(894)

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 risk management policy, approved by the board of directors, mandates that we hedge all foreign currency positions (assets or liabilities) to pesos through different instruments that require a dynamic management of financial risks.

Taking into account our exposure to changes in the exchange rate, below is a sensitivity analysis of the impact on financial obligations resulting from possible changes in the exchange rate in 2019, using the following methodology:

- Two scenarios were evaluated, adjusting the spot exchange rate by 0.60% of daily volatility, resulting in appreciation or depreciation of the currency based on the TRM applicable as of September 30, 2019.
- The amortization of principal and interests on financial obligations were included in these scenarios, considering their payment periods and maturity.
- The accrual of interest payments was evaluated using equivalent rates.
- The present value of the monthly interest payment was calculated, using the six-month LIBOR rate as a reference as of September 30, 2019 (4.283%).
- Finally, we compared the results of each scenario to the base scenario, which was based on the expected cash flow payments for interest and principal using the reference rates as of September 30, 2019.

The results are set out below:

Item	Total Debt (in millions of Ps.)
Initial scenario (Balance as of December 31, 2018)	1,580,864
Scenario 1 (Appreciation effect of the currency)	1,571,279

Scenario 2 (Depreciation effect of the currency)	1,590,449
Difference (Scenario 1 vs. Initial)	(9,585)
Difference (Scenario 2 vs. Initial)	9,585

SELECTED STATISTICAL INFORMATION

The following tables present certain of our selected statistical information and ratios for the periods indicated. The following information should be read in conjunction with our financial statements and the notes thereto included elsewhere in this offering memorandum, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Financial and Other Information.” The statistical information and discussion and analysis presented below are presented solely for the convenience of the reader for analytical purposes.

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

Average Balance Sheet and Interest Rate Data

Average balances for peso-denominated assets and liabilities have been calculated according to beginning and ending balance divided by two; Interest income (expense) for each category are the accumulated twelve months for the years ended December 31, 2016, 2017 and 2018.

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

Average Assets and Interest Rates

The table below presents the average annual balance of assets, interest income interest rate for the years ended December 31, 2018, 2017 and 2016, and for the nine months ended September 30, 2019.

	September 30, 2019			
	Balance	Average Balance	Interest Income*	Average Interest Rate (1)
	(in millions of Ps.)			
Loans	1,174,991	1,167,598	202,147	23.1%
Cash and cash equivalents	183,991	215,469	4,127	2.6%
Total interest earning assets	1,358,982	1,383,067	206,274	19.9%
Allowances for loan losses	(183,870)	(173,642)		0.0%
Property plant and equipment net	1,282	1,035		0.0%
Other non-interest earning assets net	1,008,972	875,411		0.0%
Total assets	2,185,366	2,085,872	206,274	13.2%

* Transaction costs and fair value gain/losses are not included in Interest Income.

(1) Average interest rate: interest income / average balance.

	2018			
	Balance	Average Balance	Interest Income*	Average Interest Rate (1)
	(in millions of Ps.)			
Loans	1,160,205	1,108,021	237,757	21.5%
Cash and cash equivalents	246,947	203,960	3,657	1.8%
Total interest earning assets	1,407,152	1,311,981	241,414	18.4%
Allowances for loan losses	(163,413)	(145,747)		0.0%
Property plant and equipment net	788	851		0.0%
Other non-interest earning assets net	741,850	580,670		0.0%
Total assets	1,986,377	1,747,755	241,414	13.8%

* Transaction costs and fair value gain/losses are not included in Interest Income.

(1) Average interest rate: interest income / average balance.

2017				
	Balance	Average Balance	Interest Income*	Average Interest Rate (1)
(in millions of Ps.)				
Loans	1,055,837	999,435	200,422	20.1%
Cash and cash equivalents	160,973	155,046	5,210	3.4%
Total interest earning assets	1,216,810	1,154,481	205,632	17.8%
Allowances for loan losses	(128,080)	(116,636)		0.0%
Property plant and equipment net	913	965		0.0%
Other non-interest earning assets net	419,489	390,014		0.0%
Total assets	1,509,132	1,428,825	205,632	14.4%

* Transaction costs and fair value gain/losses are not included in Interest Income.

(1) Average interest rate: interest income / average balance.

2016				
	Balance	Average Balance	Interest Income*	Average Interest Rate (1)
(in millions of Ps.)				
Loans	943,033	861,789	192,640	22.4%
Cash and cash equivalents	149,119	154,246	6,132	4.0%
Total interest earning assets	1,092,152	1,016,035	198,772	19.6%
Allowances for loan losses	(105,191)	(95,568)		0.0%
Property plant and equipment net	1,017	1,240		0.0%
Other non-interest earning assets net	360,539	315,482		0.0%
Total assets	1,348,517	1,237,189	198,772	16.1%

* Transaction costs and fair value gain/losses are not included in Interest Income.

(1) Average interest rate: interest income / average balance.

Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the annual average balances of liabilities and stockholders' equity, interest expense and average annual interest rates for the periods indicated.

September 30, 2019				
	Balance	Average Balance	Interest Expense	Average Interest Rate
(in millions of Ps.)				
Bank loans				
Ps (in foreign Currency)	22,329	28,955	2,462	11.3%
Ps	288,131	258,379	52,519	27.1%
Sub-total	310,460	287,334	54,981	25.5%
Notes payable and senior notes payable				
Ps (in foreign Currency)	1,390,981	1,345,441	91,185	9.0%
Sub-total	1,390,981	1,345,441	91,185	9.0%
Total interest-bearing liabilities	1,701,441	1,632,775	146,166	11.9%
Non-interest-bearing liabilities	183,714	178,154	0	0.0%
Stockholders' equity	300,211	274,944	0	0.0%
Total liabilities and Stockholders' equity	2,185,366	2,085,872	146,166	9.3%

2018				
	Balance	Average Balance	Interest Expense	Average Interest Rate
(in millions of Ps.)				
Bank loans				
Ps (in foreign Currency)	35,581	46,176	5,426	11.8%
Ps	228,627	144,318	41,691	28.9%
Sub-total	264,208	190,493	47,117	24.7%
Notes payable and senior notes payable				
Ps (in foreign Currency)	1,299,900	1,175,134	113,840	9.7%
Sub-total	1,299,900	1,175,134	113,840	9.7%
Total interest-bearing liabilities	1,564,108	1,365,627	160,957	11.8%
Non-interest-bearing liabilities	172,593	130,131	0	0.0%
Stockholders' equity	249,676	251,997	0	0.0%
Total liabilities and Stockholders' equity	1,986,377	1,747,755	160,957	9.2%
2017				
	Balance	Average Balance	Interest Expense	Average Interest Rate
(in millions of Ps.)				
Bank loans				
Ps (in foreign Currency)	56,770	101,128	7,660	7.6%
Ps	60,008	372,219	83,818	22.5%
Sub-total	116,778	473,346	91,478	19.3%
Notes payable and senior notes payable				
Ps (in foreign Currency)	1,050,368	652,714	55,208	8.5%
Sub-total	1,050,368	652,714	55,208	8.5%
Total interest-bearing liabilities	1,167,146	1,126,060	146,686	13.0%
Non-interest-bearing liabilities	87,669	81,045	0	0.0%
Stockholders' equity	254,317	221,720	0	0.0%
Total liabilities and Stockholders' equity	1,509,132	1,428,825	146,686	10.3%
2016				
	Balance	Average Balance	Interest Expense	Average Interest Rate
(in millions of Ps.)				
Bank loans				
Ps (in foreign Currency)	145,485	106,930	9,489	8.9%
Ps	684,429	616,199	97,901	15.9%
Sub-total	829,914	723,129	107,390	14.9%
Notes payable and senior notes payable				
Ps (in foreign Currency)	255,060	222,802	18,832	8.5%
Sub-total	255,060	222,802	18,832	8.5%
Total interest-bearing liabilities	1,084,974	945,930	126,222	13.3%
Non-interest-bearing liabilities	74,420	108,722	0	0.0%
Stockholders' equity	189,123	182,537	0	0.0%
Total liabilities and Stockholders' equity	1,348,517	1,237,189	126,222	10.2%

Changes in Financial Margin and Expense—Volume and Rate Analysis

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rates for the year ended December 31, 2018 compared to 2017 and for the year ended December 31, 2017 compared to 2016. Volume and rate variances have been calculated based on movements in balances over the period and changes in interest rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	2018 / 2017		
	Increase (decrease) due to changes in interest		
	Volume	Interest Rate	Net Change
Loans	19,811	17,524	37,335

Cash and cash equivalents	2,783	(4,336)	(1,553)
Total interest-earning assets:	22,594	13,188	35,782

	2018 / 2017		
	Increase (decrease) due to changes in interest		
	Volume	Interest Rate	Net Change
Bank loans	115,489	(159,850)	(44,361)
Notes payable and senior notes payable	13,116	45,516	58,632
Total interest-bearing liabilities	128,605	(114,334)	14,271

	2017 / 2016		
	Increase (decrease) due to changes in interest		
	Volume	Interest Rate	Net Change
Loans	23,043	(15,261)	7,782
Cash and cash equivalents	487	(1,409)	(922)
Total interest-earning assets	23,531	(16,671)	6,860

	2017 / 2016		
	Increase (decrease) due to changes in interest		
	Volume	Interest Rate	Net Change
Bank loans	(92,279)	76,367	(15,912)
Notes payable and senior notes payable	58,720	(22,344)	36,376
Total interest-bearing liabilities	(33,559)	54,023	20,464

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth the levels of our average interest-earning assets and our historical financial margin, interest rate, net yield and yield spread for the periods indicated.

	September 30, 2019	2018	2017	2016
	(in millions of Ps., except percentages)			
Total average interest earning assets (Ps)				
Balance	1,358,982	1,407,152	1,216,810	1,092,152
Average	1,383,067	1,311,981	1,154,481	1,016,035
Total	1,383,067	1,311,981	1,154,481	1,016,035
Historical:				
Financial margin(1)	60,108	80,457	58,946	72,550
Weighted-average rate	5.8%	6.1%	5.1%	7.1%
Gross yield(2)	206,274	241,414	205,632	198,772
Weighted-average rate	19.9%	18.4%	17.8%	19.6%
Net yield(3)	5.8%	6.1%	5.1%	7.1%
Yield spread(4)	146,166	160,957	146,686	126,222
Weighted-average rate	14.1%	12.3%	12.7%	12.4%

(1) Financial margin is interest income less interest expense.

(2) Gross yield is determined by dividing interest income by average interest earning assets.

(3) Net yield is determined by dividing financial margin by average interest earning assets.

(4) Yield spread is the difference between gross yield on interest earning assets and the net yield.

As of September 30, 2019, interest-earning assets totaled Ps.1,358,982 million (US\$393 million). Of these assets, 100% amortize periodically on a monthly basis or less. Such assets are integrated as follows: 86.5% by our performing loan portfolio and 13.5% by cash and cash equivalents and total financial assets at fair value. Our total loans include both fixed and floating interest rate loans.

Return on Average Total Assets and Average Stockholders' Equity

The following table presents selected financial data and ratios for the periods indicated.

	September 30, 2019	2018	2017	2016
	(in millions of Ps., except percentages)			
Net income	3,520	7,351	809	17,200
Balance total assets	2,185,366	1,986,377	1,509,132	1,348,517
Average total assets	2,085,872	1,747,755	1,428,825	1,237,189
Balance stockholders' equity	300,211	249,676	254,317	189,123
Average stockholders' equity	274,944	251,997	221,720	182,537
Net income as a percentage of:				
Total assets	0.2%	0.4%	0.1%	1.3%
Stockholders' equity	1.7%	2.9%	0.3%	9.1%
Stockholders' equity as a percentage of total assets	13.7%	12.6%	16.9%	14.0%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Interest Rate Sensitivity of Assets and Liabilities

All of our loan portfolio is denominated in Colombian Pesos (COP). Our loans are originated with floating interest rates (DTF) and fixed interest rates. In regards of the liabilities, the international notes are fixed rate, while local liabilities are both fixed and floating rate (DTF).

Interest Rate Sensitivity

The following table reflects our interest-earning assets and interest-bearing liabilities as of September 30, 2019. Fixed-rate instruments were classified in this table according to their contractual maturity.

	As of September 30, 2019					
	0 - 30 days	31 - 179 days	180 - 365 days	Over 366 days	Non-Rate Sensitive or Over One Year	Total
	(in millions of Ps.)					
Assets						
Cash and cash equivalents	149,436	12,065	0	0	0	161,501
Fixed-rate performing loans	445,551	527,412	0	0	70	973,033
Securities and investments	0	0	0	0	34,555	34,555
Total interest-earning assets	594,987	539,478	0	0	34,625	1,169,089
Other non-interest-earning assets	0	343,638	0	0	654,550	998,188
Non-performing loans	0	0	0	0	201,957	201,957
Less: Allowance for loans	0	0	0	0	(183,870)	(183,870)
Total assets	594,987	883,116	0	0	707,264	2,185,366
Liabilities and stockholders' equity						
Notes payable	0	0	121,711	139,098	0	260,809
Senior notes, payable bank loans and borrowings from other entities	275,818	1,160,171	28,753	13,976	0	1,478,718
Total interest-bearing liabilities	275,818	1,160,171	150,464	153,074	0	1,739,527

Other non-interest bearing liabilities	0	50,545	0	0	95,083	145,628
Stockholders' equity	0	0	0	0	300,211	300,211
Total liabilities and stockholders' equity	275,818	1,210,716	150,464	153,074	395,245	2,185,366
Interest rate sensitivity gap	319,168	(327,601)	(150,464)	(153,074)	311,970	
Cumulative interest rate sensitivity gap	319,168	(8,432)	(158,896)	(311,970)	0	

Of our interest-bearing liabilities as of September 30, 2019, 85.0% consisted of loans from banks and other entities and totaled Ps.1,739,527 million (US\$ 502.46 million).

Cash and Cash Equivalents

We held cash in the amount of Ps.149,436 million (US\$43.2 million) as of September 30, 2019, representing 6.8% of our total assets.

Bank Financings and Bond Issuances

The following tables present our total indebtedness (excluding accrued interest) as of September 30, 2019 and December 31, 2018, 2017 and 2016 related to collateralized loans incurred through our free-standing trusts (*patrimonios autónomos*), our ECP Program, the 2022 Senior Notes and bank financings in the form of credit lines:

	September 30, 2019		2018		2017		2016	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
(in millions of Ps., except percentages)								
Bank financings								
At end of period(1)	1,492,227	12.86%	1,466,482	12.62%	1,182,493	10.93%	1,084,974	13.51%
Monthly average indebtedness during period(2)	1,458,446	12.91%	1,416,538	12.15%	1,242,251	10.81%	1,068,865	13.16%
Maximum month-end balance	1,510,290	13.58%	1,475,112	13.13%	1,835,244	12.57%	1,044,285	13.65%
Total at period end	1,492,227	12.86%	1,466,482	12.62%	1,182,493	10.93%	1,084,974	13.51%

(1) Balance at the end of the period.

(2) Sum of end-of-month balances divided by 12.

Loan Origination

The following table summarizes our loan origination by product line for the periods presented:

	For the Nine Months Ended September 30,			For the Year Ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(in millions of US\$) (1)	(in millions of Ps.)		(in millions of US\$) (1)	(in millions of Ps.)		
Payroll deduction loans	142.7	493,916	330,781	139.4	453,046	342,965	408,011
Credit card	56.4	195,401	218,623	87.5	284,428	268,312	288,481
Financing for insurance policies	21.4	74,011	136,403	53.4	173,544	165,181	156,630
Others	-	0	0	-	0	0	9,449
Total	220.5	763,329	685,807	280.3	911,018	776,458	862,570

Loan Portfolio

Total loan portfolio amounts set forth in this section include the total principal amount of on-balance sheet performing and non-performing loans outstanding as of the date presented. The terms “total loans,” “loan portfolio,” and “total loan portfolio” include total performing loans plus total non-performing loans. See “Summary Financial Information.”

Our total loan portfolio as of September 30, 2019 amounted to Ps.1,174,991 million (US\$339.40 million). This represents an increase of 1.3% in our total loan portfolio from the year ended December 31, 2018. This variation was mainly due to an increase of 8.1% in payroll loans.

Classification of our Loan Portfolio

The following table sets forth the classification of our total gross loan portfolio in terms of performing and non-performing loan portfolios, as of September 30, 2019 and December 31, 2018, 2017 and 2016.

	September 30, 2019		September 30, 2018	
	Amount (1)	% of Portfolio	Amount (1)	% of Portfolio
(in millions of Ps., except percentages)				
Performing loan portfolio	973,034	82.8%	1,020,515	86.5%
Non-performing loan portfolio under 360	75,061	6.4%	75,223	6.4%
Non-performing loan portfolio over 360	126,896	10.8%	84,097	7.1%
Total loan portfolio	1,174,991	100.0%	1,179,835	100.0%

(1) Loan amounts do not include accrued interest.

	2018		2017		2016	
	Amount (1)	% of Portfolio	Amount (1)	% of Portfolio	Amount (1)	% of Portfolio
(in millions of Ps., except percentages)						
Performing loan portfolio	985,394	84.9%	929,472	88.0%	839,603	89.0%
Non-performing loan portfolio under 360	77,973	6.7%	45,749	4.3%	33,023	3.5%
Non-performing loan portfolio over 360	96,838	8.3%	80,616	7.6%	70,407	7.5%
Total loan portfolio	1,160,205	100.0%	1,055,837	100.0%	943,033	100.0%

(1) Loan amounts do not include accrued interest.

Performing Loan Portfolio by Product

	September 30, 2019	September 30, 2018
	Amount (1)	Amount (1)
(in millions of Ps.)		
Performing loan portfolio by product:(1)		
Payroll deduction loans	527,412	499,882
Credit card	382,738	419,396
Financing for insurance policies	62,813	100,890
Microcredit loans	71	348
Total performing loan portfolio	973,034	1,020,515

(1) Loan amounts do not include accrued interest.

	2018	2017	2016
	Amount (1)	Amount (1)	Amount (1)
(in millions of Ps.)			
Performing loan portfolio by product:(1)			
Payroll deduction loans	486,000	409,896	365,565
Credit card	406,827	415,612	388,349

Financing for insurance policies	92,342	103,096	81,522
Microcredit loans	225	869	4,167
Crediyá	0	0	0
Total performing loan portfolio	985,394	929,472	839,603

(1) Loan amounts do not include accrued interest.

Loans by Geographic Concentration

The following table sets forth our loan portfolio based on geographic concentration as of the dates indicated. We have not observed any significant correlation between the incidence of delinquency and default on non-performing loans and geographic location.

Department	2018		2017		2016	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
(in millions of Ps., except percentages)						
Valle	271,188	23.4%	251,364	23.8%	224,570	23.8%
Bogotá	198,340	17.1%	177,573	16.8%	165,521	17.6%
Meta	106,627	9.2%	111,929	10.6%	103,840	11.0%
Atlántico	89,032	7.7%	57,580	5.5%	50,742	5.4%
Antioquia	73,427	6.3%	59,081	5.6%	54,466	5.8%
Santander	64,744	5.6%	73,916	7.0%	59,245	6.3%
Boyacá	57,481	5.0%	58,028	5.5%	50,441	5.3%
Cesar	50,690	4.4%	48,068	4.6%	33,075	3.5%
Bolívar	36,629	3.2%	32,665	3.1%	30,621	3.2%
Córdoba	26,463	2.3%	21,990	2.1%	19,466	2.1%
Risaralda	23,265	2.0%	19,973	1.9%	21,490	2.3%
Magdalena	23,144	2.0%	25,824	2.4%	23,432	2.5%
Tolima	16,206	1.4%	13,996	1.3%	15,268	1.6%
La Guajira	15,547	1.3%	9,677	0.9%	3,922	0.4%
Norte de Santander	13,884	1.2%	12,845	1.2%	13,163	1.4%
Caldas	13,563	1.2%	11,420	1.1%	10,405	1.1%
Sucre	13,003	1.1%	11,490	1.1%	11,557	1.2%
Quindío	12,696	1.1%	11,103	1.1%	10,430	1.1%
Huila	11,496	1.0%	11,238	1.1%	11,878	1.3%
Caquetá	10,698	0.9%	7,448	0.7%	6,199	0.7%
Cauca	10,011	0.9%	8,091	0.8%	6,253	0.7%
Cundinamarca	8,581	0.7%	9,063	0.9%	5,092	0.5%
San Andrés	5,953	0.5%	3,504	0.3%	3,485	0.4%
Casanare	3,953	0.3%	4,139	0.4%	4,271	0.5%
Nariño	2,160	0.2%	2,630	0.2%	2,913	0.3%
Putumayo	508	0.0%	558	0.1%	755	0.1%
Arauca	420	0.0%	292	0.0%	209	0.0%
Guaviare	244	0.0%	192	0.0%	184	0.0%
Chocó	106	0.0%	80	0.0%	44	0.0%

Vichada	59	0.0%	37	0.0%	57	0.0%
Amazonas	41	0.0%	18	0.0%	13	0.0%
Vaupés	29	0.0%	11	0.0%	20	0.0%
Guainía	17	0.0%	14	0.0%	6	0.0%
TOTAL	1,160,205	100.0%	1,055,837	100.0%	943,033	100.0%

Total Loan Portfolio by Loan Balance

The following table sets forth an analysis of the composition of our loan portfolio as of the dates indicated according to the original principal amount borrowed.

	September 30, 2019	
	Amount (1)	% of Portfolio
	(in millions of Ps, except percentages)	
Less than COP 2,000	202,977	17.3%
Between COP 2,001 and COP 5,000	283,453	24.1%
Between COP 5,001 and COP 10,000	167,937	14.3%
Between COP 10,001 and COP 20,000	216,348	18.4%
Between COP 20,001 and COP 50,000	213,061	18.1%
Over COP 50,000	91,215	7.8%
Total loan portfolio	1,174,991	100.0%

(1) Loan amounts do not include accrued interest.

	2018		2017		2016	
	Amount (1)	% of Portfolio	Amount (1)	% of Portfolio	Amount (1)	% of Portfolio
	(in millions of Ps, except percentages)					
Less than COP 2,000	232,380	20.0%	243,542	23.1%	212,584	22.5%
Between COP 2,001 and COP 5,000	290,499	25.0%	267,898	25.4%	236,983	25.1%
Between COP 5,001 and COP 10,000	155,407	13.4%	160,509	15.2%	145,555	15.4%
Between COP 10,001 and COP 20,000	204,961	17.7%	165,698	15.7%	171,900	18.2%
Between COP 20,001 and COP 50,000	194,086	16.7%	149,455	14.2%	127,848	13.6%
Over COP 50,000	82,873	7.1%	68,735	6.5%	48,163	5.1%
Total loan portfolio	1,160,205	100.0%	1,055,837	100.0%	943,033	100.0%

(1) Loan amounts do not include accrued interest.

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.

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 if a loan is restructured, it may be transferred to the current loan portfolio. The restructuring of this debt is formalized through modifications of

the partial credit payment amounts, the payment due dates, and the amortization periods. Restructuring is permitted as long as there is evidence of sustained payment by the borrower.

As of September 30, 2019, our total non-performing loan portfolio was Ps. 201,958 million (US\$58.3 million), an increase of Ps.27,147 million (US\$7.8 million) compared to December 31, 2018 and our total non-performing loan portfolio excluding loans past due for over 360 days was Ps.75,061 million (US\$21.7 million), a decrease of 3.7% compared to December 31, 2018.

The following table sets forth an analysis of our non-performing loan portfolio excluding loans past due for over 360 days by product at the dates indicated.

September 30, 2019		
	Non-Performing Amount (1)	Non-Performing %
(in millions of Ps., except percentages)		
Payroll deduction loans	20,478	3.4%
Credit card loans	50,174	9.9%
Financing for insurance policies	4,338	6.1%
Microcredit loans	71	1.7%
Total non-performing loan portfolio, excluding loans past due for over 360 days	75,061	6.4%

(1) Loan amounts not include accrued interest.

	December 31 ,2018		December 31 ,2017		December 31 ,2016	
	Non-Performing Amount (1)	Non-Performing %	Non-Performing Amount (1)	Non-Performing %	Non-Performing Amount (1)	Non-Performing %
(in millions of Ps., except percentages)						
Payroll deduction loans	25,544	4.6%	14,126	3.1%	9,982	2.7%
Credit card loans	46,454	9.2%	27,766	5.7%	18,658	4.6%
Financing for insurance policies	5,812	5.7%	3,084	2.8%	1,815	2.2%
Microcredit loans	163	3.4%	773	11.5%	2,568	38.1%
Total non-performing loan portfolio, excluding loans past due for over 360 days	77,973	6.7%	45,749	4.3%	33,023	3.8%

(1) Loan amounts not include accrued interest.

Allowance for Loan Losses

The methodology used to record our allowance for loan losses is based on an internal methodology based on the probability of a borrower's default and on the expected loss given default applied to the loan portfolio outstanding balance.

September 30, 2019	
Loan Amount	Allowances for loan losses
(in millions of Ps.)	

Payroll deduction loans	594,897	(74,451)
Credit card	505,120	(96,902)
Financing for insurance policies	70,653	(6,648)
Microcredit loans	4,321	(5,869)
Crediyá	-	-
Total non-performing loans and allowances	1,174,991	(183,870)

	2018		2017		2016	
	Loan Amount	Allowances for loan losses	Loan Amount	Allowances for loan losses	Loan Amount	Allowances for loan losses
	(in millions of Ps.)					
Payroll deduction loans	550,125	(69,160)	450,830	(42,610)	405,383	(38,263)
Credit card	503,684	(81,751)	484,885	(58,174)	432,837	(45,847)
Financing for insurance policies	101,616	(6,265)	111,005	(11,771)	92,677	(12,093)
Microcredit loans	4,780	(6,237)	6,723	(13,131)	9,677	(6,529)
Crediyá	-	-	2,394	(2,394)	2,459	(2,459)
Total non-performing loans and allowances	1,160,205	(163,413)	1,055,837	(128,080)	943,033	(105,191)

For the nine months ended September 30, 2019, we recorded allowances for loan losses totaling Ps.183,870 million (US\$53.1 million).For the years ended December 31, 2016, 2017 and 2018 we recorded allowances for loan losses totaling Ps.105,191 million (US\$30.4 million), Ps.128,080 million (US\$37.0 million) and Ps.163,413 million (US\$47.2 million).

Analysis of Allowance for Loan Losses

The following table analyzes our allowance for loan losses, movements in loans written-off and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses, net of recoveries, as a result of the sale of non-performing loans at the end of each period. We use an internally-developed methodology to record our allowance for loan losses that is consistent with Basel recommendations and is based on the probability of default and severity of losses of the loan portfolio.

	September 30, 2019	2018	2017	2016
	(in millions of Ps.)			
Initial balance	163,412	128,074	105,191	85,944
Allowance of the period charged against to profit or loss	60,896	94,845	66,620	23,261
Charge-offs of the period	(23,989)	(27,519)	(19,744)	(3,456)
Recovery of provisions	(16,450)	(31,987)	(23,987)	(558)
Final Balance	183,870	163,413	128,080	105,191

Workout and Credit Recovery

Our credit recovery unit handles debt recovery from borrowers whose loans have been classified as non-performing.

As of September 30, 2019, there were Ps.84,853 million (US\$24.51 million) of restructured loans in our total loan portfolio. Restructuring of such debt is formalized with each customer by changing the amounts of credit installments, the dates for partial payments of credit and the loan repayment periods, provided there is evidence of sustained payment by the customer.

MACROECONOMIC AND INDUSTRY OVERVIEW

Overview

We target the lower-income spectrum of the Colombian population that is underserved by local banking institutions. Specifically, we focus on the low- and middle- income segments (socio-economic segments 1, 2 and 3 as defined by DANE), which we estimate accounts for more than 79.2% of the Colombian population.

We believe these segments have enjoyed steady income growth, supported by the positive dynamics of the Colombian economy. Throughout the past few years, Colombia experienced sustained growth in GDP, consumption and per capita income. Financial services penetration, however, remains low compared to other Latin American economies, such as Mexico and Brazil. Those countries surpass Colombia in a number of categories, including: formal financial account ownership among lower-income adults, formal financial institution account penetration among women, borrowing from a financial institution, saving at a financial institution, credit and debit card use, percentage of adults utilizing online bill payments and purchases, mobile money/phone usage and frequency of account usage, according to the 2017 Brookings Financial and Digital Inclusion Project Report.

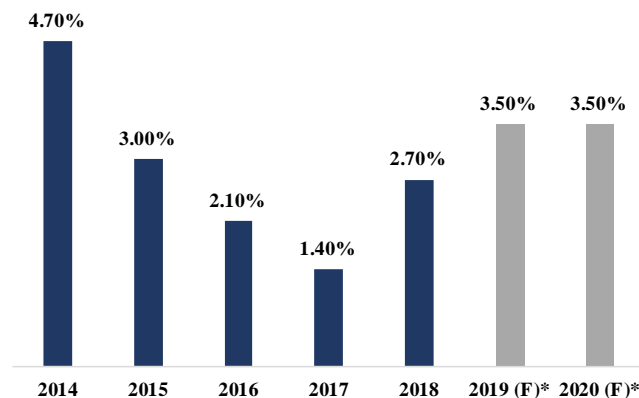
For the five-year period from 2013 to 2018, the consumer credit market in Colombia has grown at a compound annual growth rate of approximately 11.4%. While growth is significant, there is still room for greater consumer credit penetration. As a percentage of GDP, consumer credit has gone from 10.6% of GDP in 2013 to 15.9% of GDP in 2018, according to the data from the SFC and DANE. In terms of international comparison, total domestic loans as a percentage of GDP is low in Colombia at just 50.04%, while in Brazil total loans represent 61.78% of GDP and in Chile 117% of GDP, respectively, according to the World Bank.

Payroll loans are widely known and used in Colombia. As of December 2018, they represented 36% of the total consumer loans of the financial industry. In addition, Colombia has a stable regulatory framework for payroll loans implemented in 2012.

Macroeconomic Highlights

Historical GDP growth

The Colombian economy has expanded in recent years, driven by strong growth in areas such as capital investment, domestic consumption and exports. Colombian GDP grew at an average growth rate of 2.78% in the five-year period ended December 31, 2018. Following the global financial crisis, GDP growth reached a peak of 7.4% in 2011, but business and consumer confidence deteriorated moderately due to global concerns related to the European debt crisis and GDP growth slowed down to 3.0% in 2015.



Source: Colombian Central Bank and IMF

The economy continued strengthening throughout the first half of 2014, with annual growth accelerating to 5.5% compared to the first half of 2013. As a result, the Colombian Central Bank's GDP growth forecast for that year was revised upwards from a range of 3.3% to 5.3%, with 4.3% growth as the most likely scenario, to a range of 4.2% to 5.8%, with 5.0% growth as the most likely scenario. However, growth expectations for 2015 deteriorated due to the sharp decline in oil prices since August 2014. Oil accounted for more than half of Colombian exports, therefore the economy began to experience a large negative terms-of-trade shock in the following quarters.

Consequently, the Colombian Central Bank decided to revise its 2014 GDP growth forecast downwards in January 2015 to a range of 4.5% to 5%, with 4.8% growth as the most likely scenario, which ended up being slightly higher than the official final growth figure of 4.7%, and for 2015 the expectation was that the economy would expand between 2% and 4%, with 3.6% growth as the most likely scenario.

Nonetheless, oil prices continued to drop further throughout 2015, reaching levels not seen since 2004 by the end of the year and constituting a decline of more than 70% since the beginning of the sell-off in the third quarter of 2014. Simultaneously, global financial conditions tightened considerably throughout the year, mainly due to anticipation of the first interest rate hike by the U.S. Federal Reserve in more than 9 years, which took place in December 2015, and due to increased concerns about a sharper slowdown of the Chinese economy. As a result of these large external shocks, the growth outlook for the Colombian economy deteriorated further and the Colombian Central Bank cut its 2015 GDP growth forecast in July 2015 to a range of 1.8% to 3.4%, with 2.8% growth as the most likely scenario. Actual GDP growth for 2015 and 2016 was 3.0% and 2.1% (annualized), respectively. The weak GDP growth in 2016 was a result of the slowdown of production in the mining and oil sectors due to the volatility of international commodity prices. Nonetheless, the sectors that supported GDP growth in 2016 were financial institutions, real estate, construction and manufacturing. In 2016, growth slowed further as consumption and public investment responded to tighter monetary policy. Consequently, unemployment rose slightly.

The peso depreciation put pressure on prices, El Niño (between the second half of 2015 and the first half of 2016) as well as the trucker's strike of June-July 2016 pushed up food prices. Indexation led to higher inflation which affected the poorest families which have less room to protect their incomes and assets. These shocks were stronger and longer than similar episodes over recent decades and kept inflation above the Colombian Central Bank's target of 2-4% since mid-2015. However, inflation expectations were reasonably stable. Inflation started to come down and converged to the target of the Colombian Central Bank at the end of 2017.

Growth remained below that forecasted in 2017 due in part to the planned further fiscal adjustment. Investment was projected to bounce back as fourth generation (4G) infrastructure projects moved into the construction phase. However, the Odebrecht scandal in 2017 affected the confidence and the willingness to finance these projects in Latin America. Furthermore, confidence and investment were likely to increase following the peace deal with the FARC. In the medium term, potential growth was expected to be boosted by demographics, the peace deal and the implementation of reforms. Nonetheless, the external sectors affected the overall economic situation in Colombia and GDP growth for 2017 was 1.7%.

In 2018, economic activity showed signs of recovery, with annual growth rates not seen since 2015. The economy expanded by an annual average of 2.7% in 2018, exceeding the 2.0% and 1.8% growth for 2016 and 2017, respectively. This growth was driven by household and public consumption. Exports also rose, albeit at a slower pace. The top-performing sectors were public administration, defense, education and health, followed by trade and transport and manufacturing. The external deficit remained stable and inflation was very close to the midpoint of the monetary authority's target range (between 2% and 4%). The economy is projected to grow by 3.5% in 2019.

The Colombian Central Bank lowered its monetary policy rate by 25 basis points on two occasions in 2018. The first was in January, when the rate was lowered from 4.75% to 4.5%. The second was in April, when it was dropped to 4.25% and has since been left unchanged. The slightly expansionary monetary policy adopted in 2018 was consistent with the convergence between inflation and the target range which led to a reduction in interest rates on loans and an increase in households' purchasing power, factors that underpinned the economic recovery in 2018.

The nominal exchange rate remained relatively stable in 2018, hovering around 2,900 pesos to the U.S. dollar. From August 2018 onwards, the exchange rate rose above 3,000 pesos, depreciating by a nominal 6.3% by the end of October 2018 compared to same month in 2017. This trend has been the result of greater international volatility and the Federal Reserve's two interest rate hikes in 2018, as well as the external imbalance of Colombia's accounts,

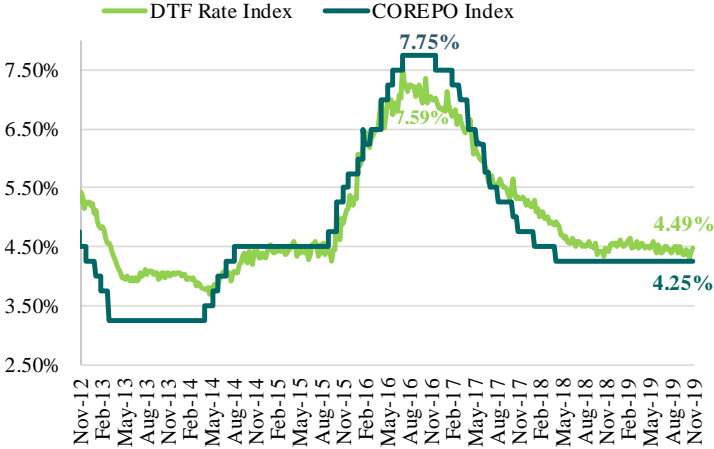
which run a current account deficit of more than 3% of GDP. The Colombian peso appreciated against the currencies of the country’s main trading partners, with real appreciation reaching 3.0% by the end of October 2018. In October 2018, the Colombian Central Bank announced the purchase of US\$ 400 million to shore up its international reserves and safeguard the country from the turbulence of the international financial markets.

Economic growth expectations for 2019 from the Colombian Central Bank were revised to 3.0% from 3.5%, below the government’s expectation of a 3.6% GDP growth. However, on November 14, 2019, the National Department of Statistics revealed that the GDP growth from the 3Q 2019 was 3.3%, above market consensus. This growth was driven mainly by commerce, government and defense and financial activities, which grew at 5.9%, 4.3% and 8.2% year over year, respectively.

In November and December 2019, several demonstrations and protests from different sectors (including students, unions, environmental organizations, artists and representatives from the opposition) took place on a national level. President Duque announced formal channels of communication with different representatives from the demonstrations to discuss the petitions and reach certain agreements by March 2020. In spite of the protests, the current Colombian political scenario is stable and macroeconomic fundamentals remain strong, the demand for consumer lending remains strong and we have not witnessed a particular impact on the performance of our loan portfolio resulting from these protests as of the date of this offering memorandum.

Interest Rates

Since the implementation of an inflation-targeting regime in 1999, the Colombian Central Bank has reduced its overnight lending rate from 26.0% in 1999 to 6.0% at the end of 2005, and to 3.0% at the end of 2010. It increased moderately to 4.75% on December 31, 2011 and to 5.25% on June 30, 2012, and decreased again to 4.25% on December 31, 2012 and 3.25% on December 31, 2013. The Colombian Central Bank increased it to 4.5% from April 2014 to August 2014, kept it unchanged for the next 12 months, and increased it again to 5.75% from September 2015 to December 2015. During 2016 the Colombian Central Bank increased its interest rate up to 7.75% in August, kept it unchanged until mid-December and reduced it by 0.25% each time until reaching 4.5% as of April 29, 2018. Since May 6, 2018 the Colombian Central Bank reduced its interest rate to 4.25% and has kept it unchanged as of the date of this offering memorandum.



Source: Colombian Central Bank

A portion of our assets are linked to the DTF rate; accordingly, changes in the DTF 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.

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, 6.71% during 2016, 6.06% during 2017 and 4.72% in 2018 and remained stable during 2019. With the inflation rate at 3.86% as of October 2019, the Colombian Central Bank may consider additional interest rate increases to control inflation expectations in 2020, thus increasing the average DTF rate.

Unemployment

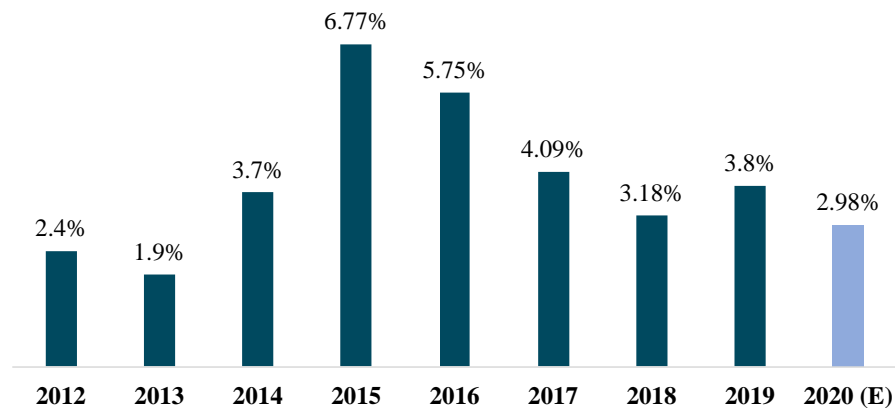
During the year ended December 31, 2015, the Colombian unemployment rate decreased to an annual average of 8.9% from 9.1% as of December 31, 2014, according to DANE. This was the lowest rate recorded for a calendar year since the publication of employment statistics in 2001. The participation rate (i.e., economically active population divided by working age population), a measure of labor supply, increased to an annual average of 64.7% as of December 31, 2015, compared to 64.2% as of December 31, 2014; while the employment rate (i.e., employed population divided by working age population), a measure of labor demand, rose to historic highs, increasing to an annual average of 59% as of December 31, 2015 from 58.4% as of December 31, 2014.

The high and stable employment rate is derived primarily from increased employment in the trade, construction, services and manufacturing sectors, while formal employment has recently increased substantially due to the reduction of labor costs enacted in the 2012 tax reform. As of December 31, 2016, the Colombian unemployment rate was 9.1%, an increase when compared to December 31, 2015, according to DANE. The participation rate decreased to an annual average of 64.4% as of December 31, 2016, compared to 64.9% as of December 31, 2015, while the employment rate fell to 58.5% in the comparable period.

In 2017, the Colombian unemployment annual average rate increased to 9.4% compared to the prior year (9.2%), according to DANE. The participation rate remained at an annual average of 64.4% as of December 31, 2017, from 64.5% as of December 31, 2016, while the employment rate slightly decreased to an annual average of 58.4% in 2017 from 58.5% in the prior year. The urban unemployment rate worsened slightly in 2018. The Colombian unemployment rate was 9.7%, the participation rate remained at an annual average of 64.0% while the employment rate slightly decreased to an annual average of 57.8%. The unemployment rate in 2018 in the thirteen capital cities of the departments with the largest populations in Colombia was 10.7%, compared with 9.8% in 2017. Manufacturing and construction contributed the most to the increase in the working population, particularly from the third quarter of 2018 onwards, when the recovery in these sectors began to strengthen. Migrants from the Bolivarian Republic of Venezuela, numbering more than 1.5 million, pose the greatest challenge for the Colombian labor market. The unemployment rate in November 2019 was 9.3% above the 8.8% rate for the same month in 2018, the participation rate was 63.7% compared to the 63.1% rate for the same month in 2018, while the employment rate was 57.8%, slightly above the 57.5% rate for the same period in 2018.

Inflation

Lower interest rates and stable inflation generally lead to increased consumer confidence and increased consumer demand for credit. Colombian Central Bank independence, and the adoption of an inflation-targeting regime and a free-floating exchange rate since 1999, have contributed to declining inflation rates and increased price stability in Colombia. The inflation rate increased to 3.2% in 2010 and to 3.7% in 2011, both within the Colombian Central Bank's target band of 2.0% to 4.0%, before falling to 2.44% for 2012 and to 1.94% for 2013, the lowest annual rate since 1954, mainly due to the effects of a series of regulatory and supply shocks during the preceding 12 months.



Source: Colombian Central Bank

Inflation accelerated to 3.66% as of December 31, 2014 as the effects of these shocks waned, coupled with stronger domestic demand throughout the first three quarters of 2014, and as the Colombian peso depreciated substantially against the U.S. dollar in the fourth quarter due to the large decline in oil prices. Inflation continued to accelerate to 6.8% as of December 31, 2015, mainly driven by the impact of the El Niño weather phenomenon on food and energy prices and by the pass-through effects of a sharper depreciation of the Colombian peso because of continued weakness in oil prices and increased turmoil in global financial markets.

Inflation stayed above its target range during all of 2016 (the inflation rate increased to 8.97% as of July 2016), due to the effects of currency depreciation and El Niño, especially during the first half of the year. However, the slowdown of economic activity during the second half of the year helped reduce inflation to 5.75%. In 2017, the rate of inflation was 4.09%. This downward trend is expected to continue as the exchange rate remains stable in line with oil prices and the economy continues to slow. By the end of 2018, inflation was 3.18% due to the Colombian peso depreciation against the US dollar and the increase in oil prices.

Credit Volumes

Credit volumes in Colombia have grown since 2005, mainly driven by the above-mentioned factors, including lower inflation rates, decreasing interest rates and consistent economic growth. In 2010, the pace of bank credit volume growth gradually increased, along with a moderate recovery of economic activity and fueled by historic low interest rates. As of December 31, 2011, year-over-year bank credit volume growth was 22.4% (including three financing companies and one cooperative bank that converted to commercial banks during the previous 12 months, as reported by the SFC).

As of December 31, 2012, 2013, 2014 and 2015, bank credit volume growth was 15.2%, 13.6%, 15.2% and 16.1%, respectively (note that as of 2015, this figure incorporates IFRS reporting). As of December 31, 2016, bank credit volume growth was 7.9%.

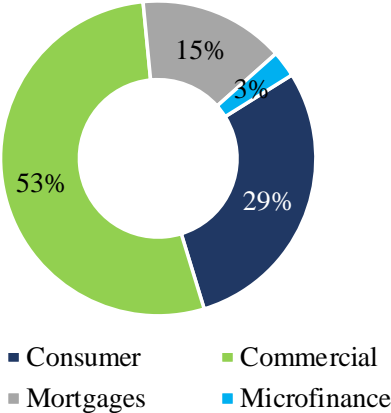
We believe that Colombia offers significant opportunities to expand banking business due to the country's strong economic fundamentals and low penetration rates of domestic credit to the private sector as a percentage of GDP for banking and other financial services and products. In 2015, this ratio was 47.1% for Colombia as compared to 66.8% for Brazil and 111% for Chile, 32.7% for Mexico and 37.4% for Peru, as reported in the World Bank Development Indicators. As of December 31, 2012, 2013, 2014 and 2015, Colombia's bank loans-to-GDP ratio was 37.3%, 39.7%, 39.7% and 47.2%, respectively.

According to the Colombian Central Bank’s quarterly Credit Report published in September 2019, demand for commercial loans decreased among banks and corporations, while consumer lending grew 14.3% in real terms year over year, among banks and consumer lending companies.

Payroll Loan Sector

Payroll loans are medium to long term loans granted to employees and pensioners who irrevocably authorize their employer to deduct the installment owed directly from their paycheck and to wire it directly to the lender.

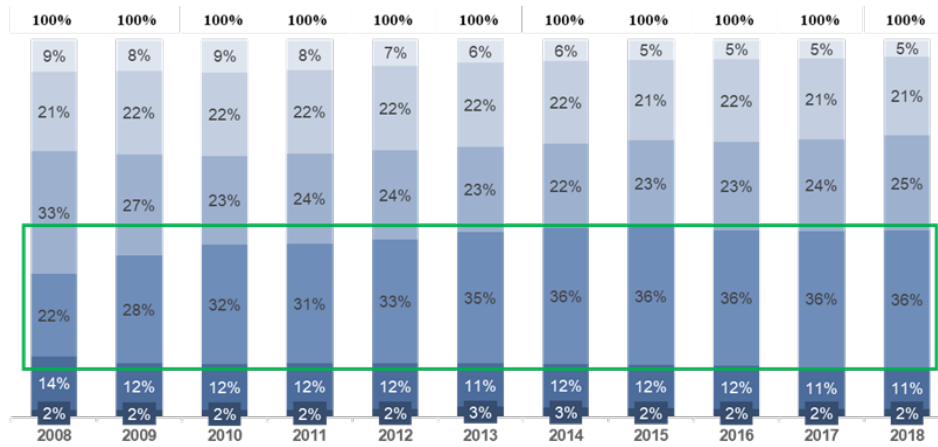
To understand the importance of the Payroll loans sector, it is important to analyze the consumer finance sector within the whole financial industry. As of December 31, 2018, consumer finance corresponded to 29.2% of the total portfolio of the financial industry and is divided into six segments: payroll loans, any purpose loans, credit cards, auto loans, revolving credits and “other.” Payroll loans sector is the largest sub sector, with approximately 36% of total consumer loans outstanding of the financial sector, or 10.5% of the total loans outstanding of the financial sector. In comparison, mortgage loans in Colombia corresponded to 15% of the total loans of the financial industry.



Source: SFC

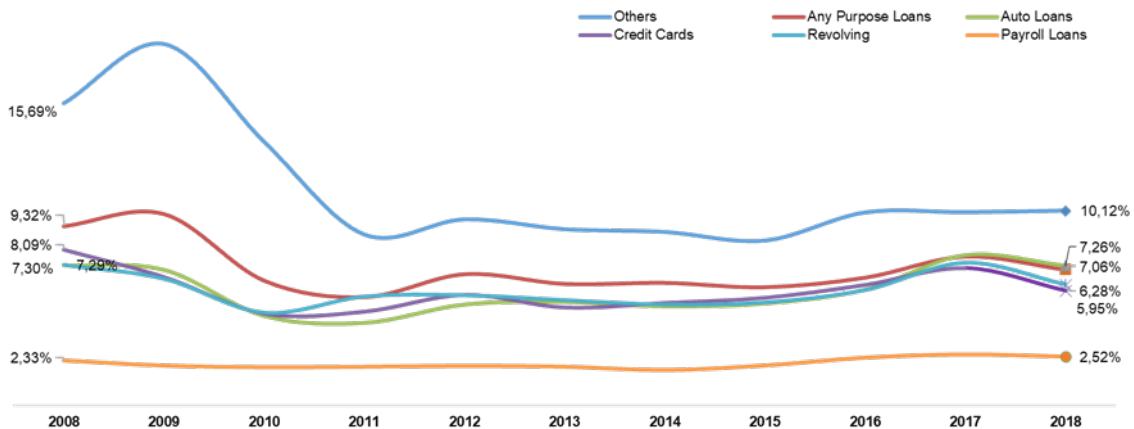
As of December 31, 2018, the market size of consumer finance in Colombia by entities regulated by the SFC (banks, finance companies and cooperatives) amounted to approximately Ps. 135.8 trillion (US\$39.2 billion), of which payroll loans contribute to approximately Ps.49.3 trillion (US\$14.2 billion). Nonetheless, these figures exclude payroll loans granted by entities not regulated by the SFC, but instead regulated by the Superintendence of Corporations (*i.e.*, Credivalores). We estimate the latter is approximately Ps.10.0 trillion (US\$2.9 billion), though no public information is available.

The following chart shows the evolution of the payroll loan sector and growth of its share as a percentage of total consumer loans:



Source: SFC

Payroll loans have also shown the lowest non-performing loans ratios compared to other types of consumer loans given the strength of the collection channel. As of December 31, 2018, the NPLs for payroll loans granted by the financial industry regulated by the SFC was 2.52%, compared to 5.95% for credit cards and 7.26% for car loans, 6.28% for revolving lines and 7.06% for all purpose consumer loans. Furthermore, the payroll loan market is regulated by a Government Law. See “—Payroll loans legal and regulatory framework”.

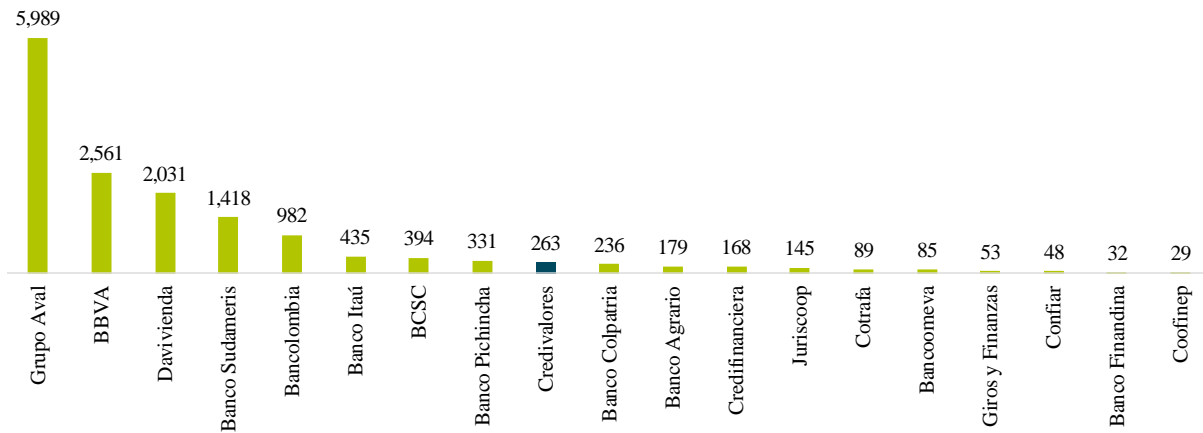


Source: SFC

Main Competitors

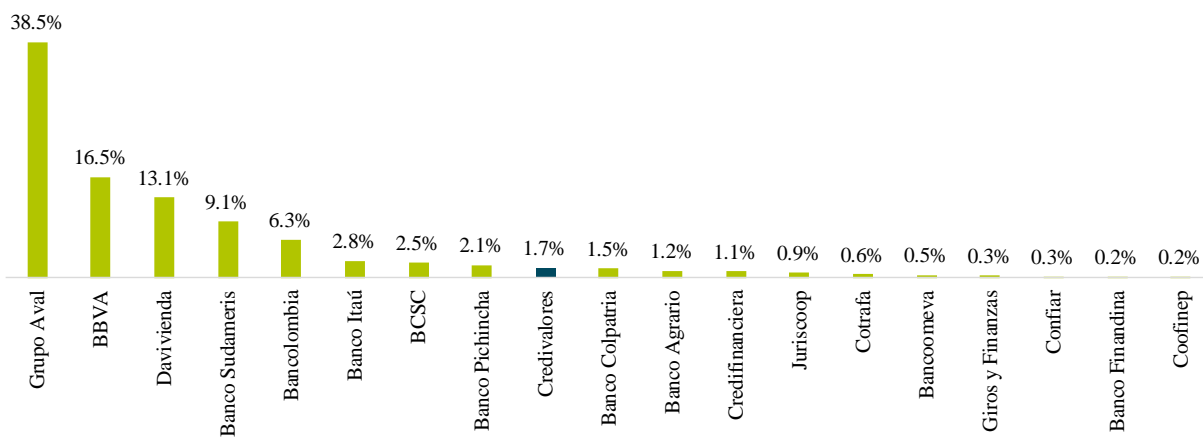
The main competitors in the payroll loans market are banks specialized in that segment.

Regulated market in millions of U.S. dollars as of August 31, 2019:



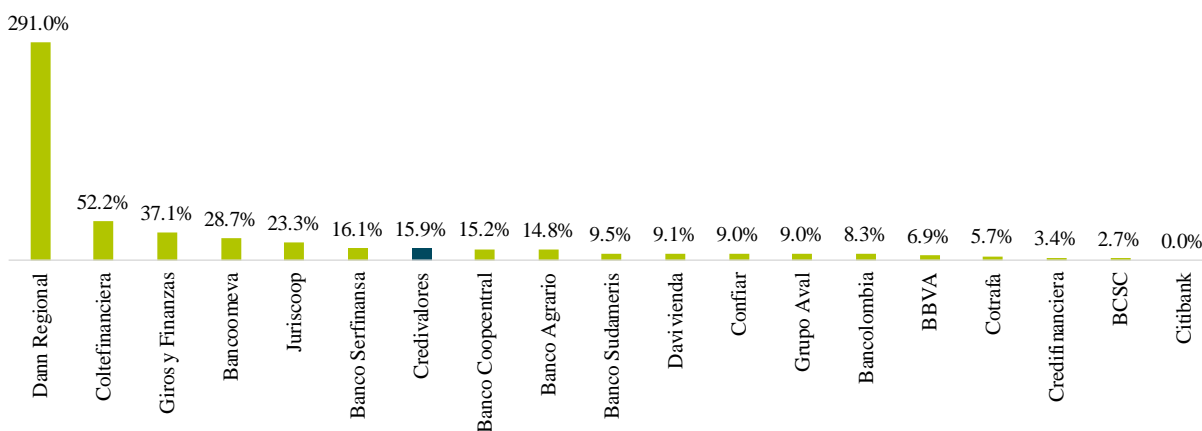
Source: SFC and Credivalores

Percentage of market share in the payroll loan market as of August 31, 2019:



Source: SFC and Credivalores

While the payroll loans market is dominated by Grupo Aval, the largest financial group in Colombia that owns four banks, including Banco Popular that specializes in the payroll loans business, we are the largest non-bank financial institution with Ps.910,302 million (US\$262.9 million) of outstanding payroll loans in our managed loan portfolio. This equates to an approximately 1.7% market share.



Source: SFC and Credivalores

Comparing the same companies for the twelve-month period ended August 31, 2019, we report a 15.9% growth as compared to the same period ended in 2018, while the remaining banks showed approximately 14.8% growth for the same period, excluding Dann Regional.

Payroll Loans Legal and Regulatory Framework

Law 1527 of 2012

Colombia has a stable regulatory framework for payroll loans. In 2012, Congress enacted *Ley 1527, Ley de Libranza* (the “Colombian Payroll Loan Law”). Main highlights of the law include:

- The client must execute a written irrevocable instruction to its employer to make the deduction of amounts due from his paycheck, and as long as the instruction is in place the employer is required to deduct the amounts due to the lender;
- The deduction is limited to 50% of the borrower’s wage or pension after any mandatory deduction; this is aimed to control the borrower’s indebtedness and financial health;
- The deduction “follows” the borrower, even in the case of a change in employment. In the event a borrower changes employers, the new employer is required to continue deducting the amounts due to the lender, otherwise the employer becomes jointly liable;
- It creates the *Registro Único de Entidades Operadoras de Libranza* (Single Registry of Payroll Loan Operating Entities), which allows employers to see information relating to all the entities registered to operate and lend under payroll deduction schemes. Such information includes the name of the payroll loan operator, tax ID, address and notification address, city of residence, e-mail, name of the legal representative and identification number, name of the entity that controls or monitors the operator. This registry used to be managed by the Colombian Ministry of Finance but since 2015, pursuant to Law 1753 of 2015, it is now administered by the Chamber of Commerce.
- The initially agreed rate can be modified only with the authorization from the client in case of: novation, refinancing, or changes in the employment status.
- The interest rate agreed for the payroll loan may not exceed the maximum interest permitted by law. Colombia has imposed a cap on interest rates charged for consumer loans, which we believe contributes to the long-term sustainability of the business. The maximum interest rate is published by the SFC and since September 2017, the calculation period of the usury rate changed from a quarterly to a monthly basis. Although the calculation formula remained unchanged at 1.5 times the average lending interest rate from

banks, the usury rate has declined almost 460 basis points since the adoption of this measure. The maximum rate valid for September 2019 was 28.98%.

Law 1902 of 2018

Among other changes, Law 1902 modified Law 1527 in the following ways:

- Generally prohibits the sale of payroll loans by entities not subject to the surveillance of the Financial Superintendence to individuals or entities not subject to the surveillance of such Superintendence, unless such sale is made to (a) trusts administered by trust companies under surveillance of the SFC or to (b) *Fondos de Inversión Colectiva*;
- Allows entities under surveillance of the SFC, *Cajas de Compensación Familiar*, pensioner associations, among others, to grant payroll loans;
- Establishes the obligation for all originators of payroll loans to have a credit risk department; and
- Sets forth that all entities that are not under the surveillance of the SFC must report to the RENEOL (*Registro Único Nacional de Operadores de Libranza*) the information regarding any purchase, sale or pledge transactions over payroll loans or the economic rights thereunder.

Decree 1348 of 2016

The regulatory decree was issued on August 22, 2016 and regulates the disclosure of information and risk management in the sale and servicing of payroll loan transactions by non-regulated entities to individuals or entities not regulated by the SFC. We only sell loans to regulated financial institutions; therefore, this decree does not apply to us.

Main highlights of the decree include:

- Disclosure to investors that there are risks involved in a payroll loan transaction.
- Default from the creditor.
- Early payment.
- The salary of the creditor may be subject to cautionary measures by other lenders.
- Change or termination of employment.
- Change in the periodicity of payments.
- Changes in labor / pension law.
- Changes in the solvency of companies.
- Disclosure of the last 3 months of Loan Portfolio Quality.
- Disclosure of: related parties, absence of conflicts of interest, procedures in the event of default, no minimum return can be guaranteed, not regulated by the SFC but by the Superintendence of Corporations, that state regulation does not in itself guarantee the solvency of a payroll loans business.
- Independent auditors hired for quarterly credit/risk analysis and reporting.

Recent Developments in the Payroll Loan Market in Colombia

In recent years there has been a great emergence of companies that intervene in the purchase and/or sale of payroll loans for retail investors. These intermediary companies, or brokers, typically buy loans originated by cooperatives, which we believe have relatively weak credit origination procedures. The brokers, in turn, sell the promissory notes associated to the payroll loans to individual investors that are not regulated by the SFC. The final investor is therefore buying an individual obligation (promissory note) as opposed to a pool of loans.

This structure has certain risks, such as:

- The cooperative and the intermediary company have no incentive to perform any risk management to the loans or the debtors because their business model is not to maintain the loan on their books but rather sell them. In most cases, the intermediary would sell the loan on a one-by-one basis as opposed to a pool of loans. They focus on generating or purchasing a great amount of loans to then sell those loans in a very short period of time to investors;
- The cooperatives have limited operational controls to identify flows of funds and to be able to confirm that the final investor received the funds promised and that correspond to the promissory note sold. While a payroll loan has limited credit risk, when sold to a chain of intermediaries, it has a high degree of operational risk; and
- The product is offered to retail investors as a secure investment, without any proper disclosure of the risks associated and/or the terms and conditions of the business.

During 2016, some of these brokers faced severe structural problems, presenting significant liquidity issues and many of them were intervened by the Superintendence of Corporations. In addition to unsustainable malpractice by these intermediary companies, the regulator in some cases also found evidence of fraud in the purchase and sale of promissory notes.

Due to the difficulties described above faced by several companies in the sector, the Colombian government issued the Decree 1348 of 2016 and Law 1902 of 2018, establishing procedures and policies regarding disclosure of information and risk management on the sale and administration of payroll loans by entities that are not regulated by the SFC to persons or to entities that are not regulated by the SFC.

While the payroll loans business is widely known to be a safe financial product on its own, showing lower delinquency levels than other credit products, it does show higher operational risks. The latest developments for these loans in Colombia are limited to a few market participants clearly identified, whose business model and practices differ widely from ours.

Our business model differs noticeably from the business model used by these intermediary companies in the payroll loan sector, principally due to:

- We originate our own loan portfolio, retain the risk and control the whole underwriting and servicing process.
- Strong data analysis and business intelligence in our portfolio has allowed us to develop proven scoring systems and reliable mathematical models that allow us to control and predict future NPLs.
- The origination, risk and credit approval processes have been reviewed since 2012 by independent third parties, such as BRC Standard & Poor's. The rating agency has highlighted in its credit reports our improvements in the systems put in place to mitigate and control operational risks; improvements in the credit origination process; strengthening of the management team; and adjustments to IT and risk management practices.
- The loans are originated by our own sales force instead of several coops with unknown origination processes and policies.

- We do not sell individual promissory notes to investors or entities that are not regulated by the SFC.
- Our funding is exclusively from international capital markets and/or entities that are regulated by the SFC in Colombia.

The main differences that set our payroll loan business apart from the business in which these intermediary companies engaged are summarized in the following table.

	Credivalores	Other Market Participants/Brokers
Corporate Structure	<ul style="list-style-type: none"> • More than 16 years in the market; • Disbursements of approximately US\$2.5 billion in loans and more than 690,400 loan customers; • Robust international investors that have a deep knowledge of the business; • Experienced management team that controls the whole business cycle; and • Commercial strategy that is focused on payroll loans financing with control of 100% of the underwriting and servicing process. 	<ul style="list-style-type: none"> • Recent entrants; • Local shareholders with no financial structure or clout; • Weaker management teams with divided responsibilities; • Commercial strategy focused on retail funding and financing; and • Objective of the business model is pure intermediation, with no control of the underwriting and servicing process.
Financial Structure	<ul style="list-style-type: none"> • Solid financial position with equity in excess of Ps.300,211 million (US\$86.7 million), as of September 30, 2019; • 100% local bank and international capital markets funding; • Multilateral funding (IFC); and • No funding from individual investors. 	<ul style="list-style-type: none"> • Weaker financial structures with little or no equity; • No access to own funds/liquidity; • Funding mainly from individual retail investors; and • Transfers risk to investors.
Credit Origination	<ul style="list-style-type: none"> • Own generation of payroll loans; • Does not purchase loans originated by third parties; • 100% exclusive sales force; and • 611 own sales representatives with a fixed pay plus a variable, performance related pay. 	<ul style="list-style-type: none"> • Purchase of payroll loans from third party originators, mainly informal cooperatives; • Sales force usually act as brokers; and, • Indirect sales force paid only on a variable (commission) basis.
Risk Management	<ul style="list-style-type: none"> • 100% of the credits are studied and approved internally; • Risk management capability developed in house: <ul style="list-style-type: none"> – Operational – Liquidity/Market, – Credit – AML 	<ul style="list-style-type: none"> • Credits approved by cooperatives with little or no processes or controls; • No formal risk management in place; • No standardized practices; and • No certified manuals or procedures.

Payroll Loans in Latin America

Payroll loans are granted to formal sector employees and social security recipients (pensioners) and repaid via automatic deduction of the borrower's paycheck, significantly mitigating willingness to pay risks. Payroll loans are used in a vast majority of retail loan products in Latin America, from personal loans in Brazil to mortgage products in Panama and Mexico. Regulatory frameworks vary by country; a keen understanding of country-specific rules is key to determine if a structured finance transaction can ultimately rely on the payroll deduction mechanism.

Typical lenders include government-sponsored agencies in Mexico, such as INFONAVIT, FOVISSSTE, and INFONACOT; middle and large financial institutions (FIs) in Brazil, such as Banco Bonsucesso S.A. and Banco Bradesco S.A.; and FIs, cooperatives, and credit unions in Argentina.

The key differences and similarities between Colombia, Mexico and Brazil are shown in the chart below:

	 Colombia	 Mexico	 Brazil
Country rating	■ BBB- / BBB / Baa2	■ BBB+ / BBB / A3	■ BB- / BB- / Ba2
Level of regulation	■ High ■ Law No.1527 of 2012 (Payroll Loans Law) and Law 1902 of 2018 ■ Max. interest rate (usury rate)	■ Low	■ Medium
Main clients	■ Government sector, Private corporations and pensioners	■ Government sector and pensioners	■ Government sector and pensioners
Origination	■ Per regulation, free access to all employers without the need of intermediaries or unions	■ Unions are relevant for the loan origination process	■ Through third parties (distributors)
Operating costs	■ Lower (no need for distributors or intermediaries)	■ Higher (distributors are required to reach the unions)	■ Commission is paid to distributors
Maximum tenor offered	■ 140 months	■ 60 months	■ 96 months
Interest rates	■ Controlled for everyone	■ Unrestricted	■ Controlled for pensioners
Limit to client's indebtedness	■ Yes, maximum 50% of the client's net wage	■ No	■ Yes
Players	■ Banks, cooperatives and non-bank originators	■ Government agencies, banks and non bank originators	■ Financial institutions, pension funds and insurance companies

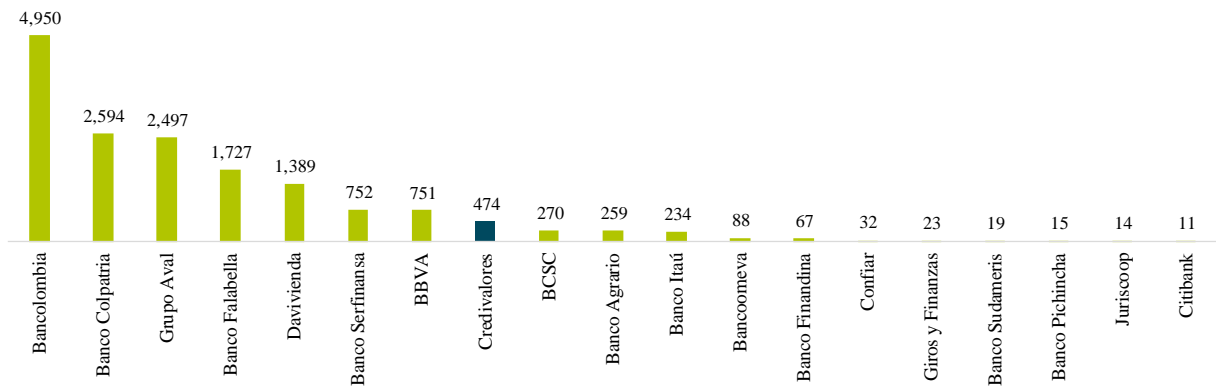
Source: Fitch Ratings

Credit Cards Sector

Main Competitors

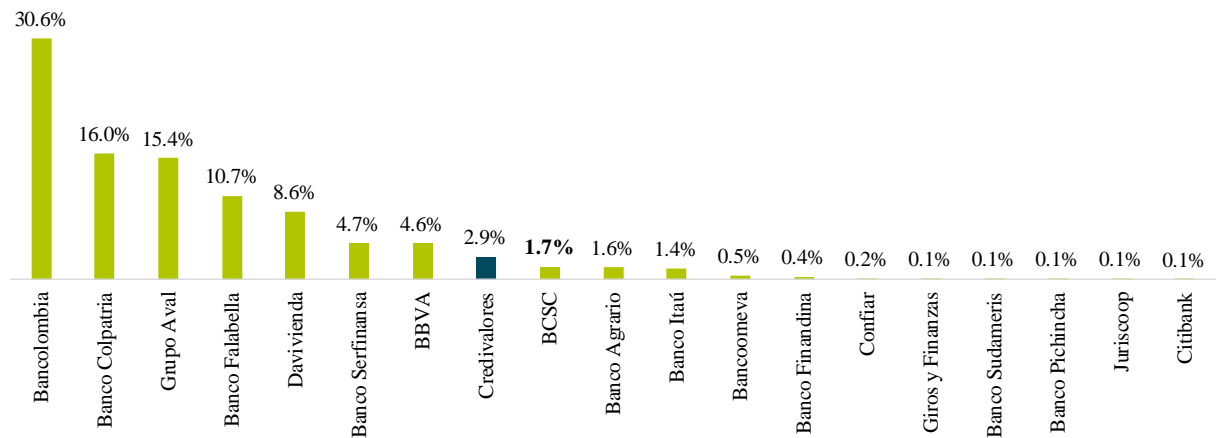
The main competitors in the credit card market in Colombia are entities in the financial industry that have their own credit card and credit cards issued by retailers.

The following chart sets forth the total of credit cards in thousands as of September 30, 2019.



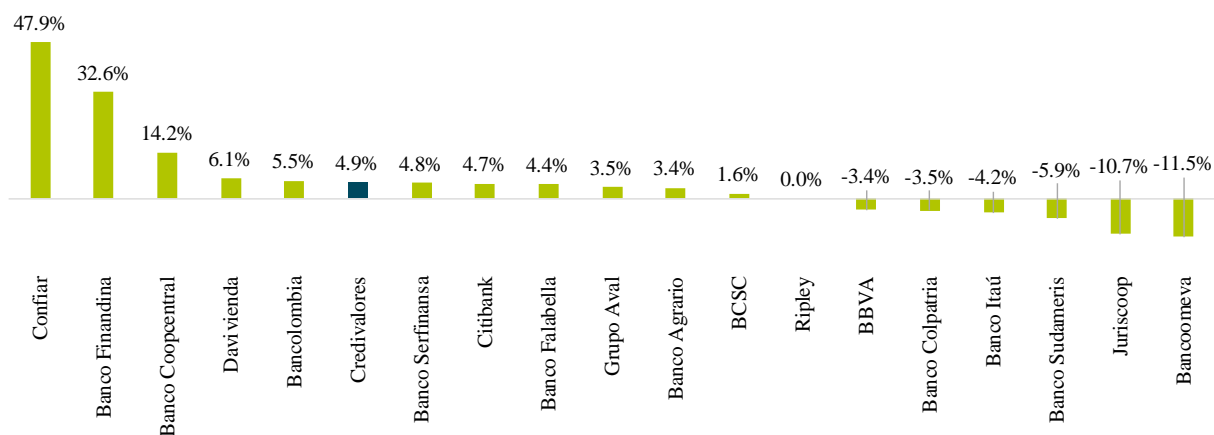
Source: SFC and Credivalores

The following chart sets forth the percentage of market share in the Colombian market of credit cards as of September 30, 2019.



Source: SFC and Credivalores

While the credit cards issuance market is dominated by Bancolombia, the largest commercial bank in Colombia with an approximate 30.0% of the market share measured by total assets, we are the largest non-bank financial institution in Colombia, with a stock of approximately 474,000 credit cards issued. This equates to an approximate of 2.9% of market share.



Comparing the same names for September 30, 2019, we report a 4.9% growth as compared to December 2018, while the remaining companies report an average of 5% growth for the same period.

Insurance Premium Financing Sector

Main Competitors

The main competitors in the insurance premium financing sector are Banco Pichincha and Finesa. Based on limited public information from Fasecolda, the national association of insurance companies, we estimate that as of September 30, 2019, we have a market share of 1.7% and 2.2% of the general insurance policies and the auto insurance policies financed in the country, respectively. According to information shared by insurance companies with us, 40% of all insurance policies are financed in Colombia.

BUSINESS

Overview

We are a leading non-bank financial institution in Colombia focused on providing under-banked segments of the population access to consumer credit and micro-insurance through loan products designed to minimize loan losses. We have a successful track record of over 16 years in consumer lending, serving low- and middle- income households. As of September 30, 2019, our managed loan portfolio was Ps.1,490,396 million (US\$430.5 million), with over 809,698 clients (which we calculate by product). We define our “managed loan portfolio” as our on-balance sheet collateralized and uncollateralized loans and off-balance sheet loans that we have originated and sold but remain under our servicing and management. In addition, as a result of our strong origination capacity, since our inception through September 30, 2019, we have generated an aggregate originated loan portfolio of Ps.8,650,714 million (US\$2.5 billion), which includes the managed loan portfolio and additional loan portfolio sales not serviced and managed by us.

We focus on consumer lending through a diversified platform comprised of three main products/lines of business:

- *Tucrédito*: payroll loans, mainly to public service employees and pensioners, which represented 61.1% of our total managed loan portfolio as of September 30, 2019;
- *Crediuno*: a branded credit card business which represented 33.9% of our total managed loan portfolio as of September 30, 2019; and
- *Credipóliza*: insurance premium financing, which represented 4.7% of our total managed loan portfolio as of September 30, 2019.

Our products have been designed with collection channels that mitigate the risk of non-payment in order to allow us to grow while maintaining healthy portfolio quality ratios.

We originate almost 100% of our loan portfolio directly and, accordingly, our growth has been almost 100% organic. We have established strategic alliances for the origination and collection of each of our loan products that give us access to a potential client base of approximately 7.5 million potential clients. For *Tucrédito*, our payroll loan product, we have operating agreements with approximately 613 employers, including public and private sector entities, that give us access to over 3.2 million potential clients. For *Crediuno*, our credit card product, we have invoicing and collections agreements with six utility companies that have an aggregate of approximately 2.6 million potential clients. We also have an agreement to provide consumer financing with TIGO, a wireless telecommunications operator in Colombia, which provides access to an additional 1.7 million potential clients, bringing our potential client base for the *Crediuno* product to approximately 4.3 million clients. For *Credipóliza*, our insurance premium financing product, we have alliances with the largest insurance companies and a network of insurance brokers in Colombia.

Our strategy of digital transformation and data analytics development, has driven the redesign and digitalization of our origination processes, allowing us to achieve greater efficiency and flexibility for our clients. It has also created a differentiated underwriting process based on a more robust data base for our scoring models on some of our products and greatly enhanced our time to market. In May 2019, we first implemented a 100% digital origination process for our credit card business through our commercial channels, increasing the number of applications submitted to the loan underwriting process from our sales representatives by 108.6% as of September 30, 2019. We equipped our sales force with tablets to facilitate the profiling of our clients at retailers and points of sale. In this way, we are able to obtain instant feasibility confirmation and we are able to collect data from our clients with georeferencing and automatic validations of information. We also implemented digital and facial biometrics for identity validation on site. In addition, in September 2019, we launched a 100% digital platform for the renewal process of selected payroll loans under a self-service model for mobile devices, which currently represent about 60% of the total renewals per month. We expect to decrease origination costs, increase salesforce efficiency and retain more clients with our digital platform, as this new channel will allow us to present new offers and financing alternatives to our current clients who have additional indebtedness capacity. In December 2019, we created the Digital Transformation department to provide a more formal structure to the implementation of our

digital transformation strategy, which we expect to cover origination for all our business lines in the near future. We hired the head of this department in January 2020. As of September 30, 2019, approximately 56% of our new loan originations were completed through digital channels.

We have extensive geographic coverage in Colombia, with an emphasis on small and mid-sized towns and cities with high growth potential and where our target market is underserved by the financial industry. We have 50 branches and 51 in-store points of sale and mobile units in Colombia. In addition, we offer the TIGO financing product in over 134 TIGO “Experience Centers.”

History and Development

Crediservicios S.A. was formed in 2003 for the primary purpose of providing payroll deduction loans. Credivalores S.A. was also formed in 2003 and its primary business activities were factoring transactions and the financing of goods, services and insurance premiums. Both companies provided their services locally in Cali, Colombia. As a result of a merger in 2008, Credivalores S.A. was fully absorbed into Crediservicios S.A. and the resulting entity changed its name to Credivalores – Crediservicios S.A.S.

Over time, the business has grown into other geographic regions throughout Colombia, including Bogotá. In 2010, the company was capitalized by two private equity funds, ACON Colombia Consumer Finance Holdings, S.L. and HSBC Capital (now Graycliff Partners), in order to strengthen its capital structure and leverage its high growth potential. In May 2014, the company received a new capital injection from Gramercy, a U.S. investment manager, and as a result Gramercy became a new shareholder. In March 2015, Gramercy completed a new capital injection, which has strengthened our equity, promoted strong growth and improved our capitalization ratios. In October 2016, Gramercy granted us a convertible loan facility in the amount of Ps.60,014 million (US\$20.4 million) due in April 2017. In March 2017, we decided to exercise our option to capitalize Ps.53,510 million (US\$15.5 million) of this facility into equity. In September 2018, Gramercy injected an additional Ps.3,023 million (US\$0.9 million) of capital into the Company, and in June 2019, the three shareholders ACON, Gramercy and Crediholding, injected a total of Ps.12,000 million (US\$ 3.5 million) of capital into the Company on a pro rata basis.

In June 2019, we completed a legal corporate transformation from a simplified stock corporation (*sociedad por acciones simplificadas*) to become a stock corporation (*sociedad anónima*) under Colombian law and changed our name to Credivalores – Crediservicios S.A. This transformation will grant us access to the domestic capital markets allowing the company to registry bonds and securities before the National Registry of Securities and Issuers from the SFC.

Our growth has been supported by a business model with more than 16 years of proven track record and success. This model is based on its niche market strategy and specialized financial products targeting the underserved low- and middle- income brackets of the Colombian population.

Our Target Market

We target consumers in social segments 1, 2 and 3 of the Colombian population, which corresponds to middle- and low-income socio-economic segments. Our target market accounts for more than 79.2% of the population of Colombia. See “Macroeconomic and Industry Overview.”

Our typical client has limited access to financing from banks and other traditional credit providers, partly because traditional credit lenders and banks find it costly to serve clients interested in only one credit product and/or clients with small financing needs. Furthermore, in some cases, the low-income population is apprehensive of going to a bank’s branch or a bank-related financial institution due to cultural reasons, such as an unfavorable perception of the financial industry among that segment of the population, and/or cumbersome and slow approval processes for opening accounts. In contrast, we rely on our sales force to approach our clients, and we are able to offer them agile and tailor-made credit solutions, compared to banks and other financial institutions. Our key parameters for credit evaluation include socio-economic and demographic information, as well as information on credit bureaus; however, the parameters vary by product. For payroll loans, we need to determine our clients’ level of indebtedness, and the main parameters we use for the credit evaluation process also include employment history, time at the current employment, type of employer and position. For credit cards, we rely on valuable information from utility and mobile phone companies regarding each client’s service usage and payment habits.

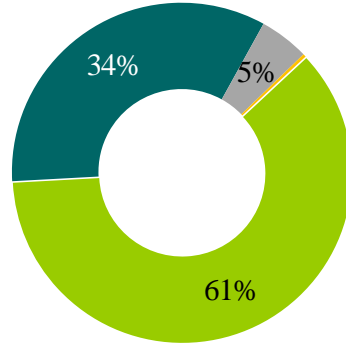
The lack of widespread access to financing alternatives has created a set of common factors among our clients that includes:

- *Good repayment habits.* There is a very limited number of financial alternatives for the target market, which results in timely repayment to avoid forfeiting the right to access the limited financing available.
- *Net worth versus cash flow.* Our clients have stable cash flows and continue to exhibit this stability over time.
- *Rate versus installment amount.* Our clients are not generally concerned about the interest rate on the loan; rather, they care about the monthly installment amount they will need to pay.
- *Urgency and need.* A loan is usually needed as soon as possible, and we have the ability to process and disburse the funds in less than 24 hours of the request, which is a key success factor. Also, traditional banks want to sell the client a suite of products, whereas the client may want just one product, a straightforward loan.
- *Brand loyalty.* In many cases, the loans we provide are the clients' first formally obtained loans and their first departure from the informal financing community.
- *Renewal of current loans.* Ability to renew a loan continuously, provided it has been current and had no past due balances over its entire term.

Products and Services

Our business model consists of offering to the low- and middle- income segments of the population and to individuals that require immediate liquidity a range of flexible, specialized and tailored credit and financing alternatives, which includes payroll deduction loans (*Tucrédito*); financing of goods and services through a branded credit card (*Crediuno*), which is collected through the client's utility bill, and insurance premium financing (*Credipóliza*). We have created origination, underwriting, monitoring and collection tools and policies in line with the risk profiles of our potential borrowers.

As of September 30, 2019, our client base is comprised of 809,698 active clients, of which 698,403 have credit products and 111,295 have insurance products distributed through our network. As of September 30, 2019, we had 75,423 payroll loan clients (*Tucrédito*), which represented Ps.910,302 million (US\$262.9 million), or 61.1% of our managed loan portfolio; 585,086 credit card clients (*Crediuno*), which represented Ps.505,120 million (US\$145.9 million), or 33.9% of our total loan portfolio; 35,605 insurance premium financing clients (*Credipóliza*), which represented Ps.70,653 million (US\$20.4 million), or 4.7% of our total loan portfolio. We also had 2,289 clients representing Ps.4,321 million (US\$1.2 million), or 0.3% of our total loan portfolio, in our microfinance (*Crediyá*) business, which we are winding down. The table below summarizes our loan portfolio by product.



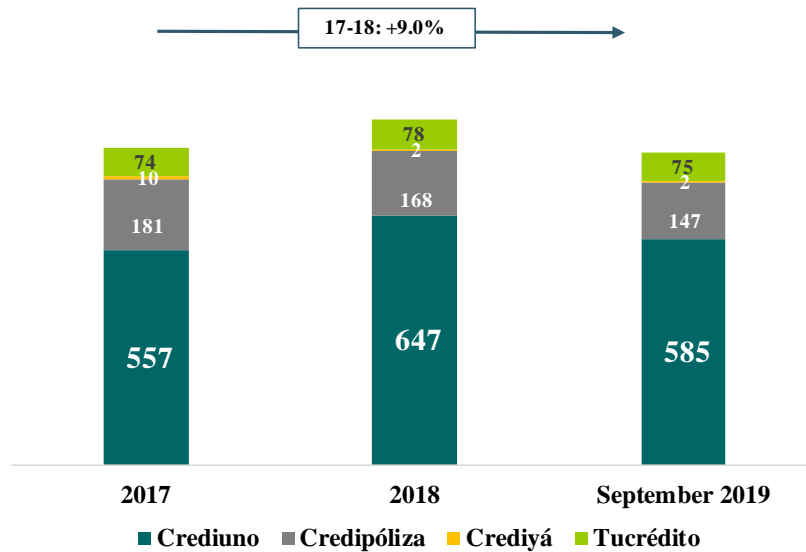
■ Tucredito ■ Crediuno ■ Credipóliza ■ Crediyá

Product	Description	Managed Loan Portfolio	% of total loans	Average Loan Size and Average Term at Origination
tucredito cv	Payroll deduction loans	Ps.910,302 million (US\$262.9 million)	61.1%	Ps. 15.9 million (US\$4,580) 111 months
crediluno	Credit cards collected through public utility bills	Ps.505,120 million (US\$145.9million)	33.9%	Ps. 2.6 million (US\$746) 18 months
credi-póliza	Insurance premium financing	Ps.70,653 million (US\$20.4 million)	4.7%	Ps. 4.9 million (US\$1,418) 9 months
credi-ya <small>La llave de tu negocio</small>	Microfinance services offered to low- and middle-income segments of the population and small and medium sized companies (“SMEs”) ⁽¹⁾	Ps.4,321 million (US\$1.1 million)	0.3%	N/A

(1)

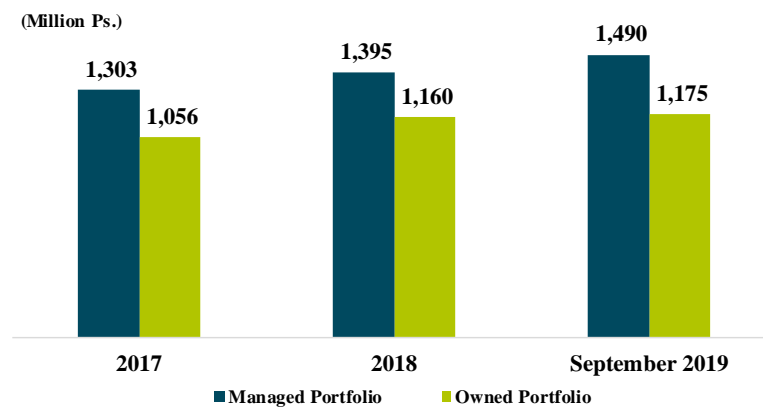
(1) We are winding down this line of business.

The evolution of our number of clients in thousands is shown below:



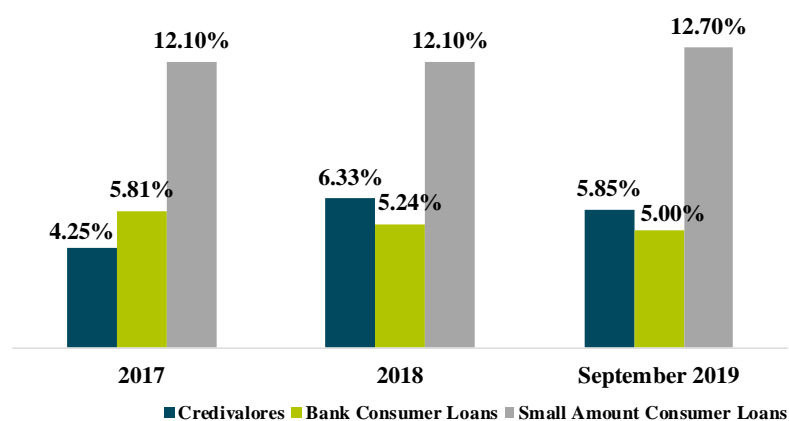
We define our “managed loan portfolio” as our on-balance sheet collateralized and uncollateralized loans and off-balance sheet loans that we have originated and sold but remain under our servicing and management. Between 2017 and 2018, the managed loan portfolio grew 7.1%. The number of clients we served (including those with insurance products offered through our network and the alliance with Metlife) for the same period of time increased 8.4%, as a result of self-imposed measures to better control NPLs in the credit card business and management decisions to operate only with certain insurance companies to control operational risks. We have achieved portfolio growth levels while maintaining healthy portfolio quality, driven in part by strong collection channels developed for each of our products.

The chart below sets forth the historical growth of our managed and owned loan portfolio:



This growth has been possible within a framework of conservative risk management. All credit products have been designed with unique collection mechanisms that prioritize secured repayments, such as direct deduction from paychecks and collection through public utility bills. This partly allowed us to show a lower NPL ratio than the rest

of the financial industry until mid-2018. In spite of the deterioration of the credit risk of our credit card portfolio during the second half of 2018, our collection channel through utility companies has proved to be effective, since it allowed us to delay the impact of deterioration in credit conditions in our credit card portfolio when the rest of the market participants were experiencing a considerable larger increase in NPLs as seen in the lower graph in 2016 and 2017. As of December 31, 2018, NPLs, defined as managed loans overdue by 60 days or more adjusted by operational nature of the business but excluding loans overdue by more than 360 days, totaled 6.33% of our total managed loan portfolio, above the industry average for consumer loans of 5.3% according to SFC but still below the 11.6% average NPLs for small amount consumer loans in the industry, which refers to similar risk profile loans as the ones we originate. Consumer loans of small amounts are defined by the Financial Superintendence as those consumer loans for up to two minimum wages (US\$478) and a maximum tenor of 36 months. As of September 30, 2019, our NPL ratio was 5.85%. This metric is used by us to make it comparable to the financial industry.



Source: SFC and Credivalores

Payments on payroll loans are collected directly from employers before any wages are paid to clients, pursuant to clients' irrevocable instructions. In addition, the majority of the portfolio is comprised of public sector employees and pensioners, who have low turnover rates and steady revenues, thus mitigating collection and non-payment risk.

Payments on credit cards are collected through public utility companies, as payments due are invoiced as part of the client's public utility bill in accordance with the exclusivity agreement signed with the utility company, which creates a sense of priority for payment over any other consumer loan. In addition to Credivalores, only one other financial institution in Colombia has been able to execute a similar exclusivity agreement with a utility company with operations in Bogotá and Cundinamarca. Our alliances with utility companies provide us with access to over 2.6 million monthly invoices from potential clients. Furthermore, the information on clients' consumption and payment history from the utility companies is a valuable tool used in our credit scoring process. In turn, the utility company receives 10% of the interest income Credivalores charges to the clients and the possibility to offer value added services to their clients.

To maintain low delinquency rates and identify growth opportunities with controlled risks, we constantly monitor our portfolio through statistical analysis and vintage analysis. Our risk department, consisting of a majority of mathematicians and statistics graduates, uses powerful data-mining techniques such as decision tree methodology to identify risk variables in our portfolio, allowing for accurate adjustments in our underwriting policies and procedures. Vintage analysis is also a tool that allows for performance comparisons between portfolio segments. Data is grouped into segments based on the origination month (a vintage), and can be formatted in a triangular fashion with vintage and age (months on books) as the two axes. In this type of analysis, a portfolio is completely deconstructed into separate vintages, which allow a clear look at all the independent parts of the macro portfolio, including the application of different credit policies and controls over time. The right-most data point for each

vintage aggregate up to the current macro portfolio. This isolates the segments to show behavioral aspects and financial performance for the individual vintages.

Breaking down a portfolio into these separate vintages can help identify trends and point to particular reasons for shifts in macro portfolio performance such as changes in the risk profile of clients or deficiencies in the policy's processes and controls. The vintage analysis allows for adjustments to the origination process on a timely manner without having to wait until complete maturity of the portfolio. Any change in the diagonal of the vintage analysis send signals of the deterioration of the maintaining processes of the portfolio, due to operations, collections or worsening of credit profiles of clients of certain economic sectors.

In addition, on an annual basis we recover 44.3% of the past due payroll loans over 90 days, 38.6% of the past due loans under the credit card product and 68.2% of the insurance premium financing product. We are able to achieve this high ratio of recoveries due to our internal collection processes and to the collection channels of our products.

Treatment of the Loan Portfolio

We originate almost 100% of our own loan portfolio through our dedicated sales force. We define our "managed loan portfolio" as our on-balance sheet collateralized and uncollateralized loans and off-balance sheet loans that we have originated and sold but remain under our servicing and management. As of September 30, 2019, our total managed loan portfolio amounted to Ps.1,490,396 million (US\$430.5 million). Our portfolio has three different products:

- *Sold portfolio.* Corresponds to loan portfolio comprised of payroll deduction loans that were originated by us and used to be sold on to financial institutions until mid-2016. This portfolio was sold based on the present value of the expected cash flows. Revenues from portfolio sales were recorded as a one-off payment from the sale of the loan. In 2018 and 2019 we started registering portfolio transfers under a funding structure we have in a mutual fund administered by BTG Pactual in the Colombian capital markets. We transfer payroll loan portfolios to this mutual fund and in turn we receive the funding to originate additional loans and an equity stake at the fund, which is subordinated to the rest of the investors in the fund. This funding structure differs from the previous portfolio sales completed before 2016 since instead of an upfront premium, we receive recurrent revenue resulting from the net margin between the interest income of the portfolio transferred and the financial cost of the funding received, and an equity return from the fund. We record the net margin and the equity return in our financial statements on a monthly basis. Portfolios transferred under the BTG Pactual mutual fund, involve a collateral amount for the deterioration of the loan portfolio of more than 90 days, which is gradually formed from the returns on the equity stake that the Company holds in the fund. We have included into our provisions the historical amount of loans repurchased. As of September 30, 2019, sold portfolio (which we continue to service and manage) amounted to (excluding sales without any recourse to the Company) Ps.234,801 million (US\$67.8 million), or 15.8% of our total managed loan portfolio.
- *Collateralized portfolio.* Corresponds to loan portfolio that is originated by us and assigned irrevocably to a free-standing trust or *fiducia (patrimonio autónomo)*, which is used for funding. We use these trusts to match portfolio types and portfolio maturity with the corresponding debt from funding sources. That is, for each loan product (payroll loans, credit cards or insurance financing) there is a separate trust with a separate financing in place, which generally matches the duration of the underlying portfolio used for the repayment of the debt. In August and September of 2017, we prepaid Ps.500,940 million (US\$144.7 million) of secured indebtedness under our free-standing trusts (*patrimonios autónomos*) with proceeds from the issuance of the 2022 Senior Notes. As of September 30, 2019, Ps.238,455 million (US\$68.9 million) of our loan portfolio was held through our free-standing trusts, but only Ps.21,020 million (US\$6.1 million) of such amount, or 1.4% of our total managed portfolio, was pledged as security in connection with our IFC credit facility.
- *Uncollateralized portfolio.* Corresponds to loan portfolio that is originated by us and is maintained on our balance sheet. As of September 30, 2019, our uncollateralized loan portfolio amounted to Ps.936,536 million (US\$270.5 million), or 62.8% of our total managed loan portfolio.

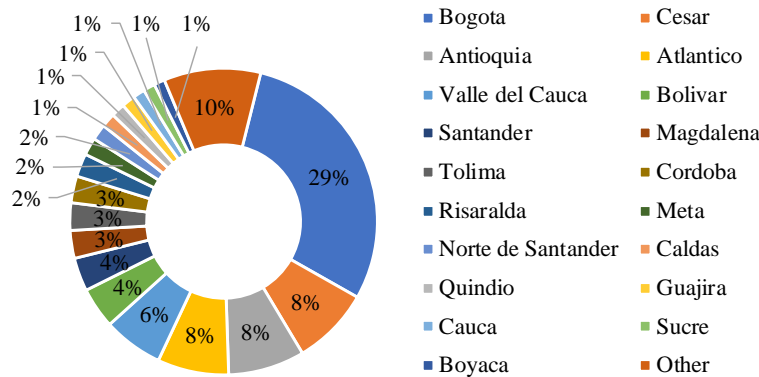
Our objective is to increase the portion of the uncollateralized portfolio that is assigned for funding.

Diversified Loan Portfolio

We believe one of our competitive strengths is the diversification of our loan portfolio. Our portfolio has limited concentration by product, geography, economic segment, amount and number of clients, as follows:

- *Products:* Three main products in the consumer finance sector with different characteristics that we believe may mitigate the risk of downturn of a particular sector.
- *Geography:* Our growth strategy is based on small and medium sized cities, with only 29.3% of the portfolio in the capital (Bogotá).

The following chart set forth our geographic diversification though out the Colombian territory as of September 30, 2019:



- *Economic segment:* Our payroll loan portfolio is focused on pensioners and government employees; nonetheless the portfolio is diversified by economic activity; of the total payroll loans: 60.6% are loans to pensioners, 14.0% to private companies, 9.7% to government related agencies, 10.3% to teachers, and 5.4% to police and military. Our credit card caters to the needs of both employees and independents with limited concentration by activity.
- *Number of clients:* We have a large number of clients with small amount per loan. The average loan, calculated as total portfolio over total number of clients is Ps.2.1 million (US\$616). Overall, our top 25 clients contribute to less than 0.56% of the total payroll loan portfolio.

Customer Demographics

Our target market is the low- and middle- income segments of the population including portions of “bottom of the socio-economic pyramid,” focused on tiers 1 to 3. This equates to approximately 36.0 million people or 79.2% of Colombia’s population.

Potential client base = 79.2% of Colombia's population

Total population as of November 2018: 45.5 million



Source: DANE and Radar CKG

We target Colombia's growing low middle class that requires greater financial inclusion and banking penetration –precisely the target market that also is the focus of Government policy.

Payroll Loans – Tucrédito

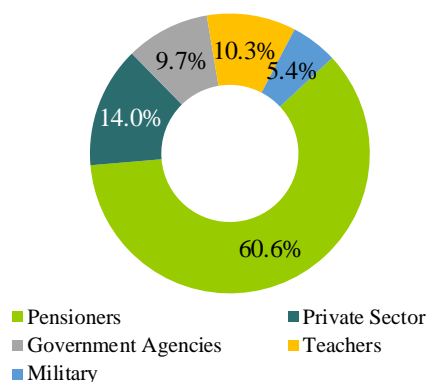
Overview

Our main product is payroll loans, which are consumer loans whose monthly repayments/installments are deducted directly from the client's paycheck by its employer, who in turn transfers it directly to us. The payroll loans segment represents approximately 36% of total consumer loans in the Colombian financial industry. Given this collection mechanism, payroll loans typically have lower default ratios than other consumer loans.

The payroll loans are secured by an irrevocable order or authorization from the clients to their respective employers or to the entity that pays their salary or other financial benefits arising from their employment. Given our target market, wages and pensions are typically the client's primary source of income.

We currently have agreements to provide payroll loans with 613 employers including a wide range of businesses and government entities, which together comprise a substantial portion of our portfolio. As of September 30, 2019, approximately 86% of our payroll deduction loan portfolio was comprised of public sector employees (teachers, government agencies and military) and pensioners, which have low turnover ratios and stable income.

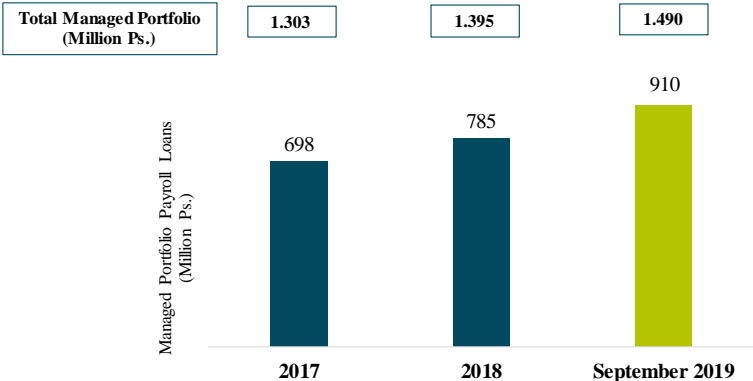
The following charts set forth the composition of our payroll loan portfolio by sector:



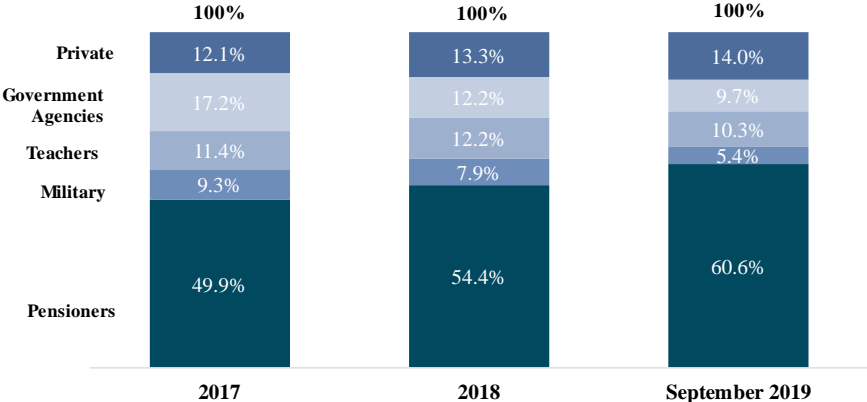
Approximately 60.6% of our *Tucrédito* payroll loans portfolio is comprised of loans to pensioners. Also, *Tucrédito* includes loans to teachers (10.3%), military and armed forces (5.4%) and other employees of the government/public sector (9.7%). The remaining 14.0% corresponds to employees of the private sector. In the case of the pensioners we serve, the majority of pensions are paid by Colpensiones, the state-owned pension administrator, and their loans, like the rest of our loan portfolio, have life insurance coverage. In the case of public sector employees, we focus on employees that have long tenure at their position (“*carrera administrativa*”), as opposed to temporary employees whose jobs may depend heavily on changes on the administration.

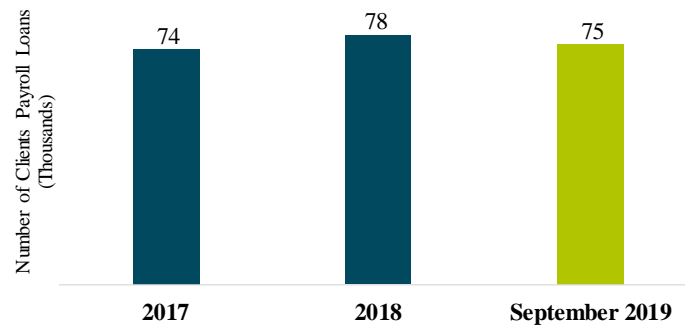
The average amount of the payroll loans is approximately Ps.16 million (US\$4,580).

The historical performance of our managed payroll loan portfolio is described in the chart below:



The historical composition of our managed payroll loan portfolio is described in the chart below:

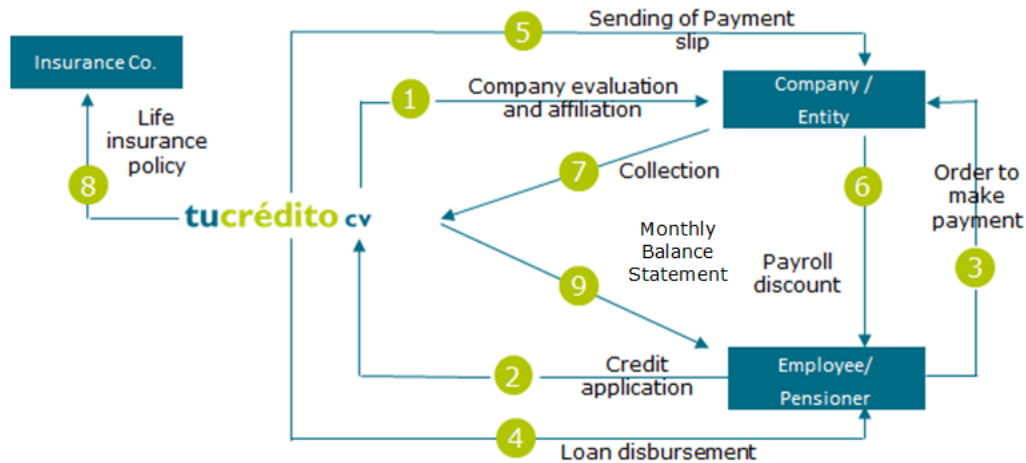




From 2017 to 2018, the total managed payroll loan portfolio grew 12.6%, while the owned payroll loan portfolio grew 22.0%. Between December 2018 and the first nine months of 2019 the total managed payroll loan portfolio increased 15.9% and the owned payroll loan portfolio grew 8.1%. Growth has been driven mostly by the increase in payroll loans to pensioners, which increased by 22.5% between 2017 and 2018 and by 29.2% between 2018 and the first nine months of 2019, improving the quality of our loan portfolio in this segment.

Structure

The structure of the payroll loan business is explained in the diagram below:



1. We sign an agreement with the employer to offer payroll loans to its employees/pensioners.
2. The employee or pensioner applies for credit with us.
3. If approved, the employee/pensioner issues an irrevocable payment instruction to his employer for deductions to be made from his monthly paycheck/pension receipt. Deductions include the monthly premium of the life insurance that covers the loan.
4. We disburse funds to the employee/pensioner.
5. We send a payment slip to the employer with the amounts due under each client's loan.
6. The employer deducts amounts due from the client's payroll.
7. The employer forwards the funds to us (through a separate trust used specifically for collection).

8. We forward the portion corresponding to the insurance premium to the insurance company.

To ensure that the employer is able to make payroll deductions accurately to repay the loans on a monthly basis, we provide them with a list of employees/pensioners who have loans outstanding electronically, showing the individual installment amounts to be deducted and the total amount to be paid to us. During our more than 16 years of operations, we have developed the know-how to operate with multiple employers in an efficient manner.

As of September 30, 2019, the average payroll deduction loan granted was Ps.15.9 million (US\$4,580). The payroll loan portfolio has life insurance coverage, to which we are the first beneficiary.

Credit Cards – Crediuno

Overview

In June 2011, we launched *Crediuno*, a branded credit card that utilizes the client's public utility bill for invoicing and collection. The product was initially launched in 2005 as a revolving personal line of credit to finance the acquisition of specific goods, such as durable goods, or to finance home improvements, and later evolved into a branded credit card. As of September 30, 2019, this product represents 33.9% of our total managed loan portfolio.

Our credit card was offered to clients in major retailers and, until the third-quarter of 2015, it could only be used for purchases at selected retailers in Colombia. In 2015, we entered into an alliance with VISA, whereby our credit card could be used at any retail merchant that accepts the VISA franchise, widening the universe of retailers in which our clients can use our credit card. We are the first non-bank financial institution to issue VISA credit cards in Colombia for the low- and middle- income segments of the population.

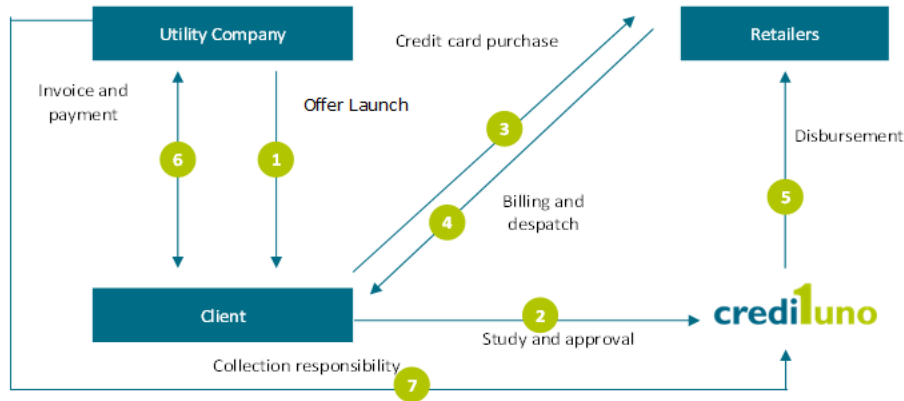
Since their origin, credit card repayments have been collected through the client's public utility bill. As of September 30, 2019, we have strategic alliances and agreements with six public utility companies in different regions for invoicing and collection of amounts due. These agreements provide access to over 2.6 million monthly invoices from potential clients. Furthermore, the information on clients' consumption and payment history from the utility companies is a valuable tool used in our credit scoring process.

In 2015, we started a new alliance with TIGO, the third largest wireless telecommunications operator in Colombia, to provide consumer financing (including financing of mobile phones for their clients) and to have repayments collected through their bill, bringing our alliances with utility companies to eight. We estimate TIGO has approximately 11.6 million clients, out of which we estimate approximately 1.7 million clients are post-paid clients that constitute our potential market.

We began offering the product to TIGO's existing postpaid clients. The information provided by the wireless operator regarding the client's payment history and habits is a unique tool that is not available to traditional banks for developing robust risk models for credit underwriting.

Structure

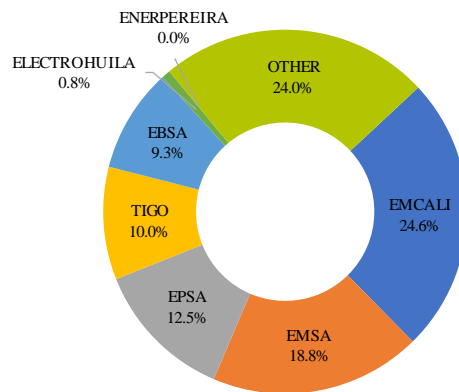
The structure of *Crediuno* credit card business is explained in the diagram below:



1. Once the alliance with the utility company is established, marketing campaigns promoting the credit card are sent via the utility invoice.
2. The client applies for a credit line with us in a major retailer through our 100% digital origination platform.
3. The client obtains credit card within a 12-minute window and purchases at retailers under the VISA franchise.
4. The retailer issues invoice.
5. We pay the retailer.
6. The public utility company or we directly invoice the client and the client pays amounts owed to us to the utility company
7. The public utility company pays us or the client pays us directly.

Alliances with utility companies

The chart below shows the *Crediuno* credit card portfolio composition by utility company as of September 30, 2019.



Below is a description of the utility companies with which we have agreements in place:

Empresas Municipales de Cali (EMCALI). Alliance since 2005. EMCALI is one of the two electricity distribution and supply utilities for the central west region of Colombia, mainly supplying electricity in the city of Cali, with approximately 680,000 customers. As of September 30, 2019, we had reached 111,918 clients from our alliance with EMCALI, representing approximately 16.5% of penetration.

Empresa de Energía del Pacífico (EPSA). Alliance since 2006. EPSA is one of the two electricity distribution and supply utilities for the central west region of Colombia, mainly supplying electricity for the Department of Valle del Cauca, with 612,000 customers. As of September 30, 2019, we had 70,740 clients from our alliance with EPSA, representing approximately 11.6% of penetration.

Electrificadora de Boyacá (EBSA). Alliance since 2007. EBSA is the electricity distribution and supply utility for the Department of Boyacá in the central east region of Colombia. EBSA has 480,000 customers. As of September 30, 2019, we had 51,783 clients from our alliance with EBSA, representing approximately 10.8% of penetration.

Empresa de Energía del Meta (EMSA). Alliance since 2012. EMSA is the electricity distribution and supply utility for the Department of Meta in the central east region of Colombia. EMSA has 327,000 customers. As of September 30, 2019, we had approximately 57,916 clients from our alliance with EMSA, representing approximately 17.7% of penetration.

Electrohuila. Alliance since 2019. Electrohuila is the electricity distribution and supply utility for the Department of Huila. Electrohuila has 353,180 customers. As of September 30, 2019, we had approximately 2,701 clients from our alliance with Electrohuila, representing approximately 0.8% of penetration.

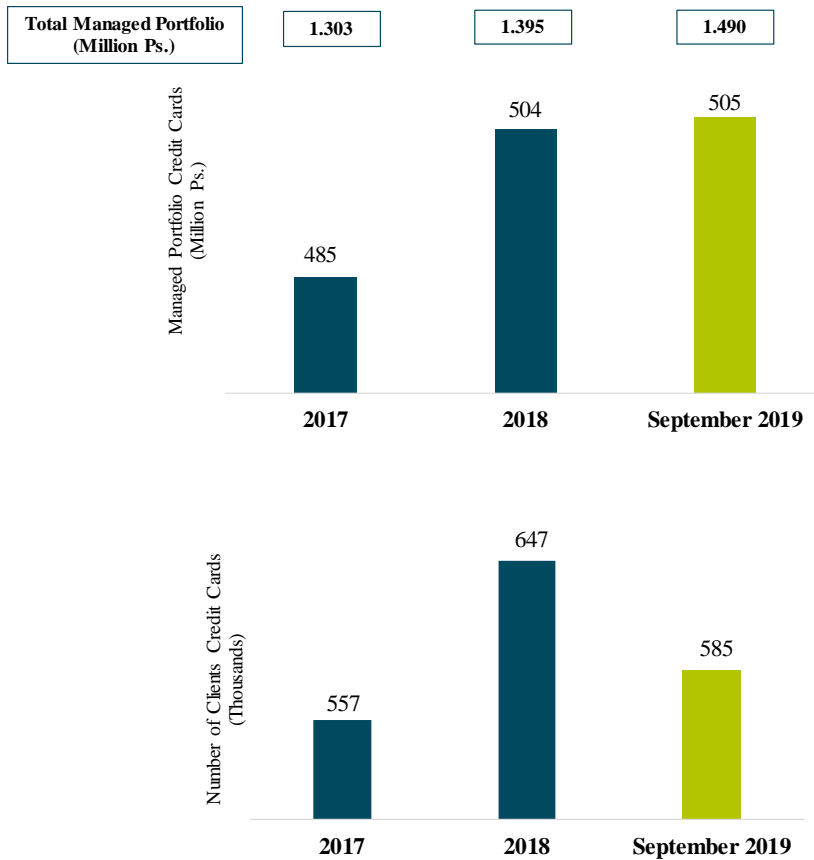
Enerpereira. Alliance since 2019. Enerpereira is the electricity distribution and supply utility for Pereira city. Enerpereira has 158,788 customers. As of September 30, 2019, we had approximately 20 clients from our alliance with Enerpereira, representing approximately 0.013% of penetration.

TIGO. In August 2015, we entered into an alliance with TIGO, a 50/50 joint venture by Millicom and local utility company UNE/EPM Telecomunicaciones. TIGO is the third largest wireless operator in Colombia, with approximately 11.6 million subscribers, an approximately 18.3% of the Colombia market share. As of September 30, 2019 we had 111,372 clients from our alliance with TIGO.

Except for TIGO, all the utility companies are monopolies in their regions, with a clear legal and regulatory framework, and engage principally in highly regulated activities with either a fixed rate of return or price cap regulation regime.

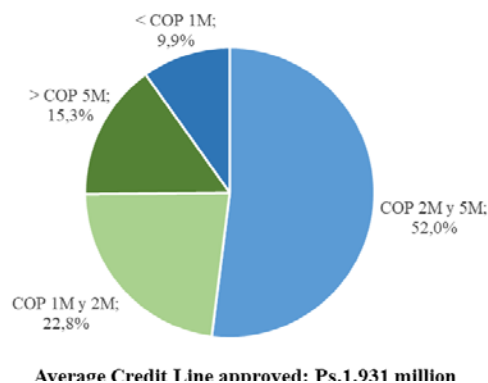
Usually, an end user that does not pay the full amount of his or her utility bill can be disconnected from the public service; therefore, users tend to prioritize payments to their utility company. Nonetheless, clients have the right to ask for the invoice to be split between the amounts owed to us and to the utility. This process must be done every month in a customer service center from the utility company, where we regularly maintain representatives to serve our clients and, if needed, negotiate with them any terms for payment.

The charts below show the evolution of the credit cards loan portfolio in terms of millions of Colombian pesos and the number of credit cards issued.



From 2018 to September, 2019, the credit cards managed loan portfolio grew 0.3%. In the same period in terms of number of credit cards issued by Credivalores grew 4.9% approximately.

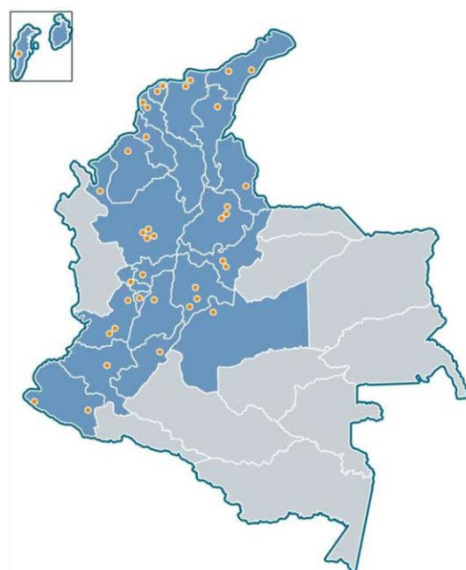
The following chart sets forth the concentrations in our credit card business by credit limit:



In terms of the credit limit, the above chart shows that the average credit line approved by us is approximately Ps.1.9 million (US\$549) as of September 30, 2019. The average amount outstanding under our credit cards is approximately Ps.1.7 million (US\$491) as of September 30, 2019.

TIGO alliance

We have established an alliance with TIGO, the Colombian subsidiary of international wireless operator Millicom, to provide consumer financing, including financing the purchase of handsets for its subscribers. The product was launched in August 2015 to existing TIGO clients that were under a post-paid contract. Currently, the financing is offered to both clients under postpaid and prepaid contracts that meet certain criteria determined by us. TIGO is the third largest wireless operator in Colombia with a nationwide footprint. As of September 30, 2019, we estimate TIGO had approximately 11.6 million subscribers in the country, and has presence across 24 Departments of Colombia, in 37 cities, with its approximately 134 “TIGO Experience Centers.” The TIGO footprint is shown in the chart below:



The “Experience Centers” are generally located in shopping malls or main avenues, which guarantees high volumes of traffic and important presence in the main cities of Colombia. Our financing is offered directly by the TIGO employees, while all the credit approval process is done by us.

The potential for this product is significant; as mentioned, TIGO has approximately 76 million subscribers nationwide. According to TIGO, handsets have a replacement cycle of approximately 18 months. We focus on the postpaid client with good payment history, which amount to approximately 1.7 million clients.

As of December 31, 2017, the outstanding loan balance for our alliance with TIGO amounted to Ps.64.194 million (US\$ 18.5 million), among 114,842 clients, showing a 4.2% growth compared to December 31, 2016. Material devaluation of the local currency against the US\$ could affect our growth projections in this product because handset costs are highly and directly correlated with the price of the US\$, and therefore demand and financing of the product could decline. As of December 31, 2018, the outstanding loan balance under the TIGO alliance was Ps.61,864 million (US\$17.9 million), among 123,747 clients, a 3.6% decrease compared to December 31, 2017.

The loan origination under the TIGO alliance underwent significant changes during the third quarter of 2019. The project comprised the implementation of the 100% digital origination process at the points of sale of TIGO at a national level, processing about 40,000 applications per month and improving the average approval time of the loan to less than 12 minutes. We equipped our sales force with tablets to facilitate the profiling of our clients at the TIGO points of sale. In this way, we are able to obtain instant feasibility confirmation and we are able to collect data from our clients with georeferencing and automatic validations of information. We also implemented digital and facial biometrics for identity validation on site.

We also have entered into agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under the TIGO Agreement. This app will allow us to send notifications of payment dates, deadlines and eventually block the cell phone if the payment is past due.

On a consolidated basis, the potential TIGO clients and the potential utility companies' clients (2.6 million) result in a total client base of approximately 4.3 million for the *Crediuno* credit card business.

Insurance Premium Financing – Credipóliza

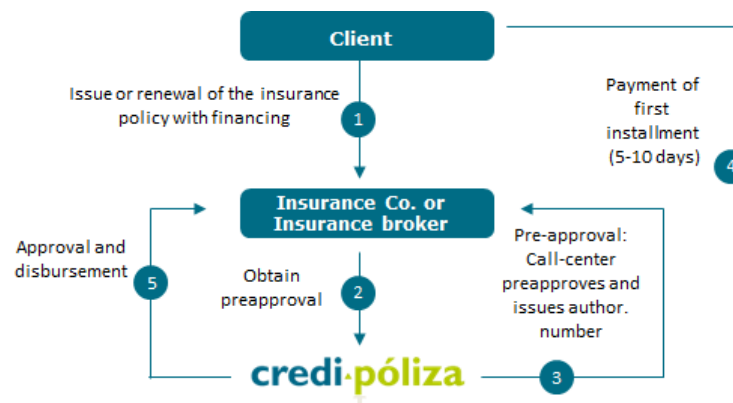
Overview

We provide insurance premium financing in monthly installments to individuals and companies for insurance policies through a flexible scheme, where the insurance company receives 100% payment of the policy upfront and the client defers the payment for up to 11 installments. As of September 30, 2019, *Credipóliza* represented 4.7% of the total managed loan portfolio.

In the event that payments of the insurance policy become more than 30 days overdue, the insurance company revokes it, as per an irrevocable mandate granted to us at closing of the financing by the client and reimburses us for the period of insurance coverage that was not utilized by the client. As of September 30, 2019, we had agreements with some of the largest and most well-known insurance companies as Mapfre, Chubb, HDI, La Previsora, Zurich, Berkley, Solidaria, BBVA, Mundial de Seguros, SBS and Seguros del Estado and brokers as Delima Marsh and Correcol. In 2020, we expect to sign an agreement with Allianz, one of the largest insurance companies in Colombia. Beginning in 2016, our strategy included strengthening our relationship with brokers and insurance agencies, which has resulted in higher disbursements of the product.

Structure

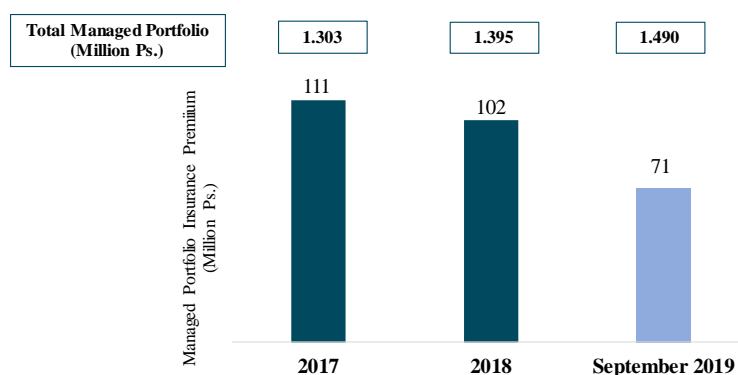
The structure of *Credipóliza* business is explained in the diagram below:



1. The client purchases or renews an insurance policy with financing.
2. The client applies for a credit line with us through the insurance company or insurance broker.
3. We pre-approve the financing through our call center, which issues an authorization number.
4. The client pays the first installment within 5 to 10 days of the authorization date.
5. We make final approval and disburse payment to the insurance company.

Key Data

The chart below shows the evolution of the insurance premium financing portfolio in terms of millions of Colombian pesos.



The average amount of the insurance premium financing is approximately Ps.4.9 million (US\$1,418), with an average duration of 9 months. In the nine months ended September 30, 2019 the average interest rate charged for this product has been 27.0%.

We have a clearly defined strategy to increase the loyalty of the insurance brokerage firms through greater incentives and productivity.

Microfinance for SMEs – Crediyá

Overview

We previously provided microfinance loans to individuals and small business owners looking for working capital to expand their business or to purchase fixed assets. In 2012, we acquired an interest in Microfinanzas & Desarrollo S.A.S., an experienced microfinance lender that started operations in Cali. We increased our ownership percentage to 61.8% and in April 2015 their portfolio became one of our products.

During the first quarter of 2016, we decided to wind down the line of business relating to microfinance for SMEs and sell the majority of our portfolio to local entities, in order to focus on the three products where we had better expertise. As of September 30, 2019, our microfinance loan portfolio amounted to Ps.4,321 million (US\$1.2 million). Microfinanzas & Desarrollo S.A.S. was dissolved on May 10, 2017.

Insurance Products Sold through our Network

We have established alliances with insurance companies and brokers to offer insurance products to our clients through our network.

Our risk policies require that all payroll loans and credit cards we grant to clients have life insurance for the beneficiary of the loan to cover the amount of the loan granted in case of death. The insurance is offered to our clients by our own sales force during the credit application process. Even though our clients have the right to choose their own insurance providers, in most cases they prefer to buy the insurance offered through our network.

In addition to life insurance, our sales teams at the origination stage offer clients a portfolio of additional voluntary insurance policies (*i.e.*, accident and health, burial, dental, etc.) through our network. Approximately 68% of our clients accept additional coverage due to the competitive pricing we offer for the premiums of these policies and the convenient payment method we offer, whereby insurance costs are included in the loan installments.

We reach clients of public utility companies through our large sales force with a door-to-door strategy, offering a similar portfolio of voluntary insurance coverage. Our sales force makes around 51,601 visits per month and achieves a high efficiency ratio due to our diverse portfolio of products as well our convenient and affordable payment method and small monthly charges, with an average cost of base coverage at around US\$4 per month, which is added to the client's public utility bill. These insurance products are offered through alliances with large insurance companies. These alliances not only provide us with a lucrative marketing channel, but also a valuable opportunity to collect relevant data that can be used to pre-approve financial products for potential clients.

The insurance products were offered through our alliances with Chubb, Mapfre, Sura and IGS Assists started back in 2009 and, since February 2019, life insurance is offered through our alliance with Solidaria, a leading provider of life insurance in Colombia. Additionally, since January 2017, we formed an alliance, and extended into a collaboration agreement with the Colombian subsidiary of the multinational insurance company Metlife, which granted Metlife the exclusive right to act as our sole supplier of voluntary insurance products, which to date has 49,935 active policies.

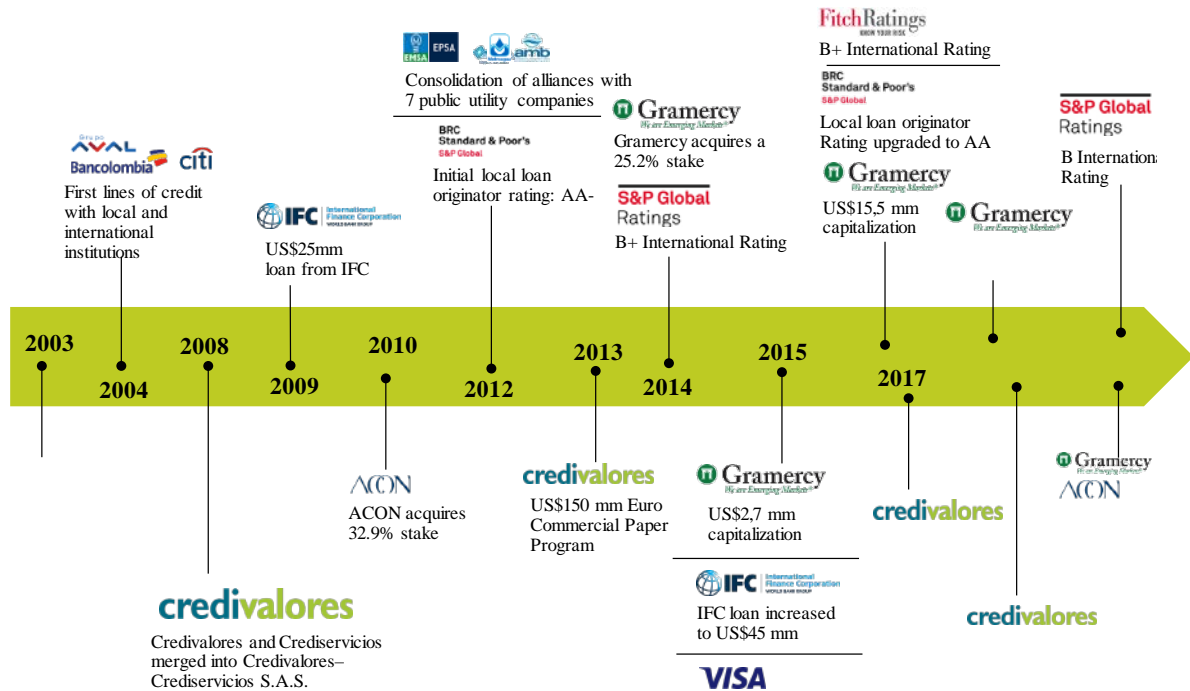
Funding

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, multilateral financing from the International Finance Corporation ("IFC"), our euro commercial paper program ("ECP Program") and the issuance of an aggregate of US\$325 million of 9.750% Senior Notes due 2022 in 2017 and 2018 (the "2022 Senior Notes"). We have relationships with seven local financial institutions, and we have strengthened our relationship with the IFC through an upsize of our credit facility in 2015.

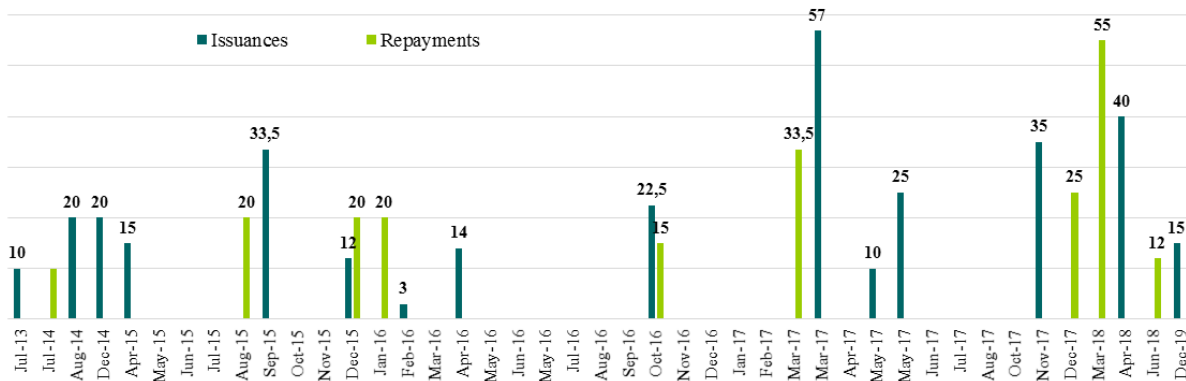
As of September 30, 2019, we had uncollateralized bank credit lines for working capital needs with five banks, amounting to Ps.143,895 million (US\$41.6 million), of which Ps.116,612 million (US\$33.7 million) were used and Ps.27,283 million (US\$7.9 million) were available to use within the next 18 months. We also had lines of credit for collateralized transactions and portfolio sales in the amount of Ps.523,000 million (US\$151.1 million), of which Ps.444,410 million (US\$128.40 million), corresponding to a local syndicated loan for Ps.209,609 million (US\$60.5 million) and a mutual fund with BTG Pactual for Ps.234,801 million (US\$67.8 million) were used as of September 30, 2019.

We have also entered into credit transactions with international financial institutions and development banks. Also, we accessed international capital markets through issuances under our ECP Program with a maximum amount of US\$150 million, of which US\$75 million was outstanding as of September 30, 2019. We also issued US\$250 million of our 2022 Senior Notes in July 2017 and an additional US\$75 million of our 2022 Senior Notes in February 2018. Our 2022 Senior Notes are subject to the concurrent Tender Offer. See "Summary – Concurrent Tender Offer and Consent Solicitation."

The following chart sets forth the evolution of our founding sources:



The following chart sets forth the evolution of our issuances under the ECP Program as of the date of this offering memorandum:



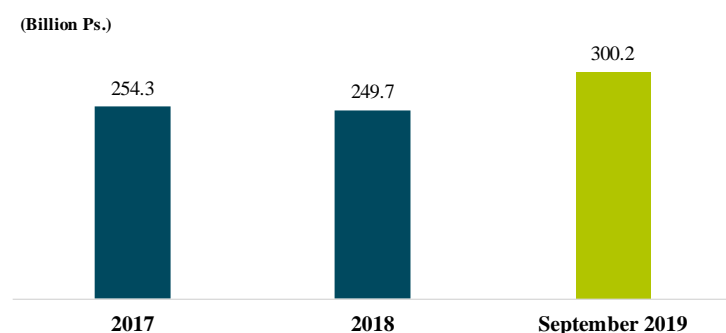
Capitalization by Shareholders

We have a strong capital structure hinged on our shareholders' commitment. In 2010, we received a Ps.28,993 million (US\$8.4 million) equity injections from ACON Colombia Consumer Finance Holdings, S.L. In 2011, our shareholders at the time injected an additional Ps.19,480 million (US\$5.6 million). More recently, in May 2014, we received a Ps.42,841 million (US\$12.4 million) capital injection from Gramercy Funds Management LLC. In connection with the 2014 capitalization, we entered into an option agreement with certain of our shareholders to receive a new capital infusion for up to Ps.9,300 million (US\$2.7 million). In March 2015, the option was exercised and we received a new equity injection of Ps.9,300 million. Furthermore, in October 2016 Gramercy granted us a

convertible loan facility in the amount of Ps.60,014 million (US\$17.3 million) due in April 2017. In March 2017, we decided to exercise our option to capitalize Ps.53,510 million (US\$15.5 million) of this facility into equity. The capitalization was recorded in our financial statements as of April 30, 2017. In August 2017, this loan was fully repaid. In September 2018, Gramercy injected an additional Ps.3,023 million (US\$0.9 million) of capital into the Company and in June 2019 the three shareholders ACON, Gramercy and Crediholding injected a total of Ps.12,000 million (US\$3.5 million) of capital into the Company on a pro rata basis. Following these capital injections, as of September 30, 2019, our shareholders' equity was Ps.300,211 million (US\$86.7 million).

In the past six years, we have not distributed dividends to our shareholders, allowing us to strengthen our balance sheet, which serves as proof of our shareholders' commitment and belief in the business model.

The following chart sets forth the evolution of our shareholders' equity:



Sales and Transfers of Originated Portfolio

In order to fund growth, we may sell a portion of our originated payroll loan portfolio. Our entire portfolio sales are made to entities supervised by the SFC and not to individuals (retail). Purchasers of loans have included: Banco GNB, Banco Agrario and Credifinanciera, among others. Furthermore, we have an alliance with BTG Pactual, a brokerage firm, under which we transfer our loan portfolio or its future flows to one of BTG's mutual funds.

Our portfolio sales and transfers may include recourse to the Company for those loans overdue. We estimate the probability of repurchasing those loans and include a provision into the calculation of its impairment.

From an accounting perspective, this is registered in the financial statements as the derecognizing of assets due to sales or transfers of the loan portfolio. A financial asset (or, if applicable, a portion of a financial asset or group of similar financial assets) is derecognized when:

- the contractual rights to the cash flows produced by the financial asset expire;
- the contractual rights to the cash flows from the asset are transferred or an obligation is incurred to pay a third party all of these cash flows without significant delay, by means of a transfer agreement;
- a substantial portion of the risks and benefits of owning the financial asset are transferred; and,
- a substantial portion of all the risks and benefit of owning the asset is retained, but control over such has been transferred.

Based on the business and the variables established by IFRS for recording derecognized assets, upon a sale of loans from our portfolio, a substantial portion of all risks inherent to the financial asset in question is transferred to the purchaser. Therefore, loans sold are not included into the loan portfolio accounts in the financial statements.

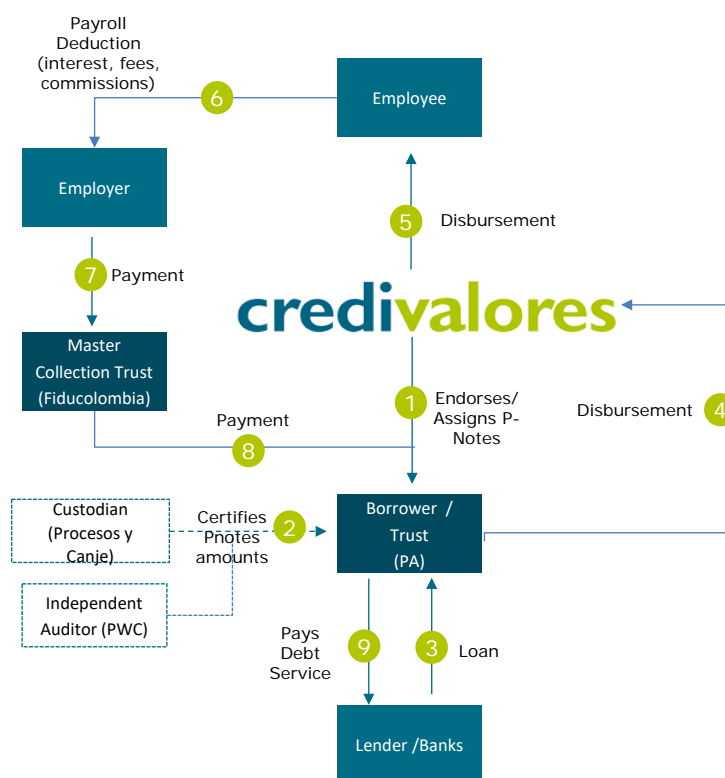
As of December 31, 2017 and 2018, our sold but managed portfolio (principal only) was Ps.246,778 million (US\$71.3 million) and Ps.235,257 million (US\$68.0 million), respectively, and as of September 30, 2019, our sold but managed portfolio (principal only) was Ps.315,406 million (US\$91.1 million).

Collateralized Funding – Patrimonios Autónomos

As of September 30, 2019, our owned loan portfolio amounted to Ps.1,174,991 million (US\$339.4 million), of which Ps.238,455 million (US\$68.9 million) was held through our free-standing trusts (*patrimonios autónomos*), but only Ps.21,020 (US\$6.1 million) of such amount was pledged as security in connection with our IFC credit facility. We use collateralized funding structures through free-standing trusts (*patrimonios autónomos*) to support our growth. These structures allowed us to access financing from financial institutions with tenors longer than on a stand-alone basis, while minimizing any maturity gap between the financing and the underlying asset. Today, the collateralized funding is granted via syndicated loans with local financial institutions, which given our structure track record, have decreased their collateral requirements.

Structure

The structure of our free-standing trusts is explained in the diagram below:



1. We endorse/assign the loan portfolio promissory notes (P-Notes in the chart above) to the Borrower/Trust (“*endoso en propiedad a un Patrimonio Autónomo – PA en Garantía*”)
2. The independent custodian and auditor certify the P-Notes and its amounts that will secure the loan.
3. Upon receiving certification of conditions precedent being met, the financial institutions disburse the loan granted to the Borrower/Trust.
4. Borrower/Trust reimburses us.
5. We disburse the loan to the client.

6. Employer or pension funds applies the payroll deduction, including interest, fees and commissions.
7. Master Collection Trust collects interest, fees and commissions from the loan portfolio wired directly by the employers: isolation of the source of payment from us and additional flow of funds into the Borrower/Trust.
8. Master Collection Trust with irrevocable instruction to transfer to the Borrower/Trust all amounts collected from P-Notes endorsed to the Borrower Trust.
9. Borrower/ Trust pays all amounts collected from P-Notes to the lender/banks.

Financing through trusts is a very commonly used structure in Colombia across public and public/private initiatives, financial sector and private companies. We, like many of our competitors, have been raising funds through trusts since our inception. These are irrevocable trusts that are contractual in nature and are not separate legal entities from the grantor. Trusts are established by a grantor (*i.e.*, Credivalores) and agreed to by a trustee (*fiduciario*) who is bound to undertake a specific purpose for the benefit of a beneficiary (*i.e.*, financing institutions). *Fiduciarias* are financial services companies regulated by the local regulator, the SFC.

Under this structure, we become the grantor and constitute the trust with either cash or a loan portfolio. The promissory notes that comprise the loan portfolio are endorsed to the trust, which in turn borrows funds from financial institutions, using the portfolio as collateral. One of our objectives is that the duration of the loan matches the average duration of the loan portfolio.

We guarantee the obligations of the trusts and continue managing the loan portfolio throughout the life of the loans. Additionally, we are entitled to excess funds or assets owned by the trusts after the agreed collateral level has been met.

As of September 30, 2019, we had two free-standing trusts with available credit lines, including Ps.22,329 million (US\$6.4 million) of secured indebtedness under our loan facility with the IFC and Ps.209,609 million (US\$60.5 million) of secured indebtedness under our syndicated facility for payroll loan origination with four local financial institutions. Summary terms and conditions are shown in the table below.

Lender	Currency	Amount – credit line	Term	Interest rate	Product
4 Local banks – Syndicated loan	COP	223,000 million	60 months	DTF + 5.50% IBR + 5.50%	<i>Tucrédito</i>
IFC I	COP synth	45,000 million	48 months	L + 5.50%	<i>Tucrédito</i>
IFC II	COP synth	62,500 million	48 months	L + 5.90%	<i>Tucrédito</i>

In addition, we use two master trusts for collection of funds, one for *Tucrédito* and another one for *Crediuno* (*i.e.*, in the case of *Tucrédito*, all employers wire transfer the amounts deducted via payroll loans from clients to one specific trust (collection master trust), that in turn wire transfer the funds that corresponds to the security of the financial obligation to each trust).

Uncollateralized Funding – Credit Lines

Since inception, we have had access to unsecured funding with local banks. As of September 30, 2019, we had uncollateralized bank credit lines for working capital needs with five banks, amounting to Ps.143,895 million (US\$41.6 million), of which Ps.116,612 million (US\$33.7 million) were used and Ps.27,283 million (US\$7.9 million) were available to use within the next 18 months, including a Ps.30,000 million (US\$8.7 million) committed credit line with one financial institution. In addition, we have up to US\$150.0 million under our ECP Program, of which US\$75 million were outstanding as of September 30, 2019. Moreover, we have accessed international capital markets through the issuance of the 2022 Senior Notes in July 2017 and February 2018 for an aggregate amount of US\$325 million.

The credit lines have been renewed and rolled over multiple times, as can be seen in the table below:

Lender	Currency	Amount – Credit Line	Term	Available since
Bank 1	COP	20,000 million	18 months	2014
Bank 2	COP	10,000 million	6 months	2013
Bank 3	COP	37,295 million	12 months	2010
Bank 4	COP	16,000 million	24 months	2018
Bank 5	COP	60,600 million	12 months	2018
Notes – ECP Program	US\$	150 million	36 months	2013

Interest rates in our banking credit lines in Colombian pesos range from IBR + 4.3% to DTF+ 6.95%. Issuances under our ECP Program have average coupons of 8.25%.

Hedging of Debt in Foreign Currency

We are exposed to FX risk, mainly because of our ECP Program and the 2022 Senior Notes denominated in US dollars. After the issuance of the 2022 Senior Notes in July 2017, we put in place a new hedging policy in line with IFRS 9, which was approved by our Board of Directors in December 2017. The following are the main considerations of the hedging policy currently in place:

- As long as the functional currency of the Company is the Colombian peso, the management must implement a total hedging strategy (principal and interest) for foreign currency denominated assets and liabilities in a timely manner after acquiring those rights or obligations.
- The limitations to execute the hedging operations should be related only to market depth and availability of counterparties. The Board of Directors approves all counterparties for hedging transactions.
- The policy considers the following instruments to mitigate FX risk: natural hedging, commercial operations, operations with financial derivatives of the same economic nature and treasury operations.
- The company can manage the exposure to FX risk through temporary transactions (e.g. forwards) in the short-term while more complex transactions are structured for the long-term. Once the long-term solutions are executed, the temporary transactions should be liquidated.
- All hedging transactions must be registered at execution and they should be treated preferable under hedging accounting principles following applicable accounting principles, which results in a mitigation of the impact of foreign currency volatility in our income statement, since hedge accounting allows us to offset the exchange rate differences from financial obligations denominated in foreign currency with valuation of hedging instruments in the foreign currency component within the income statement. The objective of hedge accounting is to represent, in the financial statements, the effect of risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss or other comprehensive income (OCI). Hedge accounting is a technique that modifies the normal basis for recognizing gains and losses (or revenues and expenses) on associated hedging instruments and hedged items, so that both are recognized in profit or loss (or OCI) in the same accounting period. This is a matching concept that eliminates or reduces the volatility in the statement of comprehensive income that otherwise would arise if the hedged item and the hedging instrument were accounted for separately under IFRS. The valuation of hedging instruments due to interest rates is registered under the other comprehensive income account in the shareholders' equity.

We used a cross-currency swap to hedge the foreign currency risk on the principal and interest payments of the US\$250 million of the 2022 Senior Notes issued in July 2017. The cross-currency swap allowed us to hedge the foreign exchange risk on the 2022 Senior Notes and to convert the fixed interest rate in U.S. dollars to a floating interest rate in pesos. We used a coupon only swap and a call spread, which corresponds to a combination of positions on options to hedge payments of interest and principal of the US\$ 75 million of the 2022 Senior Notes issued in a reopening 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, the 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.

We intend to hedge the foreign currency exposure related to the notes offered hereby, in line with our hedging policy.

As of September 30, 2019, US\$75 million was outstanding under the ECP Program, of which 100% of the principal was hedged until the maturity date of the obligation with NDFs provided by local financial institutions. We do not need to post collateral or margin for the hedge position in place.

Since 2016, we implemented hedge accounting aiming to reduce volatility into the income statement.

Funding Cost Evolution

We carefully monitor the cost of funds from our various funding sources. We order and access each batch of funding on a least cost basis. The evolution of the cost of funding has increased due to the increase in the DTF, the weekly deposit rate. This increase has been partly offset by a lower spread charged by the local banks. The chart below sets out our effective average interest rate, including working capital and capital markets notes as of the dates shown:

<u>Date</u>	<u>Effective Average Interest Rate</u>
December 31, 2016	13.39%
December 31, 2017	13.0%
December 31, 2018	11.8%
September 30, 2019	11.9%

The evolution of the DTF is shown below:

	<u>DTF Rate</u>			<u>End of Period</u>
	<u>High</u>	<u>Low</u>	<u>Average</u>	
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	7.12%	5.31%	6.10%	5.21%
2018	5.29%	4.35%	4.72%	4.54%
2019 (January- September)	4.64%	4.40%	4.51%	4.51%

Distribution Network

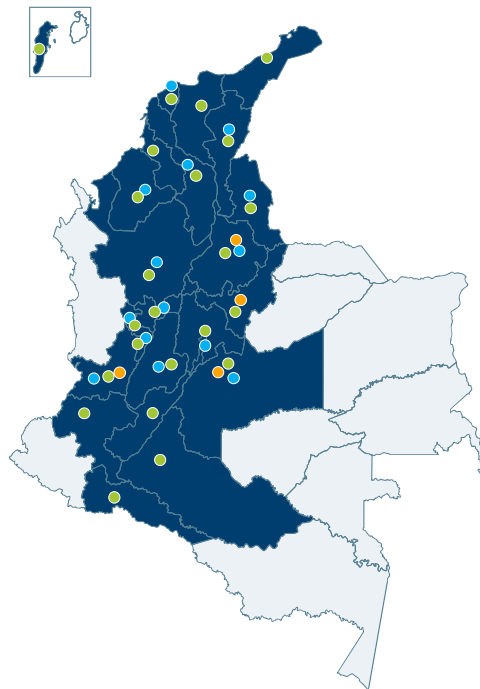
We operate in 34 cities and towns in Colombia, located in 23 of Colombia's 32 provinces (*departamentos*) that corresponds to 97.7% of Colombia's population and 99.2% of its GDP. We focus on small and intermediate cities, which we believe are underserved by the financial industry and have significant growth potential. We serve our target market through:

- *Business advisors.* We use more than 611 commercial agents who continuously visit business associates, employer companies and clients.
- *Points of sale.* 51 points of sale located inside major retail stores in medium and intermediate cities in the regions where we have agreements with the public utility companies. Our credit cards are offered and

issued at 51 points of sale of our allied retailers across 20 cities all over Colombia. The TIGO product is offered in 134 TIGO Experience Centers nationwide.

- *Mobile units.* Vehicles offering financing products, which are fully equipped and connected to our central system, with capabilities to approve credit immediately.
- *Main customer service offices.* 50 business offices in 34 cities and towns throughout Colombia managing approximately 613 operating agreements with employers.
- *External sale force.* We also offer our products through an external sales force of more than 1,016 business advisors.

The chart below sets forth our geographic coverage.



We have established strategic alliances for each of our products that give us access to a client base of approximately 7.5 million people. For *Tucrédito*, our payroll loan product, we have operating agreements with 613 employers, including public and private companies that give us access to 3.2 million potential clients. For *Crediuno*, our credit card product, we have invoicing and collections agreements with six utility companies that have an aggregate of 2.6 million potential clients. We have also entered into an agreement with TIGO a wireless telecommunications operator, with which we expect to gain access to an additional 1.7 million potential clients, bringing our client base for the *Crediuno* product to approximately 4.3 million potential clients. For *Credipóliza*, the insurance premium financing product, we have alliances with the most important insurance companies and a network of brokers in Colombia.

Additionally, we use a dedicated sales force of over 611 representatives throughout Colombia, which we believe gives us control over the origination process and practices and allows us to maintain the quality of our loan portfolio. Most of the sales force is hired through an exclusive agreement with a provider and all receive a fixed salary plus bonus based on commission. In addition to our own sales force, we have agreements with more than

1,016 business advisors, in addition to TIGO employees who offer our product in their points of sale or “experience centers.”

Our distribution network and sales force is a key driver of our revenues. Each of our products has a dedicated sales force as follows:

- *Tucrédito*. Internal sales force: 338; external: 360. We have one of the largest sales forces dedicated exclusively to the origination of payroll deduction loans in Colombia. In addition, we have established operating agreements with 613 employers to offer payroll loans to their employees. As of September 30, 2019, the largest employer by loan amount outstanding is *Colpensiones*, the government-owned pension administrator, which corresponds to 40.5% of the managed payroll loan portfolio, while the remaining is highly diversified, placed among 613 agreements.
- *Crediuno*. Internal sales force: 243; external: 120. We have our own sales force that offers the credit card in major retailers like Homecenter, Exito, Jumbo, Único, and La 14, in medium-sized towns and cities and eight exclusive agreements with utility companies for invoicing and collection; in addition, the TIGO product is offered directly by the TIGO employees in over 134 TIGO Experience Centers.
- *Credipóliza*. Internal sales force: 30; external: 536. Our sales force leverages from the network of insurance brokers (insurance company sales force) for the sale of this product. Furthermore, we have agreements with the most important insurance companies in Colombia.

Information Technology

We use information technology systems used by the financial industry but tailored to the specific needs of our products and target market. Main systems include a loan originator for *Credipóliza* and *Tucrédito*, a loan originator specific for credit cards, software for loan administration, customer service software, ERP software for financial, accounting and management control, and a call center for client management and a call center for client management (inbound and outbound). These systems allow us to effectively manage and serve a large number of loan applications and track the performance of our portfolio.

We use two main loan originators, one for payroll loans and *Credipóliza* and a second one specifically for the credit card business. These are the same systems used by several other larger financial institutions and are supported by state-of-the-art technology easily adaptable to the requirements of our products and target markets. The loan originator for *Tucrédito* was updated in 2019 to develop the 100% digital platform for the renewal process of selected payroll loans under a self-service model for mobile devices, which represent approximately 60% of the total renewals per month. We expect to decrease origination costs and retain more clients with our digital platform, as this new channel will allow us to present new offers and financing alternatives to our current clients who have additional indebtedness capacity.

In the past year we have worked on initiatives for digital innovation in our business model. We started by redesigning and digitalizing our origination processes to achieve higher efficiency and agility for our clients. We prioritized the digital origination process for the credit card business through our commercial channels. We equipped our sales force with tablets to facilitate the profiling of our clients at retailers and points of sale. In this way, we are able to obtain instant feasibility confirmation and we are able to collect data from our client with georeferencing and automatic validations of information. We also implemented digital and facial biometrics for identity validation on site.

In May 2019, we launched a 100% digital origination platform for our credit card business. As of September 2019, we had a 109% increase in the number of clients approved while maintaining the same underwriting policies in place, a 45% increase in productivity of our sales teams, a 47% decrease in the response time to our clients, delivering the credit card on site within 12 minutes and a 37% decrease in origination costs. The digitalization of processes also allowed us to have a large increase in the number of consultations to the loan underwriting process from sales representatives, which currently reach almost 74,000 per month.

During 2015, we developed the TIGO product and the loan origination under this alliance underwent significant changes during the third quarter of 2019. The project comprised the implementation of the 100% digital origination

process at the points of sale of TIGO at a national level, processing 40,000 applications per month and improving the average approval time of the loan to less than 12 minutes. We equipped our sales force with tablets to facilitate the profiling of our clients at the TIGO points of sale. In this way, we are able to obtain instant feasibility confirmation and we are able to collect data from our clients with georeferencing and automatic validations of information. We also implemented digital and facial biometrics for identity validation on site. We also have entered into agreements with Huawei and Samsung to pre-install an app in the cell phones we finance under the TIGO Agreement. This app will allow us to send notifications on payment dates, deadlines and eventually block the cell phone when payment is past due.

The loan administration (CORE) has been updated for *Tucrédito*, *Crediuno*, TIGO and Credipóliza. All credit applications are digitalized and safeguarded as well in physical form. We believe our scoring system is one of our main competitive advantages. During 2017, the loan administrator for credit cards was consolidated into the other loan originator, aiming to have all in one platform that supports growth, client management and the common implementation of commercial strategies.

We also have invested in the development of mobility solutions for origination given that most of our clients are spread out through small and medium sized cities. As opposed to banks that rely on their offices for capturing clients, our sales representatives go to the client (*i.e.*, client's workplace, mobile units). The development of mobile solutions creates a competitive advantage.

In order to strengthen the operation, the integrity of information and as a part of our strategic objectives, we finalized the implementation of ERP (Apoteosys), updated Bizagi—our software for origination of payroll—and began operations of our data warehousing project.

The following projects were undertaken during the period from 2016 through September 30, 2019:

- *Server infrastructure replacement.* More robust and up to date hardware/servers were put in place.
- *DRP Implementation.* Documentation of the procedures for business continuity and recovery of the servers and infrastructure associated with the business, including testing.
- *Mobile offices.* Communication device implementation and digitalization services and printing.
- *Redesign of the call center.* Technological renewal of the call center and customer services and implementation of the outbound call for mobile equipment.
- *TIGO and Crediuno product development.* Implementation of the technological infrastructure (hardware, software and communications) to provide the service to points of sale at a national level, processing 74,000 applications per month with an average approval rate of 48 hours and 5 minutes.
- *Crediuno.* Migration to a new originator for credit cards called ASCARD, completed in November 2018.
- *Kiosks, monthly extracts.* Installation of kiosks for balance consultation, monthly extract to e-mail and on screen, up-to-date certification and change in terms and conditions. Also, development of the new module for monthly extracts and change in terms and conditions integrated to the credit originator at the point of sale.
- *Digitalization.* Digitalization of credit card origination and payroll renewal.

Other key projects include: firewall update (Fortigate), implementation of web based applications for safe publication, implementation of the VMware and SQL 2012 and implementation of the MPLS network through the 3G network.

Our back office is located at our headquarters in Bogotá, providing support to our customer service centers. Our back office uses a technology platform that allows efficient processing based on what it believes to be highly timely and reliable information. This platform helps us to achieve prompt and effective decision-making and to successfully meet client needs. We devote significant efforts to maintaining our valuable human resources as well as

providing continuous training and development programs that promote better growth dynamics and improved skills among employees.

Credit Risk

Throughout our 16 years of experience, we have developed and refined our proprietary underwriting standards and scoring methodology designed specifically by us for our target market. We believe that our access to key information about our clients, such as their payment history of utility bills, improves the precision of our risk models compared to other financial institutions and thereby allows us to manage and control risk more efficiently.

We follow the best practices of the Colombian financial industry (management of credit risk, operational risk, anti-money laundering risk and liquidity and market risk) and international guidelines (Basel III), and we have achieved a local rating as a loan originator and servicer of “ori AA stable outlook” by BRC Standard and Poor’s.

Credit Risk Cycle

We implement a five-step process to address our credit risk:

1. *Product characterization.* In this stage, we define the payment profile of the client, based on payment history from the utility companies or on the collection channel that will be utilized; we also analyze the client’s capacity of payment, based on the maximum discount allowed by law for payroll loans or in the maximum installment allowed by the credit card’s risk model. Finally, we analyze the need for any collateral.

Payroll loans are characterized as low risk, as collection is done at the employers’ level; also it is highly atomized, diversifying our portfolio. Credit card collection risk is mitigated by analyzing the information on the customer that the public utility companies provide.

2. *Risk identification.* In terms of credit scoring for payroll loans, potential clients are ranked in terms of preferred, low, medium, high risk and rejects. This is based on credit scoring in credit bureaus, demographics and variables associated with each payroll loans agreement. For each client rank, there are specific policies, processes and associated terms and conditions.

In terms of credit scoring for credit cards, potential clients are ranked in terms of preferred, low, medium, high risk and rejects. This is based on credit scoring cross referencing two models: rating agencies against historical payments for each client’s utility bill. There are also regional skews. For each client rank the credit card limit is calculated as a function of: economic activity, socio-economic segments, level of consumption of the public utility, salary and profile.

3. *Approval process.* The approval process is differentiated for each level of risk; each one has separate policies, processes and terms and conditions. The approval will determine the maximum amount available, the need for guarantee, the interest rate and tenor, among others.

Current policies are the result of our more than 16 years of experience in the Colombian market. Scoring models have been developed in-house and with specialized companies, industry leaders.

Furthermore, we have proper controls to mitigate fraud in credit applications, specifically: documentation provided by the client, including fingerprints and signatures, is verified by experts that guarantee the identity of the applicant and cross referencing of information provided is done by phone.

4. *Recovery.* In accordance with the days past due and individual scoring, there is a recovery process: (i) welcome, (ii) preventive collection, (iii) commercial collection for the first 30 days, (iv) administrative collection from day 31 to day 180 and (v) recovery after 180 days. The recovery strategy has three levels: (a) strategic in line with client segmentation, (b) operational and (c) administrative.
5. *Follow up and evaluation.* Between the Credit/Risk area and the Risk Committee there is constant follow up of applied policy, vintage analysis, and credit/risk analysis to identify negative patterns early and take corrective actions and adjust policies and models.

Provisions

Our Risk Department is responsible for calculating the minimum level of provisions that should be on the balance sheet based on a model of Expected Loss, similar to the process used by the financial institutions; these models are applied to all of our loan portfolio products. After the adoption of IFRS 9 in January 2018, we started performing more recurrent write-offs of our loan portfolio, especially for the loans under the TIGO and Credipóliza products. However, given the recent adoption of IFRS 9, we still bear a large amount of loans that are past due more than 360 days, which will be written-off gradually in the following years.

Impairment Model

Under the guidelines of the accounting standard IFRS 9, Credivalores changed 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. Stage 1 impairment is equal to the expected credit losses (ECL) over 12 months, and for stages 2 and 3 the impairment is equal to the credit losses over the expected lifetime. The following are the criteria of the standard:

- For the losses over the lifetime of the asset we use the same methodology that would apply for credit losses expected over a year, but instead of covering only the first year, we calculate the impairment on the expected life of the contract, including extension of the instrument options.
- A financial asset is classified as low-credit risk if the issuer has an investment grade credit rating. The 12-month ECL are the portion of ECL that result from default events on a financial instrument within the 12-month period after the reporting date.

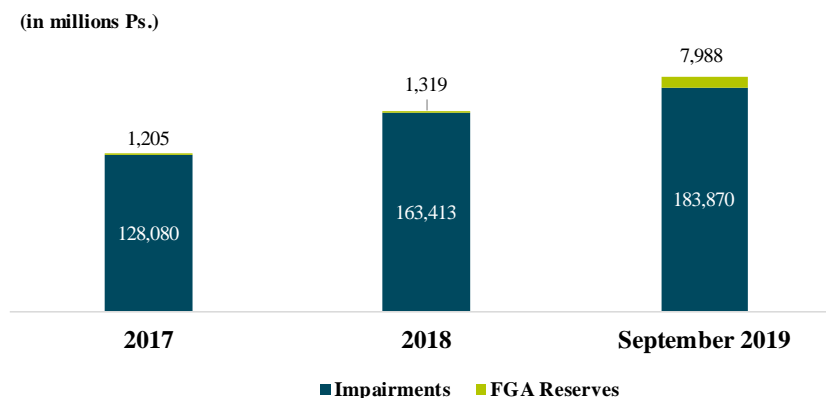
For the calculation of the ECL of payroll loans and credit cards, we have decided to use the granular depreciation approach, considering the following aspects:

- The exposure and the corresponding risk parameters are calculated individually for each period.
- The exposure and the corresponding risk parameters are consistent within each period but may vary between periods.
- The estimate of the ECL is individual per period.
- 12-months ECL and lifetime ECL calculations, are made by adding the individual ECL for each respective risk horizon (one year, lifetime).
- The ECL will be fixed, according to the payment frequency: monthly, quarterly, semi-annual, annual, among others.
- The granular amortization approach captures the dynamic behavior of the risk parameters with more detail.

In addition to the provisions on the balance sheet, we disclose in the notes to our financial statements certain guarantees that we have from the FGA. FGA acts as guarantor to certain clients with higher risk profiles; amounts charged under the guarantees are held on a trust to cover any past due loans. FGA assumes risk up to a set limit and is responsible of recording the corresponding guarantees and indemnities and paying out on claims received. We are responsible for managing the risk, processing the loans, allocating guarantees, administering the collection of loans and collateral, processing indemnities and invoicing on behalf of FGA.

The amount of the provisions recognized for this trust fund is contained in a reserve that we have set up to protect our portfolio. The amounts held in FGA due to provisions were Ps.1,205 million (US\$0.3 million) and Ps.1,319 million (US\$0.4 million) as of December 31, 2017 and December 31, 2018, respectively. As of September 30, 2019, the amount of provisions held at the FGA was Ps.7,988 million (US\$2.3).

Beginning in the third quarter of 2016, the agreement with the FGA was modified, whereby the FGA continues to provide guarantees to clients with higher risk profiles, but each year, a portion of the corresponding past due portfolio will be transferred to the FGA and its corresponding guarantees will be executed.



Data Warehousing

We have a centralized information system that consolidates in a secure manner multiple sources of information, to produce reports which allows for efficient and timely decision-making process, for risk, operations, collection, marketing and management.

Our data warehousing reporting systems are connected into the CORE and BIZAGI loan origination systems, which allow us to generate origination reports available in near real time, showing the status of each product request online, approval and disbursement.

The data warehousing project has reduced timing of operational processes by using one database that prevents files to be manually manipulated and consolidating data from 2016 to date; it generates follow-up reports through information cubes, daily reports and dashboards via web or mobile applications, allowing the user to make comparisons against previous months and years, and analyzing information from different perspectives, as opposed to monthly manual and statics reports. On the other hand, the analytics team uses these data repositories and data mining tools to perform analysis for credit risk and commercial strategies.

Most importantly, strategic reports which were being developed on a monthly basis for the management team (CEO, CFO, CRO, CTO, etc.) are now produced daily with internet access reducing the time in minutes to process from hours to 5 minutes.

Additionally, our team is working on data governance implementation, which will allow the efficient management of data and information of the company, quality and data availability policies definition, strengthen information security.

Operational Risk

We implemented our Operating Risk Management System to proactively handle this risk and minimize potential losses, in accordance with international standards (Basel II and AS/NS4360), ISO 31000, and Technical Quality Standard 5254, similar to the requirements for financial institutions supervised by the SFC.

This system enables risk to be managed in a systematic, organized and comprehensive manner, with all the elements required for properly identifying, measuring, controlling and monitoring this type of exposure, as listed below:

- *Organizational structure:* policies, manuals and procedures;

- *Technology platform*: documentation, operating risk event logging;
- *Governing bodies*: disseminating information; and,
- *Training*: Company officers.

During 2018, the operational risk team was strengthened and the main operational risk manual and risk matrix were updated. Also, we started a communications project aimed at increasing our “operational risk culture” using e-learning tool and training to employees.

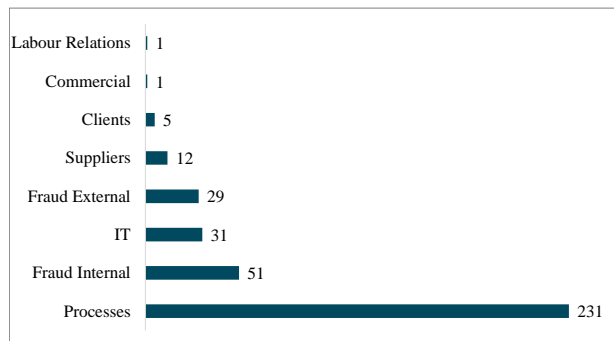
Subsequently, in 2019 the operational risk matrices were updated in accordance with the following defined phases: identification, measurement and control of operational risk. Furthermore, we continued strengthening our operational risk culture at every level of the organization by launching a new e-learning course for operational risk and through collection and recording of all of the operational risk events.

In 2019, the operational risk function has been focused on the following activities:

- Update of all of the policies, procedures and Operational risk methodologies;
- Determine Operational Risk phases: Phase I, CORE processes and action plans, Phase II, Commercial processes and support, identification, measurement and control, and Phase III, support processes, identification, measurement and control; and
- Training and event register.

We have mapped out all of the inherent and residual risks, risk factors and mitigants for all of the operational risk phases identified above. Also, after finalizing each phase, the risk maps are discussed to define action plans.

The number of risks that have been identified for each of the risk categories is shown in the chart below:



AML/TF Risk

We have implemented our own self-regulating system with respect to managing our anti-money laundering risk, based on our operations, risk exposure and size, in accordance with best practices adopted by the financial industry supervised by the SFC and those stipulated in Circular 100-00 005 issued by the Superintendency of Corporations.

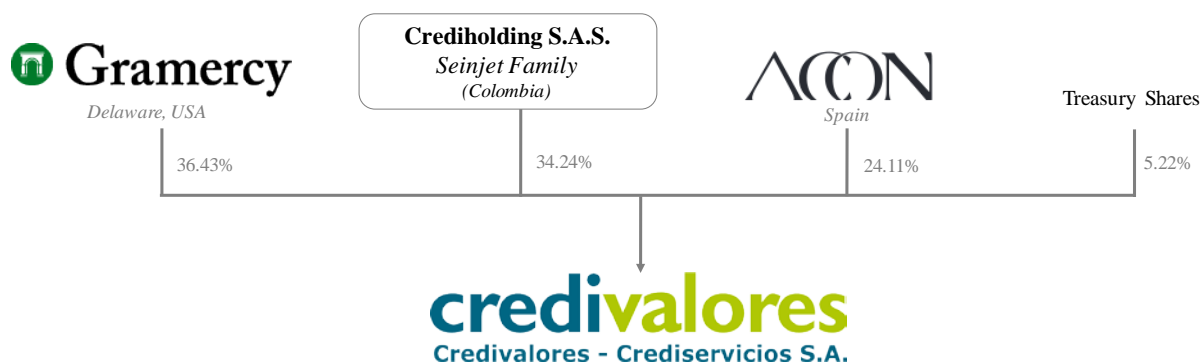
During 2015, we were fully compliant with the requirement to submit AML reports to the Financial Information and Analysis Unit of the Ministry of Finance (*Unidad de Información y Análisis Financiero*), through the SIREL application and with the monitoring of the entire client base through the CENTINELA application. As of December 2015, there were no hits in restrictive lists with regards to all our suppliers, personnel, board members, local and international shareholders or clients. Restrictive lists screenings are done on a monthly basis.

The CENTINELA application we use (7.0 version) include its own restrictive lists (*i.e.*, Fraud List, which is administered by the Credit/Risk department, Past Due List (which is administered by the Collections department and not part of the AML/TF effort).

AML/TF training is done through e-learning applications for new employees. As of September 30, 2019, 78% of all our employees have received AML/TF training; 73% of new employees had read the AML/TF manual.

Corporate Structure

The following chart shows our corporate structure as of September 30, 2019. We also hold 5.22% of our shares in treasury.



As of the date of this offering memorandum, we have no subsidiaries. We previously had one subsidiary, Microfinanzas & Desarrollo S.A.S., an entity specialized in microcredits, which was dissolved on May 10, 2017.

We also hold investments with no significant influence in Inverefectivas (25%), a Panamanian investment company, equivalent to Ps.11,093 million (US\$3.2 million).

Property and Leases

Our executive offices in Bogotá, as well as all of our service offices and branches throughout Colombia, are located on leased premises. Our main fixed assets consist of computers and other office furniture and equipment.

Intellectual Property

In addition to other intellectual property such as copyrights and licenses, we own the following trademarks: *Crediuno, Credicasa, Credihogar, CrediNota, Credipóliza, Credipuntos premia tu fidelidad fácil, ágil y al instante, CrediseguroCV, Creditrade, Crediuno Avances, Credivalor, Credivalores, Credilibranza, Credifinanciera, Crediservicios, CV Credit, Credimania, Crediyá, MicrocréditoCV, Libranza Premier, Tu Aliado experto en Libranza, Tucrédito CV, Tuseguro PG, Tuseguro CV, Tufinanciera, Tutaxi CV, Zip, Zip Compañía de Financiamiento*, all of which are registered with the Superintendency of Industry and Commerce.

Litigation

We are from time to time involved in certain legal proceedings that are incidental to the normal conduct of our business. We do not believe that the outcome of any such proceedings, if decided adversely to our interests, will have a material adverse effect on our business, financial condition, cash flows or results of operations.

MANAGEMENT

Board of Directors

Our management team is comprised of experienced professionals with deep knowledge of their areas, who we believe have been responsible for the development and growth of our business.

The combined knowledge, experience and commitment of our management team and our shareholders have been crucial in determining our strategy and building new initiatives.

Pursuant to our bylaws, our board of directors must be composed of seven principal members with their alternates. Each member of the board holds office for a term of one year and may be reelected for subsequent terms. The current members of the board of directors were appointed at shareholders' meetings held on May 16, 2016, April 6, 2016, August 31, 2015, May 5, 2014 August 31, 2015 and October 27, 2017. The following table presents the members of our board of directors as of September 30, 2019.

Name	Position	Age	Independent	Years as a Board Member of Credivalores as of September 30, 2019
José Miguel Ferrada Knoell	Principal Member	51	No	3
Juan Carlos Restrepo Acuña	Principal Member	43	No	5
Lorena Margarita Cárdenas	Principal Member	50	Yes	4
Rony Doron Seinjet	Principal Member	49	No	5
Gustavo Adrian Ferraro	Principal Member	58	No	4
Robert L. Rauch	Principal Member	61	No	5
Maria Marcela Caicedo Pachón	Principal Member	56	No	2

Biographical information of the principal members of our board of directors is set forth below. Ages displayed in the chart above are as of September 30, 2019.

Jose Miguel Knoell. Mr. Knoell was appointed as a principal member of our board of directors in May 2016. Mr. Knoell serves on the Board of Directors of the following ACON fund/investment vehicle portfolio companies: AMFORA Packaging, Credifinanciera, CryoHoldco de Latinoamerica, Grupo Sala and Vetra. Mr. Knoell is also an observer on the board of NetUno. Mr. Knoell also serves on the board of Fundación Carulla, one of Colombia's most successful early childhood development and education non-profits for underprivileged children. Foundation Carulla was funded with a portion of the proceeds from the sale of Carulla Vivero, a prior ACON fund portfolio company. Mr. Knoell previously served on the board of Carulla Vivero, Fybeca and SAE Towers, among other ACON fund/investment vehicle portfolio companies. Prior to joining ACON in 1998, Mr. Knoell was a Vice President with the Blackstone Group from 1994 to 1998, where he was responsible for the firm's investment and advisory business in Latin America. Prior to joining Blackstone, he was an associate and founder of GBS Finanzas, a privately owned investment banking boutique based in Madrid, Spain. Mr. Knoell started his professional career as an Analyst in the mergers and acquisitions group of S.G. Warburg in Madrid, Spain. Mr. Knoell received a B.A. with honors in Economics from Harvard University.

Juan Carlos Restrepo Acuña. Mr. Restrepo was appointed as a principal member of our board of directors in May 2014. He has been at Credivalores since its establishment over 10 years ago and since 2011 he has been our Director of Distributors, responsible for the growth of the distribution force targeting pensioners for Tucrédito. He has also served as our Director of Financial Planning. Prior to joining us, Mr. Restrepo worked as a Risk Analyst at Citibank. Mr. Restrepo holds an MBA in Finance from Universidad Javeriana and a Bachelor's Degree in Business Administration with a minor in Finance and Banking from the same university.

Lorena Margarita Cárdenas. Ms. Cárdenas was appointed as an independent member of our board of directors in August 2015. She has over 20 years of experience in the finance industry and over 8 years of experience in companies specialized in payroll lending and consumer finance in Mexico. Prior to joining us, between 2008 and 2015, Ms. Cárdenas was the CFO of Crédito Real, S.A.B. and during her time there the company's loan portfolio

increased from US\$190 million to US\$900 million. Additionally, she was responsible for local and international financing of Crédito Real, S.A.B. and to lead the company's IPO in 2012. Ms. Cárdenas holds a degree in Accounting from ITESM, Tecnológico de Monterrey.

Rony Doron Seinjet. Mr. Doron was appointed as a principal member of our board of directors in May 2014. Since 2008, he has served as the President of CREDIVALORES USA Inc., an international factoring company that operates under the business name of CVCredit. He started his professional career as Assistant Plant Manager at Ingenio La Cabaña S.A. and has served as the General Manager of CR Doron S.A.S. since 1996. Mr. Doron holds a degree in Industrial Engineering from the Worcester Polytechnic Institute and an MBA from Boston College. Mr. Doron is a cousin of David Seinjet, our President and one of our principal shareholders.

Gustavo Ferraro. Mr. Ferraro was appointed as an alternate member of our board of directors in May 2014, and as a principal member in August 2015. He is currently the Head of Latin American Markets at Gramercy Funds Management LLC. Previously, Mr. Ferraro served as a Managing Director with Barclays Capital, where he led a Capital Markets team that covered the firm's largest Latin American corporate and sovereign clients focusing on debt capital markets and liability management. He played a key role in Argentina's 2010 reverse inquiry debt restructuring, as well as the country's previous debt restructuring in 2005. From 2000 through 2003, Mr. Ferraro worked in Salomon Smith Barney's Investment Bank where he was head of TMT (Technology, Media & Telecom) for Latin America. From 1994 through 2000, he was the head of the Debt Capital Markets desk for Latin America for Lehman Brothers in New York and he covered Argentina and Chile for Lehman Brothers Investment Banking as the head of their office in Buenos Aires. From 1987 through 1994, he spent time at Citibank in São Paulo, Brazil and in New York, where he was responsible for asset trading and for the coverage of Brazilian and multinational clients and later on became responsible for the debt syndicate desk for emerging markets. Mr. Ferraro received an MBA in Finance from Claremont Graduate School and a degree in Economy from Universidad Católica Argentina in Buenos Aires.

Robert L. Rauch. Mr. Rauch was appointed as a principal member of our board of directors in May 2014. He is currently a member of Gramercy's Investment Committee and Asset Allocation Committee. Previously, he has served as a consultant to hedge funds managed by Van Eck Global and Farallon Capital Management specializing in the analysis of emerging markets special situations. From 1994 to 1999, Mr. Rauch served as the President of The Weston Group, where he was responsible for overseeing the firm's securities research and corporate debt advisory business in Latin America. In the early 1990s, Mr. Rauch served as a Vice President at Lehman Brothers and CS First Boston in their emerging markets fixed income trading groups. In the second half of the 1980s, he was a Vice President and Trader with First Interstate Bank's Loan Syndications Group. Mr. Rauch holds an MM degree in Finance and International Business from Northwestern University – Kellogg Graduate School of Management and a BA degree in Political Economy from Williams College.

Marcela Caicedo. Ms. Caicedo was appointed as a principal member of our board of directors in October 2017. Ms. Caicedo has more than 20 years of experience as a manager of operational and IT areas, as a leader of restructuring and merging processes in previous organizations and as an expert on managing public and individual channels for client service. Ms. Caicedo joined Credivalores in November 2016 to lead efficiency and cost reduction projects for our management. Ms. Caicedo holds a degree in Industrial Engineering from Javeriana University and holds a Green Belt certification on the Six Sigma Methodology.

Committees

Audit Committee

We have established an audit committee which will be responsible for presenting proposals to our board of directors on structure, procedures and methodology regarding internal control, evaluating the internal control structure in place and reports from internal auditors and other control entities, presenting programs and controls to prevent fraud and other violations, overviewing the responsibilities and duties of the internal control department, monitoring our risk exposure and our mitigation procedures at least every six months, and presenting a report to our board of directors including a description of the most relevant activities of the committee and the deficiencies detected and recommendations that could affect the financial statements and annual reports.

Set forth below are the names of the main members of our audit committee as of December 31, 2019:

Name	Position	Independent
Juan Carlos Restrepo Acuña	Board Member	No
Lorena Margarita Cárdenas	Board Member	Yes
Marcela Caicedo Pachón	Board Member	No

Other Committees

Our board of directors has established several committees, including the Risk Committee, which consists of: President, Credit Manager, Collections Manager, Credit Approvals Manager, Operations Manager and the Commercial Directors.

Principal Officers

Set forth below is the name and position of each of our current principal officers. The terms of office of our principal officers are indefinite.

Name	Position	Years with Credivalores	Age	Years of Experience in the Financial Services Industry
David Seinjet	President	14	53	18
Héctor Cháves	CFO	1.7	48	24
Sergio Gómez Vargas	Internal Audit	1		7
María Patricia Moreno	Chief International Funding and Investor Relations Officer	2.9	39	15
Juan Guillermo Barrera	Chief Commercial, Human Resources and IT Officer	1.2	45	20
Juan Camilo Mesa	Chief Risk Officer	1	32	11
María Marcela Caicedo Pachón	Chief Operations Officer	3	56	22
Juan Carlos Restrepo Acuña	Distribution	12	43	14

On average, our principal officers have 18 years of experience in the financial services industry. Set forth below is biographical information for each of our principal officers. In December 2019, we created the Digital Transformation department to provide a more formal structure to the implementation of our digital transformation strategy. We hired the head of this department in January 2020.

Biographical information of our principal officers is set forth below, unless already included under “—Board of Directors.” Ages displayed in the chart above are as of September 30, 2019.

David Seinjet. Mr. Seinjet is the President and founder of Credivalores since 2003. Mr. Seinjet is also the President of the board of Grupo La Cabaña, a significant agroindustrial holding company in Colombia. He has more than 20 years’ experience in managing and providing strategic direction to companies in the real estate and financial sectors. Mr. Seinjet holds a degree in Business Administration from Bentley College and a degree in Senior Management from the Universidad ICESI.

Héctor Cháves. Mr. Cháves joined Credivalores in May 2018 as CFO. He has more than 20 years of experience in the banking and financial sector in Colombia as CFO and CRO, leader of strategic committees and a board member. He previously worked at senior positions at BCSC, Helm Bank and Bogota Stock Exchange. Mr. Cháves holds a degree in economics and a finance major from Externado University.

Sergio Gómez Vargas. Mr. Gómez joined Credivalores in December 2018 as Head of Internal Control. Mr. Gómez previously worked in the Auditing and Internal Control areas of companies in the financial and corporate sector including, Banco Finandina, Incomercio and Finanzauto. Mr. Gómez holds a Bachelor degree in Accounting and Business Administration from Nacional University and a major degree in Forensic Audit from Externado University.

María Patricia Moreno. Ms. Moreno is our Chief International Funding and Investor Relations Officer since February 2017. Prior to joining us, she served as Head of Funding and Investor Relations at Emgesa and Codensa, power generation and electricity distribution companies of the Enel Group in Colombia from 2010 to January 2017, overseeing the long term domestic and international funding of both companies with the banking sector and the capital markets. Previously, Ms. Moreno worked as a Deputy Director of External Funding of the Ministry of Finance and Public Credit of Colombia from 2009 to 2010 and as a Senior Advisor at the same unit at the Ministry from 2004 to 2008, planning and executing the Nation's financial plan in the international capital markets. Ms. Moreno also worked as Fixed Income Manager at Citivalores-Citibank Colombia, from 2008 to 2010, originating and executing bond issuances for Colombian corporations, sovereign and quasi-sovereign issuers, banks and multilaterals in the domestic capital markets. Ms. Moreno holds a Bachelor's degree in Finance and International Relations from Externado University, a minor degree in Finance and Capital Markets from La Sabana University and an Executive MBA from Los Andes University.

Juan Guillermo Barrera. Mr. Barrera was appointed as our Chief Commercial Officer in September 2018. He previously worked in senior positions at Grupo Bancolombia, Valores Bancolombia, Capicol and Puntos Colombia. Mr. Barrera holds a Bachelor of Business Administration from Universidad EAFIT, Economist Specialist from Universidad de los Andes and Executive MBA from IE has more than 22 years of experience in the financial, treasury, capital markets, private banking and corporate sectors.

Juan Camilo Mesa. Mr. Mesa was appointed as our Chief Risk Officer in November 2018. He previously worked as Head of Credit Risk and CRO at Tuya S.A., a leading credit card business in Colombia focused on the low and middle income population. Mr. Mesa is an engineer from Escuela de Ingeniería de Antioquia, major in economy from Universidad de los Andes and Master of Science in Risk Management from NYU with more than 10 years of experience developing and executing credit, market and operational risk models

Employees and Labor Relations

As of September 30, 2019, we had a total of 206 employees, of which 6 were officers and 17 were managers. We have no unions.

PRINCIPAL SHAREHOLDERS

Share Ownership

The following table sets forth certain information about the ownership of our capital structure as of September 30, 2019:

Shareholders	Capital Stock				Total	% of Total
	Common Shares	Series A Preferred Shares	Series B Preferred Shares	Series C Preferred Shares		
Crediholding S.A.S.	1,571,073	-	-	-	1,571,073	34.24%
Lacrot Inversiones 2014 S.L.U.	184,736	-	923,665	563,119	1,671,520	36.43%
ACON Consumer Finance Holdings, S.L.	77,079	835,834	-	-	912,913	19.9%
ACON Consumer Finance Holdings II, S.L.U.	8,986	-	184,167	-	193,153	4.21%
Direcciones de Negocio S.A.S.	1	-	-	-	1	0.00%
Treasury stock	239,640	-	-	-	239,640	5.22%
Total	1,841,875	835,834	1,107,832	563,119	4,588,300	100.00%

Our main shareholders include international private equity firms with ample experience investing in companies in the financial sector or in middle-market companies in emerging markets. Their philosophy is to be an active investor and form partnerships with the management teams providing support and therefore maximizing growth potential.

The combined knowledge, experience and commitment of our management team and our shareholders have been crucial in determining our strategy and building new initiatives.

Shareholders

Crediholding S.A.S. – Seinjet Family

The Seinjet family owns 100% of the shares of Crediholding S.A.S. The Seinjet family has been in the sugar business since 1944 through Ingenio La Cabaña, with approximately 25,000 hectares belonging to the same family and 4,000 employees. La Cabaña currently produces approximately 250,000 tons of sugar per year of which 60% are exported. In 1998, La Cabaña began cogeneration from cane bagasse with an installed capacity of 45 MW, most of which is being sold on the national interconnected grid.

Gramercy / Lacrot Inversiones

Lacrot Inversiones 2014 S.L.U. is an investment fund managed by Gramercy Funds Managements LLC, a US\$5.6 billion private equity firm, dedicated to emerging markets investment manager based in Greenwich, CT with offices in London, Hong Kong, Singapore and Mexico City, with a presence in Lima and Buenos Aires. The firm was founded in 1998, and it seeks to provide investors with superior risk-adjusted returns through a comprehensive approach to emerging markets supported by a transparent and robust institutional platform. Gramercy offers both, alternative and long-only strategies across all asset classes (U.S. dollar-denominated debt, local currency-denominated debt, high yield corporate debt, distressed debt, equity, private equity and special situations).

The investment professionals at Gramercy have dedicated their careers to emerging markets. Its investment team has an extensive distressed credit core competency. Due to the hands-on nature of distressed investing, Gramercy has promoted local market relationships that are not easily replicated. For nearly three decades, its investment team has cultivated these deep-rooted, unique local relationships. It believes that the combination of its pan-emerging markets expertise and local market relationships give Gramercy a distinct advantage in emerging markets.

ACON

ACON Colombia Consumer Finance Holdings, S.L. and ACON Consumer Finance Holdings II, S.L.U. are investment funds managed by ACON Investments, L.L.C., a middle-market private equity investment firm led by a team that has been investing together for nearly 20 years. ACON partners with management teams to create value through separate funds for its investors across a wide range of industries in the United States and in Latin America. ACON was founded in 1996 and is responsible for managing approximately US\$5.4 billion of assets with a diverse portfolio of companies spanning over 65 investments.

ACON has professionals in Washington, D.C., Los Angeles, and internationally, in Mexico City, São Paulo and Bogotá. Among its success stories in Colombia are Vivero-Carulla, Vetra Energy, AMFORA Packaging in Colombia and Peru, Grupo Sala, a waste management company in North West Colombia and, more recently, it has invested in us.

Shareholding Structure

We have three types of shares:

- Common shares;
- Series A preferred shares;
- Series B preferred shares; and
- Series C preferred shares.

Each share of Series A, Series B and Series C preferred shares entitles its holders to the same number of votes per share as the common shares.

The Series A preferred shares are (i) subordinated to our existing and future indebtedness and (ii) senior only in right of payment and upon a liquidation, bankruptcy, reorganization, dissolution or winding up of the company or a sale or distribution of all or substantially all of our assets in connection therewith, a “liquidating event”, to the common shares, and will be junior to the Series B preferred shares and the Series C preferred shares. Upon the occurrence of a liquidating event, the holders of the Series A preferred shares will be entitled to receive a liquidation preference, over the holders of common shares, but will be junior to the payment of a specified liquidation preference to which the holders of Series B preferred shares and of Series C preferred shares are entitled.

The Series B preferred shares are (i) subordinated to our existing and future indebtedness and (ii) senior only in right of payment and upon a liquidating event, to the common shares and Series A preferred shares, and will be junior to the Series C preferred shares. Upon the occurrence of any liquidating event, the holders of the Series B preferred shares will be entitled to receive a liquidation preference, over the holders of common shares and holders of Series A preferred shares, but will be junior to the payment of a specified liquidation preference to which the holders of Series C preferred shares are entitled.

The Series C preferred shares are (i) subordinated to our existing and future indebtedness and (ii) senior only in right of payment and upon a liquidating event, to all other equity securities we have, including Series A preferred shares and Series B preferred shares. Upon the occurrence of any liquidating event, the holders of the Series C preferred shares will be entitled to receive, in preference to the holders of common shares, holders of Series A preferred shares and holders of Series B preferred shares, a specified liquidation preference.

RELATED PARTY TRANSACTIONS

The following table summarizes our related party transactions from December 31, 2018 until September 30, 2019:

	As of September 2019 (in millions of Ps.)		As of December 2018 (in millions of Ps.)	
	Shareholders	Members of the Board of Directors (a)	Shareholders	Members of the Board of Directors (a)
Accounts receivable	1.815	-	1.815	-
Accounts payable	-	56	-	42
Operating expenses	-	137	-	247

These transactions reflect certain disbursements that we make from time to time for the account of our shareholders, such as travel expenses to assist to shareholders or board meetings and other legal expenses, which are reimbursed to us in the short term. The table above summarizes both disbursements and reimbursements. Additional information on related party transactions is available in Note 27 to our Interim Financial Statements.

DESCRIPTION OF THE NOTES

We will issue the notes under an indenture (the “Indenture”), to be dated the Issue Date, between us and The Bank of New York Mellon, as trustee (the “Trustee”), registrar (the “Registrar”), paying agent (the “Paying Agent”) and transfer agent. We summarize below certain provisions of the Indenture, but do not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights. You can obtain a copy of the Indenture in the manner described under “Available Information.”

You can find the definition of capitalized terms used in this section under “—Certain Definitions.” When we refer to:

- the “Company” in this section, we mean Credivalores-Crediservicios S.A., and not any of its subsidiaries; and
- the “notes” in this section, we mean the notes originally issued on the Issue Date and Additional Notes, if any.

General

The notes will:

- be general unsecured obligations of the Company;
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Company (subject to certain obligations for which preferential treatment is given under Colombian insolvency laws);
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company, if any;
- be effectively subordinated to all existing and future Secured Indebtedness of the Company to the extent of the value of the assets securing such Indebtedness, including all Indebtedness and other liabilities of any Special Purpose Finance Trust; and
- be structurally subordinated to all existing and future Indebtedness and trade payables of the Company’s Subsidiaries, if any, that are not Guarantors.

As of September 30, 2019, we had total Indebtedness excluding transaction costs of Ps.1,745,931 million (US\$504.3 million), of which Ps.231,938 million (US\$67.0 million) was secured by collateral. After giving effect to the offer and sale of the notes and the application of the net proceeds from this offering as described under “Use of Proceeds,” as of September 30, 2019 we would have had total Indebtedness excluding transaction costs of Ps.2,037,366 million (US\$588.5 million), of which Ps.231,938 million (US\$67.0 million) would have been secured by collateral.

Additional Notes

Subject to the limitations set forth under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” the Company and its Subsidiaries may incur additional Indebtedness. At the Company’s option, this additional Indebtedness may consist of additional notes (“Additional Notes”) issued by the Company in one or more transactions, which have identical terms (other than issue date and issue price) as the notes issued on the Issue Date; *provided* that such Additional Notes will either be (i) fungible with the original notes for U.S. federal income tax purposes or (ii) issued under a separate CUSIP number. Holders of Additional Notes will have the right to vote together with holders of notes issued on the Issue Date as one class.

Principal, Maturity and Interest

The Company will issue notes in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The notes will mature on February 7, 2025, at which time the principal amount of the notes outstanding on such date will become due and payable. The redemption price of the notes outstanding on such date will be 100.0%,

plus accrued and unpaid interest; however, the Company may redeem the notes, at its option, in whole or in part prior to such date. See “—Optional Redemption” below. The notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the notes will accrue at the rate of 8.875% per annum and will be payable semi-annually in arrears on each February 7 and August 7, commencing on August 7, 2020. Payments will be made to the persons who are registered holders at the close of business on January 23 and July 23, respectively, immediately preceding the applicable interest payment date. The final payment on any registered note, however, will be made only upon presentation and surrender of such note at the office of any Paying Agent.

Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of notes with unpaid and accrued interest to the date of redemption will not affect the right of holders of record on a record date to receive interest due on an interest payment date.

Initially, the Trustee will act as Paying Agent and Registrar for the notes. The Company may change the Paying Agent and Registrar without notice to holders. Payments on the notes will be made at the office or agency of the Paying Agent and Registrar in New York City.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon written request any money held by them for the payment of principal of or interest on the notes that remains unclaimed for two years, and, thereafter, holders entitled to any such money must look to the Company for payment as general creditors.

Guarantees

If after the date of the Indenture the Company or any of its future Restricted Subsidiaries acquires or creates a Restricted Subsidiary that is or becomes an Eligible Subsidiary, the Company must cause such Eligible Subsidiary to provide a guarantee of the notes (a “Note Guarantee”).

Each Note Guarantee will be limited to the maximum amount that would not render the Guarantor’s obligations subject to avoidance under applicable fraudulent conveyance provisions. By virtue of this limitation, a Guarantor’s obligation under its Note Guarantee could be significantly less than amounts payable with respect to the notes, or a Guarantor may have effectively no obligation under its Note Guarantee.

The Note Guarantee of a Guarantor will terminate upon:

(1) a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Company or a Restricted Subsidiary) otherwise permitted by the Indenture,

(2) if the Note Guarantee was required pursuant to the terms of the Indenture, the cessation of the circumstances requiring the Note Guarantee,

(3) the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary, or

(4) defeasance or discharge of the notes, as provided in “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and Discharge.”

Not all of our Restricted Subsidiaries will guarantee the notes. Only Eligible Subsidiaries will guarantee the notes. In the event of a bankruptcy, liquidation or reorganization of non-guarantor Subsidiaries, these non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. In addition, holders of minority equity interests in Subsidiaries may receive distributions prior to or *pro rata* with the Company depending on the terms of the equity interests. See “Risk Factors—Risks Related to the Notes—Payments on the notes will be effectively junior to any of our secured indebtedness and structurally junior to debt obligations of our subsidiaries.”

As of the Issue Date, the Company does not have any Subsidiaries.

Additional Amounts

The Company, and the Guarantors, if any, will pay to holders of the notes all present or future taxes, duties, assessments or other governmental charges, including interest or penalties (“Taxes”), imposed with respect to that payment by a Colombian taxing authority or any other jurisdiction in which the Company is organized or resident for tax purposes or through which the Company, or the Guarantors, if any make a payment on the notes or the Note Guarantees (a “Relevant Jurisdiction”), or any political subdivision or taxing authority thereof or therein (“Additional Amounts”) that may be necessary so that every net payment of interest, any premium paid upon redemption of the notes or principal to holders of the notes will not be less than the amount provided for in the notes.

Our obligation to pay Additional Amounts is subject to several important exceptions, however. The Company, and the Guarantors, if any, will not pay Additional Amounts to any holder for or solely on account of any of the following:

- any Taxes imposed on, or withheld or deducted from, any payments made to the holder or beneficial owner of a note solely because at any time there is or was a connection between the holder or beneficial owner of the note and the Relevant Jurisdiction (or any political subdivision or taxing authority thereof or therein), including such holder or beneficial owner (i) being or having been a citizen or resident thereof for tax purposes, (ii) maintaining or having maintained an office, permanent establishment, or branch, in all cases subject to taxation therein, or (iii) being or having been present or engaged in a trade or business therein (other than the receipt of payments or the ownership or holding of a note);
- any estate, inheritance, gift, transfer, use, excise, personal property or similar Tax, assessment or other governmental charge imposed with respect to the notes;
- any Taxes imposed on, or withheld or deducted from, any payments made to the holder or beneficial owner of a note, solely because the holder or any other person having a beneficial interest in the notes fails to comply with any certification, information, documentation or other reporting requirement concerning the nationality, residence for tax purposes or identity of the holder or any beneficial owner of the note, if compliance is required by statute, rule, regulation, officially published administrative practice of the taxing jurisdiction or by an applicable income tax treaty which is in effect and to which Colombia or any other Relevant Jurisdiction is a party, as a precondition to exemption from, or reduction in the rate of, the tax or other governmental charge and we (or the relevant Guarantor, if applicable) have given the holders at least 60 days’ notice that holders will be required to provide any such certification, information, documentation or reporting requirement;
- any Taxes payable otherwise than by deduction or withholding from payments on the notes;
- any Taxes with respect to such note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders, whichever occurs later, except to the extent that the holders of such note would have been entitled to such Additional Amounts on presenting such note for payment on any date during such 30 day period;
- any payment on the note to a holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note;
- any Taxes imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), as of the Issue Date and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any law, regulation or practice adopted pursuant to any such intergovernmental agreement (collectively, “FATCA”), or any similar law enacted in any jurisdiction to implement an intergovernmental tax information sharing regime similar to FATCA; or

- any combination of the above.

The third bullet point above does not require, and should not be construed as requiring, that any person, including any non-Colombian pension fund, retirement fund or financial institution, of any nature, register with the Colombian authorities to establish eligibility for an exemption from, or a reduction of, Colombian withholding tax.

Upon written request, the Company and the Guarantors, if any, will provide the Trustee with documentation satisfactory to the Trustee evidencing the payment of Colombian taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the holders of the notes or the paying agent upon written request.

Any reference in this section, the Indenture, or the notes to principal, premium, interest or any other amount payable in respect of the notes by us will be deemed also to refer to any Additional Amount that may be payable with respect to that amount under the obligations referred to in this subsection.

In the event that Additional Amounts actually paid with respect to the notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the withholding agent imposing such withholding tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action for such refund to be repaid.

In the event of any merger or other transaction described and permitted under “—Certain Covenants— Limitation on Merger, Consolidation and Sale of Assets,” then all references to Colombia, Colombian law or regulations, and Colombian taxing authorities under this section “—Additional Amounts” (other than the third paragraph above) and under “—Optional Redemption—Optional Redemption for Changes in Withholding Taxes” shall be deemed to also include the relevant Qualified Merger Jurisdiction, the law or regulations of the relevant Qualified Merger Jurisdiction, and any taxing authority of the relevant Qualified Merger Jurisdiction, respectively.

Optional Redemption

Except as stated below, the Company may not redeem the notes prior to February 7, 2023. On and after February 7, 2023, the Company will be entitled at its option to redeem all or a portion of the notes at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on February 7 of any year set forth below, plus any Additional Amounts then due, if any, plus accrued and unpaid interest to, but excluding, the date of the redemption:

Percentage	Year
104.438%	2023
102.219%	2024

Prior to February 7, 2023, the Company will have the right, at its option, to redeem any of the notes, in whole or in part, on at least 30 days’ but not more than 60 days’ notice, at a redemption price equal to 100.0% of the principal amount of such notes, plus the Make-Whole Amount and accrued and unpaid interest to, but excluding, the date of redemption, plus Additional Amounts, if any.

“Make-Whole Amount” means, with respect to any note on any redemption date, the excess of:

- the present value as calculated by the Company at such redemption date of (x) the redemption price of such note on February 7, 2023 (such redemption price being described in the table above in this “—Optional Redemption” section exclusive of any accrued interest), plus (y) all required interest payments that would otherwise be due to be paid on such note during the period between the

redemption date and February 7, 2023 (excluding accrued but unpaid interest to the date of redemption), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points; over

(b) the outstanding principal amount of the note.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to February 7, 2023 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to February 7, 2023.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company.

“Comparable Treasury Price” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealer” means each of Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. LLC, or their respective affiliates which are primary United States government securities dealers and not less than three other leading primary United States government securities dealers in New York City reasonably designated by the Company; *provided, however*, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

Optional Redemption upon Equity Sales

At any time, or from time to time, on or prior to February 7, 2023, the Company may, at its option, use the net cash proceeds of one or more Equity Sales to redeem up to 35% of the aggregate principal amount of the notes (including any Additional Notes) issued under the Indenture at a redemption price equal to 108.875% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption, plus Additional Amounts, if any; *provided that*:

(1) after giving effect to any such redemption at least 65% of the aggregate principal amount of the notes (including any Additional Notes) issued under the Indenture remains outstanding; and

(2) the Company shall make such redemption not more than 90 days after the consummation of such Equity Sale.

“Equity Sale” means an underwritten primary public offering for cash, after the Issue Date, of Qualified Capital Stock of the Company or of any direct or indirect parent of the Company (to the extent the proceeds thereof are contributed to the common equity of the Company).

Optional Redemption for Changes in Withholding Taxes

If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of a Relevant Jurisdiction, or any political subdivision or taxing authority or other instrumentality thereof or therein affecting

taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change in such laws, rules or regulations becomes effective on or after the Issue Date and, if applicable, after the date such Relevant Jurisdiction becomes a Relevant Jurisdiction (which, in the case of a merger, consolidation or other transaction permitted and described under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets,” shall be treated for this purpose as the date of such transaction), we become obligated, or will become obligated, in each case after taking all reasonable measures to avoid this requirement, to pay Additional Amounts in excess of those attributable to a Colombian withholding tax rate with respect to the notes (see “—Additional Amounts” and “Taxation—Colombian Tax Considerations”), then, at our option, all, but not less than all, of the notes may be redeemed at any time on giving not less than 60 nor more than 90 days’ notice, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any Additional Amounts due thereon up to but not including the date of redemption; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these Additional Amounts if a payment on the notes were then due and (2) at the time such notice of redemption is given such obligation to pay such Additional Amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, we will deliver to the Trustee:

- a certificate signed by one of our duly authorized representatives stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and
- an opinion of legal counsel (which may be our counsel) of recognized standing to the effect that we have or will become obligated to pay such Additional Amounts as a result of such change or amendment.

This notice, once delivered by us to the Trustee, will be irrevocable.

We will give notice to DTC pursuant to the provisions described under “—Notices” of any redemption we propose to make at least 30 days (but not more than 60 days) before the redemption date.

Optional Redemption Procedures

In the event that less than all of the notes are to be redeemed at any time, selection of notes for redemption will be made by the Trustee on a pro rata basis, by lot or by any other method as may be required by DTC in accordance with its applicable procedures. No notes of a principal amount of US\$200,000 or less may be redeemed in part and notes of a principal amount in excess of US\$200,000 may be redeemed in multiples of US\$1,000 only.

Notice of any redemption will be delivered at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address. If notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. We will give notice of any redemption to the Trustee no later than 15 days (unless a shorter period is acceptable to the Trustee) prior to the date such notice is given to the holders of the notes. A new note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the holder thereof and delivered to such holder upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any note together with accrued and unpaid interest thereon to, but excluding, the date of redemption. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any notes by the Company, such redeemed notes will be cancelled.

Notwithstanding the foregoing provisions of this “—Optional Redemption” section, the Company and its Subsidiaries are not prohibited from acquiring the notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise.

Change of Control Triggering Event

Upon the occurrence of a Change of Control (a “Change of Control Triggering Event”), each holder will have the right to require that the Company purchase all or a portion (in minimum principal amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof) of the holder’s notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon and any Additional Amounts, if any, to, but excluding, the date of purchase (the “Change of Control Triggering Event Payment”).

Within 30 days following the date upon which the Change of Control Triggering Event occurred, the Company must deliver a notice to each holder, with a copy to the Trustee, offering to purchase the notes as described above (a “Change of Control Triggering Event Offer”). The Change of Control Triggering Event Offer shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is delivered, other than as may be required by law (the “Change of Control Triggering Event Payment Date”).

On the Change of Control Triggering Event Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Triggering Event Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Change of Control Triggering Event Payment in respect of all notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

If only a portion of a note is purchased pursuant to a Change of Control Triggering Event Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will not be required to make a Change of Control Triggering Event Offer upon a Change of Control Triggering Event if (1) a third party makes the Change of Control Triggering Event Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Triggering Event Offer made by the Company and purchases all notes properly tendered and not withdrawn under the Change of Control Triggering Event Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption “—Optional Redemption,” unless and until there is a default in payment of the applicable redemption price.

A Change of Control Triggering Event Offer may be made in advance of a Change of Control Triggering Event, and conditioned upon the occurrence of such Change of Control Triggering Event, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Triggering Event Offer. Notes repurchased by the Company pursuant to a Change of Control Triggering Event Offer will have the status of notes issued but not outstanding or will be retired and canceled, at the option of the Company. Notes purchased by a third party pursuant to the preceding paragraph will have the status of notes issued and outstanding.

In the event that holders of not less than 95% of the aggregate principal amount of the outstanding notes accept a Change of Control Triggering Event Offer and the Company or a third party purchases all of the notes held by such holders, the Company will have the right, on not less than 30 nor more than 60 days’ prior notice, given not more than 30 days following the purchase pursuant to the Change of Control Triggering Event Offer described above, to redeem all of the notes that remain outstanding following such purchase at a purchase price equal to the Change of Control Triggering Event Payment plus, to the extent not included in the Change of Control Triggering Event Payment, accrued and unpaid interest, if any, on the notes that remain outstanding, to, but excluding, the date of redemption (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date).

Other existing and future Indebtedness of the Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness to be repurchased upon a Change of Control.

Moreover, the exercise by the holders of their right to require the Company to repurchase the notes upon a Change of Control Triggering Event would cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Triggering Event Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Triggering Event Payment for all the notes that might be delivered by holders seeking to accept the Change of Control Triggering Event Offer. In the event the Company is required to purchase outstanding notes pursuant to a Change of Control Triggering Event Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Senior Indebtedness. However, there can be no assurance that the Company would be able to obtain necessary financing.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of notes in connection with a Change of Control Triggering Event Offer. To the extent that the provisions of any securities laws or regulations conflict with the “Change of Control Triggering Event” provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the properties or assets of the Company and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder to require the Company to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Certain Covenants

Suspension of Covenants

During any period of time that (i) the notes have Investment Grade Ratings from both Rating Agencies and (ii) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a “Covenant Suspension Event”, and the date on which such Covenant Suspension Event occurs being referred to as a “Suspension Date”), the Company and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described under:

- “—Limitation on Incurrence of Additional Indebtedness”;
- “—Limitation on Guarantees”;
- “—Limitation on Restricted Payments”;
- “—Limitation on Asset Sales and Sales of Subsidiary Stock”;
- “—Limitation on Securitization and Loan Receivables Backed Financings”;
- “—Limitation on Designation of Unrestricted Subsidiaries”;
- “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- “—Limitation on Layered Indebtedness”;
- clause (b) of “—Limitation on Merger, Consolidation or Sale of Assets”;
- “—Limitation on Transactions with Affiliates”; and

- “—Conduct of Business” (collectively, the “Suspended Covenants”).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) one of the Rating Agencies withdraws its Investment Grade Rating or downgrades its rating assigned to the notes below an Investment Grade Rating, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the Suspension Date and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified as having been incurred pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness” below or one of the clauses set forth in clause (2) of “—Limitation on Incurrence of Additional Indebtedness” below (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to the first or second clauses of “—Limitation on Incurrence of Additional Indebtedness,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause 2(m) of “—Limitation on Incurrence of Additional Indebtedness.” Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under “—Limitation on Restricted Payments” will be made as though the covenant described under “—Limitation on Restricted Payments” had been in effect since the Issue Date and throughout the Suspension Period. The Company will notify the Trustee of the occurrence of any Suspension Date or Reversion Date within 10 business days of its occurrence. After any such notice of the occurrence of a Reversion Date, the Trustee shall assume the Suspended Covenants apply and are in full force and effect.

Limitation on Incurrence of Additional Indebtedness

(1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, incur any Indebtedness, including Acquired Indebtedness, except that the Company may incur Indebtedness, including Acquired Indebtedness, if, at the time of and immediately after giving *pro forma* effect to the Incurrence thereof and the application of the proceeds therefrom:

- (a) the Total Unencumbered Assets of the Company and its Restricted Subsidiaries (on a consolidated basis) is at least 110.0% of the Total Unsecured Indebtedness of the Company and its Restricted Subsidiaries (on a consolidated basis); and
- (b) the Capitalization Ratio of the Company is greater than 13.5%.

(2) Notwithstanding clause (1) above, the Company and its Restricted Subsidiaries, as applicable, may incur the following Indebtedness (“Permitted Indebtedness”):

- (a) Indebtedness in respect of the notes, excluding Additional Notes or Guarantees thereof;
- (b) Guarantees by any Restricted Subsidiary of Indebtedness of the Company Incurred in accordance with this covenant, which Guarantee is permitted under “—Limitation on Guarantees” below; *provided that* (i) if such Guarantee is of Subordinated Indebtedness then the Note Guarantee of such Guarantor shall be senior to such Guarantor’s Guarantee of Subordinated Indebtedness and (ii) if such Restricted Subsidiary is not a Guarantor it shall simultaneously provide a Note Guarantee and become a Guarantor;
- (c) Hedging Obligations entered into by the Company and its Restricted Subsidiaries in the ordinary course of business and not for speculative purposes (as determined conclusively by the senior management of the Company acting in good faith), including, without limitation, Hedging Obligations in respect of the notes;

- (d) intercompany Indebtedness between the Company and any Restricted Subsidiary or between any Restricted Subsidiaries; *provided that*:
- (1) if the Company or any Guarantor is the obligor on any such Indebtedness owed to a Restricted Subsidiary that is not a Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the notes and the Indenture, in the case of the Company, or such Guarantor's Note Guarantee, in the case of any such Guarantor; *provided that* the Company, its parent companies (if any) and any Guarantor shall agree to vote such Indebtedness, or provide their consents in connection with such Indebtedness, in any Colombian Restructuring, in a manner that is consistent with the vote of, or the consents provided by, the holders of the notes and other unaffiliated creditors of the same class as the notes, and
 - (2) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness shall be deemed to be Incurred and not permitted by this clause (d) at the time such event occurs;
- (e) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; *provided that* such Indebtedness is extinguished within five business days of Incurrence;
- (f) Indebtedness of the Company or any of its Restricted Subsidiaries represented by letters of credit for the account of the Company or any Restricted Subsidiary, as the case may be, in order to provide for judicial deposits required in connection with any judicial or administrative proceeding, provide security for workers' compensation claims, payment obligations in connection with self-insurance, health, disability or other employee benefits or similar requirements in the ordinary course of business;
- (g) Indebtedness in respect of bid, performance, surety bonds or *fianzas* in the ordinary course of business for the account of the Company or any of its Restricted Subsidiaries, including Guarantees or obligations of the Company or any Restricted Subsidiary with respect to letters of credit and/or *fianzas* supporting such bid, performance or surety obligations (in each case other than for the payment of borrowed money);
- (h) Refinancing Indebtedness in respect of:
- (1) Indebtedness (other than Indebtedness owed to the Company or any Subsidiary of the Company) Incurred pursuant to clause (1) of this covenant (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such clause (1)), or
 - (2) Indebtedness Incurred pursuant to this clause (2)(h) and clauses 2(a), 2(j) and 2(m) of this covenant;
- (i) Capitalized Lease Obligations and Purchase Money Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed US\$5.0 million (or the equivalent in other currencies) at any one time outstanding;
- (j) Permitted Acquisition Indebtedness;
- (k) Capital Securities;
- (l) indemnification, adjustment of purchase price, earn-out or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets of the Company or any Restricted Subsidiary or Capital Stock of a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or equity interests for the purposes of financing or in contemplation of any such acquisition; *provided that* (i)

any amount of such obligations included on the face of the balance sheet of the Company or any Restricted Subsidiary shall not be permitted under this clause (l) and (ii) in the case of a disposition, the maximum aggregate liability in respect of all such obligations outstanding under this clause (l) shall at no time exceed the gross proceeds actually received by the Company and the Restricted Subsidiaries in connection with such disposition;

- (m) other Indebtedness of the Company outstanding on the Issue Date;
- (n) Indebtedness of the Company or any of its Restricted Subsidiaries to the extent the net proceeds thereof are promptly used to redeem the notes in part or in full or deposited to defease or discharge the notes, in each case in accordance with the Indenture; and
- (o) additional Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed the greater of (x) US\$10.0 million and (y) 10.0% of Consolidated Net Worth of the Company and its Restricted Subsidiaries at any time outstanding.

(3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant, (i) the outstanding principal amount of any item of Indebtedness will be counted only once, (ii) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with Applicable GAAP, and (iii) Guarantees of, or obligations in respect of letters of credit or similar instruments relating to, Indebtedness which is otherwise included in the determination of any particular amount of Indebtedness will not be included. Accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of clause (2) of this covenant will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision. For purposes of determining compliance with this “— Limitation on Incurrence of Additional Indebtedness” covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (2)(a) through (2)(o) above, or is entitled to be incurred pursuant to clause (1) of this covenant, the Company will be permitted to classify such item of Indebtedness on the date of its incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses, although the Company may divide and classify an item of Indebtedness in one or more of the types of Indebtedness and may later re-divide or reclassify all or a portion of such item of Indebtedness in any manner that complies with this covenant. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded as a result solely of fluctuations in exchange rates or currency values.

(4) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the Incurrence of such Indebtedness or, in the case of revolving credit Indebtedness, first committed; *provided, however*, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be that provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent of the Indebtedness Refinanced, except to the extent that (x) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (y) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess will be determined on the date such Refinancing Indebtedness is Incurred.

Limitation on Guarantees

Except to the extent that the limitations set forth below expressly contravene, or result in a violation of, Colombian law, the Company will not permit any Restricted Subsidiary of the Company to Guarantee any Indebtedness of the Company or to secure any Indebtedness of the Company with a Lien on the assets of such Restricted Subsidiary, unless contemporaneously therewith (or prior thereto) effective provision is made to Guarantee or secure the notes on an equal and ratable basis with such Guarantee or Lien for so long as such Guarantee or Lien remains effective, and in an amount equal to the amount of Indebtedness so Guaranteed or secured. Any Guarantee by any such Restricted Subsidiary of Subordinated Indebtedness of the Company will be subordinated and junior in right of payment to the contemporaneous Guarantee of the notes by such Restricted Subsidiary.

In the event that any Restricted Subsidiary is required to Guarantee the notes in accordance with the preceding paragraph, such Restricted Subsidiary will be released and relieved of its obligations under such Guarantee in the event:

- (1) there is a Legal Defeasance or a Covenant Defeasance of the notes;
- (2) there is a sale or other disposition of Capital Stock of such Restricted Subsidiary following which such Restricted Subsidiary is no longer a direct or indirect Subsidiary of the Company; or
- (3) such Restricted Subsidiary is designated as an Unrestricted Subsidiary;

provided that, in each case, such transactions are carried out pursuant to and in accordance with all applicable covenants and provisions of the Indenture.

Limitation on Restricted Payments

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
 - dividends or distributions payable in Qualified Capital Stock of the Company,
 - dividends or distributions payable to the Company and/or a Restricted Subsidiary, or
 - dividends, distributions or returns of capital made on a *pro rata* basis to the Company and its Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than *pro rata* basis to any minority holder);
- (b) purchase, redeem or otherwise acquire or retire for value:
 - any Capital Stock of the Company, or
 - any Capital Stock of any Restricted Subsidiary held by an Affiliate of the Company (other than a Restricted Subsidiary) or any Preferred Stock of a Restricted Subsidiary, except for Capital Stock held by the Company or a Restricted Subsidiary or purchases, redemptions, acquisitions or retirements for value of Capital Stock on a *pro rata* basis from the Company and/or any Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand, according to their respective percentage ownership of the Capital Stock of such Restricted Subsidiary;
- (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness or any Capital Securities (excluding (x) any intercompany Indebtedness owed to the Company and/or any Guarantor, (y) any intercompany Indebtedness between Restricted Subsidiaries that are not Guarantors, or (z) the purchase, repurchase or

other acquisition of Indebtedness that is contractually subordinate or otherwise junior in right of payment to the notes, purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case within one year of such date of purchase, repurchase or acquisition); or

(d) make any Investment (other than Permitted Investments);

if at the time of the Restricted Payment and immediately after giving effect thereto:

- (1) a Default or an Event of Default shall have occurred and be continuing;
- (2) the Company is not able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness”; or
- (3) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof, shall exceed the sum of:
 - (A) 50.0% of cumulative Consolidated Net Income of the Company or, if such cumulative Consolidated Net Income of the Company is a loss, minus 100.0% of the loss, accrued during the period, treated as one accounting period, beginning on the first day of the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter for which consolidated financial information of the Company is available; *plus*
 - (B) 100.0% of the aggregate net proceeds, including cash and the Fair Market Value of property used in a Permitted Business (other than cash and securities), received by the Company from any Person from any:
 - contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock or issuance and sale of Qualified Capital Stock of the Company, in each case, subsequent to the Issue Date,
 - issuance and sale subsequent to the Issue Date (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness of the Company or any Restricted Subsidiary that has been converted into or exchanged for Qualified Capital Stock of the Company, or
 - issuance and sale subsequent to the Issue Date of any Capital Securities,excluding, in each case, any net proceeds:
 - (x) received from a Restricted Subsidiary of the Company; or
 - (y) applied in accordance with clause (2) or (3) of the second paragraph of this covenant below; *plus*
 - (C) any Investment Return; *plus*
 - (D) US\$3.0 million.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

(1) the payment of any dividend or distribution or the consummation of any irrevocable redemption of Subordinated Indebtedness within 60 days after the date of declaration of such dividend or distribution or giving of the redemption notice, as the case may be, if the dividend, distribution or redemption would have been permitted on the date of declaration or notice pursuant to the preceding paragraph; *provided* that such redemption shall be included (without duplication for the declaration) in the calculation of the amount of Restricted Payments;

(2) the making of any Restricted Payment,

- (x) in the form of Qualified Capital Stock of the Company,
- (y) through the application of the net proceeds received by the Company from a substantially concurrent sale of Qualified Capital Stock of the Company or a contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock, in each case not received from a Subsidiary of the Company, or
- (z) through the application of the net proceeds received by the Company from a substantially concurrent issuance or sale of Capital Securities;

provided that the value of any such Qualified Capital Stock or Capital Securities used or the net proceeds of which are used to make a Restricted Payment pursuant to this clause (2) shall be excluded from clause (3)(B) of the first paragraph of this covenant;

(3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net proceeds of a substantially concurrent sale, other than to a Subsidiary of the Company, of Refinancing Indebtedness for such Subordinated Indebtedness;

(4) repurchases by the Company of Common Stock of the Company or options, warrants or other securities exercisable or convertible into Common Stock of the Company from any current or former employees, officers, directors or consultants of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of such employees, officers or directors, or the termination of retention of any such consultants, in an amount not to exceed US\$0.5 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years up to a maximum of US\$0.5 million) plus the cash proceeds of key man life insurance policies received by the Company and its Restricted Subsidiaries;

(5) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;

(6) if no Default or Event of Default shall have occurred and be continuing, the declaration and payment of regularly scheduled or accrued dividends or distributions to holders of any class or series of Disqualified Capital Stock of the Company or any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant “—Limitation on Incurrence of Additional Indebtedness”;

(7) the repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness of the Company pursuant to and in accordance with the terms of a “change of control” covenant set forth in the indenture or other agreement pursuant to which such Subordinated Indebtedness is issued and such “change of control” covenant is substantially similar to the Change of Control Triggering Event provision included in the Indenture; provided that the Company (or another Person) has repurchased all notes required to be repurchased by the Company under the caption “Change of Control Triggering Event” prior to the purchase, redemption or other acquisition or retirement for value of such Subordinated Indebtedness pursuant to the applicable “change of control” covenant;

(8) if no Default or Event of Default shall have occurred and be continuing, the purchase by the Company of fractional shares arising out of stock dividends, splits or combinations or business combinations; *provided* that such purchases are not made for the purposes of circumventing the provisions of this covenant; and

(9) if no Default or Event of Default shall have occurred and be continuing, other Restricted Payments in an aggregate amount not to exceed US\$2.0 million per annum.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend), (4), (6) and (8) above shall be included in such calculation and amounts expended pursuant to clauses (2), (3), (5), (7) and (9) above shall not be included in such calculation.

Limitation on Asset Sales and Sales of Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (a) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the assets or Capital Stock sold or otherwise disposed of, and
- (b) at least 75% of the consideration received for the assets or Capital Stock sold by the Company or the Restricted Subsidiary, as the case may be, in such Asset Sale shall be in the form of cash or Cash Equivalents received at the time of such Asset Sale.

For purposes of the immediately preceding clause (b), each of the following will be deemed to be cash:

- (1) any liabilities that are included on the balance sheet of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes) that are assumed by the transferee of any such assets and as a result of which the Company or such Restricted Subsidiary, as the case may be, are fully and unconditionally released from any further liability in connection therewith;
- (2) any securities, notes or other obligations or assets received by the Company or any such Restricted Subsidiary from such transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days of the receipt thereof (subject to ordinary settlement periods), to the extent of the cash or Cash Equivalents received in that conversion;
- (3) the Fair Market Value of any Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary or assets (other than current assets as determined in accordance with Applicable GAAP or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business; and
- (4) any Designated Non-cash Consideration received by the Company or any of its Restricted Subsidiaries in such Asset Sale; *provided* that the aggregate Fair Market Value of such Designated Non-cash Consideration, taken together with the Fair Market Value at the time of receipt of all other Designated Non-cash Consideration received pursuant to this clause (4) less the amount of Net Proceeds previously realized in cash or Cash Equivalents from the sale of prior Designated Non-cash Consideration is less than the greater of (x) 2.5% of Consolidated Tangible Assets at the time of the receipt of such Designated Non-cash Consideration and (y) US\$10.0 million, in each case with the Fair Market Value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value;

provided that amounts received pursuant to clauses (1), (3) and (4) shall not be deemed to constitute Net Cash Proceeds for purposes of making an Asset Sale Offer.

The Company or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof to:

- (a) repay any Senior Indebtedness of the Company, any Indebtedness secured by the assets subject to such Asset Sale or Indebtedness of any Restricted Subsidiary (in each case owing to a Person other than the Company or any Restricted Subsidiary and including, in each case without limitation, Capitalized Lease Obligations),
- (b) make capital expenditures or use it for working capital purposes in a Permitted Business, and/or
- (c) purchase
 - (1) assets (other than current assets as determined in accordance with Applicable GAAP or Capital Stock) to be used by the Company or any Guarantor in a Permitted Business,

- (2) all or substantially all of the assets of, or any Capital Stock of, a Person engaged in a Permitted Business if, after giving effect to any such acquisition, such Person is or becomes or such assets are contributed to a Guarantor, or
- (3) enter into a binding commitment with a Person, other than the Company or any of its Restricted Subsidiaries, to apply such Net Cash Proceeds pursuant to clause (b) and/or (c) above, *provided* that such binding commitment shall be subject only to customary conditions and the applicable purchase shall be consummated within 180 days following the expiration of the aforementioned 365-day period.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within the 365 days of the Asset Sale as described in clause (a), (b) and/or (c) of the immediately preceding paragraph, the Company will make an offer to purchase notes (the "Asset Sale Offer"), at a purchase price equal to 100.0% of the principal amount of the notes to be purchased, plus accrued and unpaid interest thereon, to, but excluding, the date of purchase (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of notes pursuant to an Asset Sale Offer will occur not less than 20 business days following the date thereof, or any longer period as may be required by law, nor more than 45 days following the 365th day following the Asset Sale (except in the case of clause (c)(3) in which case such period shall be extended for 180 days). The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of US\$15.0 million. At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of US\$15.0 million, will be applied as required pursuant to this covenant. Pending application in accordance with this covenant, Net Cash Proceeds may be applied to temporarily reduce revolving credit borrowings or Invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be delivered to the record holders as shown on the register of holders within 20 days following such 365th day, with a copy to the Trustee offering to purchase the notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is delivered, other than as may be required by law (the "Asset Sale Offer Payment Date"). Upon receiving notice of an Asset Sale Offer, holders may elect to tender their notes in whole or in part in minimum principal amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof in exchange for cash.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered pursuant to the Asset Sale Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

To the extent holders of notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered). If only a portion of a note is purchased pursuant to an Asset Sale Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with those laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Company and its Restricted Subsidiaries may use any remaining Net Cash Proceeds for any purpose not otherwise prohibited by the Indenture.

Limitation on Securitization and Loan Receivables Backed Financing

The Company and its Restricted Subsidiaries may sell, transfer or otherwise dispose of accounts receivable to a Securitization Vehicle or a Special Purpose Finance Trust; *provided* that:

- (1) the sale, transfer or other disposition is in connection with a Loan-Related Securitization or Loan Receivables Backed Financing, as the case may be; and
- (2) the aggregate consideration received in each such sale, transfer or other disposition is at least equal to the Fair Market Value of the receivables sold or transferred.

Limitation on Designation of Unrestricted Subsidiaries

Except to the extent that the limitations set forth below expressly contravene, or result in a violation of, Colombian law, the Company may designate after the Issue Date any Subsidiary of the Company as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Designation and any transactions between the Company or any of its Restricted Subsidiaries and such Unrestricted Subsidiary are in compliance with “— Limitation on Transactions with Affiliates”;
- (2) at the time of and after giving effect to such Designation, the Company could Incur US\$1.00 of additional Indebtedness pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness”;
- (3) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph of “— Limitation on Restricted Payments” or as a Permitted Investment in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date; and
- (4) at the time of such Designation, neither the Company nor any Restricted Subsidiary will:
 - (a) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of such Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);
 - (b) be directly or indirectly liable for any Indebtedness of such Subsidiary; or
 - (c) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of such Subsidiary, except for any non-recourse Guarantee given solely to support the pledge by the Company or any Restricted Subsidiary of the Capital Stock of such Subsidiary.

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a “Revocation”) only if:

(1) no Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation; and

(2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

The Designation of a Subsidiary of the Company as an Unrestricted Subsidiary shall be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by a certificate of the Chief Financial Officer of the Company, delivered to the Trustee certifying compliance with the preceding provisions.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (a) Except as provided in paragraph (b) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
- (1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
 - (2) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, the Company or any other Restricted Subsidiary; or
 - (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (b) Paragraph (a) above will not apply to encumbrances or restrictions existing under or by reason of:
- (1) applicable law, rule, regulation or order;
 - (2) the Indenture or the notes;
 - (3) the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or refinancing thereof; provided that any amendment, modification, restatement, renewal, restructuring, replacement or refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;
 - (4) customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien, in each case permitted to be Incurred under the Indenture;
 - (5) any instrument governing Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;
 - (6) customary restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; provided that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
 - (7) customary restrictions imposed on the transfer of copyrighted or patented materials;
 - (8) an agreement governing Indebtedness of the Company or any Restricted Subsidiaries permitted to be Incurred subsequent to the date of the Indenture in accordance with the covenant described above

- under the caption “— Limitation on Incurrence of Additional Indebtedness”; *provided* that the provisions relating to such encumbrance or restriction contained in such agreement are no more restrictive, taken as a whole, than those contained in the agreement referred to in clause (3) of this paragraph;
- (9) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business and Capitalized Lease Obligations that impose restrictions on the property purchased or leased of the nature described in paragraph (a)(3) of this covenant;
 - (10) Liens permitted to be incurred under the provisions of the covenant described below under the caption “— Limitation on Liens” that limits the right of the debtor to dispose of the assets securing such Indebtedness;
 - (11) provisions limiting the payment of dividends or the disposition or distribution of assets or property or transfer of Capital Stock in joint venture agreements, sale-leaseback agreements, limited liability company organizational documents and other similar agreements entered into in accordance with the terms of the Indenture and (a) in the ordinary course of business consistent with past practice or (b) with the approval of the Company’s Board of Directors, which limitation is applicable only to the assets, property or Capital Stock that are the subject of such agreements;
 - (12) restrictions on cash, Cash Equivalents, Marketable Securities or other deposits or net worth imposed by customers or lessors under contracts or leases entered into in the ordinary course of business consistent with past practice to secure trade payable obligations; and
 - (13) restrictions customarily granted in connection with any Loan-Related Securitizations or Loan Receivables Backed Financing.

Limitation on Layered Indebtedness

The Company will not, and will not permit any Guarantor to, directly or indirectly, Incur any Indebtedness that is subordinate in right of payment to any other Senior Indebtedness, unless such Indebtedness is expressly subordinate in right of payment to the notes, or the Note Guarantee, as the case may be, to the same extent and on the same terms as such Indebtedness is subordinate to such other Senior Indebtedness; *provided* that the foregoing limitation shall not apply to distinctions between categories of Senior Indebtedness that exist by reason of any Liens arising or created in respect of some but not all such Senior Indebtedness.

Limitation on Liens

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness or trade payables unless contemporaneously therewith effective provision is made to secure the notes and all other amounts due under the Indenture, equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the notes, prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

Limitation on Merger, Consolidation and Sale of Assets

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company’s properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

- (a) either:
 - (1) the Company shall be the surviving or continuing Person, or

(2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):

- (A) shall be a Person organized or formed and validly existing under the laws of Colombia or a Qualified Merger Jurisdiction, and
- (B) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the notes and the performance and observance of every covenant of the notes and the Indenture on the part of the Company to be performed or observed and shall cause each Guarantor (including Persons that become Guarantors as a result of the transaction) to confirm by supplemental indenture that its Note Guarantee will apply for the Obligations of the Surviving Entity in respect of the Indenture and the notes;

(b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a *pro forma* basis to any Indebtedness, including any Acquired Indebtedness, Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be:

- (1) will be able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) of "— Limitation on Incurrence of Additional Indebtedness," or
- (2) will have (i) a ratio of Total Unencumbered Assets to Total Unsecured Indebtedness of not less than the ratio of Total Unencumbered Assets to Total Unsecured Indebtedness immediately prior to such transaction, and (ii) a Capitalization Ratio of not less than the Capitalization Ratio of the Company and its Restricted Subsidiaries immediately prior to such transaction;

(c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a *pro forma* basis to any Indebtedness, including any Acquired Indebtedness, Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing;

(d) if the Company is organized under Colombian law and merges with a corporation, or the Surviving Entity is, organized under the laws of a Qualified Merger Jurisdiction or the Company is organized under the laws of a Qualified Merger Jurisdiction and merges with a Person, or the Surviving Entity is, organized under the laws of Colombia, the Company or the Surviving Entity will have delivered to the Trustee an Opinion of Counsel from each of Colombia and the relevant Qualified Merger Jurisdiction to the effect that, as applicable:

- (i) the holders of the notes will not recognize income, gain or loss for income tax purposes under the laws of the relevant Qualified Merger Jurisdiction or Colombia as a result of the transaction and will be taxed in the holder's home jurisdiction in the same manner and on the same amounts (assuming solely for this purpose that no Additional Amounts are regarded to be paid on the notes) and at the same times as would have been the case if the transaction had not occurred,
- (ii) any payment of interest or principal under or relating to the notes will be paid in compliance with any requirements under the section "—Additional Amounts," and
- (iii) no other taxes on income, including capital gains, will be payable by holders of the notes under the laws of Colombia or the relevant Qualified Merger Jurisdiction relating to the acquisition, ownership or disposition of the notes, including the receipt of interest or principal thereon; *provided* that the holder does not use or hold, and is not deemed to use or hold the notes in carrying on a business in Colombia or the relevant Qualified Merger Jurisdiction, and

(e) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other

disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The provisions of clause (b) above will not apply to:

- (1) any transfer of the properties or assets of a Restricted Subsidiary to the Company or to another Restricted Subsidiary;
- (2) any merger of a Restricted Subsidiary into the Company or another Restricted Subsidiary; or
- (3) any merger of the Company into a Wholly-Owned Subsidiary of the Company created for the purpose of holding the Capital Stock of the Company.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing corporation, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the notes with the same effect as if such Surviving Entity had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under “—Change of Control Triggering Event,” if applicable.

Each Guarantor will not, and the Company will not cause or permit any Guarantor to, consolidate with or merge into, or sell or dispose of all or substantially all of its assets to, any Person (other than the Company) that is not a Guarantor unless:

(a) such Person (if such Person is the surviving entity) assumes all of the obligations of such Guarantor in respect of its Note Guarantee by executing a supplemental indenture and providing the Trustee with an Officers’ Certificate and Opinion of Counsel, and such transaction is otherwise in compliance with the Indenture;

(b) such Note Guarantee is to be released as provided under “—Note Guarantees”; or

(c) such sale or other disposition of substantially all of such Guarantor’s assets is made in accordance with “—Limitation on Asset Sales and Sales of Subsidiary Stock.”

Limitation on Transactions with Affiliates

(1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an “Affiliate Transaction”), unless:

(a) the terms of such Affiliate Transaction are not materially less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm’s-length basis from a Person that is not an Affiliate of the Company; and

(b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of US\$5.0 million (or the equivalent in other currencies), the terms of such Affiliate Transaction will be set forth in an Officers’ Certificate delivered to the Trustee stating that such transaction complies with clause (a) above; and

- (c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of US\$10.0 million (or the equivalent in other currencies), the terms of such Affiliate Transaction will be approved by a majority of the members of the Board of Directors of the Company (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with clause (a) above; and
 - (d) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of US\$20.0 million (or the equivalent in other currencies), the Company must in addition obtain and deliver to the Trustee a favorable written opinion from an internationally recognized investment banking or accounting firm as to the fairness of the transaction to the Company and its Restricted Subsidiaries from a financial point of view.
- (2) Paragraph (1) above will not apply to:
- (a) Affiliate Transactions with or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries;
 - (b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors, employees, consultants or agents of the Company or any Restricted Subsidiary as determined in good faith by the Company's Board of Directors or senior management of the Company;
 - (c) Affiliate Transactions undertaken pursuant to any contractual obligations or rights in existence on the Issue Date and any amendment, modification or replacement of such agreement (so long as such amendment, modification or replacement is not materially more disadvantageous to the Company and its Restricted Subsidiaries or the holders of the notes, taken as a whole, than the original agreement as in effect on the Issue Date);
 - (d) any Restricted Payments made in compliance with “— Limitation on Restricted Payments” or any Permitted Investments;
 - (e) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary for travel, entertainment, moving and other relocation expenses, in each case made in the ordinary course of business and not exceeding US\$1.5 million outstanding at any one time;
 - (f) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or consistent with past practice and payments pursuant thereto;
 - (g) any issuance of Capital Stock (other than Disqualified Stock) of the Company to Affiliates of the Company or to any director, officer, employee or consultant of the Company, and the granting and performance of registration rights;
 - (h) transactions between the Company or any of its Restricted Subsidiaries and any Securitization Vehicle or Special Purpose Finance Trust in the ordinary course of business in connection with Loan-Related Securitizations or Loan Receivables Backed Financings, as the case may be; and
 - (i) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture, which are fair to the Company or its Restricted Subsidiaries (as applicable), or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party.

Conduct of Business

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Reports to Holders

So long as any notes are outstanding, the Company will furnish to the Trustee:

- (a) Within 120 days following the end of each of the Company's fiscal years:
 - (i) the audited consolidated financial statements of the Company and its subsidiaries (containing income statements, balance sheets, statements of shareholders equity, cash flow statements and any other statements required under Applicable GAAP) and the related notes thereto for the Company's two most recent fiscal years prepared in accordance with Applicable GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission, together with an audit report thereon by the Company's independent auditors; and
 - (ii) information (presented in the English language) including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" with scope and content similar to the corresponding section in this offering memorandum (after taking into consideration any changes to the business and operations of the Company after the Issue Date).

- (b) Within 75 days following the end of each of the three fiscal quarters ended on March 31, June 30 and September 30 in each of the Company's fiscal years (beginning with the fiscal quarter ended March 31, 2020):
 - (i) quarterly unaudited consolidated financial statements of the Company and its subsidiaries (containing balance sheets, statements of income, statements of shareholders equity, statements of cash flows and any other statements required under Applicable GAAP) and the related notes thereto for the Company, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with Applicable GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission; and
 - (ii) information (presented in the English language) including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for such quarterly period.

To the extent that the Company is not required under Colombian law or Applicable GAAP to prepare and make available consolidated financial statements, all references to "consolidated financial statements," "consolidated balance sheet" or "consolidated financial information" of the Company, or similar terms in this "Description of the Notes" section and in the Indenture, shall be deemed to refer to the unconsolidated financial statements, unconsolidated balance sheet or unconsolidated financial information of the Company prepared in accordance with Applicable GAAP.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, the Company shall furnish to the holders of the notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the notes are not freely transferable under the Exchange Act by Persons who are not "affiliates" under the Securities Act.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt thereof shall not constitute constructive notice of any information contained therein or determinable for information contained therein, including the Company's compliance with any of the covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Listing

The Company intends to apply to list the notes on the SGX-ST and to trade the notes on the Official List of the SGX-ST in a minimum board lot size of US\$200,000. The Company will use commercially reasonable efforts to obtain and maintain listing of the notes on the SGX-ST; however, the notes are not yet listed, and the Company cannot assure the holders of the notes that they will be accepted for listing or that the listing will be maintained.

If the Company is unable to list the notes on the SGX-ST and/or the notes do not trade on the Official List of the SGX-ST, or if the Company is unable to maintain such listing and trading, or if as a result regulations adopted or enforced by authorities governing the SGX-ST continued listing on such exchange becomes impractical or materially more burdensome, the Company may delist the notes from such exchange and will, prior to the delisting of such notes, use its commercially reasonable efforts to list and maintain a listing of the notes on another internationally recognized stock exchange.

Notices

As long as the Company issues notes in global form, notices to be given to holders will be given to DTC, in accordance with its applicable policies as in effect from time to time. If the Company issues notes in certificated form, notices, including upon the occurrence of a Change of Control Triggering Event, to be given to holders will be sent by mail to the respective addresses of the holders as they appear in the Trustee's records, and will be deemed given when mailed.

Events of Default

The following are "Events of Default":

(1) default in the payment when due of the principal of or premium, if any, on any notes, including the failure to make a required payment to purchase notes tendered pursuant to an optional redemption, Change of Control Triggering Event Offer or an Asset Sale Offer;

(2) default for 30 days or more in the payment when due of interest or Additional Amounts, if any, on any notes;

(3) the failure to perform or comply with any of the provisions described under "—Certain Covenants— Merger, Consolidation and Sale of Assets;"

(4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the notes for 30 days or more after written notice to the Company from the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes;

(5) default by the Company or any Restricted Subsidiary that is a Significant Subsidiary under any Indebtedness which

(a) is caused by a failure to pay principal or premium, if any, or interest on such Indebtedness prior to the expiration of any applicable grace period provided in the instrument governing such Indebtedness on the date of such default; or

(b) results in the acceleration of such Indebtedness prior to its stated maturity;

and, in each case, the principal or accreted amount of Indebtedness at the relevant time, in the aggregate is equal or more than US\$10.0 million;

(6) failure by the Company or any Restricted Subsidiary that is a Significant Subsidiary to pay one or more final judgments against any of them, aggregating US\$10.0 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 days or more;

(7) certain events of bankruptcy affecting the Company or any of its Restricted Subsidiaries that are Significant Subsidiaries, including the declaration of their *concurso mercantil*; or

(8) any Note Guarantee ceases to be in full force and effect, other than in accordance the terms of the Indenture, or a Guarantor denies or disaffirms its obligations under its Note Guarantee.

If an Event of Default (other than an Event of Default specified in clause (7) above with respect to the Company) shall occur and be continuing, the Trustee or the holders of at least 25% in principal amount of outstanding notes may declare the unpaid principal of (and premium, if any) and accrued and unpaid interest on all

the notes to be immediately due and payable by notice in writing to the Company and the Trustee specifying the Event of Default and that it is a “notice of acceleration.” If an Event of Default specified in clause (7) above occurs with respect to the Company, then the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder. The Trustee shall not be deemed to have any notice of any Default or Event of Default unless written notice of such Default or Event of Default is received by a responsible officer of the Trustee at the corporate trust office of the Trustee, and such notice references the notes and the Indenture.

At any time after a declaration of acceleration with respect to the notes as described in the preceding paragraph, the holders of a majority in principal amount of the notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses (including the fees and expenses of its counsel), disbursements and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The holders of a majority in principal amount of the notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any notes.

In the event of any Event of Default specified in clause (5) of the first paragraph above, such Event of Default and all consequences thereof (excluding, however, any resulting payment default) will be annulled, waived and rescinded, automatically and without any action by the Trustee or the holders, if within 30 days after such Event of Default arose the Company delivers an Officers’ Certificate to the Trustee stating that (x) the Indebtedness or Guarantee that is the basis for such Event of Default has been discharged, or (y) the holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default, or (z) the default that is the basis for such Event of Default has been cured, it being understood that in no event shall an acceleration of the principal amount of the notes as described above be annulled, waived or rescinded upon the happening of any such events.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the holders, unless such holders have offered to the Trustee satisfactory indemnity. Subject to all provisions of the Indenture and applicable law, the holders of a majority in aggregate principal amount of the then outstanding notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No holder of any notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such holder gives to the Trustee written notice of a continuing Event of Default;
- (2) holders of at least 25% in principal amount of the then outstanding notes make a written request to pursue the remedy;
- (3) such holders of the notes provide to the Trustee satisfactory indemnity;
- (4) the Trustee does not comply within 60 days; and

- (5) during such 60 day period the holders of a majority in principal amount of the outstanding notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

provided that a holder of a note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such note on or after the respective due dates expressed in such note.

Upon becoming aware of any Default or Event of Default, the Company is required to deliver to the Trustee written notice of events which would constitute such Defaults or Events of Default, their status and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officers' Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture provides that if a Default or Event of Default occurs, is continuing and written notice of such Default or Event of Default has been delivered to a responsible officer of the Trustee, the Trustee must deliver to each holder notice of the Default or Event of Default within 90 days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as its trust officer in good faith determines that withholding notice is in the interests of the holders.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations with respect to outstanding notes discharged ("Legal Defeasance"). Such Legal Defeasance means that the Company will be deemed to have paid and discharged the entire indebtedness represented by the outstanding notes after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of holders to receive payments in respect of the principal of, premium, if any, and interest on the notes when such payments are due;
- (2) the Company's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee and the Company's obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations released with respect to certain covenants (including, without limitation, obligations to make Change of Control Triggering Event Offers, Asset Sale Offers, the obligations described under "—Certain Covenants" and the cross-acceleration provisions and judgment default provisions described under "Events of Default") that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust for the benefit of the holders, cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;
- (2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that:

- (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling;
or
- (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) to the effect that the beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from the failure to comply with “— Certain Covenants—Limitation on Incurrence of Additional Indebtedness” as a result of the borrowing of the funds required to effect such deposit);

(5) the Trustee has received an Officers’ Certificate stating that such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company has delivered to the Trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring the holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(7) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel from counsel reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

(8) the Company has delivered to the Trustee an Opinion of Counsel from counsel reasonably acceptable to the Trustee and independent of the Company to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors’ rights generally.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes, as expressly provided for in the Indenture) as to all outstanding notes when:

- (1) either:
 - (a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
 - (b) all notes not theretofore delivered to the Trustee for cancellation have become due and payable, and the Company has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of deposit, together

with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment of such notes;

(2) the Company has paid all other sums payable under the Indenture and the notes by it; and

(3) the Company has delivered to the Trustee an Officers' Certificate stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company and the Trustee, without the consent of the holders, may amend the Indenture or the notes for certain specified purposes, including curing ambiguities, omissions, defects or inconsistencies, to provide for uncertificated notes in addition to or in place of certificated notes; to provide for the assumption of the Company's obligations to holders of notes in the case of a merger or consolidation or sale of all or substantially all of the Company's assets, as applicable; to make any change that would provide any additional rights or benefits to the holders or that does not adversely affect the legal rights under the Indenture of any such holder; to comply with applicable requirements of the U.S. Securities and Exchange Commission; to conform the text of the Indenture or the notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture or the notes; to comply with the requirements of any applicable securities depository; to provide for a successor Trustee in accordance with the terms of the Indenture; to otherwise comply with any requirement of the Indenture; to issue Additional Notes; and to make any other changes which do not adversely affect the rights of any of the holders in any material respect. In formulating its opinion on such matters, the Trustee will be entitled to rely on such evidence as it deems appropriate, including solely on an Opinion of Counsel and Officers' Certificate, and shall have no liability whatsoever in reliance upon the foregoing.

Other modifications and amendments of the Indenture or the notes may be made with the consent of the holders of a majority in principal amount of the then outstanding notes issued under the Indenture, except that, without the consent of each holder affected thereby, no amendment may (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption, or reduce the redemption price therefor;

(4) make any notes payable in a currency other than that stated in the notes;

(5) make any change in provisions of the Indenture entitling each holder to receive payment of principal of, premium, if any, and interest on such note on or after the due date thereof or amend the contractual right to bring suit to enforce such payment, or permitting holders of a majority in principal amount of notes to waive Defaults or Events of Default;

(6) amend, change or modify in any material respect any obligation of the Company to make and consummate a Change of Control Triggering Event Offer in respect of a Change of Control Triggering Event that has occurred, or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;

(7) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any holder or amend the terms of the notes in a way that would result in a loss of exemption from Taxes;

(8) make any change to the provisions of the Indenture or the notes that adversely affects the ranking of the notes; and

(9) eliminate or modify in any manner a Guarantor's obligation with respect to its Note Guarantee which adversely affects the holders of the notes in any material respect, except as contemplated in the Indenture.

Governing Law; Jurisdiction

The Indenture and the notes will be governed by, and construed in accordance with, the law of the State of New York. The Company consents to the jurisdiction of the Federal and State courts located in the City of New York, Borough of Manhattan and has appointed an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture or the notes.

The Trustee

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the terms of the indenture, the Trustee will be permitted to engage in other transactions; *provided* that if the Trustee acquires any conflicting interest as described in the indenture, it must eliminate such conflict or resign.

No Personal Liability

An incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company shall not have any liability for any obligations of the Company under the notes or the Indenture or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a note, each holder waives and releases all such liability.

Currency Indemnity

The Company and the Guarantors will pay all sums payable under the Indenture or the notes solely in U.S. dollars. Any amount that a holder receives or recovers in a currency other than U.S. dollars in respect of any sum expressed to be due to such holder from the Company or any Guarantors will only constitute a discharge to us, to the greatest extent permitted under applicable law, to the extent of the U.S. dollar amount which such holder is able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which such holder is able to do so. If the U.S. dollar amount is less than the U.S. dollar amount expressed to be due to such holder under any note, to the greatest extent permitted under applicable law, the Company and the Guarantors will indemnify such holder against any loss such holder may sustain as a result. In any event, the Company and the Guarantors will indemnify any such holder against the cost of making any purchase of U.S. dollars. For the purposes of this paragraph, it will be sufficient for such holder to certify in a satisfactory manner that such holder would have suffered a loss had an actual purchase of U.S. dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which such holder was able to do so. In addition, any such holder will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Guarantors;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any holder; and

- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

“Acquired Indebtedness” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges, consolidates or amalgamates with the Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person; *provided* that such Indebtedness is not incurred in connection with, or in anticipation or contemplation of such merger, consolidation, amalgamation or acquisition. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges, consolidates or amalgamates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“Additional Amounts” has the meaning set forth under “—Additional Amounts” above.

“Additional Notes” has the meaning set forth under “—Payment of Additional Notes” above.

“Affiliate” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“Affiliate Transaction” has the meaning set forth under “—Certain Covenants—Limitation on Transactions with Affiliates” above.

“Applicable GAAP” means either (i) financial reporting and accounting standards (*Normas de Información Financiera*) accepted in Colombia, as provided by Law 1314 of 2009 (as amended), which are based on International Financial Reporting Standards, together with their corresponding interpretations as issued by the International Accounting Standards Board, or (ii) International Financial Reporting Standards as issued by the International Accounting Standards Board, in each case as in effect from time to time.

“Asset Acquisition” means:

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary;
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (3) any Revocation with respect to an Unrestricted Subsidiary.

“Asset Sale” means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer, including a Sale and Leaseback Transaction (each, a “disposition”) by the Company or any Restricted Subsidiary of:

- (a) any Capital Stock of any Restricted Subsidiary (but not Capital Stock of the Company); or

(b) any property or assets (other than cash or Cash Equivalents or Capital Stock of the Company) of the Company or any Restricted Subsidiary.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) the disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries as permitted under “—Certain Covenants—Merger, Consolidation and Sale of Assets;”
- (2) for purposes of “—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock” only, the making of a Restricted Payment permitted under “—Certain Covenants—Limitation on Restricted Payments” or any Permitted Investment;
- (3) a disposition to the Company or a Guarantor, including a Person that is or will become a Guarantor immediately after the disposition;
- (4) transactions that involve assets or Capital Stock of a Restricted Subsidiary having a Fair Market Value of less than US\$3.0 million (or the equivalent in other currencies) during the life of the notes;
- (5) a transfer of assets between or among the Company and any Guarantor;
- (6) an issuance or sale of Capital Stock by a Restricted Subsidiary of the Company to the Company or any Restricted Subsidiary;
- (7) the disposition of accounts receivable and Loan Receivables as permitted under “—Certain Covenants—Limitations on Securitizations and Loan Receivables Backed Financings”;
- (8) the sale of delinquent loans to unaffiliated third parties;
- (9) any sale or other disposition of damaged, worn-out, obsolete or no longer useful assets or properties in the ordinary course of business;
- (10) the sale of assets received by the Company or any of its Restricted Subsidiaries upon the foreclosure of a Lien in the ordinary course of business;
- (11) the granting of Liens permitted under “Certain Covenants—Limitation on Liens”;
- (12) the good faith surrender or waiver of contract rights or settlement, release or surrender of contract, tort or other claims or statutory rights in connection with a settlement in the ordinary course of business consistent with past practice; and
- (13) a disposition to a Restricted Subsidiary that is not a Guarantor from another Restricted Subsidiary that is not a Guarantor.

“*Asset Sale Offer*” has the meaning set forth under “—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (4) of that definition.

“*Board of Directors*” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Capitalization Ratio*” means, for any Person as of any date of determination, the result (expressed as a percentage) obtained by dividing (x) Consolidated Net Worth of such Person (calculated as of the end of the last completed fiscal quarter ending on or prior to the date of the transaction giving rise to the need to calculate Consolidated Net Worth) by (y) Net Loan Portfolio as of such date of determination.

“*Capital Securities*” means, with respect to the Company, any bonds, debentures, notes or other similar instruments of the Company (i) which are expressly subordinated in right of payment and in insolvency to the prior payment in full of any note and any other Senior Indebtedness, (ii) which have a scheduled maturity date of at least 10 years after the Issue Date, (iii) the first principal payment in respect of which (pursuant to any redemption provision, amortization schedule or otherwise) may not occur until at least 12 months after the last scheduled principal payment of any note and any other Senior Indebtedness, (iv) the principal of which may not be accelerated so long as any note remains outstanding (except pursuant to a customary bankruptcy event of default with respect to the Company), (v) are senior only to Capital Stock of the Company, (vi) in respect of which interest may be deferred and cancelled, and (vii) which, prior to their issuance, are provided equity-like treatment by at least two Rating Agencies pursuant to their respective rating criteria.

“*Capital Stock*” means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;
- (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and
- (3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under Applicable GAAP. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with Applicable GAAP.

“*Cash Equivalents*” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof;
- (2) marketable direct obligations issued by the government of Colombia and maturing not later than one year after the acquisition thereof;
- (3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Fitch or any successor thereto;
- (4) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-2 from S&P or at least F-1 from Fitch;
- (5) demand deposits, certificates of deposit, time deposits or bankers’ acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, (b) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than US\$500.0 million, or (c) in the case of Colombian peso deposits, any institution regulated by or subject to the supervision of the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*);

- (6) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (5) above;
- (7) any other debt instruments (i) having a rating of at least A-1 or AAA from S&P or F1 or AAA from Fitch or (ii) issued by any institution regulated by or subject to the supervision of the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*), in each case, with maturities of one year or less from the date of acquisition; and
- (8) investments in money market funds, which invest substantially all of their assets in securities of the types described in clauses (1) through (7) above.

“*Change of Control*” means the occurrence of one or more of the following events:

(1) the Permitted Holders cease to be the beneficial owners, directly or indirectly, in the aggregate of at least 30.0% of the total voting power of the Voting Stock of the Company (or its successor by merger, consolidation or purchase of all or substantially all of its assets); or

(2) if any “person” or “group” (as defined below) (other than a Permitted Holder) becomes the beneficial owner, directly or indirectly, of a greater amount of the total voting power of the Voting Stock of the Company than the total voting power of the Voting Stock of the Company held by the Permitted Holders in the aggregate; or

(3) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction “beneficially owned” the outstanding Voting Stock of the Company are, by virtue of such prior ownership, or Permitted Holders are, the “beneficial owners” in the aggregate of a majority of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect wholly-owned subsidiary of another Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture.

For purposes of this definition:

(a) “beneficial owner” will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act, except that any Person or Group will be deemed to have “beneficial ownership” of all securities that such Person or Group has the right to acquire, whether such right is exercisable immediately, only after the passage of time or, except in the case of the Permitted Holders, upon the occurrence of a subsequent condition.

(b) “Person” and “Group” will have the meanings for “person” and “group” as used in Sections 13(d) and 14(d) of the Exchange Act; and

(c) the Permitted Holders will be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the “parent corporation”) so long as the Permitted Holders beneficially own, directly or indirectly, in the aggregate at least 50.0% of the voting power of the Voting Stock of the parent corporation and no other Person or Group beneficially owns an equal or greater amount of the Voting Stock of the parent corporation.

“*Change of Control Triggering Event*” has the meaning set forth under “—Change of Control Triggering Event.”

“*Change of Control Triggering Event Offer*” has the meaning set forth under “—Change of Control Triggering Event.”

“*Change of Control Triggering Event Payment*” has the meaning set forth under “—Change of Control Triggering Event.”

“*Change of Control Triggering Event Payment Date*” has the meaning set forth under “—Change of Control Triggering Event.”

“*Colombian Restructuring*” means any case or other proceeding against the Company or any Subsidiary with respect to it or its debts under bankruptcy, *reorganización empresarial*, *liquidación judicial*, insolvency or other similar law now or hereafter in effect or seeking the appointment of a *promotor*, *liquidador*, custodian or other similar official of it or any substantial part of its properties.

“*Common Stock*” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a consolidated basis, determined in accordance with Applicable GAAP; *provided* that there shall be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains or losses from Asset Sale Transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary gains or losses;
- (3) the net income (but not loss) of any Person, other than such Person and any Subsidiary of such Person (Restricted Subsidiary in the case of the Company); except that, solely for purposes of calculating Consolidated Net Income pursuant to clause (3) of the first paragraph of “Certain Covenants—Limitation on Restricted Payments” only, Consolidated Net Income of the Company will include the Company’s proportionate share of the net income of:
 - (a) any Person acquired in a “pooling of interests” transaction accrued prior to the date it becomes a Restricted Subsidiary or is merged or consolidated with the Company or any Restricted Subsidiary; or
 - (b) a Surviving Entity prior to assuming the Company’s obligations under the Indenture and the notes pursuant to “Certain Covenants—Limitation on Merger, Consolidation and Sales of Assets”;
- (4) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that (and only so long as) a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such distribution;
- (5) any increase (but not decrease) in net income attributable to minority interests in any Subsidiary (Restricted Subsidiary in the case of the Company);
- (6) any gain (or loss) from foreign exchange translation or change in net monetary position;
- (7) any gains or losses (less all fees and expenses or charges relating thereto) attributable to the early extinguishment of Indebtedness and Hedging Obligations; and
- (8) the cumulative effect of changes in accounting principles.

“*Consolidated Net Worth*” means, for any Person at any time, the consolidated stockholders’ equity of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) as set forth on the consolidated balance sheet as of the most recent fiscal quarter of such Person, prepared in accordance with Applicable GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person.

“*Consolidated Tangible Assets*” means, for any Person at any time, the total consolidated assets of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) as set forth on the consolidated balance sheet as of the most recent fiscal quarter of such Person, prepared in accordance with Applicable GAAP, *less* Intangible Assets.

“*Covenant Defeasance*” has the meaning set forth under “—Legal Defeasance and Covenant Defeasance.”

“*Currency Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Designated Non-cash Consideration*” means the Fair Market Value of non-cash consideration used in a Permitted Business (other than securities) received by the Company or any of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as Designated Non-cash Consideration pursuant to an officers’ certificate, setting forth the basis of such valuation, executed by the Chief Executive Officer or the Chief Financial Officer of the Company and delivered to the Trustee, less the amount of cash or Cash Equivalents received in connection with a sale of such Designated Non-cash Consideration.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries” above.

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the final maturity date of the notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the final maturity of the notes shall not constitute Disqualified Stock if:

(1) the “asset sale” or “change of control” provisions applicable to such Capital Stock are not materially more favorable to the holders of such Capital Stock than the terms applicable to the notes and described under “—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock” and “—Certain Covenants—Change of Control Triggering Event;” and

(2) any such requirement only becomes operative after compliance with such terms applicable to the notes, including the purchase of any notes tendered pursuant thereto.

The amount of any Disqualified Capital Stock shall be equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any. The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent consolidated financial statements of such Person.

“*Eligible Subsidiary*” means a Restricted Subsidiary that is a Wholly-Owned Subsidiary of the Company or of a Guarantor but excluding (1) any Subsidiary the net assets of which are less than US\$3.0 million and (2) for the avoidance of doubt, any Special Purpose Finance Trust.

“*ECP Program*” means the Company’s euro commercial paper program established or otherwise contemplated by the Program Agreement dated as of August 12, 2014, by and among the Company and the dealers named therein, as such document may be amended or supplemented from time to time, under which the Company may issue and have outstanding at any time notes up to an aggregate principal amount of US\$150.0 million.

“*Equity Sales*” has the meaning set forth under “—Optional Redemption upon Equity Sales.”

“*Event of Default*” has the meaning set forth under “Events of Default.”

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Fair Market Value*” means, with respect to any asset (including, without limitation, accounts receivable), the price (after deducting any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided* that the Fair Market Value of any such asset (including, without limitation, accounts receivable) will be determined conclusively by the senior management of the Company acting in good faith.

“*Fitch*” means Fitch, Inc. and its successors and assigns.

“*Guarantee*” means any obligation, contingent or otherwise, including an *aval*, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

provided that “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. “Guarantee” used as a verb has a corresponding meaning.

“*Guarantor*” means any Eligible Subsidiary that provides a Note Guarantee pursuant to the Indenture unless and until such Guarantor is released from its Note Guarantee pursuant to the Indenture.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement or Currency Agreement.

“*Impairment of Financial Assets and FGA Reserve*” means, as of any date of determination, the sum of (i) impairment of financial assets of the Company and its Restricted Subsidiaries as set forth on the consolidated financial statements and related notes thereto as of and for the most recent fiscal quarter of the Company, prepared in accordance with Applicable GAAP and (ii) the amount of the guarantee disclosed on the notes to the consolidated financial statements of the Company with respect to Loan Receivables guaranteed by the *Fondo de Garantías de Antioquia* pursuant to that certain agreement between the Company and the *Fondo de Garantías de Antioquia*, dated as of August 9, 2011, as amended from time to time.

“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and “Incurrence,” “Incurred” and “Incurring” will have meanings correlative to the preceding).

“*Indebtedness*” means with respect to any Person, without duplication:

(1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;

(2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person;

(4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 180 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);

(5) all letters of credit, banker's acceptances or similar credit transactions, including reimbursement obligations in respect thereof;

(6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (11) below;

(7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;

(8) all Net Obligations under Hedging Obligations of such Person;

(9) all Indebtedness Incurred by a Special Purpose Finance Trust;

(10) to the extent not otherwise included in this definition, all liabilities required to be recorded on the consolidated financial statements and notes thereto of such Person in accordance with Applicable GAAP in connection with a sale or other disposition of securitized receivables, Loan Receivables or other accounts receivables and related assets, including, without limitation, in connection with any Loan-Related Securitization or Loan Receivables Backed Financing; and

(11) all Disqualified Capital Stock issued by such Person.

"Intangible Assets" means with respect to any Person all unamortized debt discount and expense, unamortized net deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangibles on the consolidated balance sheet of such Person prepared in accordance with Applicable GAAP.

"Interest Rate Agreement" of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

"Investment" means, with respect to any Person, any:

(1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person,

(2) capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) any other Person, or

(3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

"Investment" will exclude accounts receivable or deposits arising in the ordinary course of business. *"Invest,"* *"Investing"* and *"Invested"* will have corresponding meanings.

For purposes of the "Limitation on Restricted Payments" covenant, the Company will be deemed to have made an "Investment" in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted

Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“*Investment Grade Rating*” means a rating equal to or higher than BBB- (or the equivalent) by Fitch or S&P or, if either such entity ceases to rate the notes for reasons outside of the control of the Company, the equivalent investment grade credit rating from any other Rating Agency.

“*Investment Return*” means, in respect of any Investment (other than a Permitted Investment) made after the Issue Date by the Company or any Restricted Subsidiary:

(1) (x) the proceeds in cash and the Fair Market Value of property other than cash received by the Company or any Restricted Subsidiary upon the sale, liquidation or repayment of such Investment or, in the case of a Guarantee, the amount of the Guarantee upon the unconditional release of the Company and its Restricted Subsidiaries in full, less any payments previously made by the Company or any Restricted Subsidiary in respect of such Guarantee and (y) any dividends or distributions received by the Company or any Restricted Subsidiary from an Unrestricted Subsidiary, to the extent such amounts were not otherwise included in Consolidated Net Income;

(2) in the case of the Revocation of the Designation of an Unrestricted Subsidiary, an amount equal to the lesser of:

- (a) the Company’s Investment in such Unrestricted Subsidiary at the time of such Revocation;
- (b) that portion of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time of Revocation that is proportionate to the Company’s equity interest in such Unrestricted Subsidiary at the time of Revocation; and
- (c) the Designation Amount with respect to such Unrestricted Subsidiary upon its Designation which was treated as a Restricted Payment; and

(3) in the event the Company or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, the Fair Market Value of the Investment of the Company and its Restricted Subsidiaries in such Person, in the case of each of (1), (2) and (3), up to the amount of such Investment that was treated as a Restricted Payment under “Certain Covenants — Limitation on Restricted Payments” less the amount of any previous Investment Return in respect of such Investment.

“*Issue Date*” means February 7, 2020.

“*Legal Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Lien*” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale, assignment or transfer, or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that (i) the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder and (ii) the grantor in respect of a Loan Receivables Backed Financing will be deemed to have Incurred a Lien on the Loan Receivables assigned or transferred thereunder.

“*Loan Receivables*” means loans and other loan-related receivables purchased or originated by the Company or any Restricted Subsidiary; *provided, however*, that for purposes of determining the amount of a Loan Receivable at any time, such amount shall be determined in accordance with Applicable GAAP, consistently applied, as of the most recent practicable date.

“*Loan Receivables Backed Financing*” means any financing transaction or series of transactions entered into by the Company or any of its Restricted Subsidiaries pursuant to which such Person directly or indirectly assigns or transfers a pool of specified Loan Receivables or related assets of the Company or any Restricted Subsidiary to a Special Purpose Finance Trust on terms that senior management has concluded are customary and market terms fair to the Company and its Restricted Subsidiaries and the proceeds of which are used to repay any Senior Indebtedness of the Company, make capital expenditures in a Permitted Business, and/or purchase assets to be used by the Company or any Restricted Subsidiary in a Permitted Business.

“*Loan-Related Securitization*” means any securitization, factoring, discounting or similar financing transaction or series of transactions entered into by the Company or any of its Restricted Subsidiaries pursuant to which the Company or any of its Restricted Subsidiaries directly or indirectly through a Securitization Vehicle securitizes a pool of specified Loan Receivables, Residual Interests, net interest margin securities or similar or related assets of the Company or any Restricted Subsidiary on terms that the Board of Directors has concluded are customary and market terms fair to the Company and its Restricted Subsidiaries and the proceeds of which are used to repay any Senior Indebtedness of the Company, make capital expenditures in a Permitted Business, and/or purchase assets to be used by the Company or any Restricted Subsidiary in a Permitted Business.

“*Marketable Securities*” has the meaning ascribed to such term under Applicable GAAP.

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, net of:

(1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;

(3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale; and

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with Applicable GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Net Loan Portfolio*” means, as of any date of determination, the principal amount of the total Loan Receivables of the Company and its Restricted Subsidiaries less Impairment of Financial Assets and FGA Provision of the Company and its Restricted Subsidiaries, in each case, as set forth on the consolidated financial statements and notes thereto as of the most recent fiscal quarter of the Company, prepared in accordance with Applicable GAAP.

“*Net Obligations*” means, at any date of determination, the net amount, exclusive of any commissions or administrative fees that a Person would be obligated to pay upon the termination of any Hedging Obligations.

“*Obligations*” means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the documentation governing such Indebtedness, including in the case of the notes, the Indenture.

“*Officer*” means, when used in connection with any action to be taken by the Company, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the General Counsel, the Controller or the Secretary of the Company.

“*Officers' Certificate*” means, when used in connection with any action to be taken by the Company, a certificate signed by two Officers or by an Officer and either the Chief Accountant or an Assistant Secretary of the Company and delivered to the Trustee.

“*Opinion of Counsel*” means a written opinion of counsel, who may be an employee of or counsel for the Company (except as otherwise provided in the Indenture) and which opinion shall be reasonably acceptable to the Trustee.

“*Permitted Acquisition Indebtedness*” means Indebtedness of the Company to the extent such Indebtedness was (i) Indebtedness of a Subsidiary prior to the date on which such Subsidiary became a Restricted Subsidiary, (ii)

Indebtedness of a Person that was merged, consolidated or amalgamated into the Company or (iii) assumed in connection with the acquisition of assets from a Person; *provided* that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged, consolidated or amalgamated into the Company or assumed in connection with an Asset Acquisition, as applicable, after giving *pro forma* effect thereto, (a) the Company would be permitted to incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” or (b)(1) the ratio of Total Unencumbered Assets of the Company and its Restricted Subsidiaries (on a consolidated basis) to Total Unsecured Indebtedness of the Company and its Restricted Subsidiaries would be equal to or greater than the ratio of Total Unencumbered Assets to Total Unsecured Indebtedness of the Company and its Restricted Subsidiaries immediately prior to such transaction, and (2) the Capitalization Ratio of the Company and its Restricted Subsidiaries would be equal to or greater than the Capitalization Ratio of the Company and its Restricted Subsidiaries immediately prior to such transaction.

“*Permitted Business*” means the business or businesses conducted by the Company as of the Issue Date, and any business related, ancillary or complementary thereto or otherwise arising out of those activities, including, without limitation, any activities relating to consumer lending, credit card loans, payroll loan financing, durable goods lending, auto loans, loans to small and medium enterprises (SMEs) and independent professionals, the extension of group loans and other consumer goods and receivables financing services.

“*Permitted Holders*” means:

(1) (i) David Seinjet, (ii) a parent, brother or sister of David Seinjet, (iii) the spouse or a former spouse of any individual referenced in clause (i) or (ii), (iv) the lineal descendants of any person referenced in clauses (i) through (iii) and the spouse or a former spouse of any such lineal descendant, (v) the estate, heir or any guardian, custodian or other legal representative of any individual referenced in clauses (i) through (iv), (vi) any trust or other investment vehicle established principally for the benefit of any one or more of the individuals (or their respective heirs) referenced in clauses (i) through (v), and (vii) any Person in which a majority of the equity interests are owned, directly or indirectly, by any one or more of the Persons referenced in clauses (i) through (vi);

(2) Gramercy Funds Managements LLC; and

(3) ACON Investments, L.L.C.

“*Permitted Indebtedness*” has the meaning set forth under clause (2) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

“*Permitted Investments*” means:

(1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary, except for a Guarantee of Indebtedness of a Restricted Subsidiary;

(2) Investments by the Company, or any Restricted Subsidiary, in the Company;

(3) Investments in cash and Cash Equivalents;

(4) Investments existing as of the Issue Date and any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);

(5) Investments permitted pursuant to clause (2)(b), (c) or (e) of “—Certain Covenants—Limitation on Transactions with Affiliates;”

(6) Investments received as a result of the bankruptcy or reorganization of any Person, or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;

(7) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under “Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock;”

(8) Investments in the form of Hedging Obligations permitted under clause 2(c) of “Certain Covenants—Limitation on Incurrence of Additional Indebtedness;”

(9) Investments in a Person engaged in a Permitted Business, provided that any such Investment, taken together with all Investments made in reliance on this clause (9) since the Issue Date, shall not exceed (a) 2.5% of the Consolidated Tangible Assets of the Company *plus* (b) US\$10.0 million, *plus* (c) returns received from Investments made under this clause (9), *provided, however*, that these returns (i) are not included in the Consolidated Net Income of the Company, (ii) are in the form of cash and (iii) do not exceed the amount of Investments in such Person made after the Issue Date in reliance on this clause (9). For the avoidance of doubt, Investments in Restricted Subsidiaries shall not be affected by this clause (9);

(10) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(11) payroll, travel, entertainment, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(12) loans or advances to employees in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary;

(13) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers’ compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;

(14) credit card loans, payroll loans, durable goods loans, small business loans, group loans, car loans and other loans (including loan portfolios) made or acquired by the Company in the ordinary course of business, including, without limitation, the acquisition of loans or loan portfolios from third parties; and

(15) Investments in any Person in connection with a Loan-Related Securitization or in any Special Purpose Finance Trust in connection with a Loan Receivables Backed Financing; *provided* that such Investment in any such Person or Special Purpose Finance Trust is in the form of a receivables financing facility, net interest margin securities or similar or related assets of the Company or any Restricted Subsidiary and transferred to such Person or Special Purpose Finance Trust in connection with a Loan-Related Securitization (including by way of transfers of receivables to a Securitization Vehicle) or Loan Receivables Backed Financing;

provided, however, that with respect to any Investment, the Company may, in its sole discretion, allocate all or any portion of any Investment and later re-allocate all or any portion of any Investment to, one or more of the above clauses (1) through (15) so that the entire Investment would be a Permitted Investment.

“*Permitted Liens*” means any of the following:

(1) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith;

(2) Liens Incurred or deposits made in the ordinary course of business (x) in connection with workers’ compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or (y) to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(3) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(4) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and set-off;

(5) Liens securing Hedging Obligations that relate to Indebtedness that is Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” and that are secured by the same assets as secure such Hedging Obligations;

(6) Liens existing on the Issue Date and Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness which has been secured by a Lien permitted under the covenant described under “—Certain Covenants—Limitation on Liens” not incurred pursuant to clauses (8) and (9) of this definition of “Permitted Liens” and which Indebtedness has been Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;” *provided* that such new Liens:

- (a) are no less favorable to the holders of notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced, and
- (b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;

(7) Liens securing Acquired Indebtedness Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided* that

- (a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary, and
- (b) such Liens do not extend to or cover any property of the Company or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary;

(8) purchase money Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred to finance the acquisition or leasing of property of the Company or a Restricted Subsidiary used in a Permitted Business; *provided* that:

- (a) the related Purchase Money Indebtedness does not exceed the cost of such property and shall not be secured by any property of the Company or any Restricted Subsidiary other than the property so acquired, and
- (b) the Lien securing such Indebtedness will be created within 365 days of such acquisition;

(9) any pledge or deposit of cash or property in conjunction with obtaining surety and performance bonds and letters of credit required to engage in constructing on-site and off-site improvements required by municipalities or other governmental authorities in the ordinary course of business;

(10) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(11) Liens encumbering customary initial deposits and margin deposits, and other Liens that are customary in the industry and incurred in the ordinary course of business securing Indebtedness under Hedging Obligations and forward contracts, options, futures contracts, futures options or similar agreements or arrangements designed to protect the Company and its Restricted Subsidiaries from fluctuations in interest rates;

(12) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with Applicable GAAP has been made therefor;

(13) licenses of intellectual property in the ordinary course of business;

(14) Liens to secure a defeasance trust to the extent such defeasance is otherwise permitted pursuant to the terms of the Indenture;

(15) easements, rights-of-way, zoning and similar restrictions, reservations, restrictions or encumbrances in respect of real property or title defects that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties (as such properties are used by the Company or its Restricted Subsidiaries) or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;

(16) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings that may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such legal proceedings may be initiated shall not have expired;

(17) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary; or

(18) to the extent that at the time of and immediately after giving *pro forma* effect to the Incurrence thereof the Total Unencumbered Assets of the Company and its Restricted Subsidiaries (on a consolidated basis) is at least 110.0% of the Total Unsecured Indebtedness of the Company and its Restricted Subsidiaries (on a consolidated basis), Liens on Loan Receivables, other receivables, net interest margin securities or similar or related assets of the Company or any Restricted Subsidiary Incurred in connection with any Loan-Related Securitization, Loan Receivables Backed Financing or any debt facility entered into for the purpose of financing or refinancing the purchase or origination or financing the pooling of Loan Receivables or other receivables, net interest margin securities or similar or related assets by the Company or a Restricted Subsidiary.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Post-Petition Interest*” means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

“*Preferred Stock*” of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“*Purchase Money Indebtedness*” means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement of any property; *provided* that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

“*Qualified Capital Stock*” means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

“*Qualified Merger Jurisdiction*” means (i) the United States, any State thereof or the District of Columbia; (ii) any member state of the European Union; or (iii) any other nation that has a sovereign debt rating from two

Rating Agencies that is equal to or higher than the sovereign debt rating assigned to Colombia by such Rating Agencies.

“*Rating Agencies*” means (i) S&P, (ii) Fitch or (iii) if S&P or Fitch or both shall not make a rating of the notes publicly available, a nationally recognized United States securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Fitch or both, as the case may be.

“*Rating Date*” means the earlier of the date of public notice of the occurrence of a Change of Control or of the entry into a definitive agreement contemplating a Change of Control.

“*Refinance*” means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. “*Refinanced*” and “*Refinancing*” will have correlative meanings; *provided* that, with respect to Indebtedness Incurred by the Company under its ECP Program (and solely with respect to such Indebtedness), the term “*Refinance*” shall include the replacement of any Indebtedness Incurred thereunder through the repayment of such Indebtedness on its stated maturity date and the issuance shortly thereafter (and in any event no later than fifteen (15) business days thereafter) of new Indebtedness under the ECP Program to be acquired by the same dealer who originally acquired the Indebtedness being replaced.

“*Refinancing Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary so long as:

(1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing);

(2) such new Indebtedness has:

- (a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced, and
- (b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced; and

(3) if the Indebtedness being Refinanced is:

- (a) Indebtedness of the Company, then such Refinancing Indebtedness will be Indebtedness of the Company,
- (b) Indebtedness of a Guarantor, then such Refinancing Indebtedness will be Indebtedness of the Company and/or such Guarantor, and
- (c) Subordinated Indebtedness, then such Refinancing Indebtedness shall be subordinate to the notes, at least to the same extent and in the same manner as the Indebtedness being Refinanced.

“*Residual Interests*” means (i) any residual interests in Loan-Related Securitizations, Securitization Securities or any other interests in Securitization Vehicles or (ii) the residual value of any assets that are financed through Indebtedness Incurred in connection with a Loan-Related Securitization, regardless of whether required to appear on the face of the consolidated financial statements of such Person and its Subsidiaries in accordance with Applicable GAAP.

“*Restricted Payment*” has the meaning set forth under “*Certain Covenants—Limitation on Restricted Payments.*”

“*Restricted Subsidiary*” means any Subsidiary of the Company, which at the time of determination is not an Unrestricted Subsidiary.

“*Revocation*” has the meaning set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.”

“*S&P*” means Standard & Poor’s Ratings Services and its successors and assigns.

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“*Secured Indebtedness*” means any Indebtedness secured by a Lien upon the property or assets of the Company and/or its Restricted Subsidiaries; *provided* that Indebtedness Incurred by a Special Purpose Finance Trust shall be deemed Secured Indebtedness of the grantor thereof.

“*Securitization Securities*” has the meaning set forth in the definition of “Securitization Vehicle.”

“*Securitization Vehicle*” means (i) any Person (whether or not a Restricted Subsidiary of the Company) established for the purpose of issuing asset-backed securities of any kind or issuing any other Indebtedness (whether or not in the form of securities) backed by Loan Receivables or Residual Interests (“Securitization Securities”), and (ii) any special purpose, bankruptcy remote Restricted Subsidiary of the Company or any of its Restricted Subsidiaries established in connection with the issuance of Securitization Securities and any other entity (or several entities) that serves as an intermediate entity between a Restricted Subsidiary, as the case may be, that initially purchases or originates Loan Receivables or Residual Interests and an entity referred to in clause (i) regardless of whether such Restricted Subsidiary is an issuer of Securitization Securities; *provided* that in each case, such entity is an entity:

(1) that does not engage in, and whose charter prohibits it from engaging in, any activities other than Loan-Related Securitizations and any activity necessary, incidental or related thereto,

(2) no portion of the Debt or any other obligation, contingent or otherwise, of which: (i) is Guaranteed by the Company or any Restricted Subsidiary of the Company, (ii) is recourse to or obligates the Company or any Restricted Subsidiary of the Company in any way, or (iii) subjects any property or asset of the Company or any Restricted Subsidiary of the Company, directly or indirectly, contingently or otherwise, to the satisfaction thereof;

(3) with respect to which neither the Company nor any Restricted Subsidiary of the Company (other than an Unrestricted Subsidiary) has any obligation to maintain or preserve its financial condition or cause it to achieve certain levels of operating results other than, in respect of clauses (2) and (3), (x) pursuant to customary representations, warranties, covenants and indemnities entered into in connection with a Loan-Related Securitization, and (y) any Guarantees by the Company or a Restricted Subsidiary of any Indebtedness of a Securitization Vehicle that would constitute Permitted Indebtedness or which would be permitted under “—Limitation on Incurrence of Additional Indebtedness.”

“*Senior Indebtedness*” means the notes (and any Note Guarantee thereof) and any other Indebtedness of the Company or a Guarantor that is not, pursuant to the instrument evidencing such Indebtedness, expressly subordinated in right of payment to the notes, or the relevant Note Guarantee.

“*Significant Subsidiary*” means a Subsidiary of the Company constituting a “Significant Subsidiary” of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof.

“*Special Purpose Finance Trust*” means any trust (*patrimonio autónomo*) established by the Company pursuant to a commercial trust agreement (*contrato de fideicomiso mercantil*) for the purpose of, directly or indirectly, incurring Indebtedness backed by Loan Receivables; *provided* that in each case:

(1) such Special Purpose Finance Trust is an entity that does not engage in, and whose charter prohibits it from engaging in, any activities other than Loan Receivables Backed Financing and any activity necessary, incidental or related thereto;

(2) the grantor and beneficiary of such Special Purpose Finance Trust is the Company;

(3) such Special Purpose Finance Trust is accounted for as a pass-through entity under Applicable GAAP and its related assets and liabilities appear on the balance sheet of the Company;

(4) any Indebtedness Incurred by such Special Purpose Finance Trust would constitute Permitted Indebtedness of the Company or would be permitted under “—Limitation on Incurrence of Additional Indebtedness”; and

(5) any Liens Incurred by the grantor of the Special Purpose Finance Trust would constitute Permitted Liens of the Company or would be permitted under “—Limitation on Liens.”

“*Subordinated Indebtedness*” means, with respect to the Company or a Guarantor, any Indebtedness of the Company or a Guarantor that is, pursuant to the instrument evidencing such Indebtedness, expressly subordinated in right of payment to the notes, the relevant Note Guarantee or any other Senior Indebtedness, as the case may be.

“*Subsidiary*” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50.0% of the voting power of the other Person’s outstanding Voting Stock.

“*Surviving Entity*” has the meaning set forth under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets.”

“*Total Unencumbered Assets*” means, as of any date of determination, the total consolidated assets of the Company and its Restricted Subsidiaries as set forth on the consolidated balance sheet as of the most recent fiscal quarter of the Company (but excluding Intangible Assets, any net deferred tax assets and any other assets securing Indebtedness of the Company), in each case on such date not securing any portion of Secured Indebtedness determined on a consolidated basis in accordance with Applicable GAAP.

“*Total Unsecured Indebtedness*” means, as of any date of determination, the total outstanding principal amount of all Unsecured Indebtedness of the Company and its Restricted Subsidiaries.

“*U.S. Dollar Equivalent*” means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in *The Wall Street Journal* in the “Exchange Rates” column under the heading “Currency Trading” on the date two business days prior to such determination.

Except as described under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” whenever it is necessary to determine whether the Company has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially determined in such currency.

“*Unrestricted Subsidiary*” means any Subsidiary of the Company Designated as an Unrestricted Subsidiary pursuant to “Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.” Any such Designation may be revoked by a certificate of the Chief Financial Officer of the Company, subject to the provisions of such covenant.

“*Unsecured Indebtedness*” means any Indebtedness of the Company and/or its Restricted Subsidiaries other than Secured Indebtedness.

“*Voting Stock*” with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

(1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into

(2) the sum of the products obtained by multiplying:

- (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
- (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

“*Wholly-Owned Subsidiary*” means, for any Person, any Subsidiary (Restricted Subsidiary in the case of the Company) of which all the outstanding Capital Stock (other than, in the case of a Subsidiary not organized in the United States, directors’ qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) is owned by such Person and/or one or more Persons that satisfy this definition in respect of such Person (or a combination thereof).

BOOK-ENTRY, DELIVERY AND FORM

The notes will be issued in the form of fully registered global notes which will be deposited with, or on behalf of, The Depository Trust Company (“DTC”) and registered in the name of Cede & Co., which is DTC’s nominee. The notes will be accepted for clearance by DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global notes through either DTC in the United States, or Clearstream or Euroclear, if they are participants in those systems, or, indirectly, through organizations that are participants in those systems. Owners of beneficial interests in the notes will receive all payments relating to their notes in U.S. Dollars. One or more fully registered global notes, representing the aggregate principal amount of notes issued, will be issued and will be deposited with DTC and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the notes, so long as the notes are represented by global notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC’s direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, who we refer to as indirect participants, such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a direct or indirect custodial relationship with a direct participant. The rules applicable to DTC and its participants are on file with the SEC.

Purchases of the notes under the DTC system must be made by or through direct participants, who will receive a credit for the notes on DTC’s records. The ownership interest of each actual purchaser of notes, (a “beneficial owner”) is in turn to be recorded on the direct or indirect participants’ records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except as described below. Under a book-entry format, holders may experience some delay in their receipt of payments, as such payments will be forwarded by the trustee to Cede & Co., as nominee for DTC. DTC will forward the payments to its participants, who will then forward them to indirect participants or holders. Beneficial owners of the notes other than DTC or its nominees will not be recognized by the registrar and transfer agent as registered holders of the notes entitled to the rights of holders thereof. Beneficial owners that are not participants will be permitted to exercise their rights only indirectly through and according to the procedures of participants and, if applicable, indirect participants.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC’s records reflect only the identity of the direct participants to whose accounts the notes are credited,

which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the notes to be redeemed.

The global notes are exchangeable for certificated securities in definitive, fully registered form without interest coupons only in the following limited circumstances:

- DTC notifies us that it is unwilling or unable to continue as depository for the global notes or DTC ceases to be a clearing agency registered under the Exchange Act, at a time when DTC is required to be so registered in order to act as depository, and in each case the issuer fails to appoint a successor depository within 90 days of such notice;
- the issuer notifies the trustee in writing that the global notes will be so exchangeable; or
- if an Event of Default with respect to the notes has occurred and is continuing.

In all cases, certificated securities delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Transfer Restrictions" unless we determine otherwise in accordance with the indenture and in compliance with applicable law.

As long as DTC or its nominee is the registered owner of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner and holder of the global notes and all notes represented by the global notes for all purposes under the indenture. Except in the limited circumstances referred to above, owners of beneficial interests in global notes:

- will not be entitled to have such global notes or the notes represented by the global notes registered in their names;
- will not receive or be entitled to receive delivery of physical certificates in exchange for beneficial interests in global notes; and
- will not be considered to be owners or holders of the global notes or the notes represented by the global notes for any purpose under the indenture.

Payments with respect to the notes represented by the global notes and all transfers and deliveries of the notes will be made to DTC or its nominee, as the case may be, as the registered holder of the notes. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detail information from us or our agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of that participant and not of us, any of our agents, DTC or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC are the responsibility of us or our agent, disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of direct and indirect participants.

Ownership of beneficial interests in the global notes will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with DTC or its nominee. Ownership of beneficial interests in global notes will be shown only on, and the transfer of those ownership interests will be effected only

through, records maintained by DTC or its nominee, with respect to participants' interests, or any participant, with respect to interests of persons held by the participant on their behalf. Payments, transfers, deliveries, exchanges, and other matters relating to beneficial interests in global notes may be subject to various policies and procedures adopted by DTC from time to time. Neither we nor any of our agents will have any responsibility or liability for any aspect of DTC's or any direct or indirect participant's records relating to, or for payments made on account of, beneficial interests in global notes, or for maintaining, supervising or reviewing any of DTC's records or any direct or indirect participant's records relating to these beneficial ownership interests.

Although DTC has agreed to the foregoing procedures in order to facilitate transfer of interests in the global notes among participants, DTC is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. We will not have any responsibility for the performance by DTC or its direct or indirect participants under the rules and procedures governing DTC.

Because DTC can act only on behalf of direct participants, who in turn act only on behalf of direct or indirect participants, and certain banks, trust companies and other persons approved by it, the ability of a beneficial owner of notes to pledge the notes to persons or entities that do not participate in the DTC system may be limited due to the unavailability of physical certificates for the notes.

DTC has advised us that it will take any action permitted to be taken by a registered holder of any notes under the indenture only at the direction of one or more participants to whose accounts with DTC the notes are credited.

Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries, which in turn will hold interests in customers' securities accounts in the depositaries' names on the books of DTC.

Clearstream holds securities for its participating organizations, ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries.

Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream Participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the initial purchasers or their affiliates. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream Participant. Clearstream has established an electronic bridge with Euroclear as the operator of the Euroclear System (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream and the Euroclear Operator.

Euroclear holds securities and book-entry interests in securities for participating organizations, (the "Euroclear Participants") and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the initial purchasers or their affiliates. Non-participants in Euroclear may hold and transfer beneficial interests in a global note through accounts with a Euroclear Participant or any other securities intermediary that holds a book-entry interest in a global note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law, which we collectively refer to as the "Terms and Conditions." The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and

receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to notes held beneficially through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with their respective procedures, to the extent received by the U.S. depository for Clearstream or Euroclear, as the case may be. Transfers between Euroclear Participants and Clearstream Participants will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between DTC's participating organizations ("DTC Participants"), on the one hand, and Euroclear Participants or Clearstream Participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its U.S. depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day fund settlement applicable to DTC. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. depositories. Due to time zone differences, the securities accounts of a Euroclear Participant or Clearstream Participant purchasing an interest in a global note from a DTC Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear Participant or Clearstream Participant, during the securities settlement processing day, which must be a business day for Euroclear or Clearstream, immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear Participant or Clearstream Participant to a DTC Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of securities among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and they may discontinue the procedures at any time. None of us, any of the initial purchasers or the trustee will have any responsibility for the performance by Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations. In addition, the information in this section concerning DTC and its book-entry system has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy thereof.

TRANSFER RESTRICTIONS

The notes have not been, and will not be, registered under the Securities Act, or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. We are offering the notes only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A; and
- outside the United States to non-U.S. persons in offshore transactions meeting the requirements of Rule 903 of Regulation S.

As used herein, the terms “offshore transaction,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Purchasers’ Representations and Restrictions on Resale and Transfer

Each purchaser of the notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state, that the notes are being offered in a transaction that does not involve any public offering in the United States within the meaning of the Securities Act and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;
- it will not resell or otherwise transfer any of such notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction in compliance with Rule 144A, (c) outside the United States in compliance with Rules 903 or 904 under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either in compliance with (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- it acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- if it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40 day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not

be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a U.S. global note;

- it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers; and
- if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF CREDIVALORES – CREDISERVICIOS S.A. (THE “COMPANY”) THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ONLY AT THE OPTION OF THE ISSUER.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT, PRIOR TO THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT), NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DATE ON WHICH THE NOTES ARE OFFERED TO

PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THE NOTES.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes.”

Other Jurisdictions

The distribution of this offering memorandum and the offer and sale or resale of the notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

TAXATION

Prospective purchasers of the notes are advised to consult their own tax advisors as to the Colombian, United States or other tax consequences (including consequences arising under the tax laws of the country of which they are residents for tax purposes and consequences arising under double taxation treaties in effect) in connection with the purchase, ownership and disposition of the notes, including, without limitation, the application to their particular situations of the tax considerations discussed below, as well as the application of subnational taxes or other tax laws.

General

The following summary contains a description of the material U.S. and Colombian income tax consequences of the purchase, ownership and disposition of the notes by holders that are not tax residents in Colombia.

This summary is based upon federal tax laws of the United States and national tax laws of Colombia as in effect on the date of this offering memorandum. This summary does not purport to be a comprehensive description of all the U.S. federal or Colombian national income tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of Colombia or the United States, or the laws of any taxing jurisdiction other than the national laws of Colombia and federal laws of the United States.

Future changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties.

Colombian Tax Considerations

The following summarizes certain Colombian tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in Colombia and which may change. Changes introduced afterwards could affect the continued validity of this summary.

Under current Colombian law, non-resident individuals and entities that qualify as foreign tax residents are subject to income tax in Colombia exclusively on their Colombian source income.

Below is a summary of Colombian regulations regarding residency for tax purposes.

Colombian source income is generally defined as income obtained from: (i) the rendering of services within the Colombian territory, (ii) the exploitation of tangible and intangible assets in Colombia, (iii) the sale of tangible or intangible assets that are located in the Colombian territory at the time of transferring ownership, and (iv) interests derived from account receivables owned in Colombia. An account receivable is deemed to be owned in Colombia if the borrower is a Colombian tax resident.

Based on the above, interests out of foreign indebtedness paid by a Colombian resident entity (those that are domiciled in or incorporated under the laws of Colombia or have their effective place of management in Colombia) to a foreign non-resident recipient (non-resident alien or non-resident entity) will be subject to a withholding tax at a 15% rate if the term of the loan is longer than one year (or at a lower rate if applicable a tax treaty entered into by Colombia), otherwise the applicable rate is 20%.

However, notes, bonds and other debt securities issued by Colombian issuers and traded outside Colombia are subject to a special rule set forth in section 266(6) of the Colombian Tax Code. Under this special rule, notes, bonds or other debt securities issued by Colombian issuers and traded outside of Colombia are treated as assets deemed to be owned outside Colombia. On November 25, 2016 the Colombian Tax Office issued the Legal Opinion 32227 of 2016 to the effect that income of any kind (including interest thereon or any capital gain from their sale) derived from notes or debt securities issued by Colombian issuers which are traded outside of Colombia (i.e., those subject to the abovementioned rule) are not subject to Colombian income tax. Consequently, pursuant to this construal,

interest payments related to notes, bonds or other debt securities that are (i) issued by Colombian parties and (ii) traded outside of Colombia are deemed to be income sourced outside of Colombia not subject to Colombian tax.

Considering Legal Opinion 32227 of 2016 and current regulations regarding tax returns of non-residents, the purchase, ownership and disposition of the notes would not result in an obligation to file Colombian tax returns. We intend on taking the position that interest income paid under the notes and any capital gain derived from a sale of the notes is not subject to any income tax in Colombia (including via withholdings) provided the holder of the notes is a non-Colombian resident for tax purposes, regardless of the fact that the deductibility of the interest expense incurred by us will be limited up to the 15% of the taxable income before considering such interest expenses.

As long as the holders of the notes are not Colombian residents, no transfer taxes would apply. There would be no inheritance, gift or succession taxes in the event of a transfer of the notes, without consideration, to a non-resident party with foreign beneficial owners.

Colombian Regulations Regarding Tax Residence

An entity will be deemed to be a domestic entity for Colombian tax purposes if it (i) is incorporated under the laws of Colombia, (ii) has its domicile in Colombia or (iii) has its effective place of management in Colombia.

In addition, pursuant to Colombian tax law, a foreign individual will be deemed as a Colombian tax resident if it meets a “*substantial presence test*”. The substantial presence test is a relatively simple formula intended to identify foreign individuals who spend substantial periods of time within Colombian territory. The test will be met if the foreign individual meets any of the following criteria:

- If the foreign individual was present in Colombia (continuously or not) for an aggregate period of 183 days within a period of 365 consecutive days, including travel days. In case that the 365 days period is comprised in two fiscal years, the individual will be considered Colombian resident as of the second fiscal year. Please be advised that in Colombia the fiscal year goes from January 1st to December 31st.
- If the individual is fully or partially exempted from income tax or capital gains tax in the foreign country where they reside, because of their diplomatic relation to the Colombian State or to a diplomat of the Colombian State in application of the Vienna Conventions on Diplomatic and Consular Relations.

Colombian nationals are also deemed as tax residents, regardless of where they have their physical presence, if they fulfill any of the following conditions:

- Spouse, legal partner, underage children or dependent persons have a tax residence in Colombia.
- That 50% or more of their income is considered Colombian-source.
- That 50% or more of such person’s assets are managed in Colombia.
- That 50% or more of such person’s assets are possessed in Colombia.
- That having been notified by the Colombian Tax Office, they did not offer proof of their tax residence outside of Colombia.
- Having their tax residence in a place considered by the Colombian Government as a tax haven. Individuals that according to these rules are not considered Colombian residents, must provide proof of their foreign residence to the Colombian Tax Office by means of a tax residence certificate issued by the foreign tax authority.

Colombian nationals considered tax residents due to the abovementioned criteria, will not be considered as tax residents in Colombia if 50% or more of their annual income is obtained in the jurisdiction in which they have their domicile, or 50% or more of their assets are located in the jurisdiction in which they have their domicile.

Additional changes in tax related laws and regulations and interpretations thereof can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do which could result in tax litigation and associated costs and penalties.

U.S. Federal Income Tax Considerations

The following is a description of certain U.S. federal income tax consequences of the purchase, ownership and disposition of notes as of the date hereof. This description only applies to notes purchased in this initial offering by a U.S. Holder (as defined below) for the issue price (generally, the first price at which a substantial amount of notes are sold to the public) and held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, this summary does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- financial institutions;
- banks;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- traders in securities that elect to mark to market;
- entities treated as partnerships or pass-through entities for U.S. federal income tax purposes;
- grantor trusts;
- tax-exempt organizations;
- S corporations;
- U.S. expatriates;
- dealers or traders in securities or currencies;
- holders that will hold notes as part of a position in a straddle or as part of a hedging, conversion, “synthetic security,” or other integrated financial transaction for U.S. federal income tax purposes; or
- holders that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the purchase, ownership and disposition of notes. Each prospective purchaser should consult its own independent tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of the purchase, ownership and disposition of notes.

This description is based on the Code, existing and proposed Treasury Regulations promulgated thereunder, administrative pronouncements and judicial decisions, each as announced and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a “U.S. Holder” is a beneficial owner of notes who, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;

- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable Treasury Regulations to be treated as a grantor trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own independent tax advisor as to the tax consequences of an investment in notes through a partnership.

U.S. Holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule thus may require the accrual of income earlier than would be the case under the general tax rules described below. U.S. Holders that use an accrual method of accounting should consult with their tax advisors regarding the potential applicability of this legislation to their particular situation.

No ruling from the Internal Revenue Service (the “IRS”) has been sought with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions. In addition, the discussion in this “—U.S. Federal Income Tax Considerations” section does not describe any tax consequences arising out of the laws of any state or local or foreign jurisdiction. Accordingly, each U.S. Holder should consult its own independent tax advisor with regard to the offering and the application of U.S. federal income tax laws, as well as the laws of any state, local or foreign taxing jurisdictions, to its particular situation.

Effect of Optional Redemption

In certain circumstances, we may be obligated to pay amounts in excess of the stated interest or principal on notes or we may be required to redeem notes. For example, if we experience a change of control, holders of notes may require us to purchase all or part of the notes at 101% of their principal amount, plus accrued and unpaid interest and any Additional Amounts to the redemption date. Under the contingent payment debt instrument Treasury Regulations, or the “CPDI Regulations,” if based on all the facts and circumstances as of the date on which notes are issued, there is a remote likelihood that these contingent events will occur and such payments will be made, it is assumed that such events will not occur and such payments will not be made. Although not free from doubt, we intend to take the position that based on all the facts and circumstances as of the expected issue date of notes, there is a remote likelihood the contingencies will occur; therefore, we do not intend to treat the notes as contingent payment debt instruments (“CPDIs”). Our determination, however, is not binding on the IRS, and if the IRS were to challenge this determination, the amount, timing and character of the income that a U.S. Holder recognizes in respect of the notes may differ from that described herein.

U.S. Holders are urged to consult their tax advisors regarding the potential application to the notes of the CPDI Regulations and the consequences thereof. This discussion assumes that the notes will not be treated as CPDIs.

Interest

It is expected, and this discussion assumes, that either the issue price of the notes will equal the stated principal amount of the notes or the notes will be issued with no more than a *de minimis* amount of original issue discount. If you are a U.S. Holder, stated interest paid to you on the notes, including any Additional Amounts paid thereon, and any Colombian withholding taxes withheld from such payments of stated interest with respect to the notes or such Additional Amounts, will be includible in your gross income as ordinary interest income in accordance with your usual method of accounting for U.S. federal income tax purposes.

Solely for purposes of this discussion, the term “interest” shall include any Additional Amounts and any Colombian withholding taxes withheld from payments of interest (or such Additional Amounts). Interest on notes

will be treated as foreign-source income for U.S. federal income tax purposes and will generally constitute passive category income for foreign tax credit purposes. The rules relating to foreign tax credits are complex and U.S. Holders should consult with their own independent tax advisors regarding the availability of a foreign tax credit and the application of the foreign tax credit limitations to their particular situation.

Amortizable Premium

If a U.S. Holder's initial purchase price for a note exceeds the stated principal amount of such note (other any portion thereof allocable to pre-issuance accrued interest), such U.S. Holder will be considered to have amortizable bond premium equal to such excess. A U.S. Holder generally may elect to amortize any amortizable bond premium over the remaining term of such note on a constant yield method (based on the note's yield to maturity) as an offset to stated interest when includible in income under the U.S. Holder's regular method of tax accounting. If a U.S. Holder makes the election to amortize bond premium with respect to a note, such holder will be required to reduce its adjusted tax basis in such note by the amount of the premium amortized in any taxable year. If a U.S. Holder does not make this election, the premium will be included in the holder's basis and will therefore decrease the capital gain or increase the capital loss it would otherwise recognize on retirement or other taxable disposition of such note. An election to amortize bond premium on a constant yield method will also apply to all other taxable debt instruments held or subsequently acquired by the U.S. Holder on or after the first day of the first taxable year for which the election is made. Such an election may not be revoked without the consent of the IRS. U.S. Holders should consult their tax advisors concerning the tax treatment of amortizable bond premium.

Sale, Exchange, Retirement or Other Taxable Disposition

Upon the sale, exchange, retirement or other taxable disposition of notes a U.S. Holder will generally recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, retirement or other taxable disposition, other than (i) accrued but unpaid interest which will be taxable as described above or (ii) pre-issuance accrued interest, and such U.S. Holder's adjusted tax basis in the notes. A U.S. Holder's adjusted tax basis in notes generally will equal the cost of the notes (excluding any amount attributable to pre-issuance accrued interest). Any such gain or loss will generally be capital gain or loss, and such capital gain or loss will generally be long-term capital gain or loss if the U.S. Holder has held the notes for more than one year at the time of disposition. Certain non-corporate U.S. Holders are eligible for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to limitations. Any gain or loss realized on the sale, exchange, retirement or other taxable disposition of notes generally will be treated as U.S.-source gain or loss, as the case may be. Accordingly, if Colombian or other foreign income tax is imposed on the sale, exchange, retirement or other taxable disposition of the notes, a U.S. Holder may not be able to fully utilize its U.S. foreign tax credits in respect of such tax unless such U.S. Holder has other foreign-source income. Alternatively, a U.S. Holder may take a deduction for the Colombian or other foreign income tax if such U.S. Holder does not take a credit for any foreign taxes paid or accrued during the taxable year.

Prospective investors should consult their own tax advisors regarding the U.S. tax and foreign tax credit implications of the sale, exchange, retirement or other taxable disposition of notes.

Foreign Asset Reporting

U.S. Holders that are individuals who own, or certain entities that are treated as formed or availed of to hold direct or indirect interests in, "specified foreign financial assets" with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. The understatement of income attributable to "specified foreign financial assets" in excess of \$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. Holders who fail to report the required information could be subject to substantial penalties. U.S. Holders should consult their own tax advisors concerning the application of these rules to their investment in the notes, including the application of the rules to their particular circumstances.

Net Investment Income Tax

Certain U.S. Holders that are individuals, estates, or trusts are subject to a 3.8% tax on the lesser of (1) such U.S. Holder's "net investment income" (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of such U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between US\$125,000 and US\$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income will generally include, among other things, its gross interest income and its net gains from the sale or other taxable disposition of the notes, unless such interest or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of this tax to your income and gains in respect of your investment in the notes.

U.S. Backup Withholding and Information Reporting

Backup withholding and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale, exchange or redemption of an obligation, to U.S. Holders. Information reporting generally will apply to payments of interest and to proceeds from the sale, exchange or redemption of notes made within the United States to a U.S. Holder. The payor will be required to backup withhold on payments made within the United States on notes to a U.S. Holder (unless such U.S. Holder is an exempt recipient) if such U.S. Holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. A U.S. Holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

FATCA

Under Sections 1471 through 1474 of the Code ("FATCA") and the regulations issued thereunder, payments on the notes may be subject to 30% U.S. withholding tax under FATCA to the extent the payment is considered to be a "foreign passthru payment," but only if such payment is made to a payee that does not comply or is not otherwise deemed to comply with FATCA. We will not be required to withhold tax on a foreign passthru payment before the date that is two years after the date of publication of final regulations defining the term "foreign passthru payment." Under the current regulations, the term "foreign passthru payment" is not defined and it is not yet clear whether or to what extent payments on our notes will be treated as foreign passthru payments.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own independent tax advisors concerning the tax consequences of their particular situations.

IF A U.S. HOLDER SELLS NOTES PURSUANT TO THE TENDER OFFER, AND THE IRS WERE TO COMBINE SUCH SALE WITH THE PURCHASE OF NOTES BY SUCH U.S. HOLDER PURSUANT TO THIS OFFERING, IT IS POSSIBLE THAT THE TAX CONSEQUENCES OF THE TRANSACTIONS WOULD BE DIFFERENT. ANY SUCH U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES APPLICABLE TO THEM IF THE TWO TRANSACTIONS WERE COMBINED.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) imposes fiduciary and other requirements on “employee benefit plans,” as defined in ERISA, that are subject to Title I of ERISA, including collective investment funds, partnerships and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”), as well as their fiduciaries. Any person who exercises authority or control over the management or disposition of an ERISA Plan’s assets is considered to be a fiduciary. A fiduciary of an ERISA Plan should consider the fiduciary standards of ERISA in the context of the ERISA Plan’s particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the fiduciary has the authority to make the investment, whether the investment is consistent with the ERISA Plan’s funding objectives, whether the investment would satisfy the prudence and diversification requirements of ERISA, and would be consistent with the documents and instruments governing the ERISA Plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans, as well as plans (including individual retirement accounts and Keogh plans) subject to Section 4975 of the Code (together with ERISA Plans, “Plans”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“Parties in Interest”) with respect to the Plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless a statutory, regulatory or administrative exemption is available with respect to the transaction. Parties in Interest who engage in prohibited transactions may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) (“Non-ERISA Arrangements”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws (“Similar Laws”).

The acquisition or holding of the notes by a Plan with respect to which we or a dealer or certain of our or its affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired and held pursuant to and in accordance with an applicable exemption. Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities where neither the issuer nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and the Plan pays no more and receives no less than “adequate consideration” in connection with the transaction. The U.S. Department of Labor has also issued five prohibited transaction class exemptions, or “PTCEs”, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

There can be no assurance that any of these statutory or class exemptions will be available with respect to transactions involving the notes.

By acceptance of a Note (or any interest therein), each purchaser and subsequent transferee thereof will be deemed to have represented, warranted and agreed that either (and if the purchaser or transferee is a Plan of Non-ERISA Arrangement, its fiduciary or trustee) (1) it is not a Plan and is not acquiring or holding the notes (or any

interest therein) on behalf of or with “plan assets” of any Plan, and it is not a Non-ERISA Arrangement subject to Similar Law, or (2) its acquisition and holding of Notes (or any interest therein) will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or, in the case of a Non-ERISA Arrangement, will not constitute or result in a violation of the provisions of any Similar Law.

In addition, the U.S. Department of Labor has issued a regulation, 29 CFR Section 2510.3-101, or, as modified by Section 3(42) of ERISA, the “Plan Assets Regulation,” describing the “look through rule,” i.e., what constitutes the assets of an ERISA Plan with respect to the Plan’s investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Assets Regulation, subject to certain exceptions, if an ERISA Plan invests in an “equity interest” of an entity (which is defined as an interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features) that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless it is established that the entity is an “operating company” (within the meaning of the Plan Assets Regulation) or that participation in the entity by “benefit plan investors” is not “significant” (i.e. it does not comprise 25 percent or more of the value of any class of equity interests in the entity, generally). We would expect that the Notes would be treated as indebtedness without substantial equity features for purposes of the Plan Assets Regulation. This assessment is based on the traditional debt features of the notes, including the reasonable expectation of purchasers of the notes that the notes will be repaid when due, traditional default remedies, and on the absence of conversion rights, warrants and other typical equity features. However, if the Notes were treated as equity interests, it is not certain that we would be treated as an operating company. We would not expect the Notes to constitute “publicly offered securities” for purposes of the Plan Assets Regulation (because our Notes are not registered under the Exchange Act). In addition, we will not be registered under the Investment Company Act and will be unable to adequately monitor the purchase of Notes by “benefit plan investors” such that participation by “benefit plan investors” may prove to be “significant” at any given time.

If, for any reason, our assets are deemed to constitute ERISA “plan assets” (e.g., because the Notes are treated as equity interests, we are not treated as an operating company and benefit plan investor participation is “significant”), certain transactions that we might enter into, or may have entered into, in the ordinary course of our business might constitute non-exempt “prohibited transactions” under Section 406 of ERISA or Section 4975 of the Internal Revenue Code and might have to be rescinded and may give rise to prohibited transaction excise taxes and fiduciary liability, as described above. In such cases, we in our sole discretion, might void or undo (e.g., rescind) such transactions. In addition, if our assets are deemed to be “plan assets” of an ERISA Plan, our management, as well as various providers of fiduciary or other services to us, and any other parties with authority or control with respect to us, may be considered fiduciaries under ERISA and Section 4975 of the Internal Revenue Code, or otherwise parties in interest or disqualified persons by virtue of their provision of such services (and there could be an improper delegation of authority to such providers). Moreover, if our underlying assets were deemed to be assets constituting “plan assets,” there are several other provisions of ERISA that could be implicated for an ERISA Plan if it were to acquire and hold Notes either directly or by investing in an entity whose underlying assets are deemed to be assets of the ERISA Plan.

The preceding is only a summary of certain ERISA and Code rules and penalties that may apply to an investment in the Notes and does not purport to be complete. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with “plan assets” of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, the potential consequences of the Plan Asset Regulation, or the potential consequences of any acquisition or holding of Notes under Similar Laws, as applicable.

Each purchaser and transferee (and if such purchaser or transferee is a Plan of Non-ERISA Arrangement, its fiduciary or trustee) of the notes has exclusive responsibility for ensuring that its purchase, holding and subsequent disposition of the notes does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any applicable Similar Laws. The sale of any Notes to any Plan or Non-ERISA Arrangement is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal

requirements with respect to investments by Plans or Non-ERISA Arrangements generally or any particular Plan or Non-ERISA Arrangement, or that such an investment is appropriate for Plans or Non-ERISA Arrangements generally or any particular Plan or Non-ERISA Arrangement.

PLAN OF DISTRIBUTION

Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. LLC and BCP Securities, LLC are acting as initial purchasers.

Subject to the terms and conditions stated in the purchase agreement, dated February 3, 2020, each initial purchaser named below has severally agreed to purchase, and we have agreed to sell to the initial purchasers, the principal amount of the notes set forth opposite such initial purchaser's name.

Initial Purchaser	Principal Amount of Notes
Credit Suisse Securities (USA) LLC	US\$127,500,000
Morgan Stanley & Co. LLC	US\$127,500,000
BCP Securities, LLC	US\$45,000,000
Total	US\$300,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the notes sold under the purchase agreement if any notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the U.S. Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed. The initial purchasers may offer and sell notes through certain of their affiliates.

Notes Are Not Being Registered

The notes have not been registered under the U.S. Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. Each purchaser of the notes will be deemed to have made acknowledgements, representations and agreements as described under "Notice to Investors." In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the notes are restricted as described under "Transfer Restrictions."

Further, until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

New Issue of Notes

The notes will constitute a new issue of securities with no established trading market. We intend to apply to have the notes listed and quoted on the SGX-ST. However, we cannot assure you that the listing application will be approved. We have been advised by the initial purchasers that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the notes will be made to investors on or about February 7, 2020, which will be the fourth business day following the date of this offering memorandum (such settlement being referred to as “T+4”). Under Rule 15c6-1 under the U.S. Securities Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+4, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

We have agreed that for a period of 30 days after the date of this offering memorandum, we will not, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or establish an open “put equivalent position” within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any U.S. dollar-denominated debt securities of ours or securities exchangeable for or convertible into U.S. dollar-denominated debt securities of ours (other than as contemplated by the purchase agreement), without the prior written consent of the representatives of the initial purchasers (which consent may be withheld at the sole discretion of the representatives of the initial purchasers).

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market. The initial purchasers may also impose a penalty bid. This occurs when a particular initial purchaser repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The initial purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The initial purchasers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Credit Suisse Securities (USA) LLC is acting as principal in the Tender Offer, and Credit Suisse Securities (USA) LLC and Morgan Stanley & Co. LLC are acting as dealer managers in the Tender Offer concurrent with this offering. Certain of the dealer managers may hold some of the 2022 Senior Notes that will be purchased in the Tender Offer with the proceeds of this offering. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. A typical such hedging strategy would include these initial purchasers or their affiliates hedging such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Sales Outside of the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Prohibition of Sales to EEA Retail Investors

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. No key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling packaged retail and insurance based investment products or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

For purposes of this provision, the expression “Prospectus Regulation” means Regulation (EU) 2017/1129 (as amended) and includes any relevant implementing measure in any Member State of the European Economic Area. The expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes.

Notice to Prospective Investors in the United Kingdom

Each initial purchaser has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only

communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the notes described herein. The notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this offering memorandum nor any other offering or marketing material relating to the notes may be publicly distributed or otherwise made publicly available in Switzerland.

Notice to Prospective Investors in the Dubai International Financial Centre

This offering memorandum relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (“DFSA”). This offering memorandum is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for this offering memorandum. The notes to which this offering memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence on the notes. If you do not understand the contents of this offering memorandum, you should consult an authorized financial advisor.

Notice to Prospective Investors in Hong Kong

The notes may not be offered or sold in Hong Kong by means of any document other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that ordinance; and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that ordinance.

Notice to Prospective Investors in Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Act, and the notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except as pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, of such notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA, except:

- (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Notification under Section 309(B)(1)(c) of the SFA. The Company has determined that the Securities are (A) prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and (B) Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (“NI 33-105”), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Mexico

The notes have not been and will not be registered with the RNV maintained by the CNBV, and, therefore, may not be offered publicly in Mexico. The notes may only be offered in Mexico pursuant to the exemptions to registration provided in article 8 of the Mexican Securities Market Law. We will notify the CNBV of the terms and conditions of this offering of the notes outside of Mexico, for informational and statistical purposes only. The delivery to, and the receipt by, the CNBV of such notice does not constitute or imply a certification as to the investment quality of the notes, our or the subsidiary guarantor's solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum. This offering memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of the notes by investors, including Mexican investors, will be made under their own responsibility.

Notice to Prospective Investors in Chile

The notes may not be offered or sold in Chile, directly or indirectly, by means of a “Public Offer” (as defined under Law 18.045 and regulations from the CMF). Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the notes. Pursuant to Chilean law, a public offering of securities is an offering that is addressed to the general public or to certain specific categories or groups thereof. Considering that the definition of public offering is quite broad, even an offering addressed to a small group of investors may be considered to be addressed to a certain specific category or group of the public and therefore be considered public under applicable law. On June 27, 2012, the CMF issued *Norma de Carácter General* No. 336 (General Rule No. 336, hereinafter “NCG 336”), which is intended to govern the private offering of securities in Chile. NCG 336 provides that the offering of securities that meet the conditions described therein shall not be considered public offerings in Chile and shall be exempted from complying with the general rules applicable to public offerings.

Notice to Prospective Investors in France

Neither this offering memorandum nor any other offering material relating to the notes described in this offering memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this offering memorandum nor any other offering material relating to the notes has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the notes to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code Monétaire et Financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1^o-or-2^o-or 3^o of the French Code Monétaire et Financier and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The notes may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code Monétaire et Financier*.

Notice to Prospective Investors in Colombia

The notes will not be authorized by the *Superintendencia Financiera de Colombia* (Colombian Superintendency of Finance), will not be registered under the *Registro Nacional de Valores y Emisores* (Colombian National Registry of Securities and Issuers), will not be listed on the *Bolsa de Valores de Colombia* (Colombian Stock Exchange) and, accordingly, the notes will not be offered or sold to persons in Colombia except in circumstances which do not result in a public offering under Colombian law.

Notice to Prospective Investors in Peru

The offer of the notes, this offering memorandum and the notes have not been, and will not be, registered with the *Comisión Nacional Supervisora de Empresas y Valores* (the Peruvian Securities and Exchange Commission). The offer of the notes in Peru is not considered a public offering and will not be launched in Peru except in circumstances which do not constitute public offering or distribution under Peruvian laws and regulations. This notice is for informative purposes and it does not constitute public offering of any kind.

Notice to Prospective Investors in Argentina

We have not made, and will not make, any application to obtain an authorization from the National Securities Exchange Commission (*Comisión Nacional de Valores*), or the CNV, for the public offering of the notes in Argentina. The CNV has not approved the notes, the offering or any document relating to the offering of the notes. The notes will not be offered or sold in Argentina, except in transactions that will not constitute a public offering of securities within the meaning of Section 2 of the Argentine Capital Markets Law No. 26,851, as amended.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Paul Hastings LLP, our United States counsel, and for the initial purchasers by Davis Polk & Wardwell LLP, United States counsel to the initial purchasers. Certain matters of Colombian law relating to the notes will be passed upon for us by Gómez-Pinzón Abogados S.A.S., our Colombian counsel, and for the initial purchasers by DLA Piper Martínez Beltrán Abogados S.A.S., Colombian counsel to the initial purchasers.

INDEPENDENT AUDITORS

The financial statements as of December 31, 2018 and 2017 and for each of the two years in the period ended December 31, 2018 included in this offering memorandum have been audited by PwC Contadores y Auditores Ltda., independent accountants, as stated in their report appearing herein.

The financial statements as of December 31, 2016 and 2015 and for each of the two years in the period ended December 31, 2016 included in this offering memorandum have been audited by PricewaterhouseCoopers Ltda., independent accountants, as stated in their report appearing herein.

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Credivalores Crediservicios S. A.
Interim Condensed Financial Statements

For the periods ended September 30, 2019 and December 31, 2018

CREDIVALORES CREDISERVICIOS S. A.
INTERIM STATEMENT OF FINANCIAL POSITION
ENDED SEPTEMBER 30, 2019 (UNAUDITED), AND DECEMBER 31, 2018

(Stated in millions of Colombian pesos)

	Notes	September 30, 2019	December 31, 2018
Assets			
Cash and cash equivalents	7	149.436	195.058
Financial Assets at fair value through profit or lost			
Equity Instruments	8	13.880	20.034
Derivatives Instruments	14	343.638	182.372
Loan portfolio	10	20.675	18.337
Total financial assets at fair value		378.193	220.743
Financial Assets at amortized cost			
Consumer loans		1.352.709	1.299.476
Microcredit loans		5.923	6.461
Impairment	10	(183.870)	(163.413)
Total Loan portfolio, net	10	1.174.762	1.142.524
Accounts receivable, net	11	392.129	330.651
Total Financial Assets at amortized cost		1.566.891	1.473.175
Investments in Associates and Affiliates	9	11.093	10.366
Current tax assets	18	16.215	12.059
Deferred tax assets, net	18	-	14.432
Property, plant and equipment	12	1.282	788
Assets for right of use	12	6.106	-
Intangible assets other than goodwill, net	13	56.150	59.756
Total assets		2.185.366	1.986.377
Liabilities and equity			
Liabilities:			
Financial Liabilities at fair value			
Derivative instruments	14	50.545	26.762
Total Financial Liabilities at fair value		50.545	26.762
Financial Liabilities At amortized cost			
Financial obligations	15	1.695.062	1.564.108
Other Lease Liabilities	15	6.379	-
Total Financial Liabilities At amortized cost		1.701.441	1.564.108
Employee benefits provisions		1.351	1.096
Other provisions	16	896	343
Accounts payable	17	67.691	95.897
Current tax liabilities	18	2.948	2.196
Deferred tax liabilities, net	18	49	-
Other liabilities	19	60.234	46.299
Total liabilities		1.885.155	1.736.701
Equity:			
Share capital	20	129.638	123.922
Treasury shares		(12.837)	(12.837)
Reserves		18.651	18.651
Additional paid-in capital		64.726	58.442
Other Comprehensive Income (OCI)	21	32.773	(2,241)
Retained earnings		63.740	56,388
Net Income for the period		3.520	7.352
Total equity		300.211	249.676
Total liabilities and equity		2.185.366	1.986.377

The accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A.
INTERIM STATEMENT OF INCOME
INTERIM PERIODS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018 (UNAUDITED)

(Stated in millions of Colombian pesos)

	Notes	For the three-month period:		For the nine-month period:	
		July 1, 2019 through September 30, 2019	July 1, 2018 through September 30, 2018	January 1, 2019 through September 30, 2019	January 1, 2018 through September 30, 2018
		(In millions of pesos, except Net income per share)		(In millions of pesos, except Net income per share)	
Interest Income and similar	22.1	73.115	59.296	206.274	169.021
Financial costs interest	15	(51.495)	(40.828)	(146.166)	(133.771)
Revenue from contracts with customers	22.2	23.735	24.517	73.495	73.937
Net Interest		45.355	42.985	133.603	109.187
Impairment of financial assets loan portfolio	10	(13.066)	(10.703)	(47.403)	(29.754)
Expense on accounts receivable provisions	11	(2.268)	-	(2.268)	-
Gross Financial Margin		30.021	32.282	83.932	79.433
Other Expenses					
Employee Benefits		(4.020)	(4.314)	(12.103)	(13.687)
Depreciation and amortization expense	12 - 13	(1.641)	(1.704)	(5.041)	(4.634)
Depreciation right of use assets	12	(1.217)	-	(1.217)	-
Other	24	(18.279)	(18.053)	(55.705)	(51.950)
Total Other expenses		(25.157)	(24.071)	(74.066)	(70.271)
Net operating Income		4.864	8.211	9.866	9.162
Other Income	23	259	19	1.190	98
Financial income		125	19	305	398
Exchange rate differences		(248)	445	(42)	8.274
Financial Income		136	483	1.453	8.770
Derivative instrument valuation		(691)	(5.312)	(5.335)	(6.183)
Financial expense		(691)	(5.312)	(5.335)	(6.183)
Net financial income (expense)	25	(555)	(4.829)	(3.882)	2.587
Net Income before income tax		4.309	3.382	5.984	11.749
Income tax		(1.878)	(732)	(2.464)	(1.582)
Net income for the period		2.431	2.650	3.520	10.167
Net earnings per share		529	604	790	2.318

Accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A.
INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME
NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018 (UNAUDITED)
(Stated in millions of Colombian pesos)

	<u>For the three-month period</u>		<u>For the nine-month period:</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income for the period	2.431	2.650	3.520	10.167
Other comprehensive income				
Items that may be or are reclassified to profit or loss				
Shares	-	(805)	-	(805)
Unrealized gains (losses) from cash flow hedges:				
Valuation of financial derivatives Forwards	(95)	1.919	1.837	10.284
Valuation of financial derivatives Cross Currency Swaps	26.022	4.352	46.733	(47.542)
Valuation of financial derivatives Options	(4.635)	(3.606)	519	8.025
Income tax	(14.075)	(9.965)	(14,075)	12.888
Total other comprehensive income for the period	7.218	(8.105)	35.014	(17.150)
Total other comprehensive income	9.648	(5.455)	38.534	(6.983)

The accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A.
INTERIM STATEMENT OF CHANGES IN EQUITY
PERIODS ENDED SEPTEMBER 30, 2019 (UNAUDITED), AND DECEMBER 31, 2018
(Stated in millions of Colombian pesos)

	Share capital	Additional paid-in capital	Treasury Shares	Reserves	Other Comprehensive Income (OCI)	Retained earnings	Earnings for the period	Total
Balance as of January 1, 2017 before Restatement	104.989	20.842	(12.837)	18.651	(3.744)	44.022	17.200	189.123
Restatement of Previous Years (See Note 2)	-	-	-	-	-	27.296	-	27.296
Balance as of January 1, 2017	104.989	20.842	(12.837)	18.651	(3.744)	71.318	17.200	216.419
Appropriation of earnings	-	-	-	-	-	17.200	(17.200)	-
Capitalization	15.910	37.600	-	-	-	-	-	53.510
Increases (decrease) in other comprehensive income	-	-	-	-	(16.421)	-	-	(16.421)
Net income for the period	-	-	-	-	-	-	809	809
Balance December 31, 2017	120.899	58.442	(12.837)	18.651	(20.165)	88.518	809	254.317
Appropriation of earnings	-	-	-	-	-	809	(809)	-
Capitalization	3.023	-	-	-	-	-	-	3.023
Change in accounting policies as of January 01, 2018	-	-	-	-	-	(32.939)	-	(32.939)
Increases (decrease) in other comprehensive income	-	-	-	-	(17.150)	(14.116)	-	(31.266)
Net income for the period	-	-	-	-	-	-	10.167	10.167
Balance as of September 30, 2018	123.922	58.442	(12.837)	18.651	(37.315)	42.272	10.167	203.302
Balance as of December 31, 2018	123.922	58.442	(12.837)	18.651	(2.241)	56.388	7.352	249.677
Appropriation of earnings	-	-	-	-	-	7.352	(7.352)	-
Capitalization	20 5.716	6.284	-	-	-	-	-	12.000
Increases (decrease) in other comprehensive income	-	-	-	-	35.014	-	-	35.014
Net income for the period	-	-	-	-	-	-	3.520	3.520
Balance as of September 30, 2019	129.638	64.726	(12.837)	18.651	32.773	63.740	3.520	300.211

The accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A.
INTERIM STATEMENT OF CASH FLOWS
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND SEPTEMBER 30, 2018 (UNAUDITED)

(Stated in millions of Colombian pesos)

	Notes	September 30, 2019	September 30, 2018
Cash flows from operating activities			
Net income before taxes		5.984	11.749
Reconciliation of net income before taxes and net cash provided by (used in) operating activities:			
Depreciation of tangible assets	12	405	487
Depreciation right of use assets	12	1.217	-
Amortization of intangible assets	13	9.138	8.312
Amortization of Call premium options	14.2	3.868	-
Allowance for impairment of loan portfolio	10	47.403	29.754
Recovery of impairments for loan portfolio	10	(95)	(544)
Impairment Accounts Receivable		2.268	-
Fair value adjustments to derivative financial instruments		(73.351)	36.149
Portfolio valuation measured at fair value		(2.338)	-
Fair value adjustments to financial assets	9	(727)	843
Income tax		2.464	1.582
Changes in operating assets and liabilities:			
Increase (decrease) in loans		(76.392)	(199.651)
Decrease (increase) in accounts receivables		(67.265)	(93.395)
Increase (decrease) in accounts payable		(3.135)	5.033
Payable tax		(7.926)	(4.260)
Decrease (increase) in employee benefit		255	200
Decrease in provisions	16	553	1.153
Increase (decrease) in other liabilities		13.936	19.559
Net cash provided by (used in) operating activities		(143.738)	(183.030)
Cash flows from investing activities:			
Net flow of investments in financial instruments		6.154	2.230
Net flow of property, plant and equipment		(899)	(249)
Increase in Lease Liabilities		6.379	-
Net flow of right of use assets	12	(7.324)	-
Acquisition of intangible assets		(9.669)	(1.876)
Net cash used in investing activities		(5.359)	105
Cash flows from financing activities:			
Acquisition of financial obligations		526.705	739.683
Payment of financial obligations		(430.208)	(542.824)
Payment premium call options		(5.022)	(2.442)
Capitalization		12.000	-
Net cash provided by financing activities		103.475	194.416
(Decrease) Increase in cash and cash equivalents		(45.622)	11.492
Cash and cash equivalents at beginning of year		195.058	121.948
Cash and cash equivalents at end of year		149.436	133.440

The accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A.
DISCLOSURES TO THE INTERIM FINANCIAL STATEMENTS
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NOTE 1. REPORTING COMPANY

Credivalores Crediservicios S.A., (hereinafter “Credivalores”, the “Company” or “CVCS”), is a 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 Public Notary No.1 of the Circuit of Cali. The term of duration of the Company is 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, as agreed on 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 to the aforementioned process. Credivalores S.A. (the acquired company) was incorporated by means of Public Deed No. 1906 dated May 13, 2003, drawn up before the Public Notary 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.S, becoming a simplified stock corporation, by means of the Public Deed No. 529 dated February 27, 2009 drawn up before the Public Notary No. 1 of the Circuit of Cali.

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

By public deed No. 3175 of notary No. 73 of Bogota D.C. as of September 28th, 2019, registered July 9th, 2019 under Number 02484244 Book IX, the company changed its name from CREDIVALORES - CREDISERVICIOS S. A. S. to CREDIVALORES - CREDISERVICIOS S. A. and its social reason to Sociedad Anonima.

The Company's business purpose is to originate consumer loans, including payroll deduction loans, to private individuals or legal entities, using both its own funds and other sources of funding 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 but not limiting the collection and registration of these obligations,
- c) Purchase and sell loans, 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 that these companies have 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

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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.

Credivalores 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.

In June 2019, a 12,000 million capitalization was completed. The ownership of the Company after this capitalization is as follows:

Shareholders	Ownership
Crediholding S.A.S.	34,24%
Lacrot Inversiones 2014, S.L.U	36,43%
Acon Colombia Consumer Finance Holdings, S.L.	19,90%
Acon Consumer Finance Holdings II, S.L.	4,21%
Direcciones de Negocio S.A.S.	0,01%
Treasury Shares	5,21%
Total	100,00%

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

In 2015 the Company acquired the business unit CrediUno- Avance for 23,800 million pesos. The acquisition was performed at an assigned purchase price, which was effectively paid.

However, at the time of the acquisition, the full amount of the acquisition was recorded to the brand CrediUno-Avance as the only asset affected, 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.

As of the date of issuance of the 2015 financial statements, we had not finalized the calculation of the fair value of the amount paid, the assets and the liabilities related to this transaction. The full transfer took place in 2016, omitting the adjustment in other assets in the amount of 38,751 million pesos within the period according to IFRS No. 3 - Business Combinations.

During the measurement period (2016), the Company failed to recognize the adjustment on the amount related to the acquisition of this business unit, which had been provisionally recorded, as if the business combination had been completed on the acquisition date. Due to the above, and according 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 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 assessed by an independent expert in 2017, the Company performed the appropriate retrospective adjustments 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.

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

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Item	Value	Amortization 2016	End balance 2016	Amortization 2017	End balance 2017	Amortization September 2018	End balance September 2018
Exclusivity contracts	16,044	182	15,862	240	15,622	233	15,389
Databases	22,707	757	21,950	757	21,193	568	20,625
Total	38,751	939	37,812	997	36,815	801	36,014

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 as of January 1, 2017 and December 31, 2017 and in the Statement of Comprehensive Income as of December 31, 2017 and September 30, 2018:

	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	Movement 2018	Adjustment made in 2018	Restated balances September 30, 2018
Intangible assets other than goodwill, net	24.037	37.812	61.849	(2.671)	(997)	58.181	(2.325)	3.322	59.178
Assets Deferred taxes	13.982	(10.516)	3.466	(940)	-	2.526	23.723	-	26.249
Total restated assets balances	38.019	27.296	65.315	(3.611)	(997)	60.707	21.398	3.322	85.427
Retained amings from previous periods	44.022	(27.296)	71.318	(17.200)	-	88.518	(45.249)	(997)	42.272
Current period arnings	-	-	-	1.806	(997)	809	6.837	2.521	10.167
Total restated balances in equity	44.022	(27.296)	71.318	(15.394)	(997)	89.327	(38.412)	1.524	52.439
	Income Statement								
Depreciation and amortization expenses				2.671	997	3.668	5.671	(1.524)	4.147
Pre-tax income (loss)				3.027	(997)	2.030	10.225	1.524	11.749
Current period net income				1.806	(997)	809	8.643	1.524	10.167

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

3.1 Basis of Presentation

The interim financial statements as of September 30, 2019 and December 31, 2018 and for the three and nine month periods ended September 30, 2019 and 2018 have been prepared in accordance with IAS 34 "Intermediate Financial Information". The interim financial statements should be read in conjunction with the annual financial statements on December 31, 2018, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the Standards Council International Accounting (IASB). They do not include all the information required for a complete set of financial statements according to IFRS. However, notes have been included to explain the events and transactions that are important for understanding changes in the Company's financial situation and performance since the last financial statements.

These interim financial statements were authorized by the Company's Management on November 22, 2019.

The Financial Statements of Credivalores have been prepared in line with the Financial Reporting and Accounting Standards accepted in Colombia FRAS - IFRS 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, 2016.

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:

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

Decree 2615 dated December 17, 2014 came into effect on January 1, 2016. Decree 2615 contains the international accounting and financial reporting standards in force as of December 31, 2013 and their corresponding amendments issued by the International Accounting Standards Board IASB in force today. With this, the regulatory technical framework contained in the annex to Decree 2784 dated December 28, 2012 and Decree 3023 dated December 27, 2013 was revoked.

Credivalores 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.

Accounting policies adopted for the preparation of separate interim financial statements are consistent with those of previous years with the exception of changes submitted by the adoption and implementation of IFRS 16 "Leases".

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including substantial fixed payments), minus any lease incentives receivable
- Variable lease payment based on an index or rate
- Amounts that the tenant is expected to pay under residual value guarantees
- The exercise price of a purchase option if the tenant is reasonably sure to exercise that option, and
- Payments of fines for terminating the lease, if the condition of the lease reflects that the tenant exercised that option.

Lease payments are deducted using the implied interest rate on the lease, if such rate can be determined, or the incremental indebtedness rate.

Right of Use Assets are cost-measured and include the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made on or before the start date
- Any direct initial costs, and
- Restoration costs

Payments associated with short-term leases and low-value asset leases are recognized under the linear method as an expense in the income statement. Short term leases have a term of 12 months or less. Low-value assets include computer equipment and small items in office furniture.

3.2 Changes in accounting policies

LEASINGS- IFRS 16

Under the new IFRS 16, a lease is a contract, or part of a contract, that grants the right to use an asset (underlying asset) for a period of time in exchange for a consideration. To be a lease, a contract must grant the right to use an identified asset, which can be a distinguishable portion of another asset. A contract grants the right to control the use of an identifiable asset if, throughout the period of use, the customer has the right to:

- Obtain substantially all economic benefits, and
- Direct the use and purpose of the identifiable asset.

Lease contracts in Credivalores are made with different assets, such as leases for premises, offices.

Credivalores has leases for offices and premises in several cities in Colombia, where customers are served in general. The improvements, locative arrangements, remodeling are in charge of CREDIVALORES. Lease contracts have a one-year term with an extension clause without a purchase option. Before the end of the contract compliance time, the entity evaluates whether it continues with the lease or cancels it, with prior evaluation of the effectiveness of the office, income received, customer acquisition, if it is authorized to continue with the office open to the contract is extended for another year.

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For those lease contracts that are extendable and even the administration of Credivalores is not certain at what time or term it will extend them, Credivalores will review the following variables:

- Duration of the commercial life of the company according to the chamber of commerce.
- At least 3 years budget must be made.

The average of these two variables is 5 years, this would be the variable with which the term of the lease will be projected.

The International Accounting Standards Board (IASB), issued IFRS 16 with effective date January 1, 2019.

IFRS 16 substitutes existing standards for the accounting of leases, including IAS 17 leases, CINIIF 4 Determining if a contract includes a lease, SIC 15 Incentives in operating leases and SIC 27 Evaluation of the substance of transactions that involve the legal form of a lease.

IFRS 16 introduces a sole accounting model for lease contracts in the statement of financial situation for the lessees. A lessee recognizes a right of use asset, representing the right as an asset and a liability related to the obligation to make the payments of the lease. There are optional exemptions for short-term leases and low value assets. The accounting treatment of the lease agreements for the lessors remains like the current accounting standards, under which the lessor classifies the lease contracts as financial lease or operating lease.

The lessee should also reevaluate the liability under the occurrence of certain events (i.e. a change in the leasing term, a change in future rent payments as a result of a change in the index used or the rate used to determine such payments). The lessee will generally recognize the amount related to the adjustment in the liability as an adjustment in the right of use asset.

Lessor's accounting under IFRS 16 does not include material modifications compared to IAS 17. Lessors will classify all their assets using the same classification principles as of IFRS 7, between financial and operative leases.

IFRS 16 also requires tenants and landlords to include more extensive disclosures than those required under IAS 17. This standard is included in annex 1.3 of Decree 2420 of 2015, by means of Decree 2170 of 2017, in effect January 1, 2019.

In the case of IFRS 16 with obligatory compliance as of January 1, 2019, the Company completed an initial evaluation of the impact on the financial statements. The process for implementation is detailed below:

1. Establishment of a procedure to define a leasing contract.
2. Approval of the evaluation matrix for a leasing: for the definition of a leasing Credivalores will opt for applying option (a) of paragraph C3 of IFRS 6, which resulted in 36 leasing contracts, mainly related to real state.
3. Definition of the rate to discount the flows: It is determined based on the incremental indebtedness rate with the market conditions in which the company is to acquire a financing loan with respect offered by the counterparties, according to their level of credit line and risk level.
4. Lease term definition: for leases that are extendable over time the Company will use a 5-year term for the projection.
5. Short-term assets: short-term assets with right of use will be those with a term under 12 months and will have the accounting treatment of an operating lease.
6. Low value assets: will be defined as those contracts with amounts below 0.5% of the total assets of the Company.

For the purpose of determining a low value asset under steps 6, Credivalores will recognize the associated leasing payments as a straight-line expense during the term of the lease.

Result:

Out of the fifty three (53) lease contracts analyzed under the policy, the following were the results as of January 1, 2019:

1. Seventeen (17) are considered low value assets.
2. Two (2) short term contracts.
3. Five (5) there is no use of the identified asset.
4. Twenty nine (29) apply for the lease policy.

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7. Presentation of the financial information of leasing contracts: Credivalores will apply IFRS 16, option (b), paragraph C5, retroactively, as follows: "Retroactively with the recognition of the effect on the initial application date of the standard, according to paragraphs C7 through C13, if a lessee decides to apply option (b), there is no need to re-express the comparative information, in its lieu the initial application effect will be recognized as an adjustment in the opening balance of the retained earnings or another account in the shareholders' equity".

8. Record the contract as a right of use asset and a lease liability:

- a. Credivalores will use option (a) to register the liability and option (b), numeral (ii) in paragraph 8 for the registration of the right of use asset. On the date of application, the Company will recognize a liability related to a lease contract for the leases previously classified as operative using IAS 17. This liability will be measured using the present value of the pending leasing payments, discounted using the incremental borrowing rate of the Company on the initial application date.
- b. The right of use asset will be measured in the same amount as the liability of the leasing, adjusted for any payment in advance or accumulated payments related to the leasing contract recognized in the statements of financial situation before the initial application date.

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 10.06%. The rate was known through a quotation process for financial credits for assets and term similar to Credivalores considerations

For leases previously classified as finance leases the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

	January 1, 2019
Operating lease commitments disclosed as at 31 December 2018	15,625
Discounted using the lessee's incremental borrowing rate of at the date of initial application 10.06%	14.097
(Less): short-term leases not recognized as a liability	(5.790)
(Less): low-value leases not recognized as a liability	(984)
Lease liabilities recognized as at January 1, 2019	7.323

The right of use assets were measured for an amount equal to the lease liability. Property, plant and equipment increased by \$ 7.323 on January 1, 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as of January 1, 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the financial statements

- **Statement of Financial Position**

	September 30, 2019	January 1, 2019
Assets		
Current assets		
Property, plant and equipment – Right of use	6.105	7.323
Deferred tax assets	2.105	-
Current liabilities		
Other liabilities		

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Current	1.859	1.860
Non-current	4.520	5.463
Deferred tax liabilities	2.015	-
	(184)	-

• **Statement of income**

	September 30, 2019
Depreciation charge of right-of-use assets	1.217
Interest expense (included in finance cost)	480
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	1.113
Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses)	353
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	356
	3.519

The total cash outflow for leases in 2019 was 3.364.

NOTE 4. JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES IN THE APPLICATION OF ACCOUNTING POLICIES

The preparation of the interim financial statements requires management to make judgments, estimates and assumptions that affect the implementation of accounting policies and reported amounts of assets and liabilities, and income and expenses.

The financial statements, the significant judgments made by the administration in the application of the accounting policies of Credivalores and the main sources of uncertainty estimation were the same as those applied to the financial statements for the year ended December 31, 2018. Except for the judgments and estimates related to the adoption and implementation of IFRS 16, as described below:

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 did not restate comparative information for 2017 for those financial instruments under the scope of IFRS 9. Therefore, comparative information for 2017 is reported according to IAS 39 and is not comparable to the information presented for 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 IMPAIRMENT MODEL

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 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), qualitative criteria have also been developed in case that it is not possible to apply the quantitative criterion or that it cannot be used for 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 considers the prospective nature of the tolerances of loss for instruments, based on the expectations of future behavior.

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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-linear 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.

4.2 Financial Assets Business Model

Credivalores makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The expected policies and objectives for the portfolio and the actual application of them. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Credivalores management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sale activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Credivalores stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Credivalores considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Credivalores Crediservicios S.A.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),

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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 Tu credito 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 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Variable lease payments

Some property leases contain variable payment terms that are linked to profit generated from a specific office. For individual offices, up to 100% of lease payments are on the basis of variable payment terms. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for newly established offices. Variable lease payments that depend on profits are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

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Lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The evaluation is reviewed if a significant event or a significant change in the circumstances affecting this evaluation occurs.

4.4 Seasonal nature of income and expenses.

The nature of the most important operations of Credivalores Crediservicios S. A is mainly related to traditional activities that are not significantly affected by seasonal factors.

NOTE 5 - 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 Credivalores positions, therefore the valuations are adjusted if necessary to include additional factors, such as country risk, liquidity risks and counterparty risks.

Fair value hierarchy has the following levels:

- Level 1 entries are unadjusted prices quoted in active markets for assets or liabilities identical to those the entity can access on the measurement date.
- Level 2 entries are entries other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 entries cannot be observed for the asset or liability.

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

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

The determination of what constitutes "observable" requires a significant opinion from Credivalores. 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.

5.1 Fair Value Measurement on a Recurring Basis

Level 2 input data elements include: the prices quoted for similar assets or liabilities at active markets; the quoted prices for assets or liabilities that are identical or similar in markets which are not active; input data other than quoted prices that are observable for the asset or liability and input data corroborated by the market. According to the above, Credivalores values derivative financial instruments with input data from fair value level 2.

The following table analyzes assets and liabilities (by class) within the fair value hierarchy, measured at fair value as of September 30, 2019 and December 31, 2018, on a recurring basis.

	September 30, 2019	December 31, 2018
	Level 2	Level 2
ASSETS		
Investments in equity instruments	13.880	20.034
Hedging derivatives		
Currency forward	25.491	13.092

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Options	94.153	52.774
Cross Currency Swap	205.477	98.620
Consumer		
Payroll deduction loans	<u>20.675</u>	<u>18.337</u>
Total fair value recurring assets	<u>359.676</u>	<u>202.857</u>
LIABILITIES		
Hedging derivatives		
Options	<u>50.545</u>	<u>26.762</u>
Total fair value recurring liabilities	<u>50.545</u>	<u>26.762</u>

5.2 Fair value determination

The methodology applicable to instruments for Credivalores is:

- 5.2.1 Forward valuation:** The derivative's fair value comes from an internal model. This model takes the exchange rate on the day after the valuation date and forecasts it to a future value using the devaluation curve through maturity date. After this the new forward market rate is compared to the agreed forward rate and the difference is expressed in present value using the IBR curve to calculate the derivative's fair value.
- 5.2.2 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.
- 5.2.3 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.
- 5.2.4 Loan portfolio valuations:** Because these instruments do not 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 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 flows according to weighted average life 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 previously described.
 - c. Present value determined as per described in b) represents the loan portfolio's fair value.

5.2.5 Equity instruments: Credivalores 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.

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	Valuation technique	Significant inputs (1)
ASSETS		
Equity Instruments	Adjusted net asset value	<ul style="list-style-type: none"> - Current Balance - Average term to maturity - Weighted average Rate - Unit value

5.2.6 Derivative financial instruments

Derivative financial instruments and hedge accounting:

A derivative is a financial instrument in which value changes respond to changes in one or more variables denominated as an “underlying” (a specific interest rate, the price of a financial instrument, a listed commodity, a foreign currency exchange rate, etc.), that has an initial net investment smaller than would be required for other instruments that have a similar response to the mentioned variable and that is settled in a future date.

Credivalores trades in financial markets, forward contracts, future contracts, swaps and options that fulfil the definition of a derivative.

Financial assets and liabilities from transactions with derivatives are generally not offset in the statement of financial position. However, when there is a legal and exercisable right to offset the recognized values and Credivalores intends to be settle them on a net basis or to realize the assets and settle the liability simultaneously, derivatives are presented as net values in the statement of financial position.

Derivative transactions are initially recognized at fair value. Subsequent changes in the fair value are recognized in profit or loss, unless the derivative instrument is designated as a hedging instrument and, in this case, the accounting criteria will depend on the nature of the hedged item, as described below.

At the beginning of the hedging transaction, Credivalores formally documents the relationship existing between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedging relationship. It also documents its assessment, both initially as well as on a recurring basis, of whether the hedging relationship is highly effective in offsetting the changes in fair value or cash flows of the hedged items.

For fair value hedge of assets or liabilities and firm commitments, changes in the fair value of the derivative instrument are recognized in profit or loss, as well as any other change in the fair value of the asset, liability or firm commitment attributable to the hedge risk.

For cash flow hedge of a particular risk associated with a recognized asset or liability or a projected highly probable transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. The gain or loss relating to the portion that is not effective for hedging or that does not relate to the hedged risk is immediately recognized in profit or loss.

The values accumulated in other comprehensive income are transferred to profit or loss in the same period in which the hedged item is recognized in profit or loss.

Hedging of net investments in a foreign operation is recognized similarly to cash flow hedging: the effective portion of changes in fair value of the hedging instrument is recognized in other comprehensive income, and the ineffective portion of the changes in fair value of the derivative is recognized in profit or loss. The hedging instrument's gains or losses accumulated in equity will be recognized in profit or loss when the net investment in foreign operations is sold in whole or proportionally, if partially disposed of.

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 derivative assets and liabilities at recurrent fair value.

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ASSETS	Valuation technique	Significant inputs (1)
Trading Derivatives Currency Forward Debt securities Forward	Discounted cash flow	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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

5.3 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 book value:

Fair value	September 30, 2019		December 31, 2018	
	Book Value	Fair Value Estimate	Book Value	Fair Value Estimate
Assets				
Loan Portfolio (Gross)				
Consumer	1.352.709	1.364.781	1.299.476	1.334.225
Microcredit	5.923	6.046	6.461	6.573
Total	1.358.632	1.370.827	1.305.937	1.340.798
Liability				
Financial obligations	1.695.062	1.739.552	1.564.108	1.622.911
Total	1.695.062	1.739.552	1.564.108	1.622.911

The book value corresponds to the value at amortized cost. The fair value estimate does not include transaction costs.

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.

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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).

The Company's business model includes payroll loans at fair value with changes in profit and losses, whereby the loans originated within the 90 days prior to the date of the financial statements are valued at fair value. In order to estimate the fair value of these loans, which could be sold to financial institutions at a market price, the Company evaluates the lending rate of these loans within the reference market to evaluate the rate at which other financial institutions considered as peers and comparable to the Company will be willing to invest their resources and hold the payroll loans within their balance sheet.

Taking into account the results from the evaluation of the rates, the Company evaluates four variables to obtain the value of the adjusted rate applicable to the transactions to sell loan portfolio, according to internal criteria:

- i)** The multiplier, which compares the Company's rate to the market rate.
- ii)** The value of the premium paid in these businesses, which results from discounting the future values of a loan originated at Credivalores' lending rate using the market rate.
- iii)** The rate is adjusted by the transaction cost associated to the loan portfolio.
- iv)** The cash flows associated to the insurance policies applicable to the loan are also valued.

The methodology followed by the Company, uses the last three months reports from the Financial Superintendence as the source of information to determine the interest rate to discount the cash flows and complete the valuation of the final selling price of the loan portfolio.

The Company has determined that the fair value of the loan portfolio registered in its financial statements is type 3, since most of the criteria is internal.

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5.4.1 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 Tu credito
Amortized cost	0 days from origination onwards	Current and past-due portfolio	Incurred loss model (equivalent indexed rate)

5.4.1.1 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 Tu credito (payroll deduction loans) is measured at fair value, given that its market niche is focused on placing “top-rated” loans.

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

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

5.4.1.2 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.

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NOTE 6. RISK MANAGEMENT

Credivalores manages risk pursuant to the applicable regulations in the country and Credivalores internal policies.

Objective and general guidelines

Credivalores objective is to maximize returns for its investors, through proper risk management. The guiding principles of risk management of Credivalores 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

Financial Risk Management

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

- Credit Risk
- Market Risk
- Liquidity Risk
- Operating Risk

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; these financial statements should be read in conjunction with Credivalores annual financial statements as of December 31, 2018. There have been no changes to the risk management department or any risk management policies since December 31, 2018. There are no significant changes related to risk objectives, the corporate structure of the risk function and risk strategies in general compared to what was revealed in the last set of financial statements as of December 31, 2018.

6.1 Credit Risk

Credit risk is the risk of financial loss faced by Credivalores Crediservicios S.A., if a client or counterparty in a financial instrument does not meet its contractual obligations and originates mainly from the receivables to customers and the Company's investment instruments.

The business model of Credivalores Crediservicios S.A, in its portfolio of credits differs from the rating of its products according to the inherent risk of its portfolio.

During the three and six-month period ended September 30, 2019, there were no significant changes in policies and how Credivalores handles credit risk.

The maximum exposure to credit risk of Credivalores, according to IFRS 7, is reflected in the book value of financial assets in the statement of financial position of Credivalores as of September 30, 2019 and December 31, 2018 as follows:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	149.436	195.058
Financial instruments net	339.001	184.520
Loan portfolios		
Consumer loans	1.352.709	1.299.476
Microcredit portfolio	5.923	6.461
Payroll loans at fair value	20.675	18.337
Accounts receivable, net	392.129	330.651
Total financial assets with credit risk	2.259.873	2.034.503
Off-balance-sheet credit risk at nominal value		
Unpaid approved credits	410.606	455.058
Total exposure to off-balance-sheet credit risk	410.606	455.058
Total maximum exposure to credit risk	2.670.479	2.489.561

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Credit Risk Model: Loans

I. Transitions between stages

A financial asset is classified as a low credit risk asset based on the debtor's payment habits.

The first step in the methodology consist in evaluating a significant increase in credit risk by comparing the current status against a previous status of stage recognition of the loan.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

Significant Increase in Credit Risk

When determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, Credivalores considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on Credivalores historical experience, expert credit assessment and forward-looking information.

The following criteria is used to determine if a significant increase in credit risk has occurred:

- Comparison of the remaining lifetime probability of default (PD) at the reporting date with the lifetime PD at initial recognition of the exposure.
- Qualitative aspects such as the rebuttable presumption of the norm and restructuring agreements are also considered.
- Qualitative criteria from analysts is also considered based on expert and supportable information.

Credivalores has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is aligned with Credivalores internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible relevant historical experience, Credivalores may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, Credivalores will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due.

Credivalores will monitor the effectiveness of the criteria used in identifying significant increases in credit risk through regular reviews to confirm that:

- The criteria are useful in identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes over 60 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and there is no unwarranted volatility in loss impairment from transfers between 12 month ECL and lifetime ECL measurements.

II. PD – Probability of Default

Term structure of PD

Credit risk grades are the primary input in the determination of the term structure of PD for exposures. Credivalores collects performance and default information about its credit risk exposures analyzed by type of product and borrower, and by credit risk grade. For some portfolios, information purchased from external credit reference agencies may also be used.

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Credivalores employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of the relation between changes in default rates as well as an in-depth analysis of the impact of certain other factors on the risk of default.

For stage 1 the PD estimates the probability that the credit will default in the next 12 months, while the PD in stage 2 is the result of the probabilities for the remaining life of the credit. The probability in Stage 3 is defined as 100%.

To determine the PD the company used statistical models to analyze and select the variables significant in predicting whether clients would reach default during a known period of time that is determined by the stage of the loan. For stage 1 the PD are evaluated for the next 12 months, loans on later stages are evaluated for the remainder of the loan lifetime.

To estimate lifetime probability Credivalores calculates the 12-month PD and for each successive year for the loan lifetime the model estimates the PD conditioned to not having defaulted during previous years.

Credivalores uses behavioral demographic and origination variables to estimate PD modeling them with a logistic regression that is periodically monitored to ensure its predictive capabilities and its stability. This monitoring for payroll loans and credit card models showed adequate predictive capabilities as well as stability regarding its inputs distributions (PSI). There was also a test run on average observed PD by rating of the last 2 years that ensure the actual events that are being predicted have not vary its behavior significantly and therefore concluding the models provide an adequate and reasonable prediction of PDs by rating.

Credivalores approach to incorporating forward-looking information into this assessment is discussed below.

Forward-Looking Information

Credivalores incorporates forward-looking information into its measurement of ECLs. Credivalores formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on forecasts provided by economic experts and considering a forecast of multiple variables. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome. It is aligned with information used by Credivalores for other purposes, such as strategic planning and budgeting. The other scenarios for Colombia represent more optimistic and more pessimistic outcomes.

Credivalores has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as of December 31, 2018 include the following key indicators (among others) for Colombia for the years ending 31 December 2018 and September, 2019¹:

	2018			2019		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Inflation	4,7%	3,6%	2,5%	4,5%	3,3%	2,1%
Interest rates	30,6%	30,2%	29,7%	30,3%	29,9%	29,8%
GDP growth	1,7%	2,5%	3,3%	2,2%	3,2%	4,2%
Unemployment rate	9,4%	9,3%	9,2%	10,2%	10,1%	10,0%

Credit Risk Rating

Credivalores allocates each exposure to a credit risk grade based on a variety of data intended to be predictive of the probability of default and applying experienced credit judgment. Credivalores uses these grades with the purpose identifying significant increases in credit risk. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower and product.

¹ Projections made internally by the planning area.

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Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Loan Portfolio

Payroll and Credit card loans

- Information collected internally about the behavior of customers.
- Demographic information of customers.
- Origination information of credits/customer.

III. LGD – Loss Given Default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Credivalores methodology uses historical information to measure the recoveries of loans that reach the default stage at present value. This allows Credivalores to have an adequate estimate of the losses it will incur when credits reach default stage. These calculations is done separately for payroll loans and credit cards to better reflect the fundamental differences in this product and therefore on its LGD.

IV. EAD – Exposure at Default

EAD represents the amount owed from a counterparty at the time of a possible default. For stage 2 Credivalores incorporates in the analysis of the exposure at default the probability of payments and increase or decrease in exposure during the lifetime of the credit.

These probabilities are estimated using the historical information collected by the company and are grouped by type of product. The probabilities are constantly reviewed in order to accurately estimate them and calibrate them.

For payroll loans EAD will correspond to the full valuation of the assets at amortized cost. For credit cards, EAD will take into account the unused credit line when available as well the expected amortization, which allows to have a reliable estimate of the credit exposition at default.

V. Simplified Model

Credivalores uses a simplified roll rate model to estimate ECL of remnants of portfolio loans that represent less than 5% of balance sheet loans and that are consistently lowering its portfolio share.

I. Transition between stages

A financial asset is classified as a low credit risk asset based on the debtors payment habits.

The first step in the methodology consist in evaluating a significant increase in credit risk by comparing the current status against a previous status of stage recognition of the loan.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

II. PD – Probability of default

To determine the PD the company used statistical models to analyze and select the variables significant in predicting whether clients would reach default during a known period of time that is determined by the stage of the loan. For stage 1 the PD are evaluated for the next 12 months, loans on later stages are evaluated for the remainder of the loan lifetime.

To estimate lifetime probability Credivalores calculates the 12 month PD and for each successive year for the loan lifetime the model estimates the PD conditioned to not having defaulted during previous years.

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Credivalores uses behavioral demographic and origination variables to estimate PD modeling them with a logistic regression that is periodically monitored to ensure its predictive capabilities and its stability. This monitoring for payroll loans and credit card models showed adequate predictive capabilities as well as stability regarding its inputs distributions (PSI). There was also a test run on average observed PD by rating of the last 2 years that ensure the actual events that are being predicted have not vary its behavior significantly and therefore concluding the models provide an adequate and reasonable prediction of PDs by rating.

PD depends of the external credit rating of the issuance, issuer or counterparty. Credit rating information is published by international credit rating corporations, such as Standard & Poor's, Moody's and Fitch Ratings, or national credit rating corporations, such as Fitch Ratings Colombia S.A. or BRC. In any case, international ratings have priority over national ratings.

Credit ratings from S&P have priority over other rating corporations. If the issuance, issuer or counterparty is not rated by S&P, credit ratings from Moody's or Fitch Ratings can be used but they must be translated to the S&P rating scale. The order of priority in credit rating corporations is as follows: S&P in first place, Moody's in second place and Fitch Ratings in the third one.

The reason for choosing this hierarchy is to avoid discretion at the time of assigning a rating. National credit rating corporations can be used only if international credit ratings are not available, and the translation condition to the S&P rating scale must be followed as well.

For financial assets classified as stage 1, PD correspond to the probability of default for the next 12 months established in accordance to "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis. In order to avoid an empty value of impairment as a consequence of a PD equal to zero, methodology allows PD increase from 0% to 0.01%. If the remaining life of the assets is less than 12 months, the resulting PD will correspond to the weighted 12 months-PD with the remaining life of the financial asset.

For financial assets classified as stage 2, lifetime PD must be used and computed using the "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis and according to the term of each flow.

For financial assets classified as stage 3, lifetime PD will equal 100% for any issuance, issuer or counterparty.

Forward-Looking Information

Credivalores incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. This information will directly affect the PD and the stage classification.

III. LGD – Loss given default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Credivalores methodology uses historical information to measure the recoveries of loans that reach the default stage at present value. This allows Credivalores to have an adequate estimate of the losses it will incur when credits reach default stage. This calculations is done separately for payroll loans and credit cards to better reflect the fundamental differences in this product and therefore on its LGD.

IV. EAD – Exposure at default

EAD represents the amount owed from a counterparty at the time of a possible default.

For payroll loans EAD will correspond to the full valuation of the assets at amortized cost. For credit cards, EAD will take into account the unused credit line when available as well the expected amortization, which allows to have a reliable estimate of the credit exposition at default.

Credit Risk Model: Other accounts receivable

Credivalores uses the simplified approach where Credivalores uses an impairment matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small amounts.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics like type of product purchased.

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Loss impairment

The table below shows the loss impairment balances as of September 30, 2019:

	September 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
		Lifetime	Lifetime	
		ECL not	ECL	
	12-month	credit-	credit-	
	ECL	impaired	impaired	
Loan portfolio				
Loan consumer portfolio	12.838	5.010	160.153	178.001
Loan microcredit portfolio	5	9	5.855	5.869
Total loan portfolio	Ps. 12.843	5.019	166.008	183.870
Total loss impairment financial assets at amortized cost	Ps. 12.843	5.019	166.008	183.870
Total loss impairment	Ps. 12.843	5.019	166.008	183.870

(1) Credivalores has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2.

The table below shows for loans stage 3 individually assessed for ECL the gross amount and loss impairment balances as of September 30, 2019.

	September 30, 2019	
	Gross Amount Registered	Impairment Recognized
With recognized provision		
Consumer	Ps. 181.865	Ps. 160.153
Microcredit	4,231	5.855
Total	Ps. 186.096	Ps. 166.008

6.1.1 Monitoring and Control Process

The Company has an information system in place that provides daily indicators on the loan portfolio status 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 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.

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As of September 30, 2019

Status	Tu Crédito	CrediUno	CrediPóliza	Microcredito	Total managed portfolio	On balance sheet Portfolio
CURRENT	812.209	361.719	56.589	44	1.230.561	934.876
1-30	7.960	13.038	4.416	18	25.433	22.981
31-60	8.590	7.980	1.808	8	18.386	15.176
61-90	4.399	6.255	373	10	11.036	9.723
91 A 180	6.832	12.245	1.034	20	20.131	18.691
181 A 360	13.397	31.674	2.932	42	48.044	46.647
> A 360	56.915	72.209	3.502	4.179	136.805	126.897
Totals (see Note 10)	910.302	505.120	70.653	4.321	1.490.396	1.174.991

As of December 31, 2018

Status	Tu Crédito	CrediUno	CrediPóliza	Microcredito	Total managed portfolio	On balance sheet Portfolio
CURRENT	699.156	376.137	84.043	114	1.159.450	940.027
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	2.365	79	33.463	32.047
> A 360	47.534	50.403	3.460	4.392	105.790	96.837
Totals (See Note 10)	785.400	503.684	101.616	4.780	1.395.480	1.160.205

6.2 Credit worthiness

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

Entity	Type of Account	September 30, 2019	December 31, 2018
Banco de Bogotá	Checking	1.707	3.849
Bancolombia	Checking	7.411	4.489
Banco GNB Sudameris Colombia	Checking	-	87
Red Multibanca Colpatría	Savings	123	266
Banco BBVA	Checking	264	314
Banco De Occidente	Checking	100	31
Bancomeva	Checking	8	61
Banco Santander	Checking	3.363	1.979
Available in Free-standing Trusts	Savings/Checking	5.130	7.745
JP Morgan	Deposit	1.876	-
		19.982	18.821

The following is a breakdown of creditworthiness as determined by independent credit rating agencies of all those major financial institutions in which the Company 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 Colpatría	AAA		
4	Banco de Occidente	AAA		
5	Banco Corpbanca	AAA		

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6	Bancolombia	AAA		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.
7	Banco Santander	AAA		
8	GNB Sudameris	AA+		

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 considers 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.

6.3 Market Risk

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

Credivalores 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 Credivalores'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 September 31, 2019 and December 31, 2018, Credivalores had the following financial assets and liabilities at fair value subject to trading risk:

Financial assets and liabilities at fair value exposed to trading risk held:	September 30, 2019	December 31, 2018
Equity Instruments	13.880	20.034
Derivatives instruments	325.121	164.486
Loan Portfolio	20.675	18.337
Total	359.676	202.857
Financial liabilities	(50.545)	(26.762)
Total	(50.545)	(26.762)
Net Position	309.131	176.095

Methodology used to measure risk

Market risks are quantified through value at risk standard models.

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The company uses the standard model for the measurement, control and management of market risk of interest rates and exchange rates at which the entity is exposed.

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

Interest rates

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

Sensitivity Analysis

Taking into account Credivalores 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 the third quarter of 2019. The following methodology was defined 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 Credivalores 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 rate on an annual basis as of September 30th, 2019 (4.251%).
4. Finally, the results of each scenario were compared to the base scenario, which corresponds to the projections of interest flows using the rates as of September 30th, 2019 as reference .

The results are set out below:

Scenarios	Interests
Effect of 20 BPS decrease in variable rate	(302.443)
Effect of 20 BPS increase in variable rate	301.549
Total Scenarios	(894)

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	(302.443)
Effect of devaluation and increase, 15 BPS, variable rate	303.336
Total Scenarios	893

Exchange rate

Credivalores 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.

Sensitivity Analysis

Considering Credivalores 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 the third quarter of 2019. 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 (spots prices projected using Bloomberg's curve), generating revaluation and devaluation effect on the TRM as of September 30th, 2019.
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.

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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 rate on an annual basis as of September 30th, 2019 (4.283%).
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 as of September 30th, 2019.

The results are set out below:

Item	Total Debt
Initial Scenario (Balance as of December 31st, 2018)	1.580.864
Scenario 1 (Effect of revaluation)	1.571.279
Scenario 2 (Effect of revaluation)	1.590.449
Difference Scenario 1 vs. Initial Scenario	(9.585)
Difference Scenario 2 vs. Initial Scenario	9.585

(1) Volatility obtained from the daily average for the previous three years, including the first nine months of 2019.

6.4 Liquidity Risk

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

The company funding is based on short and medium term bank loans as well as bonds and commercial notes issued in the international capital markets. These funds are mainly used to leverage new loan origination according to Credivalores' business model. On the other hand, the Company's capacity to create positions regarding financial instruments available for sale (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, 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 flows associated to loan portfolio and liquid assets, short-term financial liabilities, and off balance financial positions in different time frames, allowing a permanent monitoring of the liquidity gap, 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.

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

- Inflows: Incoming flows 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) principal and interest from financial liabilities.
- Liquidity GAP: Difference between inflows and outflows according to:
 - Monthly cash flows associated to assets (liquid assets, loan portfolio).
 - Monthly projected cash flows 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:

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- ✓ 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 where it operates and the 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. The Financial Committee calculates and monitors the liquidity position on a weekly basis, considering cash flow projections for 7 and 15 days:

- a) Green: liquid assets / outflows \geq 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 defines any actions to be taken in order to assure the sufficient procurement of cash to operate on a normal basis. The liquidity level results as of September 30th, 2019 are set out below:

<u>Item</u>	<u>Liquidity level</u> <u>September, 2019</u>
7 Days	182%
15 Days	126%
30 Days	128%

As of September 30th, 2019, 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 Credivalores has sufficient resources to operate normally.

Also, as is good practice, a third band is monitored, which allows for controlling of the liquidity level projected to 30 days. As of September 30th, 2019, a green band scenario is recorded, indicating that Credivalores 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 time range for the Liquid Assets and the LRI (Liquidity Risk Indicator) for September 30th, 2019 and December 31, 2018.

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Description	September 30, 2019				
	Subsequent Net Balances Available				
	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	19	19	-	-	-
Banco de Bogotá	1.707	1.707	-	-	-
Bancolombia S. A.	7.411	7.411	-	-	-
Banco GNB Sudameris Colombia	-	-	-	-	-
BBVA Colombia	264	264	-	-	-
Red Multibanca Colpatria S. A.	123	123	-	-	-
Banco De Occidente	100	100	-	-	-
Bancoomeva	8	8	-	-	-
Banco Santander	362	362	-	-	-
Banco Santander Uruguay	4.877	4.877	-	-	-
Credifinanciera	12.072	-	-	12.072	-
Cash at Free-Standing Trusts	7.006	7.006	-	-	-
Collective Investment Funds	9.210	9.210	-	-	-
Agrocaña	4.670	-	-	-	4.670
Mutual Funds – Fiduciaria and Valores	-	-	-	-	-
Bancolombia	22.107	22.107	-	-	-
Fiducolombia Free-Standing Trusts	95.256	95.256	-	-	-
Inverefectivas	11.093	-	-	-	11.093
Total liquid assets	176.285	148.450	-	12.072	15.763

Description	December 31, 2018				
	Subsequent Net Balances Available				
	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.	4.482	4.482	-	-	-
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	-
Cash at Free-standing Trusts	7.798	7.798	-	-	-
Collective Investment Funds	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	168.658	15.364	26.393	15.037

(1) Liquid assets correspond to the sum of existing assets at the close of each period, which can be quickly 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).

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- (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/Credivalores + 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 Sept-19	
Net Liquidity	149.436
Assets (Credivalores + Free-standing Trust) (Portfolio)	1.358.632
Indicator 1	11,0%

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

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

Exposure Limit Indicator 1 Sept-19	
Net Liquidity	149.436
Liabilities (Credivalores + Free-standing Trust)	1.420.486
Indicator 2	10,5%

In the three-month period ended September 30, 2019 there were no significant changes in the liquidity risk or in the manner in which Credivalores manages this risk.

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

September 30, 2019

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 equivalents	149.436	-	-	-	149.436
Equity Instruments at fair value	9.210	-	-	4.670	13.880
Investments in Associates and Affiliates	-	-	-	11.093	11.093
Financial Assets at amortized cost (*)	58.830	294.743	354.117	976.605	1.684.294
Derivatives instruments				325,121	325,121
Total assets	217.476	294.743	354.117	1.317.489	2.183.825

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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 (*)	45.273	197.017	288.936	1.591.971	2.123.197
Financial Liabilities at fair value	-	-	4.423	46.122	50.545
Derivatives instruments					
Total Liabilities	45.273	197.017	293.359	1.638.093	2.173.742

(*) This disclosure includes the calculation of projected interest.

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 equivalents	195.058	-	-	-	195.058
Equity Instruments at fair value	15.363	-	-	4.671	20.034
Investments in Associates and Affiliates	-	-	-	10.366	10.366
Financial Assets at amortized cost (*)	60.807	306.649	373.710	863.100	1.604.266
Derivatives Instruments				164,486	164,486
Total assets	271.228	306.649	373.710	1.042.972	1.994.210

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	2.013.248
Financial Liabilities at fair value -	-	-	-	26.763	26.763
Derivatives instruments					
Total Liabilities	63.380	146.009	156.557	1.674.065	2.040.011

(*) This disclosure includes the calculation of projected interest.

NOTE 7. 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 Credivalores to handle short-term commitments.

Cash and cash equivalent balances encompass the following as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Cash	19	25
Banks	19.982	18.821
Mutual funds (7.1)	117.363	149.819
Term Deposit (7.2)	12.072	14.960
Time Deposit	-	11.433
	149.436	195.058

As of September 30, 2019 and December 31, 2018, there were no restrictions on bank accounts.

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

	September 30, 2019	December 31, 2018
Fiduciaria Bancolombia – Renta Liquidez	5.891	6.129
Valores Bancolombia - Renta Fija Plus	15.007	-
Alianza Fiduciaria - FIC	4	179
Fiduciaria Bogotá - Encargo Bogotá	-	2
Fiduciaria Bancolombia - Credinvest	1.156	53
Fiduciaria Bancolombia - Factoring	-	26.230
Fiduciaria Bancolombia - Economic rights	20	-
Fiduciaria Bancolombia - Progression	29	-
Sub-Total	22.107	32.593
Entity	September 30, 2019	December 31, 2018
Fiduciaria Bancolombia - Collective Investment Funds Participation	95.256	117.226
Sub-Total	95.256	117.226
Collective investment funds	117.363	149.819

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

Manager	September 2019	Dec-18	Rating Agency
Fiduciaria Bancolombia	S1/AAA(col)	S1/AAA(col)	Fitch Ratings Colombia S.A.S Credivalores
Fiduciaria GNB Sudameris_Servitrusts	F-AAA	F-AAA	Value and Risk Rating S.A.S Credivalores (2016 - 2017) BRC Standard & Poor's (2015)
Fiduciaria la Previsora	FAAA/2+	S1/AAA(col)	Fitch Ratings Colombia S.A.S Credivalores
Fiduciaria Popular	F-AAA VrR 2- 1+	FAAA/2	BRC Standard & Poor's (2017-2016-2015) - BRC Investor Services S.A.S Credivalores (2014)
Alianza Fiduciaria	F-AA+/UVR1	S1/AAAF	Value and Risk Rating S. A. S. Credivalores (2019)
Fiduciaria Bogotá	FAAA/2/BRC1+	FAAA/2/BRC1+	BRC Standard & Poor's

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.

7.2 CDT deposit certificates

As of September 30, 2019, Credivalores had two Certificate of Full Deposit (CDT) in Banco Santander. Which are detailed below

Number ID	Date	Payment date	Term	Nominal value	Annual effective interest rate	Nominal rate	Total Balance Sept, 2019
040004877	22-08-2019	22-08-2021	24	6.500	5.29%	5.17%	6.536
040004877	23-08-2019	23-08-2021	24	5.500	5.29%	5.17%	5,536
Total				12.000			12.072

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NOTE 8. FINANCIAL INSTRUMENTS

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

	September 30, 2019	December 31, 2018
Equity instruments (8.1)	9.210	15.364
Shares instruments (8.2)	4.670	4.670
Derivative instruments (Note 14)	325.121	164.486
	339.001	184.520

(*) Additionally, see note 10 "Payroll Loans TuCrédito at Fair Value".

8.1 At fair value with changes in results

Investments at fair value correspond to equity participations 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 2019	Annual Return 2018	As of September 30, 2019	As of December 31, 2018
BTG Pactual I Z Class	Closed	5.000.000	2.000.000	58.21%	146.53%	2.105	6.104
BTG Pactual II Z Class	Closed	5.000.000	2.000.000	96.81%	126.45%	882	2.398
Fiduciaria Popular	At sight	200.000	200.000	3.98%	3.86%	11	650
Open Portfolio BTG						6.212	6.212
TOTAL						9.210	15.364

8.2 Equity instruments

	September 30, 2019	December 31, 2018
Agrocaña Shares	4.670	4.670
	4.670	4.670

The Company owns 5.03% of Agrocañas S.A. share capital, with 3,300 outstanding shares as of September 30, 2019. These are not listed on the stock exchange and are therefore measured at fair value with changes to equity (See note 28).

NOTE 9. INVESTMENTS IN ASSOCIATES

The detail of the investments in associates is as follows:

	September 30, 2019	December 31, 2018
Inverefectivas S.A (a)	11.093	10.366
	11.093	10.366

- (a) Credivalores holds a 25% ownership in Inverefectivas S.A. This Company was incorporated in accordance with the legislation of Panama, and has 4,000 shares issued, of which Credivalores owns 1,000 shares with an intrinsic value of FIX 3,189.92 expressed using the TRM of 3,477.45 as of September 30th, 2019.

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	September 30, 2019		December 31, 2018	
	Share of ownership interest	Book value	Share of ownership interest	Book Value
Associates				
Inverefectivas S.A.	25%	11.093	25%	10.366
		11.093		10.366

The movement of investments in the associates account is shown below for the nine months ended September 30, 2019 and December 31, 2018:

Associate	September 30	
	2019	2018
Balance at the beginning of the period	10.366	37.485
Participation in Other Comprehensive income	-	(805)
Adjustments for exchange rate differences	727	(38)
Period-end balance	11.093	36.642

NOTE 10. 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 Credivalores as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Consumer	1.352.709	1.299.476
Microcredit	5.923	6.461
Impairment	(183.870)	(163.413)
Total financial assets at amortized cost	1.174.762	1.142.524
TuCrédito payroll deduction loans at fair value	20.675	18.337
Total loan portfolio, net	1.195.437	1.160.861

The Financial Position Statement includes a net portfolio held in Free-standing trusts totaling 238.455 as of September 30, 2019 and 231.931 as of December 31, 2018. Credivalores classified portfolio by product in accordance with the days of default.

The movement of the provision for the impairment of financial assets by loan portfolio is provided below for the nine months ended September 30, 2019 and September 30, 2018.

	September 30, 2019	
	2019	2018
Initial Balance	163.413	128.080
Adoption IFRS 9 to the company estate	-	47.055
Impairment of the period charged against to profit or loss	47.403	29.754
Recovered provisions	(95)	(543)
Write-offs	(26.851)	(40.733)
Closing balance	183.870	163.613

Below we present a breakdown of the loan portfolio in the balance sheet with all components:

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As of September 30, 2019

Type	Principal	Transaction costs	Accrued Interest	Commissions	Impairment	Total
Consumer loans	1.170.670	69.436	101.642	10.978	(178.000)	1.174.726
Microcredit	4.321	6	1.579	-	(5.870)	36
Total financial assets at amortized cost	1.174.991	69.442	103.221	10.978	(183.870)	1.174.762

At December 31, 2018

Type	Principal	Transaction costs	Accrued Interest	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

The distribution of maturities of Credivalores gross loan portfolio is the following:

September 30, 2019

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Consumer	253.773	441.275	244.077	413.584	1.352.709
Microcredit	5.847	73	3	-	5.923
Total Gross Loan Portfolio	259.620	441.348	244.080	413.584	1.358.632

December 31, 2018

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Consumer	351.279	369.853	255.468	322.876	1.299.476
Microcredit	5.635	769	57	-	6.461
Total Gross Loan Portfolio	356.914	370.622	255.525	322.876	1.305.937

The distribution of maturities of Credivalores principal only loan portfolio is the following:

September 30, 2019

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Consumer	209.607	361.038	218.993	381.032	1.170.670
Microcredit	4.255	64	2	-	4.321
Total Principal Only Loan Portfolio	213.862	361.102	218.995	381.032	1.174.991

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December 31, 2018

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Consumer	312.886	306.164	233.801	302.574	1.155.425
Microcredit	4.190	537	53	-	4.780
Total Principal Only Loan Portfolio	317.076	306.701	233.854	302.574	1.160.205

Below is the breakdown of Credivalores managed loan portfolio, which includes the loan portfolio on balance and the portfolio sold but still managed by the Company:

Type	As of September 30, 2019		
	Principal Loan	Sold	Total
Consumer	1.170.670	315.406	1.486.076
Microcredit	4.321	-	4.321
Total Financial Assets at amortized cost	1.174.991	315.406	1.490.397

Type	As of December 31, 2018		
	Principal Loan	Sold	Total
Consumer	1.155.425	235.275	1.390.700
Microcredit	4.780	-	4.780
Total Financial Assets at amortized cost	1.160.205	235.275	1.395.480

Overdue but not impaired

As of September 30, 2019 and December 31, 2018, a summary of the overdue portfolio by days past due is as follows:

	As of September 30, 2019			As of December 31, 2018		
	Consumer	Microcredit	Total	Consumer	Microcredit	Total
Performing loans	934.832	44	934.876	939.913	114	940.027
Overdue but not impaired	38.131	27	38.158	45.256	111	45.367
Non-performing loans under 360 days	74.990	71	75.061	77.810	163	77.973
Non-performing loans over 360 days	122.717	4.179	126.896	92.446	4.392	96.838
	1.170.670	4.321	1.174.991	1.155.425	4.780	1.160.205

NOTE 11. ACCOUNTS RECEIVABLE, NET

The detailed information of accounts receivables as of September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Debtors (11.1)	258.439	223.812
Asfcredito	64.952	47.490
Economically Related Parties (11.2)	66.228	64.605
Shareholders	1.815	1.815
Prepayments and Advances	1.346	285
Payments on behalf of clients (11.3)	10.086	2.082
Employees	10	5
Others accounts receivable	965	-
Impairments for doubtful accounts (11.4)	(11.712)	(9.443)
	392.129	330.651

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11.1 The balance of the debtors account that as of September 30, 2019 amounts to \$258,439 and as of December 31, 2018 amounts to \$204.238, mainly corresponds to outstanding portfolio collection balances from the free-standing trusts to Credivalores.

11.2 The following is the detail with economically related parties:

	September 30, 2019	December 31, 2018
Finanza inversiones S.A.S	26.850	24.674
Brestol S.A.S	21.462	22.440
Agroindustriales del Cauca	8.600	8.600
Inversiones Mad Capital S.A.S	8.207	7.552
Sferika S.A.S.	340	514
Asficor S.A.S.	276	276
Agro el Arado S.A	146	202
Seinjet Neirus David	201	201
Inversiones Dana S.A.	146	146
	66.228	64.605

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

	September 30, 2019	December 31, 2018
Life Insurance Payroll deduction loans	7.141	813
Crediuno Insurance	2.789	1.097
Tigo Insurance	156	172
	10.086	2.082

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

	September 30, 2019	December 31, 2018
Balance at start of period	(9.443)	(3.329)
Provision charged to income statement (1)	(2.269)	(6.114)
Balance at end of period	(11.712)	(9.443)

(1) The impairment analysis of other receivables is performed annually as of December 31st of each year.

11.4.1. Detail Impairment

Below is a breakdown of the provisioned items applying the simplified approach under IFRS 9 as of September 30, 2019:

	Third Party	Impairment	%
Metroagua		263	100,0%
Asficor SAS		276	100,0%
Mad Capital S.A.		221	100,0%
Sferika SAS		340	100,0%
Servitrust GNB Sudameris S.A.		808	100,0%
Inversiones MAD Capital SAS		1.198	100,0%
Agrointegrales del Cauca		8.103	94,2%
Below 250 million		503	91,5%
Total		11.712	

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NOTE 12. PROPERTY AND EQUIPMENT

The Company's property, plant and equipment as of September 30, 2019 and December 31, 2018, respectively, are as follows:

	September 30, 2019	December 31, 2018
Transportation equipment	117	117
Office equipment and accessories	1.838	1.740
Computer equipment	374	316
Network and communication equipment	2.422	1.679
Machinery, plant and equipment in assembly	49	49
Goods received on finance lease agreements	4.966	4.966
Subtotal	9.766	8.867
Accumulated depreciation	(8.484)	(8.079)
Total	1.282	788

The Company's assets for right of use as of September 30, 2019 and December 31, 2018, respectively, are as follows:

Assets for right of use	7.323	-
Accumulated depreciation	(1.217)	-
Total	6.106	-

The breakdown for equipment movement is shown below:

	December 31, 2018	Additions	September 30, 2019
Transportation equipment	117	-	117
Office equipment and accessories	1.740	98	1.838
Electronic equipment	316	58	374
Network and communication equipment	1.679	743	2.422
Machinery, plant and equipment in assembly	49	-	49
Goods received on finance lease agreements	4.966	-	4.966
	8.867	899	9.766

	December 31, 2017	Purchases	September 30, 2018	Purchases	Adjustment (*)	December 31, 2018
Transportation Equipment	117	-	117	-	-	117
Office equipment and accessories	1.565	15	1.580	6	154	1.740
Electronic equipment	1.010	49	1.059	(280)	(463)	316
Network and communication equipment	663	97	760	610	309	1.679
Machinery, plant and equipment in assembly	371	-	371	(322)	-	49
Goods received on finance lease agreements	4.878	88	4.966	-	-	4.966
	8.604	249	8.853	14	-	8.867

(*) The adjustments correspond to the unification of useful life of assets according to the established policy.

The following is the depreciation movement as of September 30, 2019 and December 31, 2018, respectively:

	December 31, 2018	Depreciation	September 30, 2019
Transportation equipment	117	-	117
Office equipment and accessories	1.653	59	1.712
Electronic equipment	830	132	962
Telecommunications equipment	562	184	746
Goods on finance lease agreements	4.917	30	4.947
Subtotal	8.079	405	8.484

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	December 31, 2017	Depreciation	September 30, 2018
Office equipment and accessories	1.640	121	1.761
Electronic equipment	1.047	80	1.127
Telecommunications equipment	285	130	415
Goods on finance lease agreements	4.719	156	4.875
	7.691	487	8.178

All equipment of Credivalores 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 as of September 30, 2019 and December 31, 2018, 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.

NOTE 13. OTHER INTANGIBLE ASSETS

Below is the company's other intangible assets as of September 30, 2019 and December 31, 2018, respectively:

	September 30, 2019	December 31, 2018
Litigious Rights	570	570
Sub Total	570	570
Software licenses	1.363	1.332
Technology and insurance projects	1.124	2.944
Other	3.343	2.497
Sub Total	6.400	7.343
Contracts	15.007	15.311
Data Bases	19.868	20.437
Trademarks Acquired (1)	14.875	16.665
Sub Total	49.750	52.413
	56.150	59.756

	Initial Balance	Accumulated amortization	Carrying amount
Trademarks Acquired (1)	16.665	(1.790)	14.875
Balance as of September 2019	16.665	(1.790)	14.875

The amortization expenses for the quarter were as follows:

	September 30, 2019	September 30, 2018
Amortization brands	1.790	3.502
Amortization of exclusivity contracts, databases and licenses	2.863	736
Sub-total Amortization Expense	4.635	4.147
Advice, free-standing trust's commissions, contributions	3.225	2.031
Facilities' Remodeling	915	371
Transfer for transaction costs	363	1.763
Total expense	9.138	8.312

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

In assessing internal and external evidence indicating an impairment of assets, the expected revenue was identified as being in line with the estimated projection for September 2019, where interest income has been higher than the estimate, associated with the strategies retention of customers and product characteristics, which has led to a higher portfolio balance caused. It is also noted that the income of advance commissions in August is very close to the estimate, so all revenue is expected to be met at the end of 2019.

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 14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Hedge forward contracts (14.1)	25.491	13.092
Hedge Options (14.2)	94.153	52.774
Call Premium (14.2)	18.517	17.886
Hedge Swaps (14.3)	205.477	98.620
Sub-Total	<u>343.638</u>	<u>182.372</u>
LIABILITY		
Hedge Negotiation (14.1)	50.545	26.762
Sub-Total	<u>50.545</u>	<u>26.762</u>

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

Hedging Operations

Credivalores 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, the 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 September 2018 to cover foreign exchange risks and the risks of interest rate of the outstanding notes expiring in July 2022:

Type of Instrument	2018 – 2019			Effective Date	Annual Interest Rate		
	Credivalores receives	Credivalores pays	Liquidation		Maturity Date	CVCS receives	CVCS pays
Cross Currency Swap	USD 135.000.000	COP 375.722.550.000	Non-Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,89%
Cross Currency Swap	USD 15.000.000	COP 41.746.950.000	Non-Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,89%
Cross Currency Swap	USD 100.000.000	COP 304.096.970.083	Non-Delivery	27/01/2018	27/07/2022	9,75%	IBR+ 8,86%
Total	USD 250.000.000						

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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
Call option	Buyer	European	US\$ 75.000.000	13-Sept-19	25-Jul-22	COP\$ 3.500,00	Non-Delivery
Call option	Seller	European	US\$ 75.000.000	13-Sept-19	25-Jul-22	COP\$ 3.750,00	Non-Delivery

14.1 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**

ASSETS	Fair value			
	September 30, 2019		December 31, 2018	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Forward Contracts for Hedging				
Purchase of foreign currency	69	25.491	69	13.092
Total forward contracts for hedging – assets	69	25.491	69	13.092

Stated in USD expressed in millions

- For this cut the result of the valuation of derivative financial instruments does not generate loss, therefore no liability is recorded for these valuations

14.2 Derivate Financial Instruments Options

The activities carried out by Credivalores generated significant positions in the derivatives portfolio, performing transactions for hedging purposes where the underlying assets 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:

ASSETS	Fair value			
	September 30, 2019		December 31, 2018	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Call spread premium option	75	94.153	75	52.774
Total forward contracts for hedging – assets	75	94.153	75	52.774

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LIABILITIES	Fair value			
	September 30, 2019		December 31, 2018	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Call spread premium option	75	50.545	75	26,762
Total forward contracts for hedging – Liabilities	75	50.545	75	26,762

Options Contracts for Hedging

Derivatives with options hedge the principal amount of the reopening of the 144 A / Reg S Notes for US\$75,000,000 carried 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.

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.

Call Premium

The premium Call option is the payment to lock the right to the option contract at the beginning of the operation with the counterparties Nomura and JP Morgan. Premium Calls have the same expiration dates as bond flows and the amortization is registered in the company's results at the end of each period.

Below call premium movement:

	September 30, 2019	December 31, 2018
Balance at start of period	17.886	-
Agreed Premium	4.499	22.489
Call premium amortization	(3.868)	(4.603)
Total	18.517	17.886

14.3 Derivate Financial Instruments Cross Currency Swap

Credivalores, 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, which is measured as a cash flow hedge.

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

ASSETS	Fair value			
	September 30, 2019		December 31, 2018	
	Nominal Amount USD	Fair Value	Nominal Amount USD	Fair Value
Hedging Contracts Cross Currency Swaps (a)	250	186.302	250	87.049
Hedging Contracts Coupon Only Swap (b)	75	19.175	75	11.571
Total forward contracts for hedging – assets	325	205.477	325	98.620

Credivalores 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.

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NOTE 15. FINANCIAL OBLIGATIONS

Below, we present the balances of financial obligations as of September 30, 2019 and December 31, 2018

	September 30, 2019	December 31, 2018
Issuance of bonds	1.130.172	1.056.169
Foreign banks	260.809	243.731
Financial obligations in free standing trusts	231.938	209.252
Promissory notes – Local banks	116.612	113.550
Finance lease agreements	21	189
Other financial obligations	-	20
Transaction cost	(44.490)	(58.803)
Other Lease Liabilities	6.379	-
	<u>1.701.441</u>	<u>1.564.108</u>

The balances of the financial obligations of Credivalores and the free-standing trusts in which it acts as trustor as of September 30, 2019 and December 31, 2018, correspond to obligations entered into with Colombian financial institutions, the international capital market and financial leasing. Short-term obligations are those that mature between October 2019 and 2020 and long-term loans are those with maturities after October 2020:

a) Short-term financial obligations.

Entity	September 30, 2019	Interest rate	Maturity	December 31, 2018	Interest rate	Maturity
National entity						
Banco de Bogotá	3.442	IBR + 4.8%	2019	6.947	IBR + 6.5%	2019
Banco Colpatria	50.400	9.9% EA	2019	58.050	IBR + 9.2%	2019
Banco De Occidente	10.000	IBR + 4.3%	2019	10.000	4.25%	2019
Bancolombia	12.000	DTF + 6.95%	2019	4.861	DTF + 7.5%	2019
Bancoomeva			2019	2.000	DTF + 8%	2019
Banco Santander			2019	6.667	IBR + 6.5%	2019
Total National Entity	<u>75.842</u>			<u>88.525</u>		
Foreign Entity						
ECP Program Notes	121.711	8.3% EA	2020			
Foreign Entity	<u>121.711</u>					
Finance lease agreements						
Leasing Bancolombia	21	8,42% EA	2019 y 2020	90	8,42% EA	2019
Total Financial Finance lease agreements	<u>21</u>			<u>90</u>		
Other lease liabilities	1.859			-		
Total other lease liabilities	<u>1.859</u>	10.06%EA		<u>-</u>		
Overdraft	<u>-</u>			<u>20</u>		
Autonomous Assets						
PA Crediuno IFC	8.353	11.11%EA	2020 y 2021			
Total Autonomous Assets	<u>8.353</u>					
Total Short-term obligations	<u>207.786</u>			<u>88.635</u>		

Credivalores had short-term financial obligations during the periods ended September 30, 2019 and December 31, 2018 totaling 212.306 and 88.635, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per IFRS 9.

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b) Long-term obligations

Entity	Long-term obligations					
	September 30, 2019	Interest rate	Maturity	December 31, 2018	Interest rate	Maturity
National entity						
Banco de Bogotá	8.397	IBR+6,5 %	2020	5.627	IBR+6,5 %	2020
Bancolombia	20.873	IBR + 6.9%	2021 y 2022	19.398	IBR + 6.85%	2019
Banco Santander	11.500	IBR + 6%	2021			
Total National Entity	40.770			25.025		
Foreign Entity						
ECP Program Notes	139.098	8,3% EA	2021	243.731	8,25% EA	2020 y 2021
	139.098			243.731		
Free-standing trusts						
CrediUno IFC	13.976	11,91% EA	2020 y 2021	35.581	11,91% EA	2020 y 2021
Syndicated Loan TuCrédito	209.609	DTF + 5,5%	2023 y 2024	173.670	DTF + 5,5%	2023 y 2028
Total Free-standing trusts	223.585			209.251		
Finance lease agreements						
Leasing Bancolombia	-			100	8,42% EA	2019 y 2020
Other lease liabilities	4.520			-		
Total Financial Leasing	4.520	10.06%EA		100		
International Bonds						
International Bonds 144 A/Reg. S	869.363	9,75% EA	2022	812.437	9,75% EA	2022
International Bonds 144 A/Reg. S Retap	260.809	9,75% EA	2022	243.731	9,75% EA	2022
Total International bonds	1.130.172			1.056.169		
Total obligations	1.538.145			1.534.276		
Cost of Transaction to be Amortized IFP	(44.490)			(58.803)		
Total financial obligations	1.701.441			1.564.108		

The Company had long-term financial obligations during the periods ended September 30, 2019 and December 31 2018 totaling 1.538.145 and 1.534.276, respectively. Associated costs incurred in the acquisition of loans are classified as transaction costs pending IFP amortization for the periods ended September 30, 2019 and December 31, 2018, valued at 44.490 and 58.803, 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 September 30, 2019 and December 31, 2018 is 1.701.441 and 1.564.108 respectively, which will be paid off as described above.

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Obligations stated in foreign currency

Entity	Nominal Value as of		Nominal as of Value	
	September 30, 2019		December 31, 2018	
ECP Program Notes (a)	75	260.809	75	243.731
International Finance Corporation (IFC)	9	22.329	12	35.581
Issuance of bonds 144 A/ Reg S (b)	325	1.130.172	325	1.056.169
Total	USD 409	COP 1.413.310	USD 412	COP 1.335.481

(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.

Later, on April 19, 2018 Credivalores 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, Credivalores decided to exercise the right of optional redemption at par of US\$12,000,000 outstanding of Tranche X on September 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 September 30, 2019.

(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.

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No public market currently exists for the Notes. The Notes have been registered in 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.

Following we present past coupons payments of the 144A / Reg S notes, since its issuance:

Principal	Coupon	First Coupon Payment – 27/01/2018	Second Coupon Payment - 27/07/2018	Third Coupon Payment - 27/01/2019	Fourth Coupon Payment - 27/07/2019
250.000.000	9,75%	12.187.500	12.187.500	12.187.500	12.187.500
75.000.000	9,75%		3.656.250	3.656.250	3.656.250
	Total in USD	12.187.500	15.843.750	15.843.750	15.843.750
	FX Rate	2.805,40	2.882,84	3.160,52	3.213,09
	Total in Millions Pesos	34.191	45.675	50.074	50.907

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 an index loan to pesos with the IFC amounting to US\$25,000,000, which was modified in May 2015 to increase the amount to US\$45,000,000. This facility includes several covenants within which the most relevant are: a risk-weighted solvency ratio (not less than 12%) for 2018 of 14% and 15% by September 30, 2019, a equity-to-equity ratio (not less than 12%) for 2018 13% and 14% by September 30, 2019, an exposure ratio to economic group (no more than 7%) for 2018 of 0.3% and 0.2% for September 30, 2019, exposure ratio to related parties (no more than 12%) for 2018 of 0.73% and 0.58% by September 30, 2019, fixed assets on equity (no more than 35%) for 2018 of 0.32% and 0.41% by September 30, 2019, an aggregate disinterest ratio of exchange rate (no higher than 25%) for 2018 of 3.90% and 3.51% by September 30, 2019, an aggregate interest rate risk ratio (not less than -10% and not more than 10%) for 2018 of -1.90% and -1.80% for September 30, 2019 and a liquidity ratio (not less than 8%) 10.60% and 8.21% by September 30, 2019.

During 2018 and as of September 30, 2019 Credivalores complied with the covenants set forth above.

• **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 maximum amount, amount, interest rate and duration. The financial cost of financial obligations for the periods ended September 30, 2019 and September 30, 2018:

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	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Free-standing trusts	15.283	13.273
Local banks	8.514	7.113
Foreign currency obligation	15.116	14.068
Third Parties	15.582	17.944
Issuance of bonds	76.069	66.877
Amortization Transaction costs	15.105	14.463
Interest for liabilities for lease and finance lease agreements	497	33
Total	<u>146.166</u>	<u>133.771</u>

The financial obligations and Free-standing Trusts of Credivalores that are recognized in local and foreign currencies will be recognized at the beginning of the transaction 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 16. OTHER PROVISIONS

Credivalores provisions at September 30, 2019 and December 31, 2018, respectively are provided below.

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Litigations subject to executive proceedings	87	108
Other provisions	809	235
	<u>896</u>	<u>343</u>

The movement of legal and other provisions are provided below for the periods ended September 30, 2019 and December 31 2018:

	<u>Legal provisions</u>	<u>Other provisions</u>	<u>Total provisions</u>
Balance held at December 31, 2018	108	235	343
Increase in provisions during the period	(21)	574	553
Balance held at September 30, 2019	<u>87</u>	<u>(*) 809</u>	<u>896</u>
	<u>Legal provisions</u>	<u>Other provisions</u>	<u>Total provisions</u>
Balance held at December 31, 2017	84	218	302
Recovered provisions	-	1.153	1.153
Balance held at September 31, 2018	84	1.371	1.455
Recovered provisions	24	(1.136)	(1.112)
Balance held at December 31, 2018	<u>108</u>	<u>235</u>	<u>343</u>

(*) As of September 30, 2019, other provisions are made up of the following:

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	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Fees	148	145
Christmas expenses	200	70
Others	461	1.156
	<u>809</u>	<u>1.371</u>

Provisions correspond mainly to labor, civil and administrative processes filed by third parties against Credivalores, on which provisions were recognized as of December 31, 2017 in an amount of 84 and were increased to 87 as of the third quarter of 2019, according to the probability of occurrence. It is not possible to determine a disbursement schedule for these provisions due to the diversity of processes in different instances.

However, Credivalores does not expect significant changes to the amounts provisions 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 17. ACCOUNTS PAYABLE

Below, we detail the balance of accounts payable has Credivalores 30 September 2019 and December 31, 2018, respectively:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Commissions and fees	1.849	3.326
Costs and expenses payable (17.1)	49.517	78.704
Leases	-	18
Suppliers	-	53
Withholdings and labor contributions	889	571
Other accounts payable (17.2)	15.436	13.225
	<u>67.691</u>	<u>95.897</u>

17.1 Costs and expenses payable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Financial expenses	24.996	50.067
Others	20.287	23.319
Services	4.234	5.280
Travel expenses	-	38
	<u>49.517</u>	<u>78.704</u>

17.2 Other accounts payable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Collection in favor of third parties	2.368	1.612
Disbursements Payroll Loans	9.910	5.327
Disbursements Credipoliza	1.491	4.850
Disbursements Crediuno	442	752
Disbursements Visa	617	532
Disbursements Tu credito	468	-
Disbursements Tigo	73	152
Others	67	-
	<u>15.436</u>	<u>13.225</u>

CREDIVALORES CREDISERVICIOS S. A.
DISCLOSURES TO THE INTERIM FINANCIAL STATEMENTS
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NOTE 18. CURRENT AND DEFERRED TAX LIABILITIES

Current income tax expense and deferred income tax expenditure are recognized based on the administration's best estimate for the interim period.

The effective rate of taxation for Credivalores for continuous operations for the nine-month period ended September 30, 2019 and 2018 was 43% and 13% respectively.

The effective tax rate presents a variation of 29% between September 30, 2018 and 2019. The variation is related to the difference in procedure applied to determine the income tax for the interim period of September 30, 2018. At that time the company presented net losses and as such calculated their income taxes based on presumptive income established in the articles 188 and 189 from the tax status as the best estimate for the third trimester of 2018. The effective tax rate was corrected with the application of IAS 12 as of December 31, 2018.

When calculating the effective rate of taxation at September 30, 2019, we found that Credivalores provisioned 41% of the tax, in relation to the profit of the year. The difference between the effective rate and the nominal rate of income, this relates to the variation in the rates for temporary differences by Law 1943 of 2018.

The following is the detail of the current tax assets:

	September 30, 2019	December 31, 2018
Income tax advance	16.156	12.043
Advance other taxes	46	-
Tax balance	13	16
Total current tax assets	16.215	12.059

NOTE 19. OTHER LIABILITIES

Below the detail of other liabilities:

	September 30, 2019	December 31, 2018
Collections pending application	31.736	23.841
Values received for third parties (19.1)	18.334	8.854
Bond premium at issuance	5.642	7.139
Collection of managed loan portfolios	2.884	5.116
Checks pending collection	1.499	984
Credit card guarantee	137	363
Pending disbursements	2	2
Total	60.234	46.299

19.1 Values received for third parties

Below the detail of other Values received for third parties

	September 30, 2019	December 31, 2018
FGA guarantees' collections	12.629	3.317
Voluntary and mandatory insurance collections	5.010	2.655
Free-standing trusts collections	628	1.872
Loan studies collection	-	942
Crediprogreso loan portfolio collection	48	49
Retailers collections	19	19
Total Values received for third parties	18.334	8.854

CREDIVALORES CREDISERVICIOS S. A.
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NOTE 20. EQUITY

Capital

Credivalores objective is to safeguard its capacity to continue as a business enterprise and maintain a financial structure that optimizes the cost of capital and maximizes 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, Credivalores indeed complied with the required minimum capital in the relation of solvency required by legal provisions and mandatory investments.

Authorized, and Paid in Capital

As of September 30, 2019 and December 31, 2018 Credivalores 's authorized and paid in capital is **\$129.638** and **\$123.992** represented in **4.588.300** and **4.385.998** shares, each of a nominal value of 28.254; respectively.

Credivalores Crediservicios S.A.

Shareholder	September 30, 2019 Number of shares	%	December 31, 2018 Number of shares	%
Acon Consumer Finance Holdings S de RL	912.913	19.89%	870.444	19.86%
Crediholding S.A.S.	1.571.073	34.24%	1.497.987	34.15%
Lacrot Inversiones 2014 SLU	1.671.520	36.43%	1.593.760	36.34%
Acon Consumer Finance Holdings II S L	193.153	4.21%	184.167	4.20%
Direcciones de Negocio S.A.S.	1	0.00%	-	-
Treasury shares	239.640	5.22%	239.640	5.46%
Total	4.588.300	100%	4.385.998	100%

	September 30, 2019	December 31, 2018
Number of authorized shares	4.700.000	4.700.000
Subscribed and paid shares	4.588.300	4.385.998
Nominal value	28.254	28.254
Subscribed and paid capital (nominal value)	129.638	123.992
Paid-in capital	64.727	58.442
Total capital plus premium	194.365	182.364

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

	September 30, 2019	September 30, 2018
Ordinary shares (a)	2.081.515	1.532.597
Preferred shares (a)	2.506.785	2.506.785
Repurchased treasury shares	239.640	239.640
Total earnings per share	790	2.318

(a) The value of the shares as of September 30, 2019, December 2018 and 2017 correspond to the total number of outstanding shares held by Credivalores, 4.588.300 and 4.385.998 respectively.

CREDIVALORES CREDISERVICIOS S. A.
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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 when declared by the Assembly and by the preferred right in the reimbursement in case of liquidation.

September 30, 2019

Share capital							
Name of 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	-	-	-	77.079	912.913	19.89%
Crediholding S.A.S	-	-	-	-	1.571.073	1.571.073	34.24%
Lacrot Inversiones 2014 S.L.U.	-	923.665	563.119	-	184.736	1.671.520	36.43%
Treasury Shares	-	-	-	239.640	-	239.640	5.22%
Acon Consumer Finance Holdings II, S.L.	-	184.167	-	-	8.986	193.153	4.21%
Direcciones de Negocio S.A.S.	-	-	-	-	1	1	0.00%
Total	835.834	1.107.832	563.119	239.640	1.841.875	4.588.300	100.00%

December 31, 2018

Share capital							
Name of 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	-	106.976	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	100,00%

Treasury shares

	September 30, 2019	December 31, 2018
Treasury Shares Reserve	12.837	12.837
(Treasury Shares)	(12.837)	(12.837)
Total	-	-

The CVCS General Shareholders' Meeting on April 2 of 2014, decided to establish a special reserve in the amount of \$ 12,837 for the reacquisition of 239,640 shares. This reserve is in accordance with Articles 396 and 417 of the Commercial Code.

Reserves

Equity reserves as of September 30, 2019 and December 31, 2018 were comprised of the following:

	2019	2018
Legal reserve (1)	5.793	5.793
Reserve to repurchased treasury shares	12.837	12.837
Occasional reserves:	21	21
Total Reserves	18.651	18.651

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NOTE 21. OTHER COMPREHENSIVE INCOME (OCI)

We present the detail below:

	September 30, 2019	December 31, 2018
Tax		
Income tax OCI	(13.682)	393
	(13.682)	393
Other comprehensive income	46.455	(2.634)
Shares	1.273	1.273
Financial instruments	45.182	(3.907)
Financial instruments Forward	(10.506)	(12.343)
Financial instruments Cross Currency Swap	40.374	2.040
Financial instruments Options	(2.859)	(3.379)
Financial instruments Coupon Only swap	18.173	9.775
Total	32.773	(2.241)

NOTE 22. REVENUE

Below, is a detail of revenue for the three and nine-months ended September 30, 2019 and 2018:

	For the three-months		For the nine-months	
	September 30		September 30	
	2019	2018	2019	2018
Interests (22.1)	73.115	59.296	206.274	169.021
Revenue from customer contracts (22.2)	23.735	24.517	73.495	73.937
	96.850	83.813	279.769	242.958

22.1 Interest

	For the three-months		For the nine-months	
	September 30		September 30	
	2019	2018	2019	2018
CrediUno interest	11.778	16.675	35.601	51.336
CrediPoliza interest	2.517	4.192	8.789	12.337
TuCrédito interest	13.765	14.327	41.148	38.049
Tigo interest	2.277	3.513	6.663	7.340
TuCrédito transaction costs	(1.473)	(1.831)	(5.150)	(4.152)
CrediPoliza transaction costs	(93)	(84)	(266)	(314)
CrediUno transaction costs	(1.522)	741	(4.045)	(5.321)
TuCrédito fair value	2.338	-	2.338	-
Sub-total Consumer loans	29.587	37.533	85.078	99.275
Microcredit interest	11	42	44	172
Microcredit loans transaction costs	(7)	(31)	(32)	(207)
Sub-total Microcredit	4	11	12	(35)
Factoring	-	-	55	-
Subtotal Factoring	-	-	55	-
CrediUno late payment interest	1	133	848	347
CrediPoliza late payment interest	222	178	495	510
TuCrédito late payment interest	157	75	333	267
Tigo late payment interest	1	65	305	65
Consumer loan defaults	381	451	1.981	1.189
CrediYa late payment interest	21	27	79	127
Microcredit loan defaults	21	27	79	127
Financial returns	1.333	873	4.127	2.875
BTG factual financial returns	11.430	2.710	32.765	15.004
Current interests, Free-standing Trust	12.892	12.887	33.383	36.373
Other income, Free-standing Trust	1.010	657	2.784	1.970

CREDIVALORES CREDISERVICIOS S. A.
DISCLOSURES TO THE INTERIM FINANCIAL STATEMENTS
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Income from FGA Alliance	9.964	2.630	15.986	7.180
Write – off	(183)	(288)	9.280	(332)
Other loan interest	6.676	1.805	20.744	5.395
Other	43.122	21.274	119.069	68.465
Total Interests	73.115	59.296	206.274	169.021

22.2 Revenue from customer contracts

	For the three-months		For the nine-months	
	September 30		September 30	
	2019	2018	2019	2018
Administration fee – credit card	13.855	15.917	41.054	47.539
Collection fees	3.561	3.365	12.121	9.790
Administration fee - life insurance plus	1.810	1.174	6.480	3.611
Brokerage Commission	1.840	890	4.890	2.804
Financial Consultancy – Returns from Debtor life insurance	905	1.391	3.118	4.171
Financial Consultancy- Returns Voluntary insurance policies	727	622	2.407	2.114
Shared financial consultancy fees	522	551	1.655	2.006
Internal commission	358	368	1.101	1.032
Certifications	185	63	293	172
Returned commission	145	95	367	242
Department store income and credit card channels income	2	4	7	16
Microcredit SME's loan fees	-	2	2	13
Other financial consultancy	-	1	-	1
Claims reimbursed Aval FGA	-	-	-	112
TuCrédito collection fees	(175)	74	-	314
	23.735	24.517	73.495	73.937

NOTE 23. OTHER INCOME

At the end of each period, movements corresponded to:

	For the three-months		For the nine-months	
	September 30		September 30	
	2019	2018	2019	2018
Recovery of portfolio written-off	148	-	313	4
Recoveries from previous exercises	55	-	632	-
Sickness Leave	24	6	145	13
Reimbursement of expenses from previous years	4	-	6	45
Refund insurance	4	6	14	16
Tax refund	-	-	5	4
Other income recoveries	1	1	-	2
Other	23	6	75	14
	259	19	1.190	98

NOTE 24. OTHER EXPENSES

At the end of each period, movements corresponded to:

	For the three-months		For the nine-months	
	September 30		September 30	
	2019	2018	2019	2018
Fees	6.271	5.904	18.701	17.075
Taxes	2.339	2.161	7.058	7.425
Technical assistance	2.257	2.577	6.710	7.161
Public services	1.240	828	3.383	2.746
Operating leases	(277)	1.051	1.941	3.068

CREDIVALORES CREDISERVICIOS S. A.
DISCLOSURES TO THE INTERIM FINANCIAL STATEMENTS
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(Stated in millions of Colombian pesos)

Temporary Services	1.026	680	3.282	1.584
Electronic data processing	1.082	92	2.436	92
Commissions	581	620	1.872	2.433
Publicity and advertising	577	458	1.445	1.290
Consultation with Credit Bureau	432	859	1.265	2.180
Transport	436	353	1.255	949
Cost of representation	409	376	1.223	817
Returns to investors	407	614	1.081	880
Concierge and security services	211	295	628	656
Travel expenses	189	126	558	548
Office supplies	221	376	545	909
Remodeling of facilities	125	302	424	624
Insurance	124	81	487	437
Fines, penalties and awards	136	41	480	312
Publications and subscriptions	402	23	427	135
Maintenance	86	176	401	265
Legal expense	2	55	78	280
Donations	3	5	22	11
Other	-	2	3	73
	18.278	18.053	55.705	51.950

NOTE 25. NET FINANCIAL INCOME

Below is the detail of financial (net) costs, for the periods for three and nine months ended September 30, 2019 and 2018:

	For the quarter: September 30		For the nine-months September 30	
	2019	2018	2019	2018
Financial performances	259	19	1.190	98
Financial income	125	19	305	398
Exchange rate differences	(248)	445	(42)	8.274
Total Financial Income	136	483	1.453	8.770
Forwards valuation	(691)	(5.312)	(5.335)	(6.183)
Total Financial Expense	(691)	(5.312)	(5.335)	(6.183)
Net Financial Income (expense)	(555)	(4.829)	(3.882)	2.587

NOTE 26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a. Commitments

Credit commitments

In the course of ordinary business, Credivalores 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, Credivalores 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. Credivalores monitors the maturity dates of those credit limit commitments because long-term commitments have a higher credit risk than short-term commitments.

CREDIVALORES CREDISERVICIOS S. A.
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The following is a breakdown of unused lines of credit commitments and guarantees at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Unpaid approved credits	<u><u>410.606</u></u>	<u><u>455.058</u></u>

Contingent assets

As of September 30, 2019, the Company maintains a claim with Fondo de Garantías de Antioquia (FGA), worth \$7.988 million, according to the guarantee's contract on loans between Credivalores and the FGA, whereby the FGA guarantees the loans granted to Credivalores clients following the Company's criteria and standards of analysis.

NOTE 27. 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 Credivalores.
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 Credivalores has significant influence, which is generally considered to be a share between 20% and 50% of their capital.

The most representative balances as of September 30, 2019 and December 31, 2018 with related parties are included in the following charts, with headings for definitions of the related parties recorded in the previous sections.

	September 2019		December 2018	
	Shareholders	Members of the Board of Directors (a)	Shareholders	Members of the Board of Directors (a)
Accounts receivable	1.815	-	1.815	-
Accounts payable	-	56	-	42
Operating expenses	-	137	-	247

Compensation received by key management personnel is comprised of the following:

	Item	September 30	
		2019	2018
Salaries		2.896	3.968
Short-term employee benefits		760	622
Total		<u><u>3.656</u></u>	<u><u>4.590</u></u>

CREIVALORES CREDISERVICIOS S. A.
DISCLOSURES TO THE INTERIM FINANCIAL STATEMENTS
ENDED SEPTEMBER 30, 2019 (UNAUDITED) AND DECEMBER 31, 2018

(Stated in millions of Colombian pesos)

a. Members of the Board of Directors (principals and alternates, along with their related parts) as of September 30, 2019:

Directors

No.	Director	Alternate
1	José Miguel Knoell Ferrada	Mathias Boccia Cristiano
2	Juan Carlos Restrepo Acuña	Liliana Arango Salazar
3	Lorena Margarita Cárdenas Costas	Diana Esperanza Montero
4	Rony Doron Seinjet	Andrea Cañón Rincon
5	Caicedo Pachón Maria Marcela	Maria Juliana Pinillos
6	Adrián Gustavo Ferrado	Carlos Manuel Ramón
7	Lawrence Robert Rauch	Maria Patricia Moreno

Legal Representatives

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

NOTE 28. SUBSEQUENT EVENTS

The following events occurred after September 30, 2019:

- Agrocañas S.A. sent an equity certification as of September 30, 2019, including the value of the shares owned by Credivalores as of the same date for 4.680 million. Considering that the certification was timely managed and received after the end of the period to report financial statements, the equity valuation calculated at 10 million, considered not material, was disclosed in this note and was recorded in the financial statements dated November 30, 2019.

Credivalores Crediservicios S. A. S.
Financial Statements

For the years ended December 31, 2018 and December 31, 2017

Independent auditor's report

To the Shareholders' Meeting of
Credivalores Crediservicios S.A.

Report on the audit of the financial statements

Our opinion

In our opinion, Credivalores Crediservicios S.A. financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with accounting and financial information standards accepted in Colombia.

What we have audited

Credivalores Crediservicios S.A. financial statements comprise:

- The statement of financial position as at December 31,2018;
- The statement of income for the year then ended;
- The statement of other comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) accepted in Colombia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Colombia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with in accordance with accounting and financial information standards accepted in Colombia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ PwC Contadores y Auditores Ltda.

Bogota, Colombia

January 23, 2020

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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	182.372	773	818
Loan portfolio	12	18.337	17.065	4.380
Total financial assets at fair value		220.743	39.025	26.156
Financial Assets at amortized cost				
Consumer loans		1.299.476	1.166.501	1.044.992
Microcredit loans		6.461	14.250	14.074
Impairment		(163.413)	(128.080)	(105.191)
Total Loan portfolio, net	12	1.142.524	1.052.671	953.875
Accounts receivable, net	13	330.651	183.511	189.483
Total Financial Assets at amortized cost		1.473.175	1.236.182	1.143.358
Investments in Associates and Affiliates	11	10.366	37.485	9.408
Current tax assets	20	12.059	8.191	2.797
Deferred tax assets, net	20	14.432	2.526	3.466
Property, plant and equipment, net	14	788	913	1.017
Intangible assets other than goodwill, net	15	59.756	62.862	66.647
Total assets		\$ 1.986.377	\$ 1.509.132	\$ 1.375.814
Liabilities and equity				
Liabilities:				
Financial Liabilities at fair value				
Derivative instruments	16	26.762	17.686	16.958
		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	4.504
Other liabilities	21	46.298	6.983	3.107
Total liabilities		\$ 1.736.701	\$ 1.254.815	\$ 1.159.395
Equity:				
Share capital	22	123.922	120.899	104.989
Treasury shares		(12.837)	(12.837)	(12.837)
Reserves		18.651	18.651	18.651
Additional paid-in capital		58.442	58.442	20.842
Other Comprehensive Income (OCI)	23-1	(2.241)	(20.165)	(3.744)
Retained earnings		56.388	88.518	71.318
Earnings for the period		7.351	809	17.200
Total equity		249.676	254.317	216.419
Total liabilities and equity		\$ 1.986.377	\$ 1.509.132	\$ 1.375.814

The accompanying notes are an integral part of the financial statements.

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

	Notes	For the years ended	
		December 31,	December 31,
		2018	2017
		(In millions of pesos, except Net income per share)	
Interest Income and similar	23.1	241.414	205.632
Financial costs interest	17	(160.957)	(146.686)
Revenue from contracts with customers	23.2	100.300	84.926
Net Interest		180.757	143.872
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		127.211	115.083
Other expenses			
Employee Benefits		(17.624)	(18.414)
Depreciation and amortization expense	14 y 15	(7.409)	(5.230)
Other	25	(72.607)	(77.644)
Total Other Expenses		(97.640)	(101.288)
Net operating Income		29.571	13.795
Other Income		451	1.168
Financial income		2.215	1.472
Exchange rate differences		8.638	(7.886)
Financial Income	26	11.304	(5.246)
Forward valuation		(28.943)	(6.518)
Financial expense		(28.943)	(6.518)
Net Financial income (expense)	26	(17.639)	(11.764)
Net Income before income tax		11.932	2.031
Income tax	20	(4.581)	(1.222)
Net income for the period		7.351	809
Net earnings per share		1.773	200

The accompanying notes 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	2017
Net income for the year	7.351	809
Other comprehensive income		
Items that may be or are reclassified to profit or loss		
Hedge accounting:		
Unrealized gains (losses) on cash flow hedges	19.106	(14.953)
Financial derivatives valuation - Forwards	10.670	(14.953)
Financial derivatives valuation - Cross Currency Swap	11.815	-
Financial derivatives valuation - Options	(3.379)	-
Shares	(761)	943
Deferred Income tax	(421)	(2.410)
Total other comprehensive income for the period	17.924	(16.421)
Total other comprehensive income	25.275	(15.612)

The accompanying 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	Treasury shares	Reserves	Other Comprehensive Income (OCI)	Retained earnings	Earnings for the period	Total
Balances as of January 1, 2017 before Restatement	104.989	20.842	(12.837)	18.651	(3.744)	44.022	17.200	189.123
Restatement of Previous Years (See Note 2)	-	-	-	-	-	27.296	-	27.296
Balance held at January 1, 2017	104.989	20.842	(12.837)	18.651	(3.744)	71.318	17.200	216.419
Appropriation of earnings	-	-	-	-	-	17.200	(17.200)	-
Capitalization (See Note 22)	15.910	37.600	-	-	-	-	-	53.510
Increase (decrease) other	-	-	-	-	(16.421)	-	-	(16.421)
Year-end net income	-	-	-	-	-	-	809	809
Balance held at December 31, 2017	120.899	58.442	(12.837)	18.651	(20.165)	88.518	809	254.317
Appropriation of earnings	-	-	-	-	-	809	(809)	-
Capitalization (See Note 22)	3.023	-	-	-	-	-	-	3.023
Change in accounting policies as of January 01, 2018 (See Note 3.4b)	-	-	-	-	-	(32.938)	-	(32.938)
Increase (decrease) other	-	-	-	-	17.924	-	-	17.924
Year-end net income	-	-	-	-	-	-	7.351	7.351
Balance held at December 31, 2018	123.922	58.442	(12.837)	18.651	(2.241)	56.389	7.351	249.676

The accompanying notes 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	11.932	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	2.418	4.465
Amortization of Call premium options	4.603	-
Allowance for impairment of loans	47.975	67.312
Recovery of impairment of loan portfolio	(543)	(44.423)
Impairment accounts receivable	6.114	3.329
Fair value adjustments to derivative financial instruments	(138.754)	(12.355)
Fair value adjustments to financial assets	(1.272)	(12.685)
Foreign exchange gains (losses)	(40)	47
Property, plant and equipment adjustments	1.327	-
Accrued interest	150.938	84.625
Accrued income tax	4.581	1.222
Income tax payment	(6.920)	(14.522)
Changes in operating assets and liabilities:		
Decrease (increase) in loans	(184.340)	(121.686)
Decrease (increase) in accounts receivable	(153.254)	2.642
Increase (decrease) in accounts payable	35.452	12.812
Increase (decrease) in employee benefits	(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 property plant and equipment for own-use	(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 premium call options	(2.442)	-
Payment of financial obligations	(678.696)	(1.540.958)
Net cash provided by financing activities	249.047	51.058
(Decrease) Increase in cash and cash equivalents	73.110	(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

The accompanying notes are an integral part of the financial statements.

CREDIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
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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, provided these conduct, the same or similar business activities as the Company or that should relate in any way to its own corporate purpose; (iv) entering into partnerships or contracts with third parties to carry out its corporate purpose; (v) guaranteeing its own and third-party obligations.

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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."

CREDIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
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Background:

a. Intangible assets

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 reinforced 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 were assessed in 2017 by an independent expert, appropriate retrospective adjustments were 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.

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The following are the assets that were recognized and their respective amortization:

Item	Amount	Amortization 2016	Final balance 2016	Amortization 2017	Final 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

b. Assets Deferred taxes:

During periods before and up to December 31, 2016, temporary differences were determined on transaction costs and on impairment of financial assets, that gave rise to deferred tax recorded in results of such periods for \$ 10,516. An evaluation of the behavior of the referred items indicated that said deferred tax is not applicable and therefore in 2018 the amount accumulated in retained earnings up to that date was reversed, and the corresponding balances of the related accounts were restated at January 1, 2017.

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	Adjustm ent made	Restated balances January 1, 2017	Movement 2017	Adjustment made in 2017	Restated balances December 31, 2017
Intangible assets other than goodwill, net (a)	24,037	37.813	61.850	(2.671)	(997)	58,182
Assets Deferred taxes (b)	13.982	(10.516)	3.466	(940)	-	2.526
Total restated asset balances	38.019	27.296	65.316	(3.611)	(997)	60.708
Retained earnings from previous periods	44.022	(27.296)	71.318	(17.200)	-	88.518
Current period earnings	-	-	-	1,806	(997)	809
Total restated balances in equity	44.022	(27.296)	71.318	(15.394)	(997)	89.327
Income Statement						
Depreciation and amortization expenses				2,671	997	3,668
Income before tax				3,027	(997)	2,030
Current period net income				1,806	(997)	809

CREDIVALORES CREDISERVICIOS S. A. S.
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NOTE 3. BASIS OF PREPARATION OF THE 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-IFRS 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, 2016.

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

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.

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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

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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.

Accounting policies adopted for the preparation of the financial statements are consistent with those of previous years with the exception of changes submitted by the adoption and implementation of IFRS 16 "Leases".

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including substantial fixed payments), minus any lease incentives receivable
- Variable lease payment based on an index or rate
- Amounts that the tenant is expected to pay under residual value guarantees
- The exercise price of a purchase option if the tenant is reasonably sure to exercise that option, and
- Payments of fines for terminating the lease, if the condition of the lease reflects that the tenant exercised that option.

Lease payments are deducted using the implicit interest rate on the lease, if such rate can be determined, or the incremental indebtedness rate.

Usage rights assets are cost-measured and include the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made on or before the start date
- Any direct initial cost, and
- Restoration cost

Payments associated with short-term leases and low-value asset leases are recognized under the linear method as an expense in the income statement. Short term leases have a term of 12 months or less. Low-value assets include computer equipment and small items in office furniture.

3.4 Changes in accounting policies

The following table summarizes the impact, net of taxes, of the adoption of IFRS 15 and IFRS 9 in the statement of financial position as of January 1, 2018.

	<u>Reference</u>	<u>Impact of the adoption</u>
IFRS 15 Revenue from contracts with customers	A	Ps.
IFRS 9 Financial Instruments	B	<u>32.938</u>
Net impact at January 1, 2018		<u>Ps. 32.938</u>

A. IFRS 15 “Revenue from contracts with customers”

Credivalores has adopted Revenue from Contracts with Customers IFRS 15 using the cumulative effect method, with the effect of initial adoption recognized on January 1, 2018. Accordingly, the information presented for 2017 and 2016, has not been restated – i.e. it is presented, as previously reported, under – IAS 18 Revenue and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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The main income from contracts with customers is related to interest which are measured through IFRS 9 and were not affected by the implementation of IFRS 15. Other income from contracts with customers registered under IFRS 15 is related to commissions and fees.

B. IFRS 9 “Financial Instruments”

The following table summarizes the impact, net of tax, of our transition to IFRS 9 on the opening balance of reserves and retained earnings and Other Comprehensive Income (“OCI”) as of January 1, 2018 (for a description of the transition method, see (iv) below).

	Impact of adopting IFRS 9 on opening balance of:		
	Reserves and retained earnings	OCI	Total equity
Recognition of changes in measurement due in classification			
Adopting IFRS 9 (See Note 12)	Ps. 47.055	Ps. -	Ps. 47.055
Deferred tax effect	(14.117)	-	(14.117)
Impact as of January 1, 2018	Ps. 32.938	Ps. -	Ps. 32.938

The details of the significant new accounting policies and the nature and effect of the changes in accounting policies that resulted from the adoption of IFRS 9 were applied retrospectively, as detailed below.

Credivalores has followed the exemption of IFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements resulting from the adoption of the new standard.

Therefore, differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as of January 1, 2018. Accordingly, the information presented for 2017 does reflect the requirements of IAS 39.

I. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39 – see Note 10.

For assets within the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Credivalores has determined that the application of IFRS 9’s impairment requirements as of January 1, 2018 results in an additional impairment allowance recognition as follows:

Loss allowance as of December 31, 2017 under IAS 39	Ps. (128.080)
Additional impairment recognized as of January 1, 2018 on:	
Loans – Reserves and retained earnings	47.055
Loss allowance as of January 1, 2018 under IFRS 9	Ps. (175.135)

Additional information about how Credivalores measures the allowance for impairment is described in Note 8

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II. Classification and Measurement of Financial Assets and Liabilities

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, Fair Value Through Other Comprehensive Income (“FVOCI”) and Fair Value Through Profit or Loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on Credivalores accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments).

For an explanation of how Credivalores classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 8.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of Credivalores financial assets and financial liabilities as of January 1, 2018.

Financial assets

Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 December 31, 2017	Reclassification	Remeasurement impact to retained earnings	Carrying amount under IFRS 9 January1, 2018
Equity instruments	Fair Value	Ps. 21.187	-	-	21.187
Loand portafolio	Fair Value	17.065	-	-	17.065
Derivatives Hedging instrument	Fair Value	773	-	-	773
Loans and receivables	Amortized cost	1.180.751	-	-	1.180.751
Loans and leases receivables	Amortized cost	(128.080)	-	(47.055)	(175.135)
Loans - payrolls	Fair Value	17.065	-	-	17.065
Total financial assets		Ps. 1.108.761	-	(47.055)	1.061.706

Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	Remeasurement	New carrying amount under IFRS 9
Other financial liabilities	Amortized cost	Ps. 1.167.146	-	-	1.167.146
Derivates Hedging instrument	Fair Value	17.686	-	-	17.686
Total financial liabilities		Ps. 1.184.832	-	-	1.184.832

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III. Hedge Accounting

When initially applying IFRS 9, Credivalores could choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. Credivalores has elected to continue to apply IAS 39.

IV. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 are generally applied retrospectively, except as described below.

Credivalores applied the exemption allowing not to restate comparative information for prior periods with respect to classification and measurement changes (including impairment).

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognized in retained earnings and reserves as of January 1, 2018. The following assessments were performed on the basis of the facts and circumstances that exist at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt investment security (mutual funds) had low credit risk at January 1, 2018, then Credivalores determined that the credit risk on the asset has not increased significantly since initial recognition.

NOTE 4. JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES IN THE APPLICATION OF ACCOUNTING POLICIES

Preparing financial statements in accordance to the FRAS-IFRS 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 the 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.

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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 did not restate comparative information for 2017 for those financial instruments under the scope of IFRS 9. Therefore, comparative information for 2017 is reported according to IAS 39 and is not comparable to the information presented for 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 IMPAIRMENT MODEL

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 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), qualitative criteria have also been developed in case that it is not possible to apply the quantitative criterion or that it cannot be used for 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 considers the prospective nature of the tolerances of loss for instruments, based on the expectations of future behavior.

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-linear 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:

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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	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 makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The expected policies and objectives for the portfolio and the actual application of them. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Credivalores management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sale activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Credivalores stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Credivalores considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

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Credivalores Crediservicios S.A.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.

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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%

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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.

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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).

The Company's business model includes payroll loans at fair value with changes in profit and losses, whereby the loans originated within the 90 days prior to the date of the financial statements are valued at fair value. In order to estimate the fair value of these loans, which could be sold to financial institutions at a market price, the Company evaluates the lending rate of these loans within the reference market to evaluate the rate at which other financial institutions considered as peers and comparable to the Company will be willing to invest their resources and hold the payroll loans within their balance sheet.

Taking into account the results from the evaluation of the rates, the Company evaluates four variables to obtain the value of the adjusted rate applicable to the transactions to sell loan portfolio, according to internal criteria:

- i)** The multiplier, which compares the Company's rate to the market rate.
- ii)** The value of the premium paid in these businesses, which results from discounting the future values of a loan originated at Credivalores' lending rate using the market rate.

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- iii) The rate is adjusted by the transaction cost associated to the loan portfolio.
- iv) The cash flows associated to the insurance policies applicable to the loan are also valued.

The methodology followed by the Company, uses the last three months reports from the Financial Superintendence as the source of information to determine the interest rate to discount the cash flows and complete the valuation of the final selling price of the loan portfolio.

The Company has determined that the fair value of the loan portfolio registered in its financial statements is type 3, since most of the criteria is internal.

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

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

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

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

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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:

Creivalores 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, Creivalores 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.

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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.

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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, Plant 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:

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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 regard to situations in which the applicable tax regulations are subject to interpretations and establish provisions when appropriate on the basis of amounts expected to be paid to the tax authorities.

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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.

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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.

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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.

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Revenue from contracts with customers (other than interest income) policy applicable from January 1, 2018 IFRS 15 establishes a comprehensive framework to determine how much and when income is recognized, it replaced IAS 18, IAS 11 and other policies related to its interpretations, IFRIC 13, IFRIC 18 and SIC 31

- **Contract assets**

A contract asset is Credivalores right to consideration in exchange for goods or services that Credivalores has transferred to a customer when that right is conditional on something other than the passage of time (for example, invoicing or delivery of other elements of the contracts).

Contract costs eligible for capitalization as incremental costs of obtaining a contract are recognized as a contract asset. Contract costs are capitalized when are incurred if Credivalores expects to recover those costs. Contract contracts are amortized on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognized. Contract costs capitalized are impaired if the customer is retired or if the asset's carrying amount exceeds projected discounted cash flows relating to the contract.

- **Contract liabilities**

Contract liabilities comprise Credivalores obligation to transfer goods or services to a customer for which Credivalores has received consideration from the end customer or the amount is due. Additionally, it includes deferred income relating to goods or services that will be delivered in the future, which are charged to a customer in advance but not yet due.

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.

Credivalores satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- a) Credivalores performance does not create an asset with an alternate use to Credivalores, and Credivalores has as an enforceable right to payment for performance completed to date.
- b) Credivalores performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and realizes the benefits provided by Credivalores.

For performance obligations where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

When Credivalores satisfies a performance obligation by delivering the promised goods or services it creates a contract asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognized this gives rise to a contract liability.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Credivalores recognizes revenue when it transfers control over a good or

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service to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intra-group sales.

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

Type of transaction	Description	IFRS standard
Commissions		
Financial consultancy fees	Credit study fees	IFRS 15
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 15
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.	

Credivalores often enter into contracts that cover a number of different services. Such contracts might contain components within, and components outside, the scope of IFRS 15. Therefore, Credivalores only applies the guidance in IFRS 15 where it has contracts that are all or partly outside the scope of IFRS 9.

Main revenue streams earned by the Company from contracts with customers are the following:

- *Credit cards: Interchange fees, Annual-quarterly-monthly fees*

There are contracts that create enforceable rights and obligations between Credivalores and the cardholders or merchants under which the Credivalores will provide services, sometimes in exchange for annual and other fees. The following are some of the services that might exist in a contract with a cardholder:

- Payment processing service;
- Insurance where Credivalores is not the insurer;
- Fraud protection; and
- Processing of certain transactions, such as purchases in a foreign currency and cash withdrawals.

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The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. The allocation of the transaction price to each of the separate performance obligations will not necessarily be required where there is more than one performance obligation but the performance obligations are all satisfied at the same time or evenly over the period.

Performance obligations are fulfilled over time, taking into account that customers receive benefits as time goes on. Because the entity's efforts or resources are expended evenly throughout the performance period, income is recognized on a linear basis during the period defined under the credit card conditions. The costs of plastic or security elements are capitalized as contract signing costs.

- **Commissions:**

Credivalores receive insurance commissions for introducing new clients to third party insurers, where the Credivalores does not underwrite the insurance policy itself. These commissions are usually paid periodically (for example, monthly) to Credivalores based on the volume of new policies (and/or renewal of existing policies) originating from clients introduced by the Credivalores. The transaction price might include an element of consideration that is variable or contingent on the outcome of future events, such as policy cancellations, which is estimated and included in the transaction price based on the most likely amount and it is included in the transaction price only when it is highly probable that the resolution of the uncertainty will not result in a significant reversal of revenue.

Performance obligations are fulfilled over time, taking into account that customers (insurers) receive benefits as time goes on. Where the commission calculation is made on a monthly basis or in a lower period, the total amount of the commission is recognized in the results when its determination is made. If the settlement of commissions is defined in periods higher than a monthly basis, the expected income to recognize revenues is estimated as time goes on.

Loan commitment fees are within the scope of IFRS 15 where it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not measured at FVTPL. Loan syndication fees received by a Credivalores that arranges a loan and retains no part of the loan package for itself (or retains a part at the same Effective Interest Rate "EIR" for comparable risk as other participants) are within the scope of IFRS 15.

Income from performance obligations to provide such services, which are met at a point in time, are recognized when the particular event defined in the contracts occurs (e.g., approval of the syndicated loan). The obligations met over time are recognized during the period of the commitment; if they are received in advance, they are deferred for their periodic amortization; or if they are received upon expiration, they are estimated periodically.

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.

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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"

CVCS is required to adopt IFRS 16 Leases starting January 1, 2019. CVSD estimated the estimated the impact that the initial application of IFRS 16 will have on its financial statements, as described below, but the actual impact of adopting the standard on January 1, 2019 may change because:

- CVCS has not finalized the testing and assessment of controls over its new IT systems; and
- The new accounting policies are subject to change until CVCS presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard; this means that lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

CVCS has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of CVCS lease portfolio, CVCS assessment of whether it will exercise any lease renewal options and the extent to which CVCS chooses to use practical expedients and recognition exemptions.

Grupo Aval will recognize new assets and liabilities for its operating leases. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

Previously, CVCS recognized operating lease expense on a straight-line basis over the term of the lease.

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CVCS expects to recognize right-of-use assets of approximately \$7,323 as of January 1, 2019; lease liabilities of approximately \$ 7,323; No significant impact is expected for CVCS finance leases. However, some additional disclosures will be required next year.

CVCS plans to apply IFRS 16 on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

CVCS plans to apply the practical expedient to the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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 IFRS 17 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.

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- 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.
- 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.

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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		
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.

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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 portfolio'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 the investments in Agrocañas, the stock exchange and are therefore measured at fair value with changes to equity. 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.

ASSETS	Valuation technique	Significant inputs (1)
Loan portfolio valuations Tucredito payroll deduction loans	Discounted cash flow	- Current Balance - Average term to maturity - Weighted average Rate
Equity Instruments	Adjusted net asset value	- Unit value

7.2.6 Derivative financial instruments

Derivative financial instruments and hedge accounting:

A derivative is a financial instrument in which value changes respond to changes in one or more variables denominated as an "underlying" (a specific interest rate, the price of a financial instrument, a listed commodity, a

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foreign currency exchange rate, etc.), that has an initial net investment smaller than would be required for other instruments that have a similar response to the mentioned variable and that is settled in a future date.

Credivalores trades in financial markets, forward contracts, future contracts, swaps and options that fulfil the definition of a derivative.

Financial assets and liabilities from transactions with derivatives are generally not offset in the statement of financial position. However, when there is a legal and exercisable right to offset the recognized values and Credivalores intends to be settle them on a net basis or to realize the assets and settle the liability simultaneously, derivatives are presented as net values in the statement of financial position.

Derivative transactions are initially recognized at fair value. Subsequent changes in the fair value are recognized in profit or loss, unless the derivative instrument is designated as a hedging instrument and, in this case, the accounting criteria will depend on the nature of the hedged item, as described below.

At the beginning of the hedging transaction, Credivalores formally documents the relationship existing between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedging relationship. It also documents its assessment, both initially as well as on a recurring basis, of whether the hedging relationship is highly effective in offsetting the changes in fair value or cash flows of the hedged items.

For fair value hedge of assets or liabilities and firm commitments, changes in the fair value of the derivative instrument are recognized in profit or loss, as well as any other change in the fair value of the asset, liability or firm commitment attributable to the hedge risk.

For cash flow hedge of a particular risk associated with a recognized asset or liability or a projected highly probable transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. The gain or loss relating to the portion that is not effective for hedging or that does not relate to the hedged risk is immediately recognized in profit or loss.

The values accumulated in other comprehensive income are transferred to profit or loss in the same period in which the hedged item is recognized in profit or loss.

Hedging of net investments in a foreign operation is recognized similarly to cash flow hedging: the effective portion of changes in fair value of the hedging instrument is recognized in other comprehensive income, and the ineffective portion of the changes in fair value of the derivative is recognized in profit or loss. The hedging instrument's gains or losses accumulated in equity will be recognized in profit or loss when the net investment in foreign operations is sold in whole or proportionally, if partially disposed of.

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.

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ASSETS	Valuation technique	Significant inputs (1)
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**

Variables	December 31	
	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
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%

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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	
	Max. 3,289.69 - Min. 2,705.34	
Tasa Representativa del Mercado (TRM)		
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	
	Max. 3,289.69 - Min. 2,705.34	
Tasa Representativa del Mercado (TRM)		
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%	

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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 regard 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:

Fair value	December 31, 2018		December 31, 2017	
	Carrying amount	Fair Value Estimate	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:

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

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Credit Risk Model: Loans

I. Transitions between stages

A financial asset is classified as a low credit risk asset based on the debtor's payment habits.

The first step in the methodology consist in evaluating a significant increase in credit risk by comparing the current status against a previous status of stage recognition of the loan.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

Significant Increase in Credit Risk

When determining whether the credit risk (i.e. risk of default) of a financial instrument has increased significantly since initial recognition, Credivalores considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on Credivalores historical experience, expert credit assessment and forward-looking information.

The following criteria is used to determine if a significant increase in credit risk has occurred:

- Comparison of the remaining lifetime probability of default (PD) at the reporting date with the lifetime PD at initial recognition of the exposure.
- Qualitative aspects such as the rebuttable presumption of the norm and restructuring agreements are also considered.
- Qualitative criteria from analysts is also considered based on expert and supportable information.

Credivalores has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is aligned with Credivalores internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgement and, where possible relevant historical experience, Credivalores may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, Credivalores will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due.

Credivalores will monitor the effectiveness of the criteria used in identifying significant increases in credit risk through regular reviews to confirm that:

- The criteria are useful in identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes over 60 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;

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- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

II. PD – Probability of Default

Term structure of PD

Credit risk grades are the primary input in the determination of the term structure of PD for exposures. Credivalores collects performance and default information about its credit risk exposures analyzed by type of product and borrower, and by credit risk grade. For some portfolios, information purchased from external credit reference agencies may also be used.

Credivalores employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of the relation between changes in default rates as well as an in-depth analysis of the impact of certain other factors on the risk of default.

For stage 1 the PD estimates the probability that the credit will default in the next 12 months, while the PD in stage 2 is the result of the probabilities for the remaining life of the credit. The probability in Stage 3 is defined as 100%.

To determine the PD the company used statistical models to analyze and select the variables significant in predicting whether clients would reach default during a known period of time that is determined by the stage of the loan. For stage 1 the PD are evaluated for the next 12 months, loans on later stages are evaluated for the remainder of the loan lifetime.

To estimate lifetime probability Credivalores calculates the 12-month PD and for each successive year for the loan lifetime the model estimates the PD conditioned to not having defaulted during previous years.

Credivalores uses behavioral demographic and origination variables to estimate PD modeling them with a logistic regression that is periodically monitored to ensure its predictive capabilities and its stability. This monitoring for payroll loans and credit card models showed adequate predictive capabilities as well as stability regarding its inputs distributions (PSI). There was also a test run on average observed PD by rating of the last 2 years that ensure the actual events that are being predicted have not vary its behavior significantly and therefore concluding the models provide an adequate and reasonable prediction of PDs by rating.

Credivalores approach to incorporating forward-looking information into this assessment is discussed below.

Forward-Looking Information

Credivalores incorporates forward-looking information into its measurement of ECLs. Credivalores formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on forecasts provided by economic experts and considering a forecast of multiple variables. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome. It is aligned with information used by Credivalores for other purposes, such as strategic planning and budgeting. The other scenarios for Colombia represent more optimistic and more pessimistic outcomes.

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Credivalores has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as of December 31, 2018 include the following key indicators (among others) for Colombia for the years ending 31 December 2018¹:

	2018		
	Scenario	Scenario	Scenario C
	A	B	
Inflation	4.7%	3.6%	2.5%
Interest rates	30.6%	30.2%	29.7%
GDP growth	1.7%	2.5%	3.3%
Unemployment rate	9.4%	9.3%	9.2%

Credit Risk Rating

Credivalores allocates each exposure to a credit risk grade based on a variety of data intended to be predictive of the probability of default and applying experienced credit judgment. Credivalores uses these grades with the purpose identifying significant increases in credit risk. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower and product.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Loan Portfolio

Payroll and Credit card loans

- Information collected internally about the behavior of customers.
- Demographic information of customers.
- Origination information of credits/customer.

III. LGD – Loss Given Default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Credivalores methodology uses historical information to measure the recoveries of loans that reach the default stage at present value. This allows Credivalores to have an adequate estimate of the losses it will incur when credits reach default stage. These calculations is done separately for payroll loans and credit cards to better reflect the fundamental differences in this product and therefore on its LGD.

¹ Projections made internally by the planning area

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EAD – Exposure at Default

EAD represents the amount owed from a counterparty at the time of a possible default. For stage 2 Credivalores incorporates in the analysis of the exposure at default the probability of payments and increase or decrease in exposure during the lifetime of the credit.

These probabilities are estimated using the historical information collected by the company and are grouped by type of product. The probabilities are constantly reviewed in order to accurately estimate them and calibrate them.

For payroll loans EAD will correspond to the full valuation of the assets at amortized cost. For credit cards, EAD will take into account the unused credit line when available as well the expected amortization, which allows to have a reliable estimate of the credit exposition at default.

IV. Simplified Model

Credivalores uses a simplified roll rate model to estimate ECL of remnants of portfolio loans that represent less than 5% of balance sheet loans and that are consistently lowering its portfolio share.

I. Transition between stages

A financial asset is classified as a low credit risk asset based on the debtors payment habits.

The first step in the methodology consist in evaluating a significant increase in credit risk by comparing the current status against a previous status of stage recognition of the loan.

If the financial asset loses its low credit risk condition or if changes in external environment results in a review of the condition, then this probably shows a significant increase in credit risk. Consequently, the financial asset will be analyzed to determine if there is a significant increase of credit risk (stage 2) or if the asset should be classified as stage 3.

I. PD – Probability of default

To determine the PD the company used statistical models to analyze and select the variables significant in predicting whether clients would reach default during a known period of time that is determined by the stage of the loan. For stage 1 the PD are evaluated for the next 12 months, loans on later stages are evaluated for the remainder of the loan lifetime.

To estimate lifetime probability Credivalores calculates the 12 month PD and for each successive year for the loan lifetime the model estimates the PD conditioned to not having defaulted during previous years.

Credivalores uses behavioral demographic and origination variables to estimate PD modeling them with a logistic regression that is periodically monitored to ensure its predictive capabilities and its stability. This monitoring for payroll loans and credit card models showed adequate predictive capabilities as well as stability regarding its inputs distributions (PSI). There was also a test run on average observed PD by rating of the last 2 years that ensure the actual events that are being predicted have not vary its behavior significantly and therefore concluding the models provide an adequate and reasonable prediction of PDs by rating.

PD depends of the external credit rating of the issuance, issuer or counterparty. Credit rating information is published by international credit rating corporations, such as Standard & Poor's, Moody's and Fitch Ratings, or national credit rating corporations, such as Fitch Ratings Colombia S.A. or BRC. In any case, international ratings have priority over national ratings.

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Credit ratings from S&P have priority over other rating corporations. If the issuance, issuer or counterparty is not rated by S&P, credit ratings from Moody's or Fitch Ratings can be used but they must be translated to the S&P rating scale. The order of priority in credit rating corporations is as follows: S&P in first place, Moody's in second place and Fitch Ratings in the third one.

The reason for choosing this hierarchy is to avoid discretion at the time of assigning a rating. National credit rating corporations can be used only if international credit ratings are not available, and the translation condition to the S&P rating scale must be followed as well.

For financial assets classified as stage 1, PD correspond to the probability of default for the next 12 months established in accordance to "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis. In order to avoid an empty value of impairment as a consequence of a PD equal to zero, methodology allows PD increase from 0% to 0.01%. If the remaining life of the assets is less than 12 months, the resulting PD will correspond to the weighted 12 months-PD with the remaining life of the financial asset.

For financial assets classified as stage 2, lifetime PD must be used and computed using the "Cumulative Default Rates by Rating Modifiers" for both sovereign and corporate issuers, expressed at an annual basis and according to the term of each flow.

For financial assets classified as stage 3, lifetime PD will equal 100% for any issuance, issuer or counterparty.

Forward-Looking Information

Credivalores incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. This information will directly affect the PD and the stage classification.

II. LGD – Loss given default

LGD is a measure of the potential loss if a default scenario occurs. To establish the LGD, Credivalores methodology uses historical information to measure the recoveries of loans that reach the default stage at present value. This allows Credivalores to have an adequate estimate of the losses it will incur when credits reach default stage. This calculations is done separately for payroll loans and credit cards to better reflect the fundamental differences in this product and therefore on its LGD.

III. EAD – Exposure at default

EAD represents the amount owed from a counterparty at the time of a possible default.

For payroll loans EAD will correspond to the full valuation of the assets at amortized cost. For credit cards, EAD will take into account the unused credit line when available as well the expected amortization, which allows to have a reliable estimate of the credit exposition at default.

Credit Risk Model: Other accounts receivable

Credivalores uses the simplified approach where Credivalores uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small amounts.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics like type of product purchased

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Loss allowance

The table below shows the loss allowance balances as of December 31, 2018:

	Stage 1	Stage 2	Stage 3	
		Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	12-month ECL			
Loan portfolio				
Loan consumer portfolio	14,512	11,380	131,285	157,177
Loan microcredit portfolio	19	26	6,191	6,236
Total, loan portfolio	Ps. 14,531	11,406	137,476	163,413
Total loss allowance financial assets at amortized cost	Ps. 14,531	11,406	137,476	163,413
Total, loss allowance	Ps. 14,531	11,406	137,476	163,413

(1) Credivalores has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated. See Note 2.

The table below shows for loans stage 3 individually assessed for ECL the gross amount and loss allowance balances as of December 31, 2018.

	December 31, 2018	
	Gross Amount Registered	Allowance Recognized
With recognized provision		
Consumer	Ps. 146,960	Ps. 131,285
Microcredit	4,498	6,191
Total	Ps. 151,458	Ps. 137,476

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12 month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;

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- Impact of the measurement of ECL due to changes made to models and assumptions according to IFRS 9
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Financial assets derecognized during the period and write-offs of allowances related to assets than were written off during the period.

The following tables show the reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent allowance balance for credit losses and reflect measurement basis under IAS 39.

Loan portfolio

		December 31, 2018				
		Stage 2		Stage 3		
		Stage 1	Lifetime	Lifetime		
		12-month	ECL not	ECL credit-		
		ECL	credit-	impaired		Total
Loss allowance IAS 39						
Loss allowance balance as of December 31, 2017- IAS 39²	128,080					Ps. 128,080
IFRS 9 adoption (1)	47,055					Ps. 47,055
Loss allowance as of January 1, 2018 – IFRS 9		Ps. 12,311	Ps. 12,496	Ps. 150,328		Ps. 175,135
Transfers:						
Transfer from stage 1 to stage 2		(535)	7,578			7,043
Transfer from stage 1 to stage 3		(872)		23,587		22,715
Transfer from stage 2 to stage 3			(6,513)	14,244		7,731
Transfer from stage 3 to stage 2			611	(1,461)		(850)
Transfer from stage 2 to stage 1		917	(3,554)			(2,637)
Transfer from stage 3 to stage 1		182		(2,835)		(2,653)
Net remeasurement of loss allowance (3)						
New financial assets originated or purchased		5,141	2,297	15,356		22,794
Write-offs				(59,154)		(59,154)

² Loss allowance doesn't have stage in IAS 39

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Financial assets that have been derecognized	(2,620)	(1,508)	(2,583)	(6,711)
Loss allowance as of December 31, 2018	Ps. 14,524	Ps. 11,407	Ps. 137,482	Ps. 163,413

- (1) Credivalores has initially adopted IFRS 15 and IFRS 9 as of January 1, 2018. According to the transition methods chosen, comparative information is not restated.
- (2) The unwind of discount on Stage 3 financial assets is reported within "interest income" so that interest income is recognized on the amortized cost (after deducting the ECL allowance)
- (3) This amount includes impact of the measurement of ECL due to changes made in PDs/LGDs/EADs and changes made to model assumptions and methodologies from the opening to the closing balance, the following table shows impact by stage:

	Jan 01, 2018			
	Stage 1 12- month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit- impaired	Total
Consumer	12.269	12.461	138.032	162.762
Microcredit	42	35	12.296	12.373
Total impairment	Ps. 12.311	Ps. 12.496	Ps. 150.328	Ps. 175.135

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.

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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.

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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.

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:

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	December 31, 2018	December 31, 2017
Cash and cash equivalents	195.058	121.498
Financial instruments net	202.857	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	2.034.503	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	2.489.561	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.

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

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The following is the portfolio loans summary by product to December 31, 2018 and December 31, 2017 (See Note 12):

Region	As of December 31, 2018			As of December 31, 2017		
	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
Totals (See note 12)	1.155.425	4.780	1.160.205	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.

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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 is to be implemented in the last quarter of 2017.

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.

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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.

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.

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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	3.461	4.392	105.791	96.838
Totals (See note 12)	785.400	503.684	101.616	4.780	1.395.481	1.160.205

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 (See note 12)	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
- An adjusted the segmentation model for each product, which allows for specific strategies to be defined 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.

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- The variables of productivity and quality were included in the model of measurement of internal consultants.
- A number of operating processes were (reporting, reports, projections, portfolio, send mass communications, etc) in a specialized area to support any operation of collection.
- The quality and training areas were separated 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:

- Tracking reports were customized to create the report: "Collections compass" where daily permits tracking and projection of figures of containment, collection and management.
- The compensation scheme for houses of collection were changed, passing to a model 100% based on the collection of the assigned portfolio.
- There was an increase in 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.

Entity	Type of Account	December 31,	
		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 Colpatría	Savings	266	38
Banco BBVA	Checking	314	113
Banco De Occidente	Checking	31	223
Bancomeva	Checking	60	17
Banco Santander	Checking	1.979	-
Available in Free-standing Trusts		7.746	8.616
		18.821	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 Colpatría	AAA		
4	Banco de Occidente	AAA		
5	Banco Corpbanca	AAA		
6	Bancolombia	AAA		
7	Banco Santander	AAA		

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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.
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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	176.095	21.339

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

Interest rates

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

Sensitivity Analysis

Taking into account CVCS exposure to changes in the reference interest rate, a sensitivity analysis of the impact on financial obligations is included given the possible effect on the variable indexed interest rates in 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%).
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:

<u>Scenarios</u>	<u>Interests</u>
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

<u>Rate and devaluation effect scenario (variable rate and foreign currency obligations)</u>	<u>Interests</u>
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.

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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

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:

- 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.
- 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.
- The flows corresponding to interest payment (accrual) were evaluated using equivalent rates.
- The present value of the monthly interest payment was calculated, using as reference the 6-month IBR EAR at December 31, 2018 (4.308%).
- 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

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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.

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.

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Liquidity position

It determines 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 \geq 105%
- b) Yellow: liquid Assets / outflows between 100 and 104%
- c) Red: liquid Assets / outflows $<$ 100%

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

The liquidity level results at December 31, 2018 are set out below:

<u>Item</u>	<u>Liquidity level Dec-17</u>
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.

Also, as a good practice, a third band is also 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 is that a liquidity stress scenario happens.

The following is a breakdown by range of time of 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					
Description	Subsequent Net Balances Available				
	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 Colpatría S.A.	266	266	-	-	-
Banco De Occidente	31	31	-	-	-
Bancoomeva	61	61	-	-	-
Banco Santander	1.979	1.979	-	-	-
Alianza Fiduciaria	179	179	-	-	-

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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

Description	Subsequent Net Balances Available				
	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
Asfiredito	27.190	-	-	-	27.190
Valores Bancolombia	1.472	1.472	-	-	-
Scotiabank	25.540	-	-	25.540	-
Fiducolombia Free-standing	68.173	68.173	-	-	-
Inverefectivas	10.295	-	-	-	10.295
Total liquid assets	180.619	81.141	16.530	40.806	42.142

- (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.

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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	
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 equivalents	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

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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 equivalents	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).

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- 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.

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- 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

Creivalores 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.

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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 risk area updated its Manual with the following policy related to SARLAFT (*Sistema de Administración de Riesgo de Lavado de Activos y Financiación del Terrorismo, as per its acronym in Spanish*) : Credivalores according to the Superintendence of Companies establishes a SAGRLAFT (*Sistema de Autocontrol y Gestión del Riesgo de Lavado de Activos y Financiación del Terrorismo, as per its acronym in Spanish*) 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.

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
Term 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.

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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
Fiduciaria Bancolombia	-	12.045
Alianza Fiduciaria S1	179	-
Fiduciaria Bogotá Trust	2	-
Fiduciaria Bancolombia - Credinvest	53	-
Fiduciaria Bancolombia - Factoring Trust	26.230	-
Sub-Total	32.593	13.517

Entity	December 31,	
	2018	2017
Servitrust GNB Sudameris S.A.	-	557
Participation in mutual funds	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_Servitrust	F-AAA	F-AAA	Value and Risk Rating S.A.S CVCS (2016 - 2017) BRC Standard & Poor's (2015)
Valores Bancolombia	F1+/AAA(col)	F1+/AAA(col)	Fitch Ratings Colombia SAS CVCS
Fiduciaria Bogotá	FAAA/2/BRC1+	FAAA/2/BRC1+	BRC Standard & Poor's
Alianza Fiduciaria	AAA	AAA	Value and Risk Rating S.A.S.

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

NOTE 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	2017
Equity instruments (10.1)	15.363	16.530
Shares (10.2)	4.671	4.657
Derivative instruments (Note 16)	164.486	773

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184.520

21.960

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 Shares

Agrocaña Shares

December 31,	
2018	2017
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 fair value with changes to equity.

NOTE 11. INVESTMENTS IN ASSOCIATES

The detail of the investments in associates is as follows:

Inverefectivas S.A (a)
Asesorías Financieras Asficrodito (b)

December 31,	
2018	2017
10.366	10.295
-	27.190
10.366	37.485

- a) CVCS owns 25% the Inverefectivas S.A. share capital. This company was established under Panamanian legislation and has 4000 shares, with an intrinsic value of FIX 3,189.92 as of December 31, 2018.

The following table shows the balances of each investment in associates of December 31, 2018 and 2017 voting right percentage in those entities:

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	December 31, 2018		December 31, 2017	
	Share of ownership interest	Book value	Share of ownership interest	Book Value
Associates				
Inverefectivas S.A.	25%	10.366	25%	10.295
Asesorías Financieras Asficredito		-	9.22%	27.190
		10.366		37.485

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

	Associate	Corporate purpose
1	Inverefectivas S.A.	Holding,
2	Asesorías Financieras de crédito Asficredito	Holding,

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	51	438

December 31, 2017	Assets	Liabilities	Equity	Income	Expenses	Net income
Inverefectivas S.A	12.721	-	12.721	205	25	180

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

Credivalores held 1000 shares corresponding to 9.22% Asficredito common share at the end of 2017, that investment was sold in December 2018. Credivalores determined that during 2017 it had significant influence on this entity since it is its main client and participates with the Asficredito management of all relevant financial and operational decisions, even though it only holds 9,22% entity Shares.

The movement of investments in associates accounts is shown below for the years ended December 31 de 2018 and December 31, 2017:

Associate	December 31,	
	2018	2017
Balance at the beginning of the year	37.485	9.408
Participation in Other comprehensive income	30	935
Increase (decrease)	(27.190)	27.190
Adjustments for exchange differences	41	(48)
Year-end balance	10.366	37.485

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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	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 204.238 at December 31, 2018 and 223.928 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	2017
Initial Balance	128.080	105.191
Adopting IFRS 9 (See note 3.3.b)	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

Type	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

Type	Capital	Transaction costs	Interest Accrued	Commissions	Impairment	Total
Consumer loans	1.049.114	20.271	89.507	7.343	(114.948)	1.051.287
Microcredit	6.723	265	7.525	3	(13.132)	1.384

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Total financial assets at amortized cost	1.055.837	20.536	97.032	7.346	(128.080)	1.052.671
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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	351.279	369.853	255.468	322.876	1.299.476
Microcredit	5.635	769	57	-	6.461
Total Gross Loan Portfolio	356.914	370.622	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	220.398	424.854	242.646	278.603	1.166.501
Microcredit	11.516	2.644	90	-	14.250
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	1.155.425
Microcredit	4.191	537	53	-	4.780
Total Capital 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	189.829	373.817	225.545	259.923	1.049.114
Microcredit	4.935	1.702	86	-	6.723
Total Capital Portfolio	194.764	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:

Type	At December 31, 2018		Total
	Loan Capital	Sold	
Consumer	1.155.425	235.275	1.390.700

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Microcredit	4.780	-	4.780
Total Financial Assets at amortized cost	1.160.205	235.275	1.395.480

Type	At December 31, 2017		
	Loan Capital	Sold	Total
Consumer	1.049.114	246.780	1.295.894
Microcredit	6.723	-	6.723
Total Financial Assets at amortized cost	1.055.837	246.780	1.302.617

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, 2017		
	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

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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,	
	2018	2017
Life Insurance Payroll deduction loans	813	849
Crediuno Insurance	1.097	327
Life Insurance SMEs	-	3
Tigo Insurance	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%
Servitrust GNB Sudameris S.A.	808	100,0%
Inversiones MAD Capital SAS	1.198	100,0%
Agointegrales del Cauca	5.662	65,8%
Below 250 million	503	91,5%
Total	9.443	

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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	Purchase s	Adjustmen t	December 31, 2018
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	51	965	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	263	-	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	Depreciatio n	Adjustment	December 31, 2018
Office equipment and Accessories	1.640	153	(140)	1.653
Electronic equipment	1.047	106	(290)	863
Telecommunications equipment	285	67	294	646
Goods on Finance Lease Agreements	4.719	198	-	4.917
	7.691	524	(136)	8.079

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	<u>December 31, 2016</u>	<u>Depreciation</u>	<u>December 31, 2017</u>
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
	<u>6.926</u>	<u>765</u>	<u>7.691</u>

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:

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.

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

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

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:

	<u>December 31, 2017</u>	<u>December 31, 2017</u>
Less than one year	39	76
More than one year, less than five	10	83
Total	<u>49</u>	<u>159</u>

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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.

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.

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Income and profits Credivalores & CREDIUNO	2016	2017	2018
Total income Credivalores (\$MM)	\$ 269,013	\$ 289,865	\$ 340,948
Total income CREDIUNO (\$MM)	\$ 122,801	\$ 161,075	\$ 176,758
Proportion CREDIUNO (Income)	46%	56%	52%

Note: Financial Management, Credivalores (2019). Amounts in millions of 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:

Value components of CREDIUNO	Dic 2015	Dic 2016	Dic 2017	Dic 2018
Market value CREDIUNO (with 10% value final)	\$ 168,218	\$ 165,452	\$ 178,138	\$ 187,754
Social capital (Proportion)	\$ 105,668	\$ 105,453	\$ 121,406	\$ 124,331
Balance of intangibles (trade mark with amortization)	\$ 23,800	\$ 21,420	\$ 19,040	\$ 16,660
Residual value of other intangibles	\$ 38,750	\$ 38,579	\$ 37,692	\$ 46,763
Exclusivity contracts (for proportionality punished with WACC)	\$ 16,043	\$ 14,125	\$ 12,641	\$ 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
Intangible balance (databases)	\$ 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

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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	-
Other	2.497	2.304
Sub Total	7.343	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
	59.756	62.862

The following corresponds to the restated balances of contracts, data bases and trademarks acquired:

	January 01,
	2017
Contracts	15.862
Data Bases	21.950
Trademarks Acquired (1)	24.038
Total	61.850

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

	December 31,	
	2018	2017
Amortization	7.021	3.468

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	-
Premium Call option (16.2)	17.886	-
Hedging Swaps (16.3)	98.194	
Sub-Total	182.372	773

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LIABILITY

Hedging forward contracts (16.1)	-	17.686
Hedging Negotiation (16.1)	26.762	-
Sub-Total	26.762	17.686

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

Hedging Operations

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:

Type of instrument	Theoretical Hedging			2018			
	Credivalores Receives	Credivalores Pay	Liquidation	Annual Interest Rate			
				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%

Type of Instrument	Credivalores' Position	Type of Option	Hedged amount USD	2018			
				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.

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• **Fair-value hedge accounting**

ASSETS	Fair value			
	December 31, 2018		December 31, 2017	
	Nominal Amount		Nominal Amount	
	USD	Fair Value	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**

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

LIABILITIES	December 31, 2018				December 31, 2017	
	Nominal Amount		Nominal Amount		Fair Value	
	USD	Fair Value	USD			
	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.

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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%.

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

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Fair Value November 2018	Hypothetical Derivative 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.

Options Contracts For Hedging

Derivatives with options hedge the principal amount of the reopening of the 144 A / Reg S Notes for US\$75,000,000 carried 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.

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.

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Call Premium:

The premium Call option is the payment to lock the right to the option contract at the beginning of the operation with the counterparties Nomura and JP Morgan. Premium Calls have the same expiration dates as bond flows and the amortization is registered in the company's results at the end of each period.

Below call premium movement:

	December 31, 2018	December 31, 2017
Agreed Premium	22.489	
Call premium amortization	(4.603)	-
Total	17.886	-

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
ASSETS		
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	
	Nominal amount		Nominal amount	
	USD	Fair Value	USD	Fair Value
LIABILITIES				
Contracts hedging Cross Currency Swaps	250	86.623		-
Total	250	86.623		-

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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**

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

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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
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 IFRS 9.

b) Long-term obligations

Entity	Long-term obligations					
	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		

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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 IFRS 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
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

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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 autonomas); 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.

No public market currently exists for the Notes. The Notes have been listed and 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.

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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:

	<u>2018</u>	<u>2017</u>
Free-standing trusts	19.128	49.669
Local banks	9.386	15.166
Finance lease agreements	43	55
Foreign currency obligation	19.035	30.959
Third parties	-	700
Shareholders	-	4.171
Issuance of bonds	94.805	24.249
Amortization Transaction costs	18.560	21.717
Total	<u>160.957</u>	<u>146.686</u>

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:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Short-term benefits (a)	1.096	1.154
	<u>1.096</u>	<u>1.154</u>

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- 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:

	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.

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NOTE 20. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

20.1 Components of current tax asset:

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Income tax advance	12.043	7.917
Advance other taxes	-	8
Tax balance	16	266
Total current tax assets	<u>12.059</u>	<u>8.191</u>

20.2 Components of current tax liabilities

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Tax on industry and Commerce	1.684	1.100
Sales tax	513	-
	<u>2.197</u>	<u>1.100</u>

20.3 Components of income tax expense

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Income Tax	2.791	2.692
Subtotal - taxes from the current period	<u>2.791</u>	<u>2.692</u>
Net deferred tax from the period	<u>1.790</u>	<u>(1.470)</u>
Total	<u>4.581</u>	<u>1.222</u>

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.

20.4 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.

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- 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 60% for 2017, as detailed below:

	<u>2018</u>	<u>2017</u>
Earnings (loss) before tax	11.932	2.031
Income Tax rate	37%	40%
Income Tax	4.415	812
More (less) tax impact on:		
Non-deductible expense	1.216	3.581
Exchange rate differences	(2.159)	(3.736)
Non-deductible tax	1.075	525
Wealth tax	-	229
Presumptive interest	40	50
Others	(6)	(239)
Total income tax provisions charged to income	4.581	1.222
Effective rate	38%	60%

As of December 31, 2017 the effective tax rate was 40%. Nonetheless, the restatement increased the effective tax rate to 60%, given that the amortization expense related to the exclusivity contracts with the utility companies and

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the data bases, does not have a fiscal deduction. Thus, the non -deductible expenses increased by \$997 million, affecting the income tax by \$339 million (See note 2).

20.5 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	Retained earnings	Balance as of December 31, 2018
Deferred tax assets					
Difference between accounting and excess of presumptive income	2.526	(538)	-	-	1.988
Difference between accounting and tax bases – loans	-	4.582	-	-	4.582
Adoption IFRS 9	-	-	-	14.117	14.117
Differences between accounting and tax depreciation	-	218	-	-	218
Subtotal	2.526	4.262	-	14.117	20.905
Deferred tax liability					
Reasonable Value Cost	-	-	-	-	-
Difference between accounting and tax bases – loans	-	6.052	-	-	6.052
Shares valuation	-	-	421	-	421
Subtotal	-	6.052	421	-	6.473
Net Total	2.526	(1.790)	(421)	14.117	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 excess of presumptive income	-	2.526	-	2.526
Difference between accounting and tax bases – loans	2.049	(2.049)	-	-
Industry and commerce tax	42	(42)	-	-
Forward contracts	11.633	(8.971)	(2.662)	-
Miscellaneous	147	(147)	-	-
Subtotal	13.962	(8.774)	(2.662)	2.526
Deferred tax liability				
Valuations of financial instruments	3.671	(3.419)	(252)	-
Goodwill	16	(16)	-	-
Impairment to financial assets	6.809	(6.809)	-	-
Subtotal	10.496	(6.825)	(252)	-
Net Total	3.466	1.470	(2.410)	2.526

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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:

<u>Year to reverse temporary differences</u>	<u>Tax</u>	<u>Concept</u>
2019	33%	Tax (2019)
2022	30%	Tax (2022)

20.6 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:

	<u>December 2018</u>			<u>December 2017</u>		
	<u>Amount before tax</u>	<u>Deferred tax income (expense)</u>	<u>Net</u>	<u>Amount before tax</u>	<u>Deferred tax income (expense)</u>	<u>Net</u>
Items that may be subsequently reclassified to income						
Effect of changes in fair value on the valuation of derivative financial instruments	17.582	-	17.582	(14.010)	(2.410)	(16.420)
Shares	761	(421)	340			
	<u>18.343</u>	<u>(421)</u>	<u>17.923</u>	<u>(14.010)</u>	<u>(2.410)</u>	<u>(16.420)</u>

20.7 Tax uncertainties

The Company's income tax returns for the fiscal years 2018 and 2017 remain subject to acceptance and review by tax authorities. The Senior Management of Credivalores Crediservicios S.A.S. and its legal counsel believe that the amounts recorded as liabilities in the form of unpaid tax are sufficient to cover any claims that could arise.

20.8 Annual Statement of Assets Held Abroad

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

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

- ✓ Discrimination of assets held by the Company abroad at January 1, 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.

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- ✓ 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
Collections to be allocated	23.839	1.311
Amounts 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 disbursements	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	870.444	19.85%	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%
Treasury shares	239.640	5.46%	239.640	5,60%
Total	4.385.998	100%	4.279.022	100%

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	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

The following is the capitalization movement during the years 2018 and 2017:

	December 31	
	2018	2017
Subscribed Ordinary shares	106.976	-
Subscribed Preferred shares	-	563.119
Nominal value	28.254	28.254
Additional share capital	3.023	15.910
Additional paid-in capital	-	37.600
Total Capitalization	3.023	53.310

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	-	106.976	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%

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%
Treasury Shares	-	-	-	239.640	-	239.640	5,60%
Acon Consumer Finance Holdings II, S.L.	-	184.167	-	-	-	184.167	4,30%
Totals	835.834	1.107.832	563.119	239.640	1.532.597	4.279.022	100%

CREDIVALORES CREDISERVICIOS S. A. S.
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Treasury shares

	December 31, 2018	December 31, 2017
Treasury shares reserve	12.837	12.837
Treasury shares	(12.837)	(12.837)
Total	-	-

The CVCS General Shareholders' Meeting on April 2 of 2014, decided to establish a special reserve in the amount of \$ 12,837 for the reacquisition of 239,640 shares. This reserve is in accordance with Articles 396 and 417 of the Commercial Code.

Reserves

Equity reserves as of December 31, 2018 and 2017 were comprised of the following:

	2018	2017
Legal reserve (1)	5.793	5.793
Reserve to repurchased treasury shares	12.837	12.837
Occasional reserves:	21	21
Total Reserves	18.651	18.651

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 corresponds to the total number of outstanding shares held by Shareholders, 4.146.358 y 4.039.382 respectively.

22.1 Other Comprehensive Income (OCI)

Below is the detail:

	December 31,	
	2018	2017
Tax		
Income tax OCI	393	814
	393	814
Other comprehensive income	(2.634)	(20.979)
Shares	1.273	2.034

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Financial instruments	(3.907)	(23.013)
Financial instruments Forward	(12.343)	(23.013)
Financial instruments Cross Currency Swap	2.040	-
Financial instruments Options	(3.379)	-
Financial instruments Coupon Only swap	9.775	-
Total	(2.241)	(20.165)

NOTE 23. REVENUE

Below is a detail of the revenue for the years ended as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Interests (23.1)	241.414	205.632
Revenue from contracts with customers (23.2)	100.300	84.926
	341.714	290.558

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
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	63.252	116.846
Other income, Free-standing Trust	2.696	4.953
Current interests left off-balance	10.526	11.489
Income for Guarantees	15.541	-
Other	105.561	150.550
Total Interests	241.414	205.632

CREDIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
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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
TuCrédito collection fees	413	388
Returned commission	249	490
Certifications	241	85
Reimbursed claims Aval FGA	112	220
Department store income and credit card channels income	20	51
Microcredit SME's loan fees	13	100
Other financial consultancy	2	6
	100.300	84.926

NOTE 24. OTHER INCOME

At the end of each period, movements corresponded to:

	December 31	
	2018	2017
Sickness Leave	94	45
Refund insurance	21	40
Provision Recovery	-	137
Tax Discount	5	5
Other	22	37
	142	264

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 Security services	537	577

CREDIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
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Adaptation and installation	449	148
Cost of representation	446	776
Donations	79	11
Utilities	12	9
Legal expense	110	283
Electronic data processing	134	-
Other	2.158	2.493
	72.607	77.644

NOTE 26. NET FINANCIAL INCOME

	December 31	
	2018	2017
Financial performances	2.215	1.472
Financial income	451	1.168
Exchange rate differences	8.638	(7.886)
Total Financial Income	11.304	(5.246)
Forwards valuation	(28.943)	(6.518)
Total Financial Expense	(28.943)	(6.518)
Net Financial Income (expense)	(17.639)	(11.764)

NOTE 27. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a. Commitments

Credit commitments

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

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

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

The following is a breakdown of unused lines of credit commitments and guarantees at December 31, 2018 and December 31, 2017:

	2018	2017
Unpaid approved credits	455.058	320.137

CREIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
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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.

	<u>December 2018</u>		<u>December 2017</u>	
	<u>Shareholders</u>	<u>Members of the Board of Directors (a)</u>	<u>Shareholders</u>	<u>Members of the Board of Directors (a)</u>
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	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Salaries	5.164	5.603
Short-term employee benefits	721	756
Total	5.885	6.359

CREDIVALORES CREDISERVICIOS S. A. S.
DISCLOSURES TO THE FINANCIAL STATEMENTS
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- 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 the following:

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.

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DISCLOSURES TO THE FINANCIAL STATEMENTS
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- The Risks and Collections department was strengthened.
- The Internal Auditing area was strengthened.

Credivalores - Crediservicios S. A. S.
Financial statements

For the years ended December 31, 2016 and 2015

Independent auditor's report

To the Shareholders' Meeting of
Credivalores Crediservicios S.A.S.

We have audited the accompanying financial statements of Credivalores Crediservicios S.A.S., which comprise the statement of financial position as at December 31, 2016 and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting and financial reporting standards accepted in Colombia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing accepted in Colombia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Credivalores Crediservicios S.A.S.
Independent auditor's report

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Credivalores Crediservicios S.A.S. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with accounting and financial reporting standards accepted in Colombia.

/s/ PricewaterhouseCoopers Ltda.
Bogota, Colombia
July 10, 2017

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF FINANCIAL POSITION
BY ORDER OF LIQUIDITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Stated in millions of Colombian pesos)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	8	122,964	110,078
Financial Assets at fair value through profit or lost			
Equity Instruments	9	20,958	24,192
Derivatives Instruments	15	817	12,478
Loan portfolio	11	4,380	12,625
Total financial assets at fair value		26,155	49,295
Financial Assets at amortized cost	11		
Loan portfolio, net			
Consumer loans		1,044,230	819,497
Microcredit loans		14,835	40,933
Impairment		(105,191)	(85,944)
Total Loan portfolio, net		953,874	774,486
Accounts receivable, net	12	189,482	126,618
Total Financial Assets at amortized cost		1,143,356	901,104
Investments in Associates and Affiliates	10	9,408	31,240
Current tax assets		2,799	13
Deferred tax assets, net	20	13,982	5,764
Property, plant and equipment, net	13	1,017	1,462
Intangible assets other than goodwill, net	14	28,836	26,904
Total assets		1,348,517	1,125,860
Liabilities and equity			
Liabilities:			
Financial Liabilities at fair value			-
Derivative instruments	15	16,958	-
Total Financial Liabilities at fair value		16,958	-
Financial Liabilities At amortized cost			
Financial obligations	16	1,084,974	806,886
Total Financial Liabilities At amortized cost		1,084,974	806,886
Employee benefits	17	1,198	1,459
Other provisions	18	1,021	1,975
Accounts payable	19	47,633	83,746
Current tax liabilities	20	4,503	3,368
Other liabilities	21	3,107	52,475
Total liabilities		1,159,394	949,909
Equity:			
Share capital	22	104,989	104,989
Reserves		5,814	5,814
Additional paid-in capital		20,842	20,842
Other Comprehensive Income (OCI)		(3,744)	284
Retained earnings		44,022	10,097
Earnings for the period		17,200	33,925
Total equity		189,123	175,951
Total liabilities and equity		1,348,517	1,125,860
See attached notes,			

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Stated in millions of Colombian pesos)

	Notes	December 31, 2016	December 31, 2015
Interest Income and similar	23	269,013	235,503
Financial costs interest		(126,222)	(56,116)
Net Interest and similars		142,791	179,387
Impairment of financial assets loan portfolio	11	(23,261)	(27,603)
Gains on operating activities		119,530	151,784
Financial income			
Exchange Rate differences		10,980	-
Forward valuation		-	42,903
Loan portfolio impairment recoveries	11	558	1,574
Financial income		294	(70)
Total Financial income		11,832	44,407
Financial costs			
Exchange Rate differences		-	(2,860)
Forward valuation		(14,615)	-
Total Financial costs		(14,615)	(2,860)
Other income	24	9,553	353
Other expenses			
Employee Benefits		(20,005)	(34,838)
Expense for depreciation and amortization	13-14	(3,824)	(1,609)
Other	25	(79,041)	(119,519)
Total Other expenses		(102,870)	(155,966)
Net Income before income tax		23,430	37,718
Income tax	20	(6,230)	(3,793)
Year-end net income		17,200	33,925
Net earnings per share	22	4,948	9,759

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Stated in millions of Colombian pesos)

	Notes	December 31, 2016	December 31, 2015
Net income for the year		17,200	33,925
Other comprehensive income			
Items that may be or are reclassified to profit or loss			
Hedging of financial obligations:			
Unrealized gains (losses) from hedging cash flow, before taxes	20	(8,060)	-
Investments accounted by equity method	9	808	4
Income tax	20	3,224	-
Total other comprehensive income for the period		(4,028)	4
Total other comprehensive income		13,172	33,929
See attached notes.			

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Stated in millions of Colombian pesos)

	Share capital	Additional paid-in capital	Reserves	Other Comprehensive Income (OCI)	Retained Earnings	Earnings for the period	Total
Balance held at December 31, 2014	96,317	20,214	3,773	280	(20,206)	32,344	132,722
Appropriation of earnings	-	-	2,041	-	30,303	(32,344)	-
Capitalization	8,672	628	-	-	-	-	9,300
Increases (decrease) other comprehensive income	-	-	-	4	-	-	4
Year-end net income	-	-	-	-	-	33,925	33,925
Balance held at December 31, 2015	104,989	20,842	5,814	284	10,097	33,925	175,951
Appropriation of earnings	-	-	-	-	33,925	(33,925)	-
Increases (decrease) other comprehensive income	-	-	-	(4,028)	-	-	(4,028)
Year-end net income	-	-	-	-	-	17,200	17,200
Balance held at December 31, 2016	104,989	20,842	5,814	(3,744)	44,022	17,200	189,123

See attached notes,

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Stated in millions of Colombian pesos)

	Notes	December,31 2016	December,31 2015
Cash flows from operating activities			
Net income before taxes		17,200	33,925
Reconciliation of net income before taxes and net cash provided by (used in) operating activities:			
Depreciation of tangible assets	13	1,043	1,553
Amortization of intangible assets	14	2,781	56
Allowance for impairment of loans	11	23,261	27,603
Charge-off for impairment of loans	11	(558)	(1,574)
Impairment of investments	10	-	413
Fair value adjustments to derivative financial instruments		20,560	(12,478)
Equity method	10	145	167
Income tax expense	20	6,231	3,793
Fair value adjustments to financial assets		8,246	22,170
Foreign exchange gains (losses)		429	1,757
Changes in operating assets and liabilities:			
Decrease (increase) in loans		(202,091)	(254,770)
Decrease (increase) in accounts receivables		(41,932)	(42,192)
Increase (decrease) in accounts payable		(36,113)	32,701
Increase (decrease) in employee benefits		(261)	114
Increase (decrease) in provisions		(954)	(262)
Increase (decrease) in other liabilities		(49,370)	22,511
Income tax payment		(12,876)	(8,509)
Net cash provided by (used in) operating activities		(264,259)	(173,022)
Cash flows from investing activities:			
Decrease in investments of Mutual Funds		3,234	9,242
Sale (Increase) of investments in associates		1,134	(18,807)
Acquisition of own - use property plant and equipment		(598)	(1,652)
Additions of other intangible assets		(4,713)	(26,643)
Net cash used in investing activities		(943)	(37,860)
Cash flows from financing activities:			
Issuance of financial obligations		820,206	1,742,006
Payment of financial obligations		(542,118)	(1,513,489)
Issuance of common shares		-	9,300
Net cash provided by financing activities		278,088	237,817
(Decrease) Increase in cash and cash equivalents		12,886	26,935
Cash and cash equivalents at beginning of year		110,078	83,143
Cash and cash equivalents at end of year		122,964	110,078

CREDIVALORES CREDISERVICIOS S. A. S.
STATEMENT OF CASH FLOW
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NOTE 1 - REPORTING COMPANY

Credivalores Crediservicios S.A.S. (hereinafter the “Company or “CVCS”), is a simplified joint stock company registered for business in Bogotá - Colombia, located at Cra. 10 No. 6598 P 4, and website www.credivalores.com.co. The Company was incorporated by means of Public Deed No. 420 dated February 4, 2003 drawn up before the Notary Public No. 1 of the Circuit of Cali. Its term of duration is for twenty years as of the date of the aforementioned deed.

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

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

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

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

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

- a) Perform risk assessments,
- b) Service and manage loans or lines of credit including without being limited to recording and collecting these obligations,
- c) Purchase and sell loans, credit instruments, securities and loan portfolios,
- d) Borrow funds and enter into transactions allowing the Company to obtain the funds required to perform its corporate purpose,
- e) Act as co-signer, guarantor, surety or collateral provider to raise funds in order to finance its activities that may be undertaken, structured or implemented through trust arrangements, and

**CREIVALORES CREDISERVICIOS S. A. S.
DICLOSURES TO THE FINANCIAL STATEMENTS
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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 provided these conduct the same or similar business activities as the Company or that should relate in any way to its own corporate purpose; (iv) entering into partnerships or contracts with third parties to carry out its corporate purpose; and (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 is prohibited from raising money through large-scale and regular deposits from individuals, complying with the stipulations in the current regulations. The Company is not under the supervision of the Colombian Superintendency of Finance (Superintendencia Financiera de Colombia) since it is not considered to be a financial institution in accordance with Colombian legislation, nor is it allowed to carry out brokerage of instruments registered with the Colombian National Registry of Securities and Issuers (RNVE - REGISTRO NACIONAL DE VALORES Y EMISORES).

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.

Credivalores Crediservicios S.A.S. has a nationwide network of offices in the following towns and cities: 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.

NOTE 2 - BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Compliance Statement

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

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

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

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

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

CREDIVALORES CREDISERVICIOS S.A.S.
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The main accounting policies applied in preparing the financial statements as of December 31, 2016 and 2015, are as follows:

2.2 Basis of preparation Financial Statements

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

Statement of Financial Position:

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

Statement of Comprehensive Income and other comprehensive income (OCI)

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

Statement of Changes in Equity

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

Statement of Cash Flows:

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

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

- i. The indirect method, whereby net gains or loss are first presented, which are then adjusted based on the effects of non-monetary transactions for all types of deferrals and accruals representing inflows or outflows in the past or in the future, as well as items of loss or profit associated with cash flows from investing or financing activities.
- ii. Operating activities: these cover all those items that did not entail any outflows for the period as well as movements in terms of assets and liabilities for operating purposes.
- iii. Financing activities: These include all financing activities, related to funding from financial institutions, capital markets and shareholders among others
- iv. Investing activities: these include acquiring, selling or otherwise disposing of long-term assets and other investments not included in cash and cash equivalents.

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

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

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

2.4 Basis of Measurement

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

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

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

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

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

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

3.1 Financial Assets Business Model

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

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

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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.

(*) See principal assumption in note 6

3.2 Allowance for loan impairment losses

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

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

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

Main sources of uncertainty

The Company 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 the Company uses statistical models of historical trends to determine the probability of default.

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

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

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

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

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

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

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

December 31, 2015			
	Sensitivity	Decrease	Increase
Probability of default	10%	(\$ 2,776)	\$ 3,127
Loss identification period	1 month	(\$ 350)	\$ 387

Probability of default - Sensitivity over loans	(0.36%)	0.40%
Probability of default - Sensitivity over allowance	(3.23%)	3.64%
Loss identification period - Sensitivity over loans	(0.04%)	0.05%
Loss identification period - Sensitivity over allowance	(0.41%)	0.45%

3.3 Deferred income tax

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

As of December 31st 2016, and December 31st 2015, Management estimates that the items of deferred income tax assets should be recoverable based on their estimates for future taxable earnings.

3.4 Estimation for Contingencies

The Company estimates and registers an estimation 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 which reason the real 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 note 17).

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NOTE 4. SUMMARY OF THE MAIN ACCOUNTING POLICIES

The following are the significant accounting policies applied by Creivalores Crediservicios S.A.S. in the preparation of these financial statements.

4.1 Materiality

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

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

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

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

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

4.2 Conversion of Foreign Currency

4.2.1 Functional and reporting currency

These financial statements are presented in Colombian pesos, which is the functional and reporting currency of Creivalores Crediservicios S.A.S.

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

4.2.2 Transactions and Balances in Foreign Currency

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

As of December 31st 2016 and 2015, the (COP/USD) exchange rates certified by the Superintendency of Finance were 3,000.71 and. 3,149.47 per U.S. \$1 respectively.

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4.3 Cash and cash equivalents

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

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

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

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

4.4 Financial Instruments

Financial Assets

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

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

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

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

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

i. Amortized cost

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

ii. Fair value

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

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

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

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

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

4.4.1 Equity Instruments

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

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

4.4.2 Investment in associate and affiliates

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

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

Investments in Associates are those in which the Company has direct or indirect control; that is, when all of the following conditions are met:

- The Company has control over the entity; mainly, rights granting the Company the means of directing relevant activities that significantly affect the associate returns.
- The Company obtains or is entitled to variable returns from the interests held in the associate.
- The Company is able to use its power over the associate to influence the amount of income obtained by the former.

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

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4.4.3 Loans and receivables portfolio

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

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

4.4.3.1 Financial Assets at Fair Value

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

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

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

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

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

4.4.3.2 Financial assets at amortized cost

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

- i. Crediya (discounted operations)
- ii. Credipoliza (financing for insurance policies).
- iii. CrediUno (credit card).

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- iv. Crediya MC (Micro loans).
- v. Tucredito (payroll deduction loans)

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

4.4 Impairment of non-financial assets

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

4.5 Accounts Receivable

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

For the initial measurement Credivalores Crediservicios S.A.S. 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.

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In addition, interest must be recognized at a higher value in the account receivable.

The effective interest rate will be the rate corresponding to the market rate (where applicable) at the time the financing begins. If there is no market rate with similar characteristics the average internal lending rate will be used.

4.6 Leases

4.6.1 Assets acquired under leases

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

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

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

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

4.7 Property and Equipment

Property, plant and equipment for the Company's own use include the assets, whether property or under finance lease agreements, held by the Company for its current or future use and which are expected to be used for more than one reporting period.

They are recorded in the statement of financial position at cost of acquisition plus the costs incurred in preparing these for use, less accumulated depreciation and, if applicable, estimated impairment losses resulting from comparing the net book value of each item with their corresponding recoverable amounts.

They are subsequently measured at cost less accumulated depreciation and impairment.

Depreciation is calculated on a straight-line basis for the estimated useful life of the asset. The annual depreciation rates for each asset category are:

Type of asset	Total useful life	Residual value	Depreciation method
Furniture	3 to 10 years	Zero	Straight line
Vehicles	Between 5 and 10 years of age	Up to 10%	Straight line
Office equipment	3 to 10 years	Zero	Straight line
Computer and communication equipment	3 to 7 years	Zero	Straight line

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Leasehold Improvements

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

4.8. Intangible assets

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

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

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

4.9. Income taxes

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

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

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

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

Deferred tax liabilities arise from taxable temporary differences.

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

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4.9.1 Non income tax (levies)

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

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

4.10 Financial liabilities

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

Financial liabilities are only released from the statement of financial position when the obligations they generated or acquired are extinguished through either cancellation or renewed placement.

4.11 Derivative financial instruments and hedge accounting

Beginning January 2016, Creivalores Crediservicios S.A.S. 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).

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

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

4.11.1 Fair-value hedge accounting

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

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

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4.11.2 Cash-flow hedge accounting

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

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

4.12 Employee Benefits

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

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

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

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

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

4.12.1 Short term paid leave

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

- a) In the case of paid leave whose rights are accumulating as the employees provide the services that increase their right to paid leave in the future.
- b) In the case of non-cumulative paid leave when the leave occurs.

Short term paid leave includes:

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

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4.13 Provisions and contingent liabilities

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

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

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

4.13.1 Contingent Assets

The Company will not recognize any contingent asset.

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

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

4.13.2 Contingent Liabilities

The Company will not recognize any contingent liability.

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

4.14 Revenues

4.14.1 Revenues from interest and commissions

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

The effective interest rate is calculated based on all fees and other amounts paid or received that form part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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Revenues from ordinary business activities include: sales, fees, interest, dividends and management fees among others.

The following tables describe revenue from Company interest and commissions:

Type of transaction	Description
Interest on loans issued to clients	
Crediuno	Interest on the Crediuno line of credit - Credit card
Credipoliza	Interest on the Credipoliza - Financing insurance premiums
Crediya MC	Interest on the Microcredit line of credit
Tucredito	Interest in the Tucredito line of credit - Payroll Deduction Loan
Commissions	
Financial consultancy fees	Fees paid on the credit study performed on Asficrédito (business collaboration agreement).
Shared consultancy expense	This includes reimbursed administrative expense, leases and public utility bills, among others, on the part of Protección Garantizada and CV Credit.
Insurance returns	Insurance sales commissions upon placing loans.
Chain store commissions	Brokerage and channel (chain store) commissions.

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

4.14.2 Income from ordinary activities

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

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

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4.14.2.1 Dividends

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

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

4.15 Net earnings per share

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

NOTE 5 - NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

Below is a list of the new and amended standards that have been issued by the IASB and are effective for annual periods starting on or after January 1st, 2017. Management is in the process of assessing the potential impact of these pronouncements on Credivalores Crediservicios S.A.S. financial statements.

The decree 2496 of December 24, 2015 and 2131 of December 22, 2016 introduced a new accounting framework reflecting the new standards, modifications or changes issued by the IASB for the International Financial Reporting Standards between the years 2015 and 2016. This additional increments to the reporting framework should be applied for financial periods starting January 1, 2017, even though they can be adopted early.

Forthcoming requirements.	Title of the Standard	Effective for Annual Periods Beginning on or After
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed

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.

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).

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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.

Credivalores Crediservicios S.A.S., is currently in the process of implementing an analysis of its portfolios using the abovementioned common guidelines in order to assess, identify and classify financial instruments into their corresponding portfolio under IFRS 9.

Therefore, in accordance to the status of the project and remaining phases to be completed, the Company would expect the following:

- Financial assets classified as loans under IAS 39 will generally continue to be classified as amortized cost.
- Available for sale debt instruments will likely continue to be classified at either fair value with changes presented in other comprehensive income or at amortized cost.
- Available for sale equity instruments will be classified at fair value with changes in profit or loss, unless the Company concludes irrevocably, to present them at fair value with changes presented in other comprehensive income.

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 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-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

In estimating the parameters used in the expected loss calculation (Exposure at Default (EAD), "Probability of Default" (PD), "Loss Given Default" (LGD) and discount rate), Credivalores-Crediservicios S.A.S. leverages its experience of developing internal models for calculating parameters for regulatory and management purposes.

Definition of default: it is consistent with the definition of default used by the Company. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Use of present, past and future information: both the measurement and the classification of the expected credit losses require a high degree of judgment and estimations that must consider information about past events and current conditions as well as forecasts of future events. In this regard, our estimations of expected losses consider multiple macroeconomic scenarios which probability will be assessed considering past event, the current situation and future trends of macroeconomic factors such as gross domestic product (GDP) and unemployment rate. All these concepts will be the input to assess the significant increases in credit risk, as well as utilizing PD estimations.

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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.

Credivalores- Crediservicios S.A.S. is in the process of evaluating the effects of IFRS 9 application. Once it is finished, the Company will communicate the expected impact as a reliable estimation can be made, which would be expected to be prior to the end 2017. IFRS 9 application could represent a loan impairment increase and a longer variability in the Company's future results.

IFRS 15 Revenue from Contracts with Customers

(Effective for annual periods beginning on or after January 1, 2018)

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 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.

As suggested by the title of the new revenue Standard, 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.

The new revenue Standard introduces a five-step approach to revenue recognition and measurement:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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Far more prescriptive guidance has been introduced by the new revenue standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognized as revenue over time or at a point in time. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied, which is when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for “sales of goods” and “provision of services”; rather, the new Standard requires entities to assess whether revenue should be recognized over time or at a particular point in time regardless of whether revenue relates to “sales of goods” or “provision of services”.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognized. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognized as revenue - that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfill a contract can be recognized as an asset.
- Extensive disclosures are required by the new standard.
- In April 2016, the IASB issued Clarifications to IFRS 15 in response to feedback received by the IASB/FASB Joint Transition Resource Group for Revenue Recognition, which was formed to address potential issues associated with the implementation of IFRS 15 and the US GAAP equivalent, ASC topic 606. The Clarifications to IFRS 15 clarified the following areas:
 - Identifying performance obligations: by providing illustrative factors for consideration in assessing whether the promised goods or services are distinct;
 - Principal versus agent considerations: by clarifying that an entity should assess whether it is a principal or agent for each distinct good or service promised to the customer, and by amending and reframing the indicators to assess whether an entity is a principal or agent; and
 - Licensing application guidance: in determining whether the license grants customers a right to use the underlying intellectual property (IP) (which would result in point time revenue recognition) or a right to access the IP (which would result in revenue recognition over time), an entity is required to determine whether (i) its ongoing activities are expected to significantly change the form or the functionality of the IP or (ii) the ability of the customer to obtain benefit from the IP is substantially derived from or dependent upon those activities.

IFRS 15, together with the clarifications thereto issued in April 2016, is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted. Entities can choose to apply the standard retrospectively or to use a modified transition approach, which is to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018 for an entity with a December 31 year-end). The clarification for IFRS 15 also introduces additional practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented.

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IFRS 16 Leases

(Effective for annual periods beginning on or after January 1, 2019)

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease Standard 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: it removes the distinction between operating and finance leases under IAS 17 and requires 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 remeasurement 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.

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In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosure is also required.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings (or other component of equity as appropriate).

NOTE 6. ESTIMATIONS OF FAIR VALUE

Credivalores Crediservicios S.A.S. may employ internally developed models for financial instruments that do not have active markets. Said models are generally 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.

Models always estimate or approximate a value that cannot be determined accurately and valuation techniques used may not fully reflect all the factors relative to Credivalores Crediservicios S.A.S. positions; therefore, the valuations are adjusted if necessary to allow additional factors, including country risk, liquidity risks and counterparty risks.

Fair value hierarchy has the following levels:

- Level 1 entries are unadjusted prices quoted in active markets for assets or liabilities identical to those the entity can access on the measurement date.
- Level 2 entries are entries other than the quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 entries cannot be observed for the asset or liability.

The fair value hierarchy in which the fair value measurement is fully classified is determined from the lowest level entry that is significant for fully measuring the fair value. For that, an entry's importance is evaluated with regard to the fair value measurement in its totality. Financial instruments quoted in markets considered inactive but valued in accordance with quoted market prices, quotes from price providers or alternative price sources supported by observable entries are classified as 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 Credivalores Crediservicios S.A.S. Considering observable data for the market data that are already available, are distributed or updated regularly by the price provider, are reliable and verifiable, have no property rights and are provided by independent sources that participate actively in the reference market.

Fair Value Measurement on a Recurring Basis

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

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The following table analyzes assets and liabilities (by class) within the fair value hierarchy, measured at fair value as at December 31, 2016 and December 31, 2015 on a recurring basis.

ASSETS	December 31, 2016 Nivel 3	December 31, 2015 Nivel 3
Investment in equity instruments	20,958	24,192
Trading derivatives		
Currency forward	476	-
Hedging derivatives		
Currency forward	341	12,478
Consumer		
Payroll deduction loans	4,380	12,625
Total fair value recurring assets	26,155	49,295
LIABILITIES		
Hedging derivatives		
Currency forward	16,944	-
Interest rate swap	14	-
Total fair value recurring liabilities	16,958	-

6.1 Fair value determination

The methodology applicable to instruments for Credivalores Crediservicios S.A.S. is:

- 6.1.1 Forward valuation:** The derivative's fair value comes from an internal model. This model takes the exchange rate on the day after the valuation closed and forecasts it to a future value with the devaluation curve through maturity date. After this the new forward market rate is compared with the agreed forward rate and the difference is stated in a present value with the IBR curve to calculate the derivative's fair value.
- 6.1.2 Loan portfolio valuations:** Because these instruments don't have an active market, the Company has developed methodologies that employ market information for certain cases of unobservable data. The methodology seeks to maximize the use of observable data to arrive at the closest approximation of an initial price for assets and liabilities without an ample market.

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

- I. Discount Rate: Determined by product considering the market's appetite for such product, as well as the default risk involved
- II. The model was built based on the following factors:
 - a. Projected cash flow according to weighted term to maturity for each product, using:
 - Current Balance
 - Average term to maturity
 - Weighted average Rate

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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 portfolio's fair value

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

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

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

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6.2 Sensitivity Analysis

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

Variables	December 31, 2016 Range	December 31, 2015 Range
Market Rate (TRM)	Max 3,434.89 - Min 2,833.78	Max 3,356 - Min 2,360.58
Devaluation Rate		
30 Day Forward Curve	4.87% - 6.61%	0.73% - 2.70%
60 Day Forward Curve	5.10% - 6.23%	1.29% - 3.22%
90 Day Forward Curve	5.12% - 6.23%	2.72% - 3.29%
180 Day Forward Curve	5.40% - 6.19%	4.02% - 3.65%
360 Day Forward Curve	5.37% - 6.14%	4.45% - 3.83%
540 Day Forward Curve	5.45% - 5.89%	4.41% - 3.60%
Discount Rate		
Overnight IBR	6.00% - 7.00%	5.52% - 4.52%
One-month term IBR	6.32% - 7.08%	5.81% - 4.51%
Three-month term IBR	6.63% - 7.22%	6.17% - 4.51%
TES 360 Zero Coupon	6.84% - 7.35%	6.51% - 4.72%
TES 1080 Zero Coupon	6.72% - 7.77%	8.06% - 5.97%

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 Crediservicios S.A.S.

Fair value	Favorable impact	Unfavorable impact
December 31, 2015	23,467	(37,203)
December 31, 2016	24,401	(31,052)

The fair value sensitivity analysis to assess derivatives for December 2015 and 2016 shows the positive and negative outlook in which the Company was exposed to the results of these two scenarios. For 2015 and 2016, the real fair value was 12,478 and 16,126, respectively. Said results are in the acceptable range in accordance with the models' estimate compared to variable change with regard to real results.

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

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

Fair value	December 31, 2016		December 31, 2015	
	Carrying amount	Fair Value Estimate	Carrying amount	Fair Value Estimate
Assets				
Loan Portfolio (Gross)				
Consumer	1,044,230	1,058,686	819,497	1,275,960
Microcredit	14,835	7,063	40,933	46,602
Total	1,059,065	1,065,749	860,430	1,322,562
Liability				
Financial obligations	1,084,974	1,101,839	806,886	823,609
Total	1,084,974	1,101,839	806,886	823,609

NOTE 7. RISK MANAGEMENT

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

Objective and general guidelines

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

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

7.1 Governance Structure

Board of Directors

The Board of Directors has the following functions and responsibilities:

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

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- Requesting loan portfolio reports from Management whenever required for due examination.

Risk Committee

The Risk Committee's responsibilities are:

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

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

Risk Management Department

- Periodically presenting to the Risk Committee on the progress of the different risk indicators and conducting the analyses necessary for understanding and taking actions that mitigate and control the risk levels.
- Managing and controlling compliance with policies and processes approved for risk management.
- Regularly reviewing the Company's risk management policies and systems to ensure that these reflect any change in market conditions as well as CVCS' own activities.
- Proposing to the Risk Committee methodologies and adjustments to risk management policies.
- Developing methodologies and models that enable risk identification, measurement, control and monitoring

Internal Auditing

- Verifying the application of risk management in accordance with the stipulations of the Comprehensive Risk Management manual.
- Reporting to the Audit Committee and making recommendations on the findings of the risk management process.

Financial Risk Management

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

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

7.2 Credit Risk

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

The credit risk management model is based on four stages:

- Identification and Measurement: for adequate risk measurement and identification CVCS uses statistical models to identify the risk factors, accurately profile its current and potential clients and determine the level of risk to which they are exposed.
- Policies and Processes: based on the characteristics of each product and the risk profile identified for each client risk management devises distinct processes and policies that adapt to each level of risk seeking to mitigate exposure to the potential risk in a precise manner.
- Control and Monitoring: this process aims to ensure compliance with the policies and processes established, as well as to monitor the progress of the portfolio risk indicators so as to take timely actions in response to any deviation from the expected indicators.
- Estimation of Provisions: risk management includes determination of risk coverage to allow absorption of the losses which may arise due to non-compliance with the credit obligations. Estimation of CVCS provisions are based on statistical models of expected losses for its main products. Payroll deduction loans and cards. For financing insurance policies transition matrices are used.

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

7.2.1 Credit Risk Exposure

CVCS have exposures to credit risk, consisting of the risk of incurring in a financial loss as a result of the failure of the debtor to meet its payment obligations on a timely and complete manner. Exposure to credit risk of CVCS is also incurred as a result of credit activities and transactions with counterparties.

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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, 2016 and December 31, 2015 as follows:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	122,964	110,078
Financial instruments net	26.155	49.295
Loan portfolios		
Consumer loans	1.044.230	819.497
Microcredit portfolio	14.835	40.933
Accounts receivable, net	189.482	126.618
Total financial assets with credit risk	1.397.666	1.146.421
Off-balance-sheet credit risk at nominal value		
Unpaid approved credits	275,493	377
Total exposure to off-balance-sheet credit risk	275,493	377
Total maximum exposure to credit risk	1,673,159	1.146.798

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

The exposure to credit risk is reduced by collaterals and other credit enhancements, which reduce credit risk. The company has implemented a guarantee with FGA, that acts as guarantor to certain clients with higher risk profiles; amounts charged under the guarantees are held on a trust to cover any past due loans. FGA assumes risk up to a set limit and is responsible of recording the corresponding guarantees and indemnities and paying out on claims received.

As at December 2016, the Credivalores Crediservicios S.A.S. portfolio is comprised of 56% payroll deduction loans; 32% credit cards; 7% insurance-policy financing; and 4% microcredit loans. The remnant of a business line was sold in 2016.

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.

55.6% of our portfolio is made up of retirees (life pension) while 31.4% are public-sector employees (teachers, government employees, servicemen and women) - sectors marked by high job stability.

The segments to which payroll deduction loans are targeted include:

1. Retirees: individuals who, having met the requirements stipulated by the social security provisions are formally entitled to receive a fixed monthly life income.
2. Employees: individuals employed by a public or private company who receive regular remuneration as compensation for their services.

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

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

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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.

Policies to prevent excessive credit-risk concentration

The target segment of CVCS is medium and lower-income with strong presence in small and medium cities, these prevent concentrations of credit risk at an individual, economic group, cities or economic sectors level.

- The 25 largest debtors account for 0.51% of the portfolio, and the largest single client, 0.058%.
- Average credit (portfolio/client total) COP 1.8 million

Another noteworthy characteristic is the portfolio's geographical diversity: Valle del Cauca accounts for the largest share with 24% of the total followed by Bogotá at 17.4%.

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.

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The following is the portfolio loans summary by product to December 31, 2016

Department	At December 31, 2016			At December 31, 2015		
	Consumer	Microcredit	Total	Consumer	Microcredit	Total
Valle	222,165	2,407	224,570	174,178	18,488	192,237
Bogotá	165,521	-	165,521	127,124	-	127,391
Meta	102,673	1,167	103,840	96,036	3,844	99,601
Atlántico	50,742	-	50,742	37,627	-	37,656
Antioquia	54,466	-	54,466	51,614	-	51,582
Santander	58,248	997	59,245	42,150	4,220	46,314
Boyacá	50,441	-	50,441	39,255	-	39,163
Bolívar	30,621	-	30,621	23,240	-	23,328
Magdalena	23,432	-	23,432	14,348	-	14,400
Córdoba	18,842	624	19,466	13,496	1,914	15,466
Risaralda	21,490	-	21,490	12,674	-	12,729
Tolima	14,552	716	15,268	9,253	2,788	12,080
Cesar	32,882	193	33,075	23,402	1,982	25,491
Norte de Santander	12,258	905	13,163	10,289	2,921	13,226
Huila	11,020	858	11,878	7,712	4,102	11,833
Quindío	10,430	-	10,430	7,428	-	7,461
Sucre	10,894	663	11,557	7,703	2,095	9,832
Caldas	10,405	-	10,405	7,806	-	7,839
Cauca	6,253	-	6,253	5,107	-	5,125
La Guajira	3,922	-	3,922	2,935	-	2,946
Caquetá	5,635	564	6,199	2,986	3,355	6,355
Cundinamarca	5,092	-	5,092	5,454	-	5,463
Casanare	4,271	-	4,271	4,802	-	4,794
Nariño	2,328	585	2,913	1,317	3,519	4,839
San Andrés	3,485	-	3,485	2,056	-	2,065
Putumayo	755	-	755	718	-	721
Guaviare	184	-	184	218	-	219
Arauca	209	-	209	214	-	214
Chocó	44	-	44	58	-	58
Vichada	57	-	57	68	-	68
Amazonas	13	-	13	21	-	21
Vaupés	20	-	20	19	-	19
Guainía	6	-	6	8	-	8
TOTAL	933,356	9,677	943,033	731,316	49,228	780,544

7.2.3 Credit Approval Models

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

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

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The payroll-loan credit approval model was updated in late 2016, and is to be implemented in the first 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.

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

Impairment Models

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

The expected loss model is expressed as:

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

Where:

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

The impairment calculation is expressed as follows:

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

Where:

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

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

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

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

Credit Approval Process

The CVCS credit area 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 the Risk Committee.

In the case of the payroll deduction loans product in June 2016 the Company implemented an originator known as Bizagi, an IT tool that automates and controls the entire credit flow, guaranteeing process quality, greater efficiency and online monitoring of each stage of the process.

There were 56,102 payroll deduction loan applications recorded in the first half of 2016. Then, following implementation of the originator in the second half of the year 68,409 applications were processed with the same personnel, representing a 21.9% increase in installed capacity. Overall, in 2016, 124,511 applications were processed compared with 84,933 in 2015 - an increase of 46.5%.

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Response times of less than 24 hours were improved from 89% in 2015 to 97% in late 2016. 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.
- Access control and information security.

As to the management of the Crediuno product, 267,000 records were processed in 2016 increasing 33% compared to previous year.

An express process flow was implemented to respond to 10% of loan applications in one hour, thus competing with retail-market times.

In October the process of standardizing and georeferencing addresses was included in the origination software in order to improve the percentage effectiveness of statement delivery.

All Credivalores approval processes include client identity validation by a provider specializing in identity theft. Risk of identity theft is 100% covered by this provider.

7.2.4 Monitoring and Control Process

The Company has an information system in place that provides daily indicators on the loan portfolio status so as to allow proper monitoring and timely decision-making.

The credit approval processes are connected to an engine managed by the risk area which allows real-time adjustments to policy parameters 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.

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At December 31, 2016

STATUS	TUCREDITO	CREDIUNO	CREDIPOLIZA	MICROCREDITO	CREDIYA	TOTAL MANAGED PORTFOLIO	PORTFOLIO ON BALANCE
CURRENT	568,788	367,651	73,009	2,602	-	1,012,050	801,933
1-30	7,068	13,235	6,842	1,236	-	28,381	25,726
31-60	4,227	7,463	1,671	329	-	13,690	11,945
61-90	2,165	2,171	217	286	-	4,839	4,058
91 A 180	5,625	9,011	298	729	-	15,663	13,611
181 A 360	6,632	7,476	1,300	1,546	7	16,961	15,354
> A 360	38,863	25,830	9,340	2,949	2,452	79,434	70,406
Total	633,368	432,837	92,677	9,677	2,459	1,171,018	943,033

At December 31, 2015

STATUS	TUCREDITO	CREDIUNO	CREDIPOLIZA	MICROCREDITO	CREDIYA	TOTAL MANAGED PORTFOLIO	PORTFOLIO ON BALANCE
CURRENT	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 A 180	7,180	4,528	346	610	31	12,695	9,352
181 A 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

7.2.5 Loan recoveries

Throughout 2016 CVCS' collection area focused on strengthening its recovery model by hiring specialized consultants to align its management to best international practices and, by 2017, ensure the certification of its entire collection operation model and process.

The improvements implemented include the following:

- The collection executive monitoring processes, focusing more on their management and negotiation skills.
- Development of the collection strategy based on statistical segmentation and previous management of the portfolio, including specialized collection based on the circumstance of non-payment and client profile.
- Implementation of the internal monitoring and training area.

The results of these improvements are reflected in the 2016 year-end results, where the default index for payroll reduction loans was 2.43% down compared to the 2.79% recorded at the close of 2015. The credit card index was stable at 4.58%, an outstanding result given growth in the card market in 2016. The Credipoliza product index was up from 1.45% to 2.18%, as a result of strengthening the operating model. Another notable point with regard to 2016 is that, because of the nature of CVCS products, it is necessary to properly manage the times required for billing, reporting values to third parties, third-party billing, client payment and collection channels in order to report payments to CVCS. Under this scheme the collection area entered tracking structure agreements to directly manage any delays in the reporting of client payments, and determine the reasons for defaulting so as to initiate direct client management if a default is found to genuinely exist. The default reports incorporate these delays for each product and thus measure the reality of each.

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7.2.6 Credit worthiness

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

Entity	Type of account	December 31, 2016	December 31, 2015
Banco de Bogotá	Checking	2,179	1,224
Bancolombia	Checking	1,904	493
Banco GNB Sudameris Colombia	Checking	1,195	3,079
Red Multibanca Colpatria	Savings	38	70
Banco BBVA	Checking	48	-
Banco de Occidente	Checking	309	1,467
Bancomeva	Checking	225	192
Available in Free-standing Trusts		13,857	9,909
		19,755	16,434

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			
8.	Gnb Sudameris	AA+		From BRC 1+ to BRC 2+	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.
9.	Bancoomeva	AA-			

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.

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

7.3 Market Risk

Credivalores 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 subsidiaries' 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.

At December 31, 2016 and December 31, 2015, CVCS 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:	December 31, 2016	December 31, 2015
Equity Securities	20,958	24,192
Derivatives instruments	817	12,478
Loan Portfolio	4,380	12,625
Total	26,155	49,295
Derivatives instruments liabilities	16,958	-
Total	16,958	-
Net Position	9,197	49,295

Interest rate

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

Sensitivity Analysis

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

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

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

The present value of the monthly interest payment was calculated, with the 6-month IBR at the end of December 2016 (6.807%) as the reference discount rate.

Finally, the Company compared the results of each scenario with the base scenario, which corresponds to the projections of interest flows using as reference the rates at the end of December 2016.

The results are set out below:

Scenarios	Interests
Effect of 100 BPS decrease in variable rate	(1,555)
Effect of 100 BPS increase in variable rate	1,552
Total Scenarios	3

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	(31)
Effect of devaluation and increase, 15 BPS, variable rate	115
Total Scenarios	88

Exchange rate

CVCS's 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 when paying amortization on principal and interest, due to trading in the currencies to be paid and recognition of the exchange rate difference.

Sensitivity Analysis

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

1. Two scenarios were evaluated in which the exchange spot rate is adjusted by 0,66% daily volatility (forward curve projected from Bloomberg's spot prices), , generating revaluation and devaluation effects on the TRM as at December 31, 2016.
2. Amortization of principal and payment of interest on financial obligations are implicit in these scenarios, given their contractual frequency 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, with the 6-month IBR at the end of December 2016 (6.807%) as the reference discount rate.
5. Finally, CVCS 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 the end of December 2016.

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The results are set out below:

Ítem	Total Debt
Initial Scenario (Balance at December 31, 2016)	390,090
Scenario 1 (Effect of revaluation)	407,607
Scenario 2 (Effect of revaluation)	412,837
Difference Scenario 1 vs Initial Scenario	17,517
Difference Scenario 2 vs Initial Scenario	22,747

7.4 Liquidity Risk

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

Credivalores' 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.

Credivalores 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

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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 \geq 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.

As of December 31, 2016, the Company has the following 7-15 day liquidity ratios:

Days	Dec-16
7 Days	161%
15 days	140%
30 Days	118%

As of Dec 31st 2016, the liquidity position in both 7 a 15 days is over the upper limit showing a favorable scenario (green).

Exposure to liquidity Risk

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

Limits to liquidity risk exposure

The maximum exposure to liquidity risk is determined as the average time (days) needed to source funds and be able to generate funds to cover operating expenses and originate new loans

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It is reviewed in the weekly financial committee considering projections for 7, 15 and 30 days. To analyze the liquidity for short and medium term requirements, the company considers the following:

- 1) Net liquid assets CV + SPV's: liquid assets less long term investments

Lower limit: 8%

As of Dec-31st, 16	
Net Liquidity	122,942
Assets (CV + PA) (Loan Portfolio)	947,411
Result 1	13.0%

- 2) Net liquid assets CV + SPV's

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

As of Dec-31st 16	
Net Liquidity	122,942
Assets (CV + PA)	1,084,677
result 2	11.3%

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, 2016

Assets	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Cash due from banks and Central Bank	118,889	4,075	-	-	122,964
Equity Instruments at fair value	16,308	-	-	4,650	20,958
Investments in Associates and Affiliates	-	-	-	9,408	9,408
Financial Assets at amortized cost	48,773	258,983	308,145	443,164	1,059,065
Total Assets	183,970	263,058	308,145	457,222	1,212,395
Liabilities	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Financial Liabilities At amortized cost	57,521	400,805	241,052	385,596	1,084,974
Financial Liabilities at fair value - Derivatives instruments	-	10,589	6,369	-	16,958
Total Liabilities	57,521	411,394	247,421	385,596	1,101,932

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December 31, 2015

	Less than one month	From one to six months	From six to twelve months	More than a year	Total
Assets					
Cash due from banks and Central Bank	110,078	-	-	-	110,078
Equity Instruments at fair value	19,544	-	-	4,648	24,192
Investments in Associates and Affiliates	-	-	-	31,240	31,240
Financial Assets at amortized cost	27,324	144,945	193,777	494,384	860,430
Total Assets	156,946	144,945	193,777	530,272	1,025,940
Liabilities					
Financial Liabilities At amortized cost	90,503	170,823	145,155	400,404	806,886
Total Liabilities	90,503	170,823	145,155	400,404	806,886

7.5 Operating Risk

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

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

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

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

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

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

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

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

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

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

7.5.1 Operating Risk Policies

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

7.5.1.1 Identification Policies

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

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

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

7.5.1.2 Measurement Policies

- a. Measurements must be taken of all operating risks using the operating risk methodologies defined by the Company.
- b. Qualitative and/or quantitative measurements are to be performed on the more critical risks using indicators that reflect both the impact and the frequency of the corresponding risk exposure. Also, compliance with the limits set must also be permanently measured.
- c. All operating losses incurred must be documented in accordance with the established methodology.
- d. All events that could entail some kind of operating risk must be logged. This permits creating a historical loss analysis to facilitate calculating the capital required for each of the Company’s lines of business.

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

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

7.5.1.3 Analysis Policies

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

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

7.5.1.4 Monitoring Policies

- a. Internally developed measurement methodologies are periodically reviewed. This allows the Company to compare what is happening in reality with the results obtained from the methodology applied during a set period of time.
- b. These risk measurements are regularly monitored to identify certain patterns and make the necessary adjustments.

7.5.1.5 Business Continuity

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

During 2017, 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.

Exchange Risk Management.

Credivalores Crediservicios S.A.S, with a view to conducting adequate mitigation of exchange risk has established the following guidelines:

1. Financial instruments are to be used as delivery and non-delivery forwards to hedge exchange-rate exposure affecting both principal and interest on debt issued in the international market.
2. For principal one third of the obligation is to be hedged or subject to hedging activities at the moment when the transaction is completed (when the funds received are monetized); another third is hedged over the following two weeks and the remaining third during the fourth week. Subject to a joint decision of the treasury and international funding areas, a portion of the principal may be left unhedged in this final section, to be covered in a timely manner.
3. For interest due the following interest payment is always expected to be hedged.
4. Credit limits obtained from local financial institutions for performing hedging operations. These financial institutions will have a credit rating of AA+ or higher.

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7.6 Risk of Money Laundering and Terrorism Financing

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

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

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

The CVCS AML system is fully compliant with the Colombian Superintendency of Corporations' (Superintendencia de Sociedades) regulations on the matter by way of Official Letter 100-00005/2014 and Public Announcement 100 - 00006.

The AML/TF management model focuses on developing and implementing preventive measures to control this type of activity by all employees, clients, associates, shareholders and suppliers related to the Company.

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

In order to help strengthen an AML/TF culture within the Company in Q4 2016, a special training program was deployed on all levels through the e-learning platform. This training was included in the Company's induction programs and new Credivalores specialists were certified for having read and understood the AML/TF manual.

In 2016, the AML/TF risk area updated the AML/TF risk matrix, identifying six risks through 18 control activities that allowed ML/FT risk to be addressed and kept within acceptable levels of exposure. The AML/TF manual was also updated in accordance with Public Announcement 100 - 00006, issued by the Colombian Superintendency of Corporations.

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

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

For Q4 2016, a request was received from the Colombian Superintendency of Corporations to evaluate implementation of the AML/FT which was responded to within the period established by the control entity.

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NOTE 8. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalent balances encompass the following as of December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Cash	22	22
Banks	19,755	16,434
Mutual funds and joint portfolio (8.1)	95,112	93,622
Certificates of Deposit (8.2)	8,075	-
	122,964	110,078

As of December 31, 2016 and 2015 there were no restrictions on bank accounts.

(8.1) The following are the financial institutions where CVCS and free-standing trusts rights have participation in mutual funds and joint portfolio:

	December 31, 2016	December 31, 2015
Alianza Fiduciaria	2,736	2,268
Valores Bancolombia	2,888	9,758
Sub-total	5,624	12,026

Entity	December 31, 2016	December 31, 2015
Servitrust Gnb Sudameris S.A.	2,883	1,504
Fiduciaria Corficolombiana Free-standing Trusts	-	1,871
Fiduciaria Central Trusts	3,452	1,981
Corpbanca Investment Trust Col SA Soc Fiduciaria	30	3,190
Fiducolombia Free-standing Trusts	83,123	73,050
Sub-total	89,488	81,596
Total	95,112	93,622

The following are the money market funds manager's credit risk ratings given by credit rating agencies:

Manager	Dec 2016	Dec 2015	Rating Agency
Fiduciaria Bancolombia	S1/AAA (col)	1/AAA	Fitch Ratings Colombia S.A.SCV
Fiduciaria GNB Sudameris - Servitrust	F-AAA	F-AAA	Value and Risk Rating S.A SCV (2016 - 2017) BRC Standard & Poor's (2015)
Fiduciaria La Previsora	S1/AAA (col)	1/AAA	Fitch Ratings Colombia S.A. SCV
Fiduciaria Popular	FAAA/2	FAAA/2	BRC Standard & Poor's (2017-2016-2015) - BRC Investor Services S.A. SCV (2014)

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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 Credivalores can withdraw and deposit funds at any time, as funds are at sight.

(8.2) Certificates of Deposit (CD):

As of December 31, 2016, the Company had six Time Deposits (CD) at Credifinanciera S. A. Savings and Loans, detailed below:

CD CREDIFINANCIERA

NUMBER	ISSUE DATE	PAYMENT DATE	DAYS	NOMINAL VALUE	E.A. RATE	NOMINAL RATE	TOTAL INTERESTS 2016	TOTAL BALANCE CD 2016
53203	11/1/2016	1/13/2017	72	1,000	6.0	5.86	10	1,010
53468	11/3/2016	1/24/2017	81	1,000	6.0	5.87	9	1,009
53469	11/3/2016	1/20/2017	77	1,000	6.0	5.86	9	1,009
53473	11/3/2016	1/13/2017	70	1,000	6.0	5.86	9	1,009
53474	11/3/2016	2/14/2017	101	2,000	6.0	5.87	19	2,019
53475	11/3/2016	2/7/2017	94	2,000	6.0	5.87	19	2,019
TOTAL				8,000			75	8,075

NOTE 9. FINANCIAL INSTRUMENTS

9.1 AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	December 31, 2016	December 31, 2015
Equity instruments (1)	20,958	24,192
Derivative instruments (note 15)	817	12,478
	21,775	36,670

Equity instruments

	December 31, 2016	December 31, 2015
Mutual Funds (a)	16,308	19,544
Agrocañas Shares (b)	4,650	4,648
	20,958	24,192

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- (a) 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 2016	Annual Return 2015	Carrying Amount	
						2016	2015
Credicorp Capital	Money Market	500	N/A	7.1%	3.6%	3	3
BTG Pactual I Z Class	Target Date	5	2	58.3%	2.20%	1,842	3,956
BTG Pactual II Z Class	Target Date	5	2	167,5%	6.77%	4,885	2,310
Fiduciaria Popular	Money Market	200	200	6.9%	3.6%	69	65
Fiduciaria la Previsora S.A.	Money Market	200	200	6.9%	3.5%	309	45
Servitrust GNB Sudameris	Money Market	500	500	6.5%	3.5%	1	51
BTG Money Market	Target Date	500	500	6.5%	3 %	9,199	13,114
TOTAL						16,308	19,544

- (b) The Company has a 5.03% stake in Agrocaña S.A. share capital, with a number of outstanding shares as at December 31, 2015 and 2016 of 3,300, which are not listed on the stock exchange, so they are measured at fair value.

NOTE 10. INVESTMENTS IN ASSOCIATES

The detail of the investments in associates is as follows:

	December 31, 2016	December 31, 2015
Asficor S.A.S (a)	-	21,077
Inverefectivas S.A (b)	9,408	9,029
Microfinanzas & Desarrollo (c)	-	1,134
	9,408	31,240

- (a) A Stock Purchase Agreement between Credivalores Crediservicios S.A.S. and BRESTOL S.A.S. was executed on July 1, 2016, in which Credivalores stated its intention to transfer its stake in ASFICOR S.A.S. It also transferred its stake for the value of the subscribed and paid capital after stock placement.
- (b) The Company has a 25% stake of Inverefectivas S.A. share capital. This company was established under Panamanian legislation represented by 1000 shares with an intrinsic value of USD 3,135.20 as of December 2016.
- (c) As of December 31, 2016 there are no investments in the company Microfinanzas y Desarrollo in the process of being wound up because it was liquidated during the year.

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The following table shows the balances of each investment in associates of December 31, 2016 and 2015 voting right percentage in those entities:

	December 31, 2016		December 31, 2015	
	Share of ownership interest	Book value	Share of ownership interest	Book Value
Associates				
Asficor S.A.S (a)	-	-	100%	21,077
Inverefectivas S.A (b)	25%	9,408	25%	9,029
Microfinanzas & Desarrollo	-	-	100%	1,134
		9,408		31,240

The main corporate purpose of the associates of Credivalores Crediservicios S.A.S is as follows:

	Associate	Corporate purpose
1.	Asficor S.A.S	Credit institution.
2.	Inverefectivas S.A	Holding.
3.	Microfinanzas & Desarrollo	Credit institution.

The movement of investments in associates' accounts is shown below for the years ended at December 31, 2016 and 2015:

Associate	December 31, 2016	December 31, 2015
Balance at the beginning of the year	31,240	14,766
Participation in the profit or loss of the period	(145)	(167)
Participation in Other comprehensive income	808	4
Increase (decrease) (i)	(22,066)	18,807
Impairment charged to profit or loss	-	(413)
Adjustments for exchange differences	(429)	(1,757)
Year-end balance	9,408	31,240

- (i) This amount includes \$20,932 related to the sale of the investment in the associate Asficor SAS which did not generate effective movement in the period since the shares were sold and are pending to be collected.

The condensed financial information of the associates is as follows:

December 31, 2016	Assets	Liabilities	Equity	Income	Expenses	Net income
Asficor S.A.S (a)	21,063	215	20,848	-	228	228
Inverefectivas S.A (b)	37,631	-	37,631	1,877	75	1,802

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December 31, 2015						Net
	Assets	Liabilities	Equity	Income	Expenses	income
Asficor S.A.S (a)	21,099	23	21,077	-	58	58
Inverefectivas S.A (b)	37,605	-	37,605	111	52	59
Microfinanzas & Desarrollo (c)	1,198	64	1,134	1,844	1,733	111

NOTE 11. LOAN PORTFOLIO, NET

Financial assets at amortized cost on the statement of financial position are classified as consumer portfolio and microcredit. Following is a description of CVCS' portfolio at December 31, 2016 and r 31, 2015:

	December 31, 2016	December 31, 2015
Consumer	1,044,230	819,497
Microcredit	14,835	40,933
Impairment	(105,191)	(85,944)
Total Financial Assets at amortized cost	953,874	774,486
Tu credito payroll deduction loans at fair value	4,380	12,625
Total Financial Assets at Fair Value	4,380	12,625

The Financial Position Statement includes portfolio held in Free-standing Trust totaling 718,857 as at December 31, 2016, and 552,660 as at December 31, 2015. CVCS classified portfolio by product in accordance with the height of default.

The movement of the impairment provision of the financial assets of the credit portfolio during the years ended December 31, 2016 and 2015 is as follows

	December 31, 2016	December 31, 2015
Initial Balance	85,944	86,932
Allowance of the period charged against to profit or loss	23,261	27,603
Charge-offs of the period	(3,456)	(27,017)
Recovery of provisions	(558)	(1,574)
Final Balance	105,191	85,944

Here is a breakdown of the Originated and Managed Loans Portfolio with all components:

At December 31, 2016						
Modality	Capital	Transaction Costs	Accrued Interest	Commissions	Impairment	Total
Consumer	933,356	16,645	91,818	2,411	(98,662)	945,568
Microcredit	9,677	749	4,395	14	(6,529)	8,306
Total Financial Assets at amortized cost	943,033	17,394	96,213	2,425	(105,191)	953,874

At December 31, 2015						
Modality	Capital	Transaction Costs	Accrued Interest	Commissions	Impairment	Total
Consumer	742,454	9,835	60,452	6,756	(83,419)	736,078
Microcredit	38,090	253	2,546	44	(2,525)	38,408
Total Financial Assets at amortized cost	780,544	10,088	62,998	6,800	(85,944)	774,486

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

	December 31, 2016				Total
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	
Consumer	225,183	423,173	147,429	248,445	1,044,230
Microcredit	8,627	4,867	1,341	-	14,835
Total Gross Loan Portfolio	233,810	428,040	148,770	248,445	1,059,065

	December 31, 2015				Total
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	
Consumer	144,845	388,617	110,935	175,100	819,497
Microcredit	16,180	23,355	1,398	-	40,933
Total Gross Loan Portfolio	161,025	411,972	112,333	175,100	860,430

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

	December 31, 2016				Total
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	
Consumer	182,725	381,016	135,583	234,032	933,356
Microcredit	4,865	3,865	947	-	9,677
Total Gross Loan Portfolio	187,590	384,881	136,530	234,032	943,033

	December 31, 2015				Total
	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	
Consumer	126,063	355,673	101,340	159,378	742,454
Microcredit	4,483	32,628	979	-	38,090
Total Gross Loan Portfolio	130,546	388,301	102,319	159,378	780,544

At December, 31 2016 and 2015 CVCS included in loan portfolio 277.985 and 355,079 respectively of loans sold but that continue being managed by the company:

At December 31, 2016			
Type	Loan Capital	Sold	Total
Consumer	933,356	227,985	1,161,341
Microcredit	9,677	-	9,677
Total Financial Assets at amortized cost	943,033	227,985	1,171,018

At December 31, 2015			
Type	Loan Capital	Sold	Total
Consumer	742,454	343,942	1,086,396
Microcredit	38,090	11,137	49,227
Total Financial Assets at amortized cost	780,544	355,079	1,135,623

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As of December 31, 2016 and 2015, a summary of the overdue portfolio by days past due is as follows:

	At December 31, 2016			At December 31, 2015		
	Consumer	Microcredit	Total	Consumer	Microcredit	Total
Current	799,330	2,602	801,932	630,199	34,551	664,750
Arrears but not impaired	36,106	1,565	37,671	33,333	863	34,196
Non-performing loans under 360	30,462	2,561	33,023	25,552	1,413	26,96
Non-performing loans over 360	67,458	2,949	70,407	53,370	1,263	54,633
	933,356	9,677	943,033	742,454	38,090	780,544

The company manages its loan portfolio at the status of default, so in note 7.2.4 - credit risk is presented both the own portfolio and the portfolio managed under this structure.

NOTE 12. ACCOUNTS RECEIVABLE, NET

The detailed information of accounts receivables as of December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
Debtors (12.1)	186,053	121,267
From Partners and Shareholders	1,825	1,825
Prepayments and Advances	772	-
Payment by client account (12.2)	832	3,526
	189,482	126,618

12.1 The balance for other accounts receivable which amounted to COP 186,053 million as at December 2016, and to COP 121,267 million as at December 31, 2015 correspond primarily to loan collection balances from the Free-standing Trusts pending transfer to Credivalores. On December 31, 2016, it also includes an account receivable associated with the sale of Asfidor shares held by CVCS to another company for COP 13,929, and another item to Finanza Inversiones for COP 19,000.

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

	December 31, 2016	December 31, 2015
Life Insurance Payroll deduction loans	609	2,257
Life Insurance Payroll deduction loans Cooperative Sector	-	967
Crediuno Insurance	216	256
Life Insurance SMEs	7	46
	832	3,526

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NOTE 13. PROPERTY AND EQUIPMENT

Following is the detail of the balance as of December 31, 2016 and 2015, by type of property and equipment for own use:

	December 31, 2016	December 31, 2015
Transport Equipment	117	117
Office equipment and Accessories	1,538	1,298
Computer equipment	1,016	845
Network and communication equipment	345	158
Machinery, plant and equipment in assembly	49	49
Goods received on finance lease agreements	4,878	4,878
Subtotal	7,943	7,345
Accumulated depreciation	(6,926)	(5,883)
Total	1,017	1,462

The breakdown for equipment movement is shown below:

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

	December 31, 2014	Purchases	December 31, 2015
Transport Equipment	117	-	117
Office equipment and Accessories	1,280	18	1,298
Computer equipment	844	1	845
Network and communication equipment	147	11	158
Machinery, plant and equipment in assembly	49	-	49
Goods received on finance lease agreements	4,692	186	4,878
	7,129	216	7,345

The following is the depreciation movement for 2015 and 2016, respectively:

	December 31, 2015	Depreciation	December 31, 2016
Office equipment and Accessories	2,083	283	2.366
Telecommunications equipment	187	10	197
Goods on Finance Lease Agreements	3,613	750	4.363
	5,883	1,043	6,926

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	December 31, 2014	Depreciation	December 31, 2015
Office equipment and Accessories	1,553	530	2.083
Telecommunications equipment	123	64	187
Goods on Finance Lease Agreements	2,656	957	3.613
	4,332	1,551	5,883

All Company equipment is duly covered by valid 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, 2016 and December 31, 2015, respectively, 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. Property and equipment are measured using the cost method.

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

Finance Lease Agreements:

Assets under finance lease agreements were acquired with Leasing Bancolombia S.A., Banco de Bogotá and Leasing de Occidente.

A total of 52 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.

Following is the detail of the balance to as of December 31, 2016 and 2015, by type of property, plant and equipment receive in Finance Lease:

	Cost	Acumulated Depreciation	Carrying amount
Computing equipment	2,416	(2,301)	115
Vehicles	2,462	(2,062)	400
Balance as of December 31, 2016	4,878	(4,363)	515
	Cost	Acumulated Depreciation	Carrying amount
Computing equipment	2,416	(2,032)	384
Vehicles	2,462	(1,581)	881
Balance as of December 31, 2015	4,878	(3,613)	1,265

Below is a summary of the minimum lease payments to be payable in the next years based on assets in finance lease to December 31, 2016 y 2015

	December 31, 2016	December 31, 2015
Less than a year	272	272
More than a year, less than 5	243	514
Total	515	786

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NOTE 14. OTHER INTANGIBLE ASSETS

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

	December 31, 2016	December 31, 2015
Computer programs	-	62
Software licenses	256	142
Technology and insurance projects	2,385	-
Other	2,276	-
Trademarks Acquired (1)	23,919	26,700
	28,836	26,904

(1) In December 2015, the Company acquired the “Crediuno Avances” and the “Microcredito CV” trademarks for 23,800 and 2,900 respectively.

The amortization expense for the year was as follows:

	December 31, 2016	December 31, 2015
Amortization	2,781	58

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 15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The detail of the investment derivative financial instruments and hedge accounting is as follows:

	December 31, 2016	December 31, 2015
ASSETS		
Hedge derivative forward	341	12,478
Derivate forward trade	476	-
Sub-Total	817	12,478
LIABILITIES		
Hedge derivative Forward (15.1)	16,702	-
Derivative forward trade (15.2)	242	-
Swaps	14	-
	16,958	-

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15.1 Hedge Forward

The following table describes the fair value recognition of the derivatives portfolio:

ASSETS	<u>Fair value</u>		December 31, 2015	
	December 31, 2016 Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Hedge Forward				
Purchase of foreign currency	13	339	-	12,478
Total hedge derivative assets	13	339	-	12,478
LIABILITIES	December 31, 2016		December 31, 2015	
	Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Hedge Forward				
Purchase of foreign currency	76	(16,530)	-	-
Total hedge liabilities	76	(16,530)	-	-
Net effect	-	(16,191)	-	12,478

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

The following table describes the cash flow recognition of the derivatives portfolio:

ASSETS	<u>Cash-flow hedge</u>		December 31, 2015	
	December 31, 2016 Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Hedge Forward				
Purchase of foreign currency	1	2	-	-
Total hedge assets	1	2	-	-
LIABILITIES	December 31, 2016		December 31, 2015	
	Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Hedge Forward				
Purchase of foreign currency	1	(172)	-	-
Total hedge liabilities	1	(172)	-	-
Net effect	-	(170)	-	-

Hedge accounting

As at December 31, 2016, the Company has financial instruments (assets) at a nominal value of USD 13 and fair value of COP 339. Nominal value of liabilities is USD 76 and fair value is COP 16,530 the forward derivatives portfolio will materialize during 2017.

- *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.

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- 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

As at December 31, 2016, the Company has financial instruments assets at a nominal value of USD 1 and fair value of COP 2. Nominal value of liabilities is USD 1 and fair value is COP 172, the forward derivatives portfolio will materialize during 2017.

- 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.

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The foreign financial obligations hedged with derivative portfolio at December 31, 2016 as follows:

Notes	Nominal amount USD	Due date	Counterparty
Note IV 30.000.000	31	3/1/2017	BANCOLOMBIA
Note V 3.500.000	2	3/8/2017	BANCOLOMBIA
	2	3/8/2017	BANCO DE OCCIDENTE
Note VI USD 15.000.000	9	6/20/2017	BANCOLOMBIA
	6	6/20/2017	BANCO DE OCCIDENTE
Note VII USD 14.000.000	14	10/17/2017	BANCOLOMBIA
Note VIII USD 22.500.000	23	10/20/2017	BANCOLOMBIA
BANCO SANTANDER	4	31/03/2017	SANTANDER
TOTAL	89		

Prospective Effectiveness of Current Hedging

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

Type	Hedged entry	Type	Hedging instrument
	Nominal Amount USD		Nominal Amount USD
Fair value	87	Fair value	87
Cash flow	2	Cash flow	2

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

Retrospective Hedging Effectiveness

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

Real derivative			
Fair Value November 2016	Fair Value December 2016	Fair Value Change (Nov - Dec) 2016	
(8,298)	(16,362)	8,064	
Hypothetical Derivative			Dollar Offset Nov - Dec 2016
Fair Value November 2016	Fair Value December 2016	Fair Value Change (Nov - Dec) 2016	
8,298	16,362	(8,064)	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.

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15.2 Derivatives Forward Trade

At December 31, 2016, the trading hedge instruments valuation was expected to be at fair value since the expectation was that the measure of these derivatives would reflect the earnings for the duration of the hedging period. The following table describes the fair value of the forward contract portfolio at the end of each period.

Derivatives Forward Trade				
ASSETS	December 31, 2016		December 31, 2015	
	Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Forward contracts for trading				
Purchase of foreign currency	3	476	-	-
Total derivative assets	3	476	-	-
LIABILITIES	December 31, 2016		December 31, 2015	
	Nominal Amount USD	Fair Value COP	Nominal Amount USD	Fair Value COP
Forward Contracts for trading				
Purchase of foreign currency	3	(242)	-	-
Total derivative liabilities	3	(242)	-	-
Net effect	-	234	-	-

In 2015 CVCS had no hedge accounting. CVCS implemented the derivatives financial instruments valuation policy since January 1, 2016.

As of December 31st, 2016, the Company has financial instruments (assets) at a nominal value of USD 3 and fair value of COP 476. Nominal value of liabilities is USD 3 and fair value is COP 242 the forward derivatives portfolio will materialize during 2017.

NOTE 16. FINANCIAL OBLIGATIONS

	December 31, 2016	December 31, 2015
Financial obligations in free standing trusts	543,788	368,798
Promissory notes - national banks	146,162	180,253
Foreign banks	400,545	258,918
Finance lease agreements	755	1,508
Other financial obligations	1,718	10,474
Transaction cost	(7,994)	(13,065)
	1,084,974	806,886

The balance of Credivalores Crediservicios S.A.S. financial obligations in Free-standing Trusts at December 31, 2016 and 2015 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 2017 and long-term obligations are loans that come due after 2017.

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Short-term financial obligations.

Entity	Short-term obligations			Short-term obligations		
	December 31, 2016	Interest rate	Maturity	December 31, 2015	Interest rate	Maturity
Local Banks						
Banco Agrario	-			45,000	DTF + 3%	2016
Banco de Bogotá	10,188	IBR + 5.5%	2017	19,233	DTF + 4%	2016
Banco Caja Social	-			250	DTF + 2.3%	2016
Banco Colpatría	13,000	IBR + 5.8%	2017	18,000	DTF + 4%	2016
Banco GNB Sudameris	-			700	DTF + 5%	2016
Banco de Occidente	4,582	IBR + 3.5%	2017	5,909	DTF + 4.5%	2016
Banco Corpbanca	8,000	14.97%	2017	8,000	10.84%	2016
Bancolombia	30,500	DTF + 6.8%	2017	53,773	DTF + 6.5%	2016
Bancoomeva	276	DTF + 7%	2017	10,000	DTF + 6%	2016
Banco Santander	10,455	LIBOR + 1.7%	2017	10,000	DTF + 4.5%	2016
Total Local Banks	77,001			170,865		
Foreign Entity						
International Notes	255,060	8.13%	2017	47,242	9%	2016
Total Foreign Entity	255,060			47,242		
Shareholders						
Lacrot Inversiones	60,014	9.5%	2017	-		
Total Shareholders	60,014			-		
Third parties						
Agro el Arado S.A	-			4,085	DTF + 7%	2016
Crediholding S.A.S.	-			37	DTF + 7%	2016
Comunicaciones y Negocios S.A	-			1,407	17% EAR	2016
Progresion Sociedad Administradora	1,718	12%	2017	-		
Total Third Parties	1,718			5,529		
Free-standing trusts						
Free-standing trust, Corpbanca	1,194	IBR + 5.5%	2017	2,194	IBR + 6.5%	2016
Free-standing trust, Citibank	-			4,197	11.63%	2016
Free-standing trust, Crediuno IFC	-			6,130	9.76	2016
Free-standing trust, syndicated Tucredito	-			20,798	DTF + 4.5%	2016
Free-standing trust, syndicated Credipoliza	42,613	DTF + 4.5%	2017	-		
Free-standing trust, EPSA Crediuno	16,355	DTF + 6.75%	2017	-		
Free-standing trust, syndicated Crediuno	3,043	DTF + 4.5%	2017	-		
Total Free-standing trusts	63,205			33,319		
Financial leasing Contracts						
Leasing Bogota	-		2017	52	DTF + 3.75%	2016
Leasing Bancolombia	73	8.42%		304	8.42%	2016
Total Financial Leasing	73			356		
Total Short-term obligations	457,071			257,311		

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The Company had short-term financial obligations in 2016 and 2015 totaling \$457,071 and \$257,311; respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost, as per IAS 39.

a) Long-term obligations

Entity	Long-term obligations			December 31, 2015	Interest rate	Maturity
	December 31, 2016	Interest rate	Maturity			
National entity						
Banco Agrario	30,866	DTF + 3.4%	2018	-		
Banco de Bogotá	14,130	IBR + 6.25%	2018	-		
Banco de Occidente	-			2,753	DTF + 3.85%	2017
Bancolombia	21,528	DTF + 7.5%	2019	-		
Bancoomeva	13,091	DTF + 7.7%	2018 to 2019	6,635	DTF + 7%	2017
Total National Entity	79,615			9,388		
Foreign Entity						
International Notes	-			143,301	8.25% EAR	2017
Total Foreign Entity	-			143,301		
Third parties						
Progesion Sociedad Administradora	-			4,946	12% EAR	2017
Total Third Parties	-			4,946		

Entity	Long-term obligations			December 31, 2015	Interest rate	Maturity
	December 31, 2016	Interest rate	Maturity			
CVCS						
Free-standing trusts						
Free-standing trust, Colpatria Tucredito	21,566	IBR + 6.3%	2018 to 2020	10,725	DTF + 6.5%	2018
Free-standing trust, Corpbanca	-			5,250	IBR + 6.5%	2017
Free-standing trust, Citibank	-			384	11.63% EAR	2017
Free-standing trust, Credilibranzas	1,541	DTF + 5.25%	2018	2,698	DTF + 5.25%	2017
Free-standing trust, Libranzas II	4,888	DTF + 5.25%	2018	8,594	DTF + 5.25%	2017
Free-standing trust, EPSA Crediuno	106,831	DTF + 6.75%	2018 to 2019	106,754	DTF + 6.48%	2017 to 2018
Free-standing trust, Crediuno IFC	75,016	9.91% EAR	2018 to 2021	62,245	10.53% EAR	2017 to 2019
Free-standing trust, syndicated Crediuno	58,015	DTF + 4.5%	2019	51,945	DTF + 4.5%	2017
Free-standing trust, syndicated Credipoliza	-			6,602	DTF + 4.5%	2017 to 2020
Free-standing trust, syndicated Tucredito	238,003	DTF + 5.5%	2019 to 2021	148,656	DTF + 5.5%	2019 to 2020
Free-standing trust, CrediTIGO	49,740	DTF + 6.25%	2018	-		
Total Free-standing trusts	555,600			403,853		
Financial Lease Contracts						
Leasing Bancolombia	682	8.42% EAR	2017 to 2026	1,152	8.42% EAR	2017 to 2026
Total Financial Lease	682			1,152		
Total long-term obligations	635,897			562,640		
Cost of Transaction to be Amortized IFP	(7,994)			(13,065)		
Total financial obligations	1,084,974			806,886		

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The Company had long-term financial obligations in 2016 and 2015 totaling 635,897 and 562,640, respectively. Associated costs incurred in the acquisition of loans are classified as transaction costs pending IFP amortization for 2016 and 2015, valued at 7,994 and 13,065, respectively. The measurement of financial liability instruments for financial obligations is valued at amortized cost

The total balance of financial obligations for 2016 and 2015 is 1,084,974 and 806,886, respectively, which will be paid off as described above.

16.1 Foreign Currency Liabilities

Entity	Par value December 31, 2016		Par value December 31, 2015	
	USD	COP	USD	COP
Banco Santander	3	10,455	-	-
International Capital Markets Notes (a)	85	255,060	61	190,543
Lacrot Inversiones	20	60,014	-	-
International Finance Corporation (IFC)	30	75,016	30	68,375
Total	USD 138	\$400,545	USD 91	\$258,918

(a) International Capital Markets Notes

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

Under this commercial paper program the Notes are issued outside of Colombia and are not registered in the Colombian National Registry of Securities and Issuers, nor listed on the Colombian Securities Exchange.

The funds received from loans acquired from financial institutions are used for portfolio origination and to handle various lines of working capital which help maintain a degree of liquidity for the Company. The loans are represented by promissory notes wherein both parties establish the payment conditions including limits, amounts, interest rates and terms. The financial cost of financial obligations for 2016 and 2015 was 57,982 and 18,344, respectively.

The financial obligations in 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.

The effective interest method is a mechanism to calculate the amortized cost of a financial liability and assign the interest expense during the relevant period. The effective interest rate is the discount rate that equates cash flows receivable or payable as estimated over the expected life of the financial instrument (or a shorter period, where applicable) and the net carrying amount of the financial asset or liability in question.

Financial liabilities in foreign currency are valued at the close of the representative market rate certified by the Colombian Superintendency of Finance. In cases where they were used as hedging instruments the applicable accounting policy is applied pursuant to IAS 39. Hedging operations are used to cover the exchange rate risks in existing debts in foreign currency as well as to hedge future cash flows that come up daily. The future forward rate is assessed at the end of each period, comparing the representative market rate at the end of the period and recording the positive or negative difference in the Income Statement.

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NOTE 17. EMPLOYEE BENEFITS

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

Below is a breakdown of employee benefit payments as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Short-term benefits (a)	1,198	1,459
	1,198	1,459

(a) The breakdown of employee benefit payments at December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016	December 31, 2015
Salaries	2	47
Severance pay	540	541
Interest on severance pay	62	62
Holidays	594	648
Bonuses	-	11
Employment benefits	-	150
	1,198	1,459

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

NOTE 18. OTHER PROVISIONS

The movement of legal provisions and other provisions during the years ended on December 31, 2016, December 31, 2015 are as follows:

	Legal Provisions	Other Provisions	Total Provisions
Balance as of December 31, 2014	26	2,210	2,236
Provisions increase during the period	-	10,302	10,302
Provisions utilization	-	(4,171)	(4,171)
Amounts reversed due to provisions not utilized	-	(6,392)	(6,392)
Balance as of December 31, 2015	26	1,949	1,975
Provisions increase during the period	58	3,591	3,649
Provisions utilization	-	(3,194)	(3,194)
Amounts reversed due to provisions not utilized	-	(1,409)	(1,409)
Balance as of December 31, 2016	84	937	1,021

Labor, civil and administrative proceedings filed by third parties against Credivalores Crediservicios S.A.S represented provisions of 84 and 26 were recognized as of December 31, 2016 and December 31, 2015, respectively. It is not possible to determine a disbursement schedule for these proceedings due to their distribution across different instances.

However, the Company 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.

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NOTE 19. ACCOUNTS PAYABLE

The breakdown of other accounts payable is shown below:

	December 31, 2016	December 31, 2015
Commissions and fees	3,649	5,294
Cost and expenses payable	14,654	9,290
Withholdings and labor contributions	1,535	2,379
Free-standing Trusts	27,795	66,783
	47,633	83,746

NOTE 20. CURRENT AND DEFERRED TAX LIABILITIES

20.1 Components of current tax liabilities

Current tax liabilities for the years ended December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016	December 31, 2015
Tax income	26	1,916
Tax on industry and Commerce	1,623	838
Tax CREE	2,458	442
Sales tax	396	172
	4,503	3,368

20.2 Components of income tax expense

Income tax expense for the years ended December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016	December 31, 2015
Equality income tax (CREE)	7,015	5,897
CREE surcharge	4,210	3,337
Subtotal - taxes from the current period	11,225	9,234
Net deferred tax from the period	(4,995)	(5,441)
Total	6,230	3,793

In accordance with 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, during the periods ended December 31, 2016 and December 31, 2015, other comprehensive income was recognized in equity amounting to current tax expense of 3,224 and 0, respectively.

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 2015 and 2016, respectively, among others, are as follows:

- The Corporate income tax rate is 25%.

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- In addition, companies must pay the equality tax (CREE) at a rate of 9%, with an additional surcharge of 5% for 2015 and 6% for 2016; a surcharge of 8% for 2017 and 9% for 2018 is anticipated.
- A company's capital gains corresponding mainly to the sale or realization of fixed assets that were held by a company for more than two years are taxed at a rate of 10%.
- The basis for determining the amount of income tax and CREE to be paid by a company cannot be less than 3% of its net equity on the final day of the immediately preceding tax year. In the event that the Company's removed tax deductions are less than this base, the difference known as surplus presumptive income is deductible from taxable income within five years following the tax year in which it was recorded.
- Tax losses arising from the tax year of 2007 readjusted for tax purposes may be offset without any percentage limitation, at any time, by future ordinary net income, both for the determination of income tax and for CREE.
- The tax bases of the items included in the removal of tax deductions in the tax returns are determined based on accounting standards in force in Colombia until December 31, 2014, before the entry into force of the International Financial Reporting Standards (IFRS), as well as special tax accounting provisions in force.
- A company's income tax returns are ratified two years subsequent to their presentation, except when it liquidates or offsets tax losses, in which case the returns will be ratified after five years.

In December 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.

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Credivalores Crediservicios SAS reconciled the total effective rate without deferred tax, 40% for 2016 and 39% for 2015, as detailed below:

	December 31, 2016	December 31, 2015
Earnings before tax	23,430	37,718
Statutory rate	40%	39%
Tax at statutory rate	9,372	14,710
More (less) tax impact on:		
Non-deductible tax	105	(313)
Equity tax	575	636
Fines and sanctions	30	215
Non-deductible expense	1,770	1,919
Donations	(1)	-
Assumed interest	45	-
Refund of expenditure prior years	(157)	-
Utilizations - Provisions	(214)	(3,276)
Adjustments to Loan Portfolio and financial Liabilities	(5,295)	(10,098)
Total income tax provisions charged to income	6,230	3,793
Effective rate	27%	10%

20.4 Tax losses and surplus income

As of December 31, 2016 and 2015, CVCS has no balance for this concept.

20.5 Deferred Tax by Type of Temporary Difference:

The 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, 2016 and December 31, 2015, based on the tax rates in force for the years in which said temporary differences are to be reversed.

Year ended December 31, 2016

	Balance held at December 31, 2015	Income (Expense) in income statement	Unrealized income (expense) in OCI	Reclassifications	Balance held at December 31, 2016
Deferred tax assets					
Deferred charges	5,783	(5,692)	-	-	91
prepaid expenses	13,956	(3,420)	-	-	10,536
The loans and receivables	-	509	-	-	509
Loan Impairment	-	1,520	-	-	1,520
Deferred income	2,021	(2,021)	-	-	-
Industry and commerce tax	85	(43)	-	-	42
Derivatives instruments	-	8,409	3,224	-	11,633
Others	-	148	-	(1)	147
Subtotal	21,845	(590)	3,224	(1)	24,478

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Year ended December 31, 2016

	Balance held at December 31, 2015	Income (Expense) in income statement	Unrealized income (expense) in OCI	Reclassifications	Balance held at December 31, 2016
Deferred tax liabilities					
Valuations of financial instruments	9,888	(6,217)	-	-	3,671
Goodwill	50	(34)	-	-	16
Transaction expense owing	3,930	(3,930)	-	-	-
Impairment to loans	2,213	4,596	-	-	6,809
Subtotal	16,081	(5,585)	-	-	10,496
Net	5,764	4,995	3,224	(1)	13,982

Year ended December 31, 2015

	Balance held at December 31, 2014	Income (Expense) in income statement	Unrealized income (expense) in OCI	Reclassifications	Balance held at December 31, 2015
Deferred tax assets					
Deferred charges	1,267	4,516	-	-	5,783
prepaid expenses	9,760	4,196	-	-	13,956
Loan Impairment	4,272	(4,272)	-	-	-
Industry and commerce tax	-	85	-	-	85
Deferred income	-	2,021	-	-	2,021
Subtotal	15,299	6,546	-	-	21,845
Deferred tax liabilities					
Valuations of financial instruments	13,198	(3,310)	-	-	9,888
Goodwill	50	-	-	-	50
Transaction expense owing	385	3,545	-	-	3,930
Deferred income	1,343	(1,343)	-	-	-
Impairment to loans	-	2,213	-	-	2,213
Subtotal	14,976	1,105	-	-	16,081
Net	323	5,441	-	-	5,764

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

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

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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 31, 2016			December 31, 2015		
	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	(8,060)	3,224	(4,836)	-	-	-

20.6 Net Worth Tax

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

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

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

20.7 Tax uncertainties

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

20.8 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.

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

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

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

NOTE 21. OTHER LIABILITIES

The breakdown of other liabilities balance as at December 31, 2016 and December 31, 2015, is as follows:

	December 31, 2016	December 31, 2015
Amounts Received for Third Parties	861	17,423
Collections to be Applied	1,388	2,182
Free-standing Trust, Credinvest	-	27,950
Initial Guarantee Installment on Payroll Deduction Loan	627	1,580
Checks Pending Collection	231	-
Shareholding Contract CF	-	3,340
	3,107	52,475

Collections to be applied for Tucredito corresponds to collection of the payroll portfolio not identified and applied as at close.

Collections to be applied for Credipoliza correspond to payments received by this unit's portfolio not identified as of cut-off date.

The Guarantees category comprises collection of guarantees not paid to guarantor Fondo de Garantías de Antioquia. Collections to be applied insurance correspond to payment made by insurance companies for losses not yet identified.

The balance of collections owed due to sold portfolios corresponds to collections not yet paid to the portfolio's owner at cut-off date.

Crediprogreso's accounts payable for initial and monthly contributions corresponds to payments collected by Credivalores for Crediprogreso for the portfolio collateral.

The initial payroll payment is for the commission to be paid to Asesorías Financieras de Crédito for services and consulting services provided for securities placement.

Checks to be paid are for disbursements made by the payroll product which have not been collected by clients. These securities have a 6-month validity period after which the check will be annulled if not cashed.

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NOTE 22. EQUITY

Capital

The Company's 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.

At the individual level, while not subject to minimum equity requirements to develop its operations, the Company's capital management is aimed at satisfying the minimum requirements of capital it would need if it was supervised by the Colombian Superintendency of Finance, in accordance with parameters set forth by Colombian legislation.

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

Shared Capital

The Company's subscribed and paid capital as at December 31, 2016 and December 31, 2015 was represented by 3,715,903 shares each year, each at a nominal price of 28,254.

Creivalores Crediservicios S. A. S		
2016 (Stated in millions of pesos)		
SHAREHOLDER	Number of shares	%
Acon Consumer Finance Holdings S de RL	870,444	23.42%
Crediholding S.A.S.	1,497,987	40.31%
Lacrot Inversiones 2014 S.L.U.	923,665	24.86%
Acon Consumer Finance Holdings II S. L	184,167	4.96%
Treasury shares	239,640	6.45%
Total	3,715,903	100.00%

Reserves

Of the accounts that comprised the equity reserves as of December 31, 2016 and 2015 were constituted of the following:

	December 31, 2016	December 31, 2015
Legal reserve (1)	5,793	5,793
Occasional reserves:	21	21
Total Reserves	5,814	5,814

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According to Law 1258 of 2008, CVCS does not allocate 10% of its net annual profits as legal reserve. The legal reserve has been registered in accordance with the instructions of the General Shareholders' Meeting, it cannot be distributed prior to the liquidation of the Company, but can be used to absorb or reduce losses.

	December 31, 2016	December 31, 2015
Number of authorized shares	4,700,000	4,700,000
Subscribed and paid shares:	3,715,903	3,715,903
Ordinary with nominal value of 28,254.		
Subscribed and paid capital (nominal value)	104,989	104,989
Additional paid in capital	20,842	20,842
Total capital plus premium	125,831	125,831

Dividends Declared

Dividends are declared and paid to shareholders on the basis of the previous year's net earnings. Earnings for 2015 were included as accumulated profits in the amount of 33,925.

Treasury shares and reserve for stock repurchase

On April 2, 2014, Credivalores general Shareholders Assembly decided to establish a special reserve for \$12.837 for the repurchase of 239.640 shares. Shares were repurchase during that same period, using 100% of the reserve.

Earnings per share

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

	December 31, 2016	December 31, 2015
Ordinary shares (a)	1,532,597	1,532,597
Preferred stock (a)	1,943,666	1,943,666
Repurchased treasury shares	239,640	239,640
Total earnings per share	4,948	9,759

(a) The amount of shares at December 31, 2016 and 2015, correspond to the total value of shares outstanding that present CVCS.

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

Share capital later stock buyback						
Name Entity	Preference shares A	Preference shares B	Treasury Shares	Common Shares	Total	%
Acon Consumer Finance Holdings S de R.L.	835,834	-	-	34,610	870,444	23,42%
Crediholding S.A.S.	-	-	-	1,497,987	1,497,987	40,31%
Lacrot Inversiones 2014 S.L.U.	-	923,665	-	-	923,665	24,86%
Treasury shares	-	-	239,640	-	239,640	6,45%
Acon Consumer Finance Holdings II, S.L.	-	184,167	-	-	184,167	4,96%
Totales	835,834	1,107,832	239,640	1,532,597	3,715,903	100%

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In march 2015, CVCS was capitalized for 9.300 million, who issued 306.945 preferred shares to 30.299 pesos per share, represented by capital 8.672 and placement premium for 628.

NOTE 23. REVENUE

Below is a detail of the revenue for the years ended as of December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Interests (23.1)	172,945	162,833
Commissions and fees (23.2)	60,666	46,029
Earnings from loan portfolio sales	13,526	26,485
Indemnities (23.3)	21,876	156
	269,013	235,503

23.1 Interest

	December 31, 2016	December 31, 2015
Crediuno interest	11,641	12,809
Credipoliza interest	8,660	4,025
Tucredito loan interest	30,205	21,152
Tucredito transaction costs (a)	(6,935)	-
Credipoliza transaction costs (a)	(846)	-
Crediuno transaction costs (a)	(9,245)	-
Tucredito fair value (b)	(8,247)	22,630
Sub-Total Consumer loans	25,233	60,616
Microcredit interest	4,809	-
Microcredit loans transaction costs	(554)	-
Sub-Total Microcredit	4,255	-
CY MC Interest	-	5,081
Crediuno default interest	393	272
Credipoliza default interest	450	362
Tucredito default interest	2,843	257
Sub-Total Consumer loan defaults	3,686	5,972
Crediya interest in arrears	620	863
Sub- Total Microcredit loan defaults	620	863
Free-standing trust interest	133,019	84,326
Financial returns	805	519
BTG Pactual Financial returns	5,327	10,537
Sub- Total Other	139,151	95,382
Total	172,945	162,833

- a. Correspond to amortization of transaction costs incurred in the period according to the valuation of the Financial Instruments (assets).
- b. Corresponds to differences between carrying amounts and the fair value of financial assets.

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23.2 Commissions and fees

	December 31, 2016	December 31, 2015
Department store income and credit card channels income	166	869
Financial consultancy fees	274	1,411
Shared financial consultancy fees	240	152
Financial Consultancy Debtor life insurance return	5,428	3,690
Financial Consultancy Shareholder voluntary insurance return	3,313	2,681
Financial Consultancy Funeral insurance return	2	2
Financial Consultancy Department store and channels income	13	27
Internal commission	1,285	675
Collection fees	5,220	3,300
Microcredito SME's loan fees	1,088	1,365
Administration fee Crediuno fee	2	15
Administration fee Credipoliza fee	4,238	2,002
Administration fee Credit card fee	25,653	23,186
Administration fee Advance fee	8,381	6,328
Administration fee Tucredito disbursement fee	-	140
Administration fee Crediuno Visa fee	1,153	186
Administration fee life insurance plus	4,210	-
	60,666	46,029

23.3 Indemnities

As of December 31, 2016, indemnities resulted primarily from the strategic partnership with Metlife for insurance alliance; as of December 31, 2015, corresponded to indemnities from Insurance companies

NOTE 24. OTHER INCOME

At the end of each period, movements corresponded to:

	December 31, 2016	December 31, 2015
Partners and trademarks agreement	4,600	-
Other free-standing trust income	3,915	195
Other	1,038	158
	9,553	353

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NOTE 25. OTHER EXPENSES

The breakdown of other expenses at December 31, 2016 and December 31, 2015, is as follows:

	December 31, 2016	December 31, 2015
Commissions	3,491	49,032
Publicity and advertising	4,620	4,217
Utilities	3,258	2,638
Office supplies	2,315	1,151
Fees	17,945	18,353
Temporary Services	4,886	2,858
Taxes	15,223	13,050
Leases	3,531	2,376
Insurance	267	1,370
Maintenance	1,130	774
Adaptation and installation	412	1,083
Technical assistance and other	12,179	10,487
Free-standing Trusts	3,676	5,547
Cost of representation	387	292
Transport	1,255	1,640
travel expenses	1,169	2,362
Janitorial and Security services	749	488
Other	2,548	1,801
	79,041	119,519

NOTE 26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

a. Commitments

Credit commitments

In the course of ordinary business, the Company provides guarantees to its clients in which it irrevocably agrees to pay third parties in the event the client is unable to meet its obligations with said third parties with the same credit risk for loan portfolios.

Providing said guarantees is subject to the same loan disbursement approval policies with regard to the client's credit rating. Guarantees deemed adequate to the circumstances are obtained.

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, the Company 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. The Company monitors the maturity dates of relative credit limit commitments because long-term commitments have a higher credit risk than short-term commitments.

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The following is a breakdown of unused lines of credit commitments and guarantees at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Unpaid approved credits	275,493	377

b. Contingencies

Contingent assets

At the end of December 2016, the Company has a Guarantee with the FGA (Fondo de Garantías de Antioquia), which has availability of a value in keeping with the agreement policies of \$1,249 million, which must be claimed during the year, as per the contract.

Legal contingencies

CVCS estimates a provision to cover potential losses for labor, civil, mercantile and tax disputes, and others that according to the circumstances and based on the opinion of internal counsel and external legal advisors are considered of probable loss and can be reasonably quantified. The value is \$26 for December 31, 2015 and \$85 for December 31, 2016

NOTE 27. RELATED PARTIES

In accordance with IAS 24, a related parties is a person or a entity who is related to the entity preparing its financial statements, This could be exercised control or joint control or exercise significant influence over the reporting entity, also this could considered a member personal key of the management of the reporting entity

Accordingly, the related parties for the Company are as follows:

1. Shareholders with participation, with control or control group that have significant influence over the Company.
2. Members of the Board of Directors: Directors and Senior Management: including top level management, such as the General Manager and members of the Board
3. Management's personal key: includes the President and Vice-Presidents of the Company; And Presidents of the main companies of CVCS, who are the people who participate in the planning, management and control of entities.

The most representative balances as of December 31, 2016 and 2015 with related parties are included as following:

	December 31, 2016		December 31, 2015	
	Shareholders	Members of the Board of Directors (a)	Shareholders	Members of the Board of Directors
Accounts Receivable	1,460	-	1961	-
Accounts payable	59,951	155	37	44
Expenses	2,160	221	-	2

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

Item	December 31, 2016	December 31, 2015
Salaries	3,653	4,158
Short term employee benefits	402	1,095
Total	4,055	5,253

- a. Members of the Board of Directors (principal and alternates, along with their related parts) as of December 31, 2016

Directors

Tier	Directors	Alternate
1.	José Miguel Knoell Ferrada	Mathias Boccia Cristiano
2.	Juan Carlos Restrepo Acuña	No designation
3.	Lorena Margarita Cárdenas Costas	No designation
4.	Rony Doron Seinjet	No designation
5.	Alejandro Piñeros Ospina	No designation
6.	Adrian Gustavo Ferrado	Carlos Manuel Ramon
7.	Lawrence Robert Rauch	Sin designación

Legal Representatives

Tier	Representatives
Manager	Eliana Andrea Erazo Restrepo
Alternate	Liliana Arango Salazar

NOTE 28. SUBSEQUENT EVENTS

No events occurred after December 31, 2016 and prior the presentation of these financial statements that could significantly affect the Company's income and equity. However, the following are the events that occurred after the reported period:

- i. CVCS was capitalized in April for a total of 53,511 million corresponding to 4,279,022 shares issued at a nominal value of 24,536. Following is the shareholder structure after the capitalization.

Shareholder Structure		
Shareholder	Number of shares	% Stake
Acon Consumer Finance Holdings S de RL	870,444	20%
Acon Consumer Finance Holdings II SL	184,167	4%
Crediholding	1,497,987	35%
Lacrot Investments	1,486,784	35%
Repurchased shares	239,640	6%
Total	4,279,022	100%

- ii. 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 under the ECP program and due in September 2018 for an additional US\$10 million, taking the total amount outstanding to US \$67 million. The other transaction was a US\$ 25 million private placement with an institutional investor from the Unites States.

ISSUER

CREDIVALORES – CREDISERVICIOS S.A.

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Colombia

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TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

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United States of America

US\$300,000,000

Credivalores – Crediservicios S.A.

8.875% Senior Notes due 2025

credivalores
Credivalores - Crediservicios S.A.

OFFERING MEMORANDUM

Joint Lead Managers and Joint Book-Runners

Credit Suisse

Morgan Stanley

Co-Manager

BCP Securities