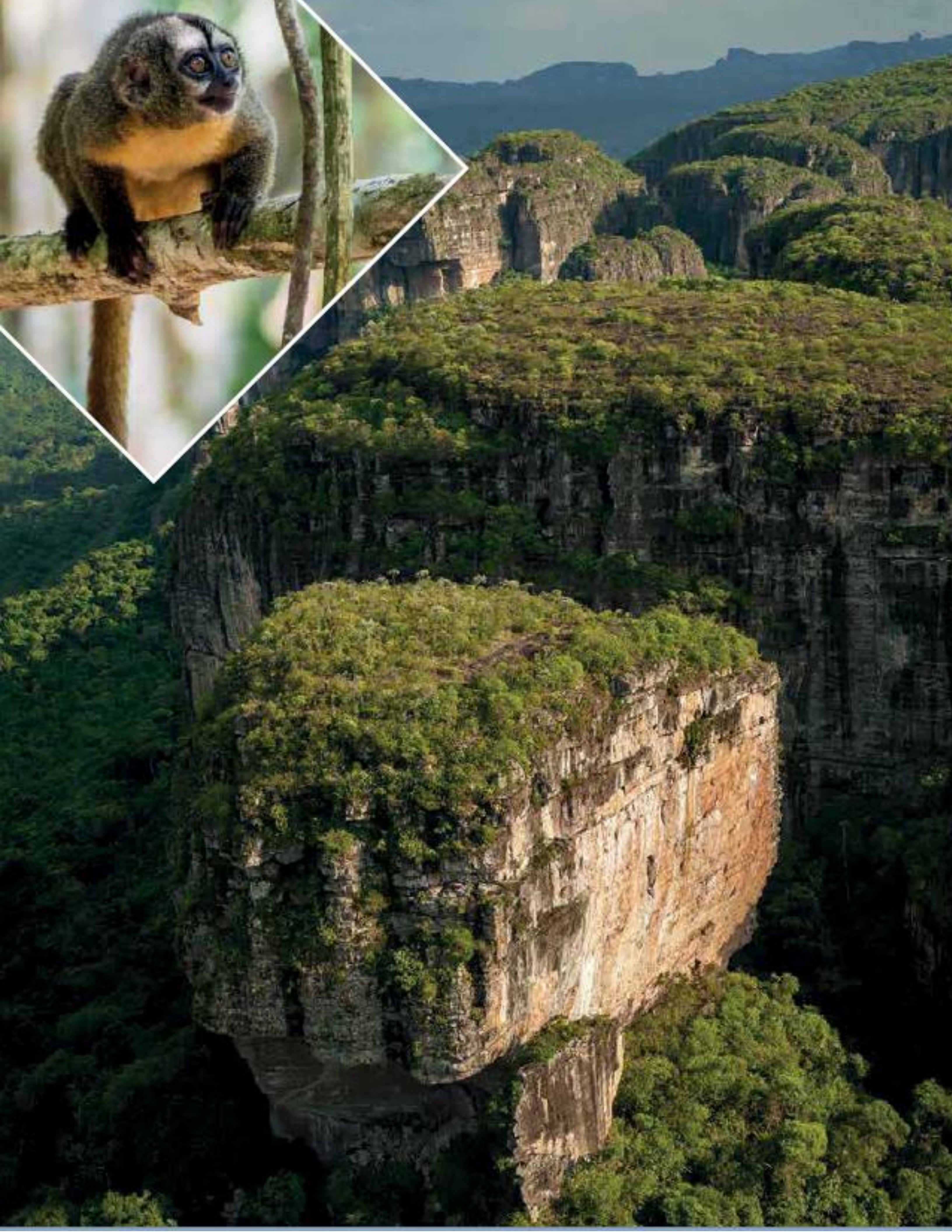
Semiannual Balance Sheet at December 31, 2016

Banco de Occidente



Agenda

Stockholders General Meeting – March 23, 2017

1. Verification of Quorum

2. Reading and Approval of Agenda

3. Appointment of Commission to Approve the Minutes

4. Report by the Secretary to the President of the General Meeting

    4.1 Summons of the General Meeting

    4.2 Report Colombia Finance Superintendence

    4.3 Documents Available to Stockholders

    4.4 Report Application Resolution 116, February 27, 2002, issued by Superintendence of Securities

    4.5 Certification Financial Statements and other Reports, article 46 in Act 964, 2005

    4.6 Report of the Ombudsman of Consumer

    4.7 Report of Application Best Corporate Practices

5. Report by the Chairman of the Board of Directors to the General Meeting, Discussion and Approval of Report

6. Report by the Board of Directors about the Duties of the Audit Committee

7. Reading of the General Purpose Separated Financial Statements, the Account of Profit and Loss as of December 31, 2016 and opinion by the Statutory Auditor. Submission to Discussion and Approval by the General Meeting

8. Profit Distribution Project and submission to Decision of the General Meeting

9. Reading of separate general purpose financial statements,
Its profit and loss account at 31 December 2016 and opinion of the Statutory Auditor. Submission for consideration and Assembly's approval

10. Election of Principal and Alternate Members of the Board of Directors

11. Election of Statutory Auditor and the Alternate for the Period April 2017 to March 2018, Fixing of Fees and Budget

12 Election of Principal and Alternate Ombudsman of Financial Consumer, Approval of the Budget

13. Propositions

Significant Data

Million Pesos

	December 2015	December 2016
Total Deposits 1/	20,158,706	20,869,838
Total Placements 2/	25,546,452	26,312,594
Investments 3/	4,761,420	4,438,677
Capital and Legal Reserve	2,393,487	2,593,931
Total Asset	32,679,126	32,797,344
Profit in the Semester	258,766	242,309
Monthly Dividend per share 4/	150,00	165,00

Notes:

1/ Includes Deposits in Current Account, Time Deposits, Saving Deposits, Trust Funds, and Bank Collection Services

2/ Included Credit Portfolio, Provisions, Credits to Employees, Accounts Receivable Clients Credencial M/L, Accounts Receivable M/E, excepting Accounts Receivable Sundry M/E

3/ Includes Interbanking Funds Sold Ordinary, Commitments of Resale and Investments

4/ Value at the End of the Accounting Operational Period

5/ The submission of report takes place according to approval by Colombia Finance Superintendence in the Unique Financial Information Catalogue (UFIC)

Board of Directors
2016 – 2017

Principal	**Alternate**
Héctor Vesga Perdomo	Mauricio Gutiérrez Vergara
Ricardo Villaveces Pardo	Adolfo Varela González
Iván Felipe Mejía Cabal	Eduardo Herrera Botta
Felipe Ayerbe Muñoz	Gilberto Saa Navia
Liliana Bonilla Otoya	Mauricio Iragorri Rizo

Luis Carlos Sarmiento Angulo
Advisor

Efraín Otero Alvarez
Bank President

Douglas Berrío Zapata
Legal Vice-President

Gerardo Silva Castro
Companies Vice President

Efraín Velasquez Vela
Credit Card and Drawing Vice President

Mauricio Celin Gallo
Client Services Vice President

Johnny Leyton Fernández
Risk and Collection Vice President

Darío Piedrahita Gomez
Government Bank Vice President

Francisco Monroy Guerrero
Business Banking 1 Vice President

Alfonso Méndez Franco
Finance Vice President

Mario Ernesto Calero Buendía
Persons Vice President

Daniel Roberto Gómez Vanegas
Operations & Informatics Vice President

Julio César Guzmán Victoria
Credit Vice-president

Eduardo Correa Corrales
Human Resources Vice President

Ignacio Zuluaga Sevilla
Corporate Banking Vice President

Constanza Sánchez Salamanca
Business Banking Vice President 2

Wilson Romero Montañez
Statutory Auditor – KPMG LTDA.

Report by the President

In compliance with the statutory duties, I do hereby submit to the Stockholders the results of the Bank, corresponding to the second operational period 2016

Legal Standards

Among the actions and regulations issued during the semester directly influencing the financial sector, the following amendments shall be underlined:

1. International Standards

External Circular No. 36, September 16, 2016 from Colombia Finance Superintendence: whereby the instructions related to the transmission terms of the information of Financial Statements are amended, to establish: (i) the individual or separate information with monthly periodicity shall be transmitted within the first 20 calendar days of the following month of report; (ii) **the consolidated information with quarterly periodicity shall be transmitted with closing March 31, June 30, September 30, and December 31 every year, no later than within the 10 calendar days after the term set out for the parent or controlling company** to make the information transmission the item above refers to.

2. **To Ensure Information Supply**

External Circular No. 28, August 3, 2016 by Colombia Finance Superintendence: External Circular No. 28, whereby instructions are issued related to events involving interruption of the supply of services preventing to conduct the operations to financial consumers and the assurance of the supply of information to financial consumers by the credit establishments and the availability of mechanisms **ensuring the proper exercise of their rights. Establishes the incorporation of instructions related to:** (i) the information to be supplied by the credit establishments to the customers and users during the interruption of the supply of services; (ii) the **general requirements related to safety and quality of information.** Taking force as from the 1st day of October, 2016.

3. Fees of Financial Services

Act No. 1793, July 07, 2016 by the Congress of Republic of Colombia and Circular Letter No 46, June 15, 2016 by Colombia Finance Superintendence (CFS): whereby standards related to the fees of financial services are issued. Among the provisions, the following: (i) the clients of the entities authorized to attract resources from the public may make use all the money deposited in their saving accounts or electronic deposits, without the obligation to main a minimum balance, and therefore, the entities must has available the mechanisms for such purposes, without any additional cost to the clients; (ii) **in the saving accounts the entities authorized to attract resources from the public only may** charge financial and/or transactional costs for the first 60 days of inactivity and/or absence of financial movements by the user, and in no any event retroactive charges will be made when the holder of the account makes new deposits or movements changing the inactivity condition of the account; (iii) in connection with the saving accounts that at the time when the aforementioned Act begins to take force are inactive, the 60 days period to stop the charges will begin as from the issue of the Act, and (iv) the entities authorized to attract resources from the public are under the obligation to recognize to users a minimum interest rate on all saving accounts for any amount of deposit.

4. Electronic Bill

Decree No. 1349, August 22, 2016 by Colombia Finance Superintendence: whereby one chapter is added to Regulatory Unique Decree of the Commerce, Industry and Tourism sectors, Decree 1074/2015 related to the circulation of electronic invoices and those of electronic negotiation.

5. Calculation of the Expected Loss

External Circular No. 47, November 22, 2016 by Colombia Finance Superintendence: whereby instructions related to the estimate of expected loss are issue for consumption portfolio the reference model. Among the provisions the Circular provides: (i) to include the adjustment by term to the calculation of expected loss in the reference model for consumption portfolio, which is equivalent to the term remaining over 72 months; (ii) for the segments Credit Card and Rolling Credit the adjustment for term will be equal to 1 month; (iii) The expected loss calculated under the instructions set forth in the aforementioned Circular will apply as from December 1, 2016; and (iv) the additional provisions resulting from the implementation of adjustment by term, the aforementioned Circular refers to, shall be totally provide no later than February 28, 2017.

6. Tax Reform

- Concerning VAT
  - The general tax rate increases from 16% to 19% and intangible and lottery are included, as well as the international digital platforms. The 0.5% destined to education and 0.5% destined to the assurance of health.
  - The new housing of more than COP800 million, the press releases (magazines and newspapers), bicycles, sanitary pads and electric vehicles, will pay 5% tax.
  - **The data of mobile telephone 4% for consumptions higher than COP45,000 monthly; such resources will be destined to sport and culture.**
  - **The franchises of restaurants shall pay 8% Tax**
  - The cigarettes shall pay a specific tax going from COP700 by pack at COP1,400 in 2017 and COP 2,100 in 2018, destined to the health system.
  - The medicaments of the Health Mandatory Plan, eggs, milk, cheese, meat, cereals, fruits, and vegetables, education, medical services and medicaments, public transport, used and new housing less than 800 million pesos, bicycles less than COP1.5 million, motorcycles up to 200 cm^3, mobile telephone up to COP650,000 and computers of less than COP1,5 million will be exempt from tax.
- For the Income Tax
  - The natural persons are limited to exemptions and deductions at 40% of the total income without exceeding COP160 million.
  - The IMAS and IMAN are eliminated
  - For the companies, unification of the tax rate at 34% plus 6% surcharge in 2017,

33% plus 4% surcharge in 2018, and in 2019 33%, removing the surcharge and wealthy tax, the regime of free trade zones that will a rate 20% and they will not pay parafiscal tax.

- IMAN and IMAS The companies investing in conflict zones that are to pay full rate in 2028, the rates will begin by zero (0) and will be gradually increased.
- The dividends will be taxed 10% rate when the value is higher than COP29.7 million yearly and 5% for those receiving annually between COP17,8 and COP29 million per dividend. If the value is less thanCOP17.8 million, no any tax is paid.

- The lien to Financial Movements, known as 4x1000, will be maintained.
- The evasion of income tax and VAT is typified as criminal offence and the sanction may be up to 9 years in prison.
- The individual transactions deductible from the income tax shall not be more than COP3 million cash money. The payments in cash have limits related to the total expenses of taxpayer, gradual diminishing up to be restricted in 2021 to the lower value between 35% of the costs and deductions related to the 40% paid, without exceeding COP40,000 Units of Taxation Value.
- Maintains the exemption of income to the Non-Profit Entities, with the limitation below:
  - Distribution of surplus
  - DIAN will give or repeal the permit of exemption of income
  - They may not contract with the members of the Board of Directors, companies of family if they are not made at the market price.
  - The cooperatives are to pay 20% of their surplus as tax, destined to public universities. Payments in cash will not exceed 50% of transactions.
- For the small informal merchants with income between CO40 million and COP100 million, there is the option to pay the income tax 3% or the mono-tax with 1% rate that, additionally, allows for the taxpayer to access to Periodical Economic Benefits for pensioned or affiliation to the labor risk system. Additionally, could install dataphon with transaction without withholding at source.
- "Green taxes" will be implemented to liquid fuels and to the use of plastic bags,
- Additionally, the industry and commerce tax unifies the form, although does not change the rates.

Results of the Bank

In the second semester 2016, the European strong economies show indexes of stability and recovery due to the positive GDP behaviors (1.7%) and lower unemployment indexes, thereby promoting the demand, even though the prices are maintained constant, and this way, the expansive monetary policies are maintained with stable reference rates. The United States economy, showed 0.25pb increment in intervention rate, supported in a 2% expectation of inflation, and a good time of labor market. These situations of economy's recovery, although attempting to set off the pressure of the internal demand, maintain a negative pressure on price of raw material at worldwide level, even though for the oil the decrease of production of the OPEP countries and some non-member producers improve the prices at levels higher than USD50 the barrel.

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1. *Source: Updating of Colombia Financial System, May 2016 Pag. 33-36 Colombia Finance Superintendence*

In this international economic environment, Colombian economy shows positive indicators in relative terms, reaching 1.2% annual growth in the third quarter 2016 in GDP. Within this growth, the annual growth 2.1% final consumption is highlighted, while the capital gross formation decreased 3.4% and the imports 8.4%. At the supply level, the different economic sectors showing more dynamism are construction, 5.8% growth, manufacturing industry 2.0% growth, social, communal and personal services 1,8% and financial establishments, insurance real estate activities, 3.9%.[2]

This behavior has allowed for the trend of employment conditions to be maintained and for such reason the unemployment rate at December 2016 reached 8.7%, showing 0,1 points percent increment compared to the same month of the precedent year.[3]

The accrued inflation twelve months recorded at the closing December 2016 was 5,75%, showing a lower level by 1.02 percent points compared to the same period of precedent year[4]

On the other hand, the market representative rate located in COP3.000.71 on December 31, 2016 and on June 30, 2016 in COP$2,916,15, which represented during this period 2,90% devaluation.[5]

On December 31, 2016 occurred an actual annual rate growth 5.5% in the total asset of financial system[6] resulting from the dynamics of investments setting off the lower balance of the portfolio and other assets. The credit establishments showed a 4.5% increment, while credit portfolio grew 7.34% and the investments showed 4.49% diminution.[7]

The interest rates have not showed significant dynamics. Between June 2016 and December 2016, the Board of the Central Bank increased on August the Intervention Rate in 25 basic points and on December decreased the rate in 25 basic points by the end 2016 in 7.50% EA.[8] The interbank Rate was stable 7.50% EA as of June 30, 2016 and 7.51% EA in December 29, 2016.[9], The IBR reference rate decreased, going from 7,53%eA of June 2016 to 7,20%EA recorded as of December 2016[10] and the Legal Limit Usury Rate maintains and upward trend, on July-September 2016 recorded 32.01%EA and for the period January-March 2017 reached 33.51%EA.[11].

The Credit establishments as a whole showed a positive behavior between July and December 2016, according to the last figures released by Colombia Finance Superintendence under IFRS. In the accrued profit at the end December 2016, reported total COP12.538b, out of which COP11.640b correspond to the Banks[12].

2. Source: Technical Bulletin Quarterly Accounts – Colombia, Gross Domestic Product (GDP), Third Quarter 2016, DANE, November 25, 2016
3. Source Press Release: The unemployment rate on December 2016 was 8,7%, for the year 2016 was 9.2% ….. DANE, January 27, 2017.
4. Source Technical Bulletin, Index of Consumer price on December 2016, DANE, January 5, 2017
5. Source; Historical Series, Intervention Rate of monetary policy Central Bank www.banrep.org
6. Source. Updating of Colombia Financing System, November 2016, Summary. Colombia Finance Superintendence
7. Source: Principal monthly indicators . IAS, Credit Establishments, Periodical Information www.banrep.org-
8. Source: Historical Series, Intervention Rate www.Bnrekp.org
9. Historical Series, Interbank Rate, www.banrep.org.
10. Source Historical series, Banking indicator of Reference (IBR) www.banrep-org
11. Source Historical Series, Current Banking Interest by modality www.superfinanciera.gov.co.
12. Source Managerial Indicators, December 2016, Colombia Finance Superintendence, www.superfinanciera.gov.co

In the environment above, Banco de Occidente submitted the following results at the end December 31, 2016 with financial statements in compliance with the International Standards.

The Total Asset grew by COP118,217MM compared to December 2015, which represents 0.36% annual growth, reaching at December 2016 COP32,797,343MM total. In semestral terms the Assets decreased COP151,350MM equivalent to 0.46% semestral decrease.

The Credit Portfolio Legal Tender and Foreign Currency grew by COP766,142MM compared to December 2015, equivalent to 3.00% annual growth.

The Credit Portfolio qualified in C, D, and E recorded a total balance for COP1,302,222MM, representing 4,95% of the total Credit Portfolio.

The Balance of Provisions for Asset Protection, at the closing December, amounts to COP1,142,271MM equivalent to 16.61% semestral growth. At the closing this operational period, the hedging of Provision of Portfolio in respect of the value of credits qualified in C, D, and E is 87.72%, index maintaining a level better than the recorded by the Total of System, that at the closing December 2016 is 52,69%.

The investments and Interbank Funds Total Sold reached the amount COP4,438,677MM decreasing 6.78% compared to that of the precedent year and 3.92% compared to June 2016.

The Total Deposits at the closing December 31, 2016 reached the amount COP20,869,838MM increasing by COP711,131MM compared to 2015, representing an annual prevent growth of 3.53%. Upon the analysis of the Deposits composition it is evidenced that this growth of the year is mainly explained by the increase of TD Deposits, that reached the amount of COP6,497,726MM growing COP2,039,475MM compared to December 2015, showing an annual percent growth of 45.75%.

The total balance of bond issued by the Bank at the closing December 31, 2016 is COP2,811,593MM.

The Billing of Operations with Credit Card Credencial reached COP2,708,078MM as of December 2016, increasing by COP178,999MM compared to December 2015, which is equivalent to 7,08% annual growth. The number of cards issued in the market at December 31, 2016 was 609.407 cards, increasing by 34419 cards related to 2015 which represents 5.99% annual growth.

The total Patrimony of the Bank showed COP4,093,971MM, growing COP120,409MM compared to the precedent year, representing 3.03% annual growth.

The Net Profit at the closing December 2016 annual was COP530,124MM higher by 6.80% related to the profit obtained in the precedent year.

The annual profitability of Total Asset at December 2016, was 1,48% and the heritage 11.48% decreasing brake to December, 2015 wich reached 1.52% and 12.52% respectively. The behavior of the Credit establishments at the closing 2016, the last datum available from

Colombia Finance Superintendence record 2,18% profitability if Total Asset and 15,6% [13]of Patrimony.

Legal Taxation and Contributions

The total legal Taxation and Contributions at the closing second operational period 2016 reached an accrual of COP212,578MM, such figure higher than that recorded in first semester 2016 for COP4,343MM and representing 2,1% semiannual growth, The effective indirect of Income and Complementary Tax and Legal Contributions increased compared to that estimate at June 2016, reaching 46.7% effective tax. The detail of those figures are given in the Chart below:

Legal tax and Contributions

Values (Figures in Million)	Semester I 2016	Semester II 2016	Variation ($)	Variation (%)
A. Income an Complementary Tax	110,779	98,944	11,835	12
B. Wealth Tax	0	18,393	(18,363)	(100)
C. Indirect Tax	53,351	46,027	7,324	15,9
VAT	31,433	25,603	5,830	22,8
Industry and Commerce	18,672	17,624	1,048	5,9
Predial	5	1,727	(1,722)	(99,7)
Real Estate Surtax and others	3,102	935	2,167	231,8
Recording and Annotation	139	138	1	0,7
D. Contribution Bank Superintendence	2,824	2,471	353	14,3
E. Deposit Insurance	29,378	28,447	931	3,3
F. Lien on Financial Transactions (4/1000)	16,246	13,953	2,293	16,4
G. Total Tax and legal Contributions (A+B+C+D+E+F)	212,578	208,235	4,343	2,1
Dividends Decreed	154,340	149,664	4,676	3,1
H. Tax/Dividends Decreed	137,7%	126,8%		
I. Effective Tax Rate Income and Complementary Legal Tax	31,4%	25,6%		
J. Effective Tax Rate, Income and Complementary Legal Tax	46,7%	39,7%		

Affiliates and Associates

The Affiliate Banco de Occidente – Panama S.A., reached USD 864,988MM Total Assets at the closing of this operational period representing 11.26% annual decrease. The Profit at the closing December 31, 2016 was USD2,317M, which in percent term is equivalent to 168.61% growth compared to December 2015.

13. Source: General Indicators, December, 2016, Colombia Finance Superintendence, www.superfinanciera.gov.co

The Affiliate Fiduciaria de Occidente S.A. at the closing of this operational period recorded COP236.137MM Total Asset which means 7.85% annual growth. The profit at December 31, 2016 was COP14.323MM equivalent to 60.26% decrement.

The Affiliate Occidental Bank Barbados Ltd. recorded at the closing December 31, 2016 Assets for US$300.573M, representing 21.29% annual growth. On December 2016 obtained an accrued profit of the operational period for US$1,063M, equivalent to 221.59% growth compared to the same period 2015.

The Associate Corporación Financiera Colombiana S.A. showed at the closing December 31, 2016 Assets for COP9,526,069MM, representing in percent terms 18.16% annual growth. Obtained COP406,494MM annual profit, equivalent to 14.38% annual growth.

Fondo de Pensiones y Cesantías Porvenir, recorded at the closing of this operational period Total Assets for COP2,428,156MM, reaching 9.44% annual growth. The Profit at December 31, 2016 was COP354,761MM, growing 27.97% compared to December 2015.

Relationship Bank and its Subsidiaries

Below the amount of the operations made between the Bank and its Subsidiaries including in the Balance Sheet and Statements of Results in the Second Semester 2016.

	Banco de occidente Panamá	Fiduciaria de Occidente	Occidental Bank Barbados Ltd,	Sales and Services	Grupo Aval
Total asset	102,059	209,637	54,730	11,162	-
Total liabilities	978,434	4,207	17	2,361	58,218
Total income	416	158	143	66	2
Total expense	12,488	2	111	37,221	9,265

Note: Figures in Million Pesos

Operations with Stockholders and Directors

At December 31, 2016, the Bank had not loans granted to its stockholders. At the same closing date, there loans to directors for COP3,066MM, supported basically on credit card operations and credit operations to purchase housing and vehicle, according to the conditions set forth by the Bank to its employees. At this closing there are no any credits granted to stockholders holding in the Bank shareholding higher than 10%.

	Shareholders	Board member	Mangement Key Staff	Subsidiary Companies Management	Asociated Companies and Grupo Aval Entities
Total Asset	-	528	2,484	395,978	471,915
Total liabilities	58,218	-	-	985,019	328,240
Total income	2	-	-	784	4,703
Total Expense	9,265	-	-	49,822	11,205

Note: Figures in Million Pesos

Bank's Foreseeable Evolution

According to the results obtained by Financial System during the time elapsed of the year, it is anticipated that the Bank will maintain some profitability and financial efficiency indicators favorably comparable to average of Banking System as historically has been occurred.

After the Closing of the Operational Period

As provided in Article 47, Act 222/1995 is concluded that no any significant external or internal event has occurred potentially influencing the normal development of the operations and the results of Bank, since the closing of Balance up to the date of this report. It is made clear, however, related to the Concesionaria Ruta del Sol S.A.S. the successful bidder of the Concession Contract of Sector 2 of the Project Ruta del Sol.

In connection with this Contract, the holding company has granted credits to the Concessionaire which balance as of December 31 amounts to COP230,496 million representing 0.70% of total asset. The Concessionaire and the Agencia Nacional de Infraestructura executed, the last February 22, 2017, an agreement whereby it was determined the early termination of the Contract, as well as the formula to liquidate such Contract, an in this connection the Bank considers the total capital of the total owed by Concessionaire will be recovered, as well as the interest accrued up to the date reversion of concession to the ANI.

Risk Rating

At the closing of this operational period, Banco de Occidente maintains, for the nineteenth consecutive year the triple AAA rating, the highest credit rating for the long-term debt and BCR1+, the highest certitude of payment the short-term debt granted by BRC Standard & Poor's.

Additionally, Fitch Ratings confirms Banco de Occidente S.A. national ratings (Occidental) in 'AAA(col)´ and ´F1+(col)´, respectively. The long-term rating perspective is stable.

Corporate Governance Code Country Survey

Following with the developments and strengthening processes of corporate governance in our organization, during 2016, internal policies and directives were implemented allowing for consolidating even more the good corporate governance under a global perspective and relationships between the and the associated companies. In such connection, the Board of Directors passed and disclosed the directives of the parent Grupo Aval S.A., implementing several Manuals and Policies allowing for the Bank to growth in its corporate policies, its good corporate governance, and in the number of affirmative answers in the recommendations of the Code Country Survey.

The above mentioned survey is released in our internet page to be consulted by the stockholders and investors.

Disclosure of Financial Information

In compliance with the provisions in articles 46 and 47 of Act 964, 2005, the Bank certifies that financial statements and other reports to the public do not contain defects, inaccuracies, or errors preventing from knowing the true patrimonial situation or operations made. Additionally, the disclosure and control systems used to enter the information in such financial statements and relevant reports to the public, are adequate based on reliable information and subject to revisions made by the Bank's Internal Audit and the Statutory Audit KPM G under the supervision of Audit Committee of the Board of Directors.

Evaluation about the Internal Control System Performance

According to provisions in Art 1, Title I, Chapter IV, Item 6.1.3.15 of the External Circular 029, 2014 (Basic Judicial), Banco de Occidente and its Affiliates evidenced the effectiveness of internal control, by assessing the performance of components: Control Environment, Risk Management, Activities of Information Control and Communications and Monitoring.

Liquidity Risk

Related to the Liquidity Risk Management, the Bank holds for the second semester 2016 a level of liquid assets amounting to an average of COP4,2 billion, such level similar to the historically managed by the Bank in the precedent years and representing an optimal value of hedging to the liquidity risk – IRL at 7 days located in COP3.8 billion and at 30 days 3.0 billion, such values reflecting an adequate liquidity management. In the management, stands out the permanent follow-up of the early alert indicators, that in general had a stable behavior among the ranges set forth as normal conditions.

Risk of Market

Market Risk Management is mainly represented by the management of fixed income portfolio, which for the second semester 2016 that was on av erage COP3.0 billion with an average maturity of 26 months and participation 91% of Colombian government securities, representing a decrease of size and maturity resulting from the liquidations to face the requirements of punctual liquidity and re-composition of deadlines given a lower appetite of risk. The above concluded in an adequate market risk exposure – VeR regulatory SFC – average of COP115, 474 million, such figure located within the limits set forth in connection with the technical patrimony and lower than that occurred in the first semester of the year.

Risk of Laundry Asset and Financing of Terrorism LA/FT

Banco de Occidente fully implemented the Laundry Asset and Financial of Terrorism Risk Management maintaining at closing of the fourth quarter 2016 a risk level of LA/FT consolidated quite low.

It is important to stress that ACRM Monitoring Software – SPSS Monitor, the Bank continues continuous improvement in the knowledge the client, for the purposes to properly mitigate the materialization the Risk of Laundry Asset and Financing of Terrorism and the underlying risks.

The Compliance Officer submitted full and timely to the Board of Directors the quarterly reports corresponding to the results and the effectiveness of the control mechanisms and instruments, taking into account the monitoring of clients, the analysis of unusual operations, the alert signals, the reasonability of the operations, the results of the annual training program addressed to all the employees and the Conglomerate Risk report.

In the same way, the results obtained are evidenced in the reports submitted by the Internal Audit and Statutory Audit KPMG where they state that an appropriate management is made and there exist not opportunities of material enhancement.

Operative Risk Management System – ORMS

According to provisions in Chapter XXIII of Accounting and Financial Basic Circular "Standards Related to Operative Risk Management", the Bank manages its operative risks and the Business Continuance through the identification, measurement, control and monitoring.

Accordingly, the updating of risks and controls are permanently managed in the processes, the monitoring on risk profile and the tracking of record of operative risk events thus allowing for the implementation of corrective actions focused to reduce the occurrence of events and the decrease of exposure to risk levels. Additionally, training activities are made in order to ensure the understanding of the appropriate risk management this way strengthening the internal control system.

Concerning the Business Continuance, the maintenance and updating of plans is managed on a permanent basis, intending to have in place the mechanisms necessary to recover the critical processes defined and permanently working the implementation of tests in order to ensure such schemes.

At the closing December 2016, the Bank's operative risk profile maintains a low risk rating.

Safety and Quality of Information Minimum Requirements

The actions addressed to the compliance with the regulations, the compliance with all items of the Circular 042 of October 2012 (formerly Circular 052/2007, 022/2010) is considered closed. It is the responsibility of owners of every item of the Circular to ensure the compliance in the required time.

Free Circulation of Bills

The compliance with the provision in Act 1231, 2008 and added with the Act 1676/2013, the Bank reports that it has not practices to retain bills to our suppliers, defining internal policies to ensure the free circulation issued by vendors or suppliers.

Legality of Software

In compliance with the provisions in Act 603/2000, Banco de Occidente has defined the policies, controls, and sanctions to ensure the legality of the software used. The controls for the acquisition, development and maintenance of software, in compliance with the legal requirements related to the copyright,, privacy, and electronic trade, are mandatory by the responsible areas. In this connection, the internal audit performs continuous monitoring in order to ensure the proper compliance with the regulations.

Certification

Pursuant to provisions in Decree 2420, 2015, it is certified that the statements contained in the financial statements of Banco de Occidente have been previously verified, to December 31, 2016, and that the same have been faithfully taken from the accounting books of the company, that no any information has been omitted and that all the economic facts have been thereto recognized.

Personnel

Throughout the semester the Bank had available the active and efficacious cooperation of all the employees. For such reason, the top management, in addition to stress this fact, hereby appreciates their valuable cooperation.

Dividends

Submitted to Shareholders' consideration, the payment of COP165,00 monthly dividend per share.

Signed,

Efraín Otero Alvarez
President

Opinion of the Statutory Auditor

KPMG

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REPORT BY STATUTORY AUDITOR

Dear Stockholders
Banco de Occidente S.A.

Report about Financial Statements

I have audited the separated financial statements of Banco de Occidente S.A., comprising the separated statement of financial situation at December 31, 2016 and the separate statements of results, from other integral result of changes in the patrimony and the cash flows for se semester ended in that date and its respective notes, including a summary of the significant accounting policies and other explanatory information.

Responsibility of management in connection with the separated financial statements

The Administration is responsible for the proper preparation and submission of those separated financial statements according to the Accounting Standards and Financial Information Accepted in Colombia. Such responsibility includes to design, implement and maintain the relevant internal control for the preparation and submission of separated financial statements free from material significant errors, either due to fraud or error; select and apply the and apply the appropriate accounting policies, as well as establish the reasonable accounting estimates in the circumstances.

Responsibility of the Statutory Auditor

My responsibility is to issue an opinion about the separated financial statements based on my audit. I obtained the information necessary to accomplish with my duties and I made the exam in accordance to the Information Assurance Standards Accepted in Colombia. Such standards require the compliance with the ethical requirements, planning and completion of the audit in order to obtain a reasonable assurance for the separated financial statements to be free material significant errors.

An audit includes the implementation of procedures to obtain evidence about the amounts and disclosures in the separated financial statements. The procedures selected are dependent on the statutory auditor's judgment including the evaluation of material significant risk of errors in the separated financial statements. In such evaluation of risk, the statutory auditor takes into account the internal control relevant for the preparation and submission of the separated financial statements in order to design auditing procedures approved according to the circumstances. The audit includes as well the evaluation of the use of appropriate accounting policies and the reasonability of the accounting estimates made by the management, as well as evaluation of separated financial statements presentation, in general.

I consider that the evidence of audit obtained provides a reasonable basis to support my opinion issued below.

Opinion

In my opinion the separated financial statements mentioned, prepared according to information taken faithfully from the books and attachments to this report, contain, reasonably, in all the aspects of material significance, the separated financial situation of the Bank at December 31, 2016, the separated results of the operations and separated cash flows for the semester ended in that date, in accordance with the Accounting and Financial Information Standards Accepted in Colombia, applied in an uniform manner.

Paragraph of Emphasis

Without qualifying my opinion, I draw the attention about the Note 31 to separated financial statements indicating that Banco de Occidente S.A., owns credit portfolio with the debtor Concesionaria Ruta del Sol S.A.S. at December 31, 2016 for COP230,496 million, equivalent to 0.70% of the total assets. The Bank Management analyzed the possibility of recovery this portfolio according to the formula of liquidation contained in the agreement executed between the Agencia Nacional de Infraestructura and the Concesionaria Ruta del Sol S.A.S., dated February 22, 2017, considering that the resources will be recovered between the years 2017 and 2021.

Other Issues

The separated financial statements at, and for the semester ended on June 30, 2016 are included exclusively for comparison purposes and I audited them according to audit International standards accepted in Colombia, and in my report dated August 16/2016 I issued an unqualified opinion about them.

Report about other legal and regulatory requirements

Based on the result of my tests, in my opinion during the second semester 2016:

a) Bank's accounting has been carried out in accordance with the legal standards and the accounting technique.

b) The operations recorded in the books and the acts of managers are in keeping the statutes and the decisions of the Stockholders General Meeting.

c) The correspondence, the vouchers of the accounts and the books of minutes and registration of shares are carried out and kept in due manner.

d) There exist appropriate actions of internal control, including the risks management systems implemented, conservation and custody of Bank property and the goods of third parties under care of Bank.

e) The regulations and directions given by Colombia Finance Superintendence have been accomplished related to the proper administration and provision of the goods received in payment and with the implementation and the impact on the financial situation statement and on the statement of results of the risk management system applicable.

f) There is good agreement between the financial statements attached and the report of management prepared by the managers, which includes the agreement by the administration about the free circulation of the invoices issued by the vendors or suppliers.

g) The information contained in the declarations of self-liquidation of contributions to the integral social system, specifically that related to the affiliates and their income as basis of contribution, have been taken from the accounting records and supporting documents. The Bank is not in arrears related to the contribution to the integral social security system.

I made follow-up to the answers about the recommendations letters addressed to the Bank's management and there are no any significant pending material issue potentially affecting my opinion.

Signed,

Wilson Romero Montañez
Statutory Auditor, Banco de Occidente S.A.
T.P. 40552-T
Member of KPMG Ltda.

February 27, 2017

Profit Distribution Project

First Semester, 2016

1. Profit of Operational Period	242,308,964,608.95
2. Release of Reserves	
Reserves for Negotiable Investments (Decree, 2336/95)	72,811,732,925.43
Fixed Assets Deferred Depreciation (Art, 130 Tax Statute)	12,797,071,394.00
Reserve for Dividend Sustainability	220.059,066,791.97
Total Available to the General Meeting	**COP547,976,835,720.35**

Distribution Project:

1. Cash Dividend

A cash dividend for COP165.00 monthly per share is declared payable within the ten days each month, according to legal provisions prevailing, as from April 2017 to March 2018, inclusive, over 155,899,719 total shares subscribed and paid at December 31, 2016. The dividends decreed in the items above will be paid to the holders registered in shares book of the Bank at the time payable and in accordance with the regulations prevailing.	308,681,443,620.00	
2. Provisioning Reserves		
Reserve for Dividend Sustainability	120,000,000.000.00	
3. For Legal Reserve	119,295,392,100.35	
Equal Sums	**547.976.835.720,35**	**547.976.835.720,35**

Separated Statements of Financial Situation

In million Colombian pesos

Asset	Notes		December 31 2016	June 30 2016
Cash and equivalent to cash	6 and 30	$	**1,964,936**	**2,326,953**
Financial Asset of Investment				
Negotiable Investments				
In Debt Securities	7		470,333	395,604
In Patrimony Instruments	7 and 30		330	330
Instruments derivatives of negotiation	9,29 and 30		155,902	322,120
Total Negotiable Investments			**626,565**	**718,054**
Investments available for sale				
In Debt securities	7		1,864,610	2,128,113
In patrimony instruments	7 and 30		454,268	426,421
Total Investments available for sale			**2,318,878**	**2,554,534**
Investments maintained up to maturity, net	8		569,222	514,079
Total financial asset for investment			**3,514,665**	**3,786,667**
Credit portfolio and financial leasing operations, net	10 and 30			
Commercial portfolio and commercial leasing			18,853,431	18,638,292
Commercial and commercial leasing			18,707,972	18,548,158
Repos and Interbank and others			145,459	90,134
Consumption Portfolio and Leasing Portfolio			6,836,483	6,534,598
Mortgage Portfolio and Mortgage Leasing			1,010,641	928,080
Total credit portfolio and financial leasing operations			**26,700,555**	**26,100,970**
Portfolio Impairment			(1,142,271)	(1,038,452)
Commercial Portfolio and Commercial Leasing Impairment			(658,829)	(604,245)
Mortgage Portfolio and Mortgage Leasing Impairment			(28,259)	(25,455)
Consumption Portfolio and Consumption Leasing Impairment			(455,183)	(408,752)
Total credit portfolio and financial leasing operations, net			**25,558,284**	**25,062,518**
Other accounts receivable, net	11 and 30		**179,556**	**211,821**
Non-current assets maintained for sale	12		**-**	**1**
Investments in subsidiary companies associated and joint venture	13		**782,764**	**736,169**
Tangible asset, net	14			
Properties and equipament for own use			441,427	448,859
Equipament under operative lease agreement			2,031	2,730
Properties of investment			144,865	91,759
Total tangible asset, net			**588,323**	**543,348**
Intangible asset, net	15			
Plus value			22,724	22,724
Other intangible asset			142,358	127,877
Total intangible asset			165,082	150,601
Asset for income tax				
Current			1,337	118,409
Other asset			**42,397**	**12,209**
Total asset		**$**	**32,797,344**	**32,948,695**

See notes making integral part of the separated financial statements

Separated Statements of Financial Situation
(In million Colombian pesos)

Liabilities and Patrimony	Notes		December 31, 2016	June 30, 2016
Liabilities				
Financial liabilities at reasonable cost				
Instruments derivatives	9, 29 and 30	$	192,192	225,679
Financial liabilities and financial cost				
Deposits of clients	17 and 30		**20,869,838**	**21,329,032**
Currents accounts			5,602,172	5,007,802
Time Deposits Certificates			6,497,727	6,356,110
Savings accounts			8,722,464	9,905,043
Other deposits			47,475	60,077
Financial obligations	18 and 30		**6,467,556**	**6,341,149**
Interbanking and Overnight Funds			1,066,684	1,097,861
Bank and Other Credits			1,602,528	1,819,402
Bonds and Investment Securities			2,811,593	2,481,229
Debentures with Rediscount Entities			986,751	942,657
Total financial Liabilities at amortized cost			**27,337,394**	**27,670,181**
Provisions				
Provisions for Legal Contingencies			3,964	5,649
Other provisions			1,761	1,761
Total provisions	**20**		**5,725**	7,410
Liabilities for income tax and CREE	16			
Current			118,418	149,212
Deferred, neto			115,244	156,580
Total Liabilities for income tax and CREE			**233,662**	305,792
Benefits to employees	19		75,872	75,182
Other liabilities	21 and 30		**858,527**	654,603
Commercial and other Payable Accounts			847.749	640,065
Other non-financial Liabilities			10.778	14,538
Total liabilities		**$**	**28,703,372**	**28,938,847**
Shareholders Equity				
Suscribed and paid-in capital	22	$	4,677	4,677
Premium for Shares Investment			720,445	720,445
Reserves	22		2,945.744	2,828,957
Non-appropiate Profits:				
Adoption for the first time			82,611	82,611
From Prior Operational Periods			892	(15,889)
Total Retained non-appropiated profits			**83,503**	66,722
Profit of the Operational Period			242,309	287,814
Other Integral Result			97,294	101,233
Total Shareholders' Equity			**4,093,972**	**4,009,848**
Total Liabilities and Shareholders' Equity		**$**	**32,797,344**	**32,948,695**

See notes making integral part of the separated financial statements

Separated Statements of Results

(In million Col. Pesos excepting the net profit per share)

Period of six months ended on:	Notes		December 31 2016	June 30 2016
Continuous operations				
Income for interest and valuation				
Interest on credit portfolio and financial leasing operations		$	**1,635,629**	**1,459,980**
Interest on comercial portfolio			1,035,735	928,037
Interest on comsumption portfolio			547,164	485,352
Interest on housing portfolio			47,503	42,382
Income of repos and interbank			5,227	4,209
Net valuation of investment maintained up to maturity			62,641	104,480
Total income from interest and valuation			**1,698,270**	**1,564,460**
Expenses of interest and valuation				
Current accounts			6,079	6,205
Time deposit certificates			294,688	208,687
Saving Deposits			256,055	228,666
Total interest from deposits			**556,822**	**443,558**
Financial obligations			**214,231**	**195,173**
Interbank and overnigth funds			22,000	25,659
Crédits from Banks and others			7,611	7,140
Bonus and investment papers			141,102	122,678
Obligations with rediscount entities			43,518	39,696
Total expenses of interest and the like			**771,053**	**638,731**
Net income of interest			**927,217**	**925, 729**
Provisions				
Credit portfolio and interest, net			352,905	305,316
Recovery of charges			(53,017)	(37,616)
Goods received in payment and returned			30,205	7,764
Total provisions			**330,093**	**275,464**
Net income of interest and valuation after provisions			**597,124**	**650,265**
Income of commissions and fees	25		174,443	158,131
Expenses for commissions and fees	**25**		**53,289**	**44,903**
Net income for commissions and fees			**121,154**	**113,228**
Net income or expenses of financial assets or liabilities maintained for sale			**10,103**	**27,332**
Net Profit over marketable investments			6,795	6,641
Net Profit over Derivatives Financial Instruments of Negotiation			3,308	20,691
Other income, net	26			
Net profit for difference in exchange			18,282	2,902
Net profit in sale of investments			419	44,235
Profit in sale of non-current assets maintained for sale	12		165	98
Participation in profit of associated companies and joint venture			59,496	54,275
Dividends			11,522	9,932
Other operational income			120,568	20,542
Total other income, net			210,452	131,984
Other expenses				
Loss in non-current Assets Maintained for Sale			-	15
Personnel expenses			**204,074**	**198,903**
Indemnities			802	1,445
Payment of bonuses			1,255	3,021
Salaries and benefits to employees			202,017	194,437
Overhead Management	27		343,397	301,433
Depreciation and amortization expenses			33,534	27,056
Other operational expenses			4,740	8,644
Total other expenses			**585,745**	**536,051**
Profit before Income and CREE taxation			353,088	386,758
Expense of income tax and CREE	16		110,779	98,944
Profit of the Operational Period		**$**	**242,309**	**287,814**
Net profit per share in Col. Pesos	**22**	**$**	**1,554**	**1,846**

See notes making integral part of the separated financial statements

Separated Statements of Other Integral Result

(In million Col. Pesos)

Period six months ended on:	Notes		December 31 2016	June 30 2016
Profit of the Operational Period		**$**	**242,309**	**287,814**
Items that may subsequently reclassified results:				
Net difference in Exchange for investment in subsidiaries	13		(3,793)	(10,698)
Profit net, unrealized in foreign coverage operations	**9**		**3,793**	**10,698**
Profit (loss) with effects on the other integral results of investments recorded by the method of patrimonial participation	13		(2,207)	57,171
Net (loss) profit unrealized in patrimony instruments measured at patrimonial variation	5		(245)	(1,696)
Net Unrealized Profit in indebtedness instruments available for sale			**23,530**	**53,288**
(Loss) Unrealized net profit in patrimony instruments measured at reasonable value	5		(11,841)	2,158
Deferred tax recognized in other integral result	16		(15,565)	(25,831)
Total items that may subsequently reclassified to results			**(6,328)**	**85,090**
Items that will be not reclassified to results:				
Actuarial profit in plans of defined benefits	19		2,389	3,628
Total ítems that will be not reclassified to results			**2,389**	**3,628**
Total other integral results during semester net of tax			**(3,939)**	**88,718**
Total integral result of semester		**$**	**238,370**	**376,532**

See notes making integral part of the separated financial statements

Separated Statements of Other Integral Result

(In million Col. Pesos, except per share information)

Periods of six months ended at december 31 and june 30, 2016		Subscribed and paid capital	Bonus in placement of shares	Reserves	Adoption by the first time	From prior periods	Profit of period	Other integral result	Total patrimony of controllers
Balance to december 31, 2015	**$**	**4,677**	**720,445**	**2,740,223**	**82,611**	**10,606**	**248,784**	**12,515**	**3,819,861**
Transfer to results		-	-	-	-	248,784	(248,784)	-	-
Creation to reserves		-	-	180,324	-	(180,324)	-	-	-
Release of reserves		-	-	(54,708)	-	54,708	-	-	-
Dividends paid in cash COP160.00 monthly per share payable within the ten first days of every month, from april, 2016 to September, 2016 ,included, over 155.899.719 total shares subscribed and paid at December 31, 2015		-	-	-	-	(149,663)	-	-	(149,663)
Wealth tax (Note 22)		-	-	(36,882)	-	-	-	-	(36,882)
Profit of the semester		-	-	-	-	-	287,814	-	287,814
Net mevements in other integral results		-	-	-	-	-	-	88,718	88,718
Subtotal of other Integral Result of the Operational Period		-	-	-	-	-	-	-	376,532
Balance at june 30, 2016	**$**	**4,677**	**720,445**	**2,828,957**	**82,611**	**(15,889)**	**287,814**	**101,233**	**4,009,848**
Transfer to Results		-	-	-	-	287,814	(287,814)	-	-
Creation of reserves		-	-	133,475	-	(133,475)	-	-	-
Release of reserves		-	-	(16,783)	-	16,783	-	-	-
Dividends paid in cash COP165.00 monthly per share payable within the ten first days of every month, from octobre 2016 to march 2017, included, over 155.899.719 total shares subscribed and paid at june 30, 2016.		-	-	-	-	(154,341)	-	-	(154,341)
Wealth tax (Note 22)		-	-	95	-	-	-	-	95
Profit of Semester		-	-	-	-	-	242,309	-	242,309
Net movements in other integral result		-	-	-	-	-	-	(3,939)	(3,939)
Subtotal of other Integral Reslt of Semester		-	-	-	-	-	-	-	238,370
Balance at december 31, 2016	$	4,677	720,445	2,945,744	82,611	892	242,309	97,294	4,093,972

See notes making integral part of the separated financial statements

Separated Statements of Cash flows

(In million Col. Pesos)

Period of six months ended on: Cash flows of operational activities:		December 31 2016	June 30 2016
Profit of the operational period	**$**	**242,309**	**287,814**
Conciliation of profit of the operational period with the net cash provided by (used in) the activities of the operation			
Amortization of tangible assets		5,801	3,590
Depreciation of tangible assets		28,453	23,467
Expense of income tax		110,779	98,944
Provision for credit portfolio accounts receivable, net		353,982	305,673
Expensed for interest accrued on Clients Deposits and Financial Leasing Operations		771,053	638,731
Income for interest accrued pm the Credit Portfolio and Financial Obligations		(1,630,403)	(1,455,771)
Recovery of investment provisions		-	(30)
Profit in sale of non-current assets maintained or sale		(165)	(98)
Profit in the Sale of Investments, Net		(419)	(448)
Profit in Valuation of Financial Instruments Derivatives		(3,308)	(20,722)
Impairment of tangible asset		22,126	7,149
Adjustments in exchange		3	(22,212)
Profit in the valuation of investments available for sale		(59,211)	(84,775)
Profit in Investments for Patrimonial Participation Method		(59,496)	(54,275)
Profit in valuation of investments up to maturity		(10,225)	(7,869)
Changes in reasonable value investment properties		(28,367)	(996)
Increase of securities derivatives from negotiation		134,827	39,932
Net variation in asset and liabilities operations			
(Increase) decrease in negotiable investments		(53,991)	399,416
Decrease (increase) in investments available for sale		315,294	(271,441)
Increase of credit portfolio and financial leasing operations		(754,959)	(618,656)
Decrease (increase) in accounts receivable		14,500	(13,645)
Increase in non-current asset maintained for sale		(6,791)	(1,498)
(increase) Decrease in other assets		(42,065)	42
(Decrease) Increase of client`s deposits		(462,751)	1,084,466
Net decrease of provisions		(1,685)	(78,449)
Diminution of Interbank Loans and Overnights Funds		(39,800)	(353,841)
Increase (decrease) benefits to employees		3,080	(2,300)
Increase (decrease) net in others liabilities		119,999	(192,365)
Increase of credit portfolio and financial leasing operations		1,599,072	1,411,965
Interest paid on Client Deposits and Financial Obligations		(765,449)	(574,720)
Income and CREE Tax Paid		-	(43,292)
Payment of wealthy tax		-	(36,882)
Net cash provisioned for (used in) operation activities		**(198,527)**	**466,904**
Cash Flow of investment activities:			
Purchase of investments maintained up to maturity		(305,601)	(238,165)
Adquisición de propiedades y equipos de uso propio		(130,160)	(24,008)
Adquisición de activos entregados en arrendamiento operativo		-	(362)
Acquisition of Investment Properties		(30,414)	(7,631)
Acquisition of Intangible Assets		(19,562)	(18,489)
Product of Investment Redemption maintained up to Maturity		261,092	278,669
Resulting from the sale of property and equipment of own use		87,487	4,489
Product of the Sale of Assets Delivered in Operative Leasing		225	199
Resulting from the sale of property of investment		5,674	7,083
Resulting from the sale of non-current asset maintained for sale		6,956	1,596
Dividends received		6,504	22,565
Net cash provisioned for (used in) investment activities		**(117,799)**	**25,946**
Flow of Cash from Financing Activities			
Issue of Circulating Investment Securities		400,000	247,750
Payment of Investment Securities in Circulation		(71,940)	(387,237)
Acquisition of Financial Debentures		1,956,061	1,769,206
Payment of Financial Debentures.		(2,184,449)	(2,073,338)
Dividends received		(151,816)	(144,743)
Net cash (used in) provisioned by the financing activities		**(52,144)**	**(588,362)**
Effect of profits or loss in exchange of cash and equivalent to cash		6,453	(26,687)
Decrease of cash and equivalent to cash		**(362,017)**	**(122,199)**
Cash and equivalent to cash at the beginning of semester		**2,326,953**	**2,449,152**
Cash and equivalent to cash at the end of semester	**$**	**1,964,936**	**2,326,953**

See notes making integral part of separated financial statements

Note 1. Reporting Entity

Banco de Occidente S.A. hereinafter the Bank, is a legal entity private in nature, legally incorporated as bank establishment, authorized to operate in keeping with Resolution No. 3141, September 24, 1993 from Colombia Finance Superintendence. Duly incorporated as documented in the public deed 659, April 3, 1965 in the Fourth Notary from Cali.

The headquarters of the Bank are located in Santiago de Cali. The term set forth in the Articles of Incorporation is 99 years as from the date of incorporation. In compliance with its business purposes, the Bank may enter into, carry out or conduct all operations and contracts legally allowed to banking establishments commercial in nature, subject to Colombian Laws requirements and limitations.

In developing its business purposes, the Bank grants credits to the clients, under credit, commercial, consumption and mortgaging portfolio modality for sale and financial and operating leasing, and makes as well treasury operations in certificates of debt mainly in Colombian market. All these operations are financed with deposits received from the clients in the current accounts, saving accounts, time deposits modality, investment securities modalities of general guarantee in Colombian Pesos and with financial obligations obtained from correspondent banks in local currency and in foreign currency and from rediscount entities created by Colombian Government to promote the several different Colombia economic sectors.

At December 31, 2016, Banco de Occidente S.A. has in place an authorized personnel plant consisting of 8,946 employees in the 241 branch offices in Colombian territory, distributed in 221 offices, 5 payment and collection centers, 8 credit centers of vehicles and motor cycles, and 7 leasing offices. The Bank has control situation managed by the society Grupo Aval Acciones y Valores S.A., who is its ultimate controlling entity, and this, in turn, holds control situation on 95,00% of entities abroad in Banco de Occidente Panama S.A. and 100% in Occidental Bank Barbados Ltd. and in the country 94.98% of Sociedad Fiduciaria de Occidente S.A. and 45.00% of Ventas y Servicios S.A.

The Bank holds a non-banking correspondent contract with Almacenes Exito, an entity with national coverage.

Note 2. Bases of preparation financial statements, and summary of the most significant accounting policies.

2.1 Declaration of compliance and theoretical regulatory framework

Banco de Occidente S.A. separated financial statements herewith attached have been prepared in keeping the Accounting and Financial Information Standards accepted in Colombia (AIS) IN FORCE AT December 31, 2013 included as Annex to the Decree 2420, 2015 issued by the National Government as amended by Decree 2496, 2015 and Decree 2131, 2016, excepting for the no application of NIC 39 and NIIF 9, related to the treatment of credit portfolio and its impairment, and the classification o and valuation of investments, to which the accounting provisions issued by Colombia Finance Superintendence apply, included in the Accounting and Financial Basic Circular and the option set forth in Act 1739, 2014 about causation of the wealth tax charged to patrimonial reserves rather than to the results.

According to Colombian legislation, the Bank must prepare separated and consolidated financial statements. Such separated financial statements were prepared in order to accomplish with the legal provisions the Company is subject to, as an independent legal entity, some accounting principles may differ related to those ones applied in the consolidated financial statements, and additionally, they include neither the adjustments nor the eliminations necessary to submit the consolidated financial situation and the Company's and subsidiaries' consolidated integral results; therefore, the separated financial statements need to be read together with the consolidated financial statements of Banco de Occidente S.A. and its underlying companies. The separate financial statements are the principal financial statements and they are used as the basis for dividend distribution and other operations by the stockholders. The consolidated financial statements are submitted to the Stockholders General Meeting only for information purposes.

The Bank applies to these separated financial statements the following exception provided in Title 4 Especial Regimes of Chapter 1 Decree 2420, 2015:

- The IAS 39 and the IFRS 9 concerning the treatment of portfolio and its impairment, and the classification and valuation of investments for those events, continues to apply the provision in the Accounting and Financial Basic Circular of Colombia Finance Superintendence (CFS).

Additionally, the Bank, according to the guidelines in other acts and regulations prevailing in Colombia, applies the Article 10 of Act 1739 of December 23/2014, allowing for the recognition Of the wealth tax influencing the patrimonial reserves, rather than the recognition of the expense as provided in IAS 37.

The principal accounting policies applied to the preparation of separated financial statements at December 31 and June 30, 2016 and for the semesters ended on those dates and included below, have been consistently applied to prepare the separated financial statements according to the accounting and financial reporting standards accepted in Colombia (AFRS).

2.2. Bases of measurement

The financial statements have been prepared based on the historical cost, excepting the following important items included in the financial situation statement:

- The financial instruments derivatives are measured at the reasonable value.
- The financial instruments at reasonable value with changes in the results are measured at the reasonable value.
- The property of investment is measured at the reasonable value.

2.3. Reform of the Articles of Incorporation due to change of closing operational period

In the stockholders general meeting held on September 7, 2016, under minutes No. 127, the Bank's Articles of Incorporation reform was approved in the articles No. 16, 19, and 43 for the purposes that as from 2017 only one annual operation period of the Bank will be made rather than semiannual periods.

2.4. Functional and presentation currency

The primary Bank's activity is the granting of credit to clients in Colombia and the investment in securities issued by Republic of Colombia or by national entities whether or not registered in the National Registry of Securities and Issuers – RNVE – in Col. pesos and in a lower extent in the granting of credits also to clients residing in Colombia, in foreign currency and investment in securities issued by banking entities abroad, securities issued by foreign entities of the real sector, the shares of which appear registered in one or several stock exchanges recognized at international level, bonds issued by multilateral credit bodies, foreign governments or public entities. Such credits and investments are financed basically with clients' deposits and obligations in Colombia; also in Col. Pesos.

The performance of the Bank's business is measured and reported to the stockholders and the public in general in Colombian pesos. Due to above, the Bank's administration considers that Colombian peso is the currency represented with more accuracy the economic effects of transactions, events and underlying conditions of the Bank, and for such reason, the separated financial statements are given in the currency of primary economic environment where bank operates and for such reason are prepared in Colombian currency as the functional currency. Any information is given in million pesos, excepting when otherwise indicated and have been rounded to the nearest unit.

2.5. Transactions in foreign currency

Transactions in foreign currency are converted to Colombian currency using the prevailing exchange rate. Monetary Assets and liabilities in foreign currency are converted to the functional currency using the exchange rate prevailing in the date of closing financial situation and the non-monetary assets in foreign currency are measured at the type of historical exchange rate. The profit or loss resulting from the conversion process are included in the statement of results, excepting in the hedging operations recorded in other Integral Results – ORI (See Note 9).

2.6. Cash and equivalent to cash

Cash and equivalent to cash include cash holdings, bank deposits and other short-term investments in asset market with three o less original maturities from the date of acquisition, banking overdrafts. Bank overdrafts are included in the current liabilities in the financial situation statement.

2.7. Financial Asset of Investment

Includes the investments acquired by the Bank for the purposes to maintain a secondary liquidity reserve, acquire the direct or indirect control of any entity of the financial or services sector, to comply with the legal and regulatory provisions, or for the exclusive purpose to remove or reduce the market risk the asset, liabilities or other elements of financial statements are subject to.

According to provisions by Colombia Finance Superintendence, the objective of investments valuation is the calculation, accounting record and disclosure to the market of the value of reasonable price of exchange that any security or equity could be negotiated in any given date, according to their specific characteristics and within the conditions prevailing in the market on that date.

Determination of the value or fair price of exchange of any value or security takes into account all the criteria necessary to ensure the compliance with the objective of investment valuation, such as the following:

Objectiveness; The determination and assignment of just exchange reasonable value or price of any equity or security is made based on technical and professional criteria recognizing the effects derived from the exchange in the behavior of all variable affecting such price, Transparence and representativeness: The exchange fair value or price assigned to any equity or security is supported in the permanent evaluation and analysis of the market conditions, the issuers and the respective issuance. The variations of such conditions are reflected in the changes of the permanent value or price assigned with the periodicity established for the investments valuation.

Permanent evaluation and analysis: the exchange value of price given to any equity of security is based on the permanent evaluation and analysis of the market conditions of the market, the issuers and of the relevant issuance, The variations of such conditions are reflected in the changes of value or price previously assigned, with the frequency determined for the valuation of investments.

Professionalism: The determination of exchange reasonable value of price of any equity or security is based on the conclusions resulting from the analysis and study made by a prudent and diligent expert, aimed at the search, obtainment, knowledge and assessment of total relevant information available, in such a way that the price determined indeed reflects the amounts that would be reasonable received for the sale.

Below, the way to classify, value, and accounting of the different types of investments are indicated. This, according to Chapter I-I of External Circular 100 / 1995, as amended by the External Circular 034 / 2014, which is the regulatory framework established in Colombia to classify, value and account for the investments for individual or separated financial statements, issued by Colombia Finance Superintendence.

Classification	Term	Characteristics	Valuation	Accounting
Negotiable in certificates of indebtedness	Short-term	Securities and in general any type of investment acquired for the purpose to obtain profits for price fluctuations.	Use the prices determined by supplier of prices Infovalmer designed as official according to the instructions given in Part III, Title IV of the Legal Basic Circular by Colombia Finance Superintendence. For the events where there not exist, in the day of valuation, exchange reasonable prices, the valuation would be made in an exponential way based on the internal rate of return. The exchange reasonable value or price of the market of the respective value needs to be calculated by the summation of present value of future flows by way of returns and capital. In the event of securities negotiated abroad, when the supplier of prices designed as official for relevant segment, has not in place any methodology for valuation of such investments, is used as an alternate source of information, the dirty price BID released by any platform to supply information at 16:00 h, Colombian official time. This procedure is made on a daily basis.	The difference resulting between the actual value and the immediately precedent is record as the Higher or Lower value of investment and its counter entry influences the results of period. This procedure is directly made. The investments are valued at market prices, given the same day of the acquisition, therefore, the accounting of the changes between the acquisition cost and the market value of investments is made based on the date of purchase.

Classification	Term	Characteristics	Valuation	Accounting
Patrimony commercial papers	Short-term	Investments in patrimony papers for the purpose to obtain returns via valuation or sale	The participation securities recorded in the National Registry of Values and Issuers (RNVE) and listed in Colombia Stock Exchange need to be valued according to the price determined by the supplier of valuation pricing authorized by Colombia Finance Superintendence. The participation values different from shares, such as hedged funds and mutual funds, inter alia, need to be valued based on information supplied by the relevant management entity (value of the unit)	The difference occurred between the actual market value and the immediately precedent value is registered as Higher of Lower investment value and its adjusting entry affects the results of the operational period.
To maintain up to the maturity	Up to maturity	Securities and in general any type of investments in respect of which the Bank has the serious purpose and the legal, contractual, financial and operative capacity to maintain them up to the expiry term or maturity or redemption. On these investments liquidity operations will be not made, and not either simultaneous report or repo operations or transit transfer of values excepting when dealing with mandatory or compulsory investments registered in the primary market and provided that the counterpart of the operation is the Central Bank, the Public Credit of the National Treasury or the entities controlled by Colombia Finance Superintendence.	In an exponential manner based on the internal rate of return calculated at the time of purchase. This procedure is made on a daily basis	The present value is accounted for as a Higher value of the investment and its adjusting entry is recorded in the results of period. This procedure is made on a daily basis.

Classification	Term	Characteristics	Valuation	Accounting
		In the same way, they may be delivered as guarantees in any central risk chamber of the counterpart, in order to support the compliance with the operations accepted for its compensation and liquidation.		
Available for sale – Certificates of Indebtedness	According to business model implemented by the Bank as from January 1, 2015	Certificates and in general any type of investment in respect of which the Bank has a serious purpose and the legal, contractual, financial and operative capacity to maintain them in accordance with the business model as from January 1/2015. Up to December 1, 2014, and at least during (6) months as from the day when they were classified in this category. After the (6) months,, the first following business day they could be maintained as negotiable or, to maintain up to the maturity. Otherwise, they will continue to be classified as available for sale. The investments classified in this category may be used (delivered) as guarantee supporting the negotiation of financial instruments derivatives when the counterpart is a central risk chamber. The securities classified as investments available for sale may be delivered as guarantee in any central risk chamber of counterpart, in order to support the compliance with the operations accepted for its compensation and liquidation. In the same way, with these investments,	Use the prices determined by the pricing supplier Infovalmer appointed as official according to instructions set forth in Part III, Title IV, Chapter V of the Legal Basic Circular of Colombia Finance Superintendence. In dealing with securities traded abroad, when the supplier of pricing appointed as official for the relevant segment has not in place a methodology for the valuation of these investments, the dirty price BID released by any platform of information supply at 16:00 h, Colombia official time, is used as alternate of information. For the events when the day of valuation reasonable prices are not available, the valuation shall be made based on the internal rate of return. The value or reasonable price of exchange of the relevant market shall be calculated by the summation of present value of the future cash flows on account of returns and capital. This procedure is daily made. The investments in participation equities are valued depending on whether they are or not listed, as follows: Participation Securities listed	The changes occurred in these equities of securities are accounted for according to the following procedure below: The difference between the present value in the day of valuation (calculated based on the Internal Rate of Return (IRR) at the time of purchase, and the day immediately precedent is recorded as a Higher value of the investment with credit or debit to the account of results. The difference between the market value and the present value (calculated based on the IRR at the time of purchase) is registered as an accrued profit or loss realized within the accounts of patrimony. This procedure is daily made. High and Medium Marketability:. Updating of the market value securities of high or medium marketability is accounting as an unrealized accrued profit or loss within the equity accounts credited or debited to the investment. This procedure is made on a daily basis. The dividends or profit distributed in kind or in cash included in those derived from capitalization of the patrimony revaluation account, with credit of debit to the

Available for sale – Patrimonial securities	None	liquidity operations, report or repo operations may be made at the same time or transient transfer of investment values giving the Bank the joint owner quality of the issuer. The securities with low or minimum marketability or with no any quotation make part of each category of security.	in the National Registry of Securities and Issuers (NRSI), The securities in Colombia area valued according to the list in the stock exchange in Colombia with the price determined by supplier of prices of valuations by Colombia National Superintendence selected by the Entity. Participation Securities Unlisted in the Stock Exchange of Securities. The are valued for the price determined by the pricing supplier. When he price supplier has not in place ny methodology to determine the price the entities need to increase or decrease the acquisition cost in the participation percent corresponding to the investors over the subsequent patrimonial valuations of the relevant issuer.	investment This procedure is made on a daily basis. The valuation effect of participation determined according to the patrimonial valuation methods accounted for in the relevant account of unrealized profit or loss.(ORI) debited or credited to the investment account. (maximum until its accrued value) and if necessary also investment value in the surplus account over such account (maximum until its accrued value) and if necessary also investment value in the surplus account over such account.

In accordance with the stipulation by Colombia Finance Superintendence in External Circular 050 of November 2012, Banco de Occidente S.A. contracted Inforvalmer S.A. supplier of prices for investments valuation.

The investments in subsidiaries and in associated and Joint Venture are registered according to the above indication:

a) Controlled Companies

The Bank holds the control on other entity only if accomplishes with all the requirements below:

- Ability over the other entity giving the capacity to direct its relevant activities significantly influencing its performance.
- Exposure or right to the percent variable returns of its implication on the participated entity
- Capacity to use its power on the participated company to influence on the investor's returns.

b) Associated Company

The associated companies are the investments in entities where the Bank does not own control, although maintains significant influence. It is supposed that the Bank holds significant influence on other entity if owns, directly or indirectly 20% or more of the voting power in the participate company, unless it is possible to document that such influence is inexistent.

c) Joint Venture

Joint ventures and those contracts where two or more parties hold the joint control in the distribution of control contractually decided in the agreement and where the parties holding the control of the agreement are only entitled to the net asset thereof.

On December 2015, Colombian Government issued the Decree 2496 whereby incorporated in the Colombian legislation new accounting standards and financial information issued by the IASB during 2014, which for Colombia will be in force as from January 1, 2017, although allowing for the early adoption of such standards.

In the development of such Decree, the Bank's administration made the decision to make use, in the separated financial statements, of the early application of the amendment introduced by IASB to the NIC 27 "Financial Statements Separated", which allows for the entities to record in their separated financial statements the investments in controlled, associate and joint business companies by the cost, the reasonable value or by the patrimonial participation method set forth in the NIC 28 "Investments in Associates and Joint Business".

The patrimonial participation method is an accounting manner according to which, the investments in controlled, associated and joint business are initially recorded at the cost and subsequently such cost is periodically adjusted by the changes in the participation of investor in net assets of the participated, such participation calculated based on the consolidated financial statements of participated or in default thereof, based on the separated financial statements but including in such financial statements, in turn, its participation in controlled, associated and joint ventures also by the patrimonial participation method.

Up to December 31, 2015, the investments in controlled, associated and joint ventures are recorded by the Bank as follows:

a) Investment in controlled entities

The investments in controlled companies are recorded following the same parameters of the patrimonial participation method above described prospectively applied as from January 1, 2015, although without removing the valuations recorded on such investments with credit to patrimony according to Colombia accounting standards prevailing up to December 31, 2013.

b) Investments in Associates

The investments in associates are recorded at the cost plus the valuations recorded up to December 31, 2014 with credit to patrimony. The dividend received in cash or in shares of such investments are recorded in the results of period when they are caused.

c) Investments in Joint Ventures

The joint ventures also were recorded at cost. The participations received in agreement are recorded in results of the operational period when they are caused.

Investments Reclassification

For any investment to be maintained within any of the classification categories, the relevant value or security must comply with the characteristics or conditions corresponding to the type of investment of which it makes part.

At any time, Colombia Finance Superintendence may require to the Bank the reclassification of any value or security, whenever such value of security fails to comply with the characteristics of the class where it is intended to be classified or such reclassification is required to obtain a better disclosure of the financial situation.

Reclassification of investments for maintain up to maturity negotiable investments

It is required the reclassification of an investment of the category of investments to maintain up to maturity in the category of negotiable investments when some of the circumstances below will occur:

a. Issuer's conditions significant impairment, its subsidiaries or its associates.
b. Changes in the regulation preventing from maintaining the investment
c. Institutional merging processes involving the reclassification or the making of investment, for the purpose to maintain the prior risk position of interest rates or adjust to credit risk policy previously established by the resulting entity.
d. In the other events where Colombia Finance Superintendence has given the prior and explicit authorization

Reclassification of investments available for sale to negotiable investments or to investments to maintain up to maturity

It is required the reclassification of an investment of the category of investments available for sale to any other category, when:

a. The composition --of business significant activities are redefined, due to the reasons such as variations in the economic cycle of the niche of market where the controlled entity is operating or in its appetite of risk.
b. Assumptions of adjustment in the investment management are materialized, that the model of business has previously defined.
c. The investor loses its quality of holding or controlling company, -and such circumstance implies as well the decision to sell the investment in short-term as from that date, or
d. Any of the circumstances anticipated in the conditions for reclassification of the investments to be maintained up to the maturity to marketable investments.

The entities reclassifying investments based on the provisions in literals a and b above, need to report in writing this fact to Colombia Finance Superintendence, within ten (10) business days following the date of reclassification, addressed to the relevant institutional delegated.

Provisions applicable to investment reclassifications

In connection with investment reclassifications, the following standards shall apply:

a. When the investments to maintain up to maturity are reclassified to marketable investments, the following standards about valuation and accounting shall be accomplished. Consequently, the unrealized profit or loss shall be recognized as income or expenditure the day of reclassification

b. When the investments available for sale are reclassified to marketable investments, the result of investment reclassification will be recognized and maintained in the “Other Integral Result (OIR) as unrealized profit or loss, until the investment is sold.
c. When the investments available for sale are reclassified to investments to maintain up to maturity, the regulations about valuation accounting for shall be accomplished. Consequently, the unrealized profits or loss which recognized in OIR, shall be cancelled against the value recorded of the investment, inasmuch as the effect of the reasonable value will be made no longer, considering the reclassification decision in the category to maintain up to the maturity. This way, the investment needs to be registered as if it had been classified in the category to be maintained up to maturity. Similarly, as from that date the investment must be valuated under the same conditions of Internal Rate of Return in the day precedent to the reclassification.

In those events where an investment is reclassified, Colombia Superintendence shall be informed about such reclassification made, no later than ten (10) calendar days following the date of reclassification, indicating the reasons of such decision and clearly indicating the effects in the statement of results.

The equities or securities reclassified for the purpose to make part of marketable investments, cannot be reclassified again.

Investments Buy-back Rights

Corresponds to restricted investment representing the collateral guarantee of investment buy-back commitments.

About these investments, the Bank maintains its economic rights and benefits associated to the value and retain all the inherent risks, even though transfers the legal property when doing the repo operation.

These securities continue to be daily valued and accounting for in the statement of financial situation and the statement of results according to the methodology and the procedure applicable to the investments classified as marketable, up to the maturity and available for sale.

Investment delivered in Guarantee

Corresponding to the investments in securities or certificates of debt delivered in guarantee of operations with derivatives financial papers, which liquidation may be in cash, as provided in the contract or in the relevant regulations equities negotiation system, of the operations of registry over equities of compensation system or of the liquidation of equities.

These equities are daily valued and accounted for in the financial situation statement and statement of result according to methodology and procedure applicable investments classified as available for sale.

Provisions or loss for rating credit risk

Securities and/or equities from issues or unqualified provisions:

Securities or certificates of debt that do not have an external rating and the equities or certificates of debt issued by entities that are not qualified, they are qualified and provisioned taking into account the following parameters:

Category	Risk	Characteristics	Provisions
A	Normal	Comply with the terms agreed on in the equity or security and have a proper capacity to pay capital or interest	No applicable.
B	Acceptable	Corresponding to issues involving uncertainty factors potentially affecting the capacity to properly continue to comply with services of the debt. In the same way, their financial statements and other information available contain weakness that may affect its financial situation	The value they are accounted for, will not be higher than eighty percent (80%) of its net face value of the amortizations made up to the date of valuation.
C	Appreciable	Corresponding to issues involving high or middle probability of default of the payment of capital and interest. In the same way, its financial statements and the other information available, involve deficiencies in the financial situation involving the retrieval of investment.	The value they are accounted for will not be higher to sixty percent (60%) of its net face value of the amortizations made up to the date of valuation.
D	Significant	Correspond to those issues showing default of terms agreed upon in the equity, as well as its financial statements and other information available in its financial situation, so that the probability to recover the investment is highly unsure.	The value whereby they are accounted for cannot be higher than forty present (40%) of its net par value of amortization made up to the date of valuation.
E	Unrecoverable	Issuers that, according to its financial statements and other information available is considered that investment is unrecoverable.	The value of these investments is totally provisioned

Securities and/or equities of issues, or issuers holding external qualifications

The equities or securities holding one or several ratings given by external raters recognized by Colombia Finance Superintendence or the equities or certificates of debt recorded for an amount exceeding the percentages below of its net par value of amortizations made up to the date of valuation:

Long-term Rating	Max. Value %	Short-term Rating	Max. Value %
BB +, BB, BB-	Ninety (90)	3	Ninety (90)
B+, B,B-	Seventy (70)	4	Fifty (50)
CCC	Fifty (50)	5 and 6	Zero (0)
DD,EE	Zero (0)	5 and 6	Zero (0)

To determine the provisions over time deposits, the rating of the relevant issuer is taken

Investments abroad

The investments marketable and the investments available for sale, represented in equities or certificated of public debt issued abroad and the equities or certificates of private debt issued abroad by foreign issuers, need to be valued according to the price determined by the supplier of pricing of valuation appointed as official, for the relevant segment. When there is not any valuation methodology for those investments, the entities must use the generic dirty price BID released by the platform supplying information, recognized at 16:00 h Colombian official time.

The present value or market value of the equities or securities given in any currency different from USA dollar is converted to said currency based on the rates of foreign currency conversion released the day of valuation in the web page of the European Central Bank. When the conversion rates of foreign currency are not available in web page of the European Central Bank, the conversion rate to USA dollar released by the Central Bank of the relevant country is taken.

2.8 Operations with derivative financial instruments

According to IFRS9, any derivative is a financial instrument the value of which changes throughout the time based on a so-called underlying variable, does not require an initial investment or requires a small investment respective of the underlying asset and is liquidated at any future date.

In the development of its operations, the Bank usually transacts in financial markets in financial instruments with forward, futures contracts, swaps and options accomplishing with the definition of derivative.

All the operations of derivatives of speculation are recorded at the initial time by its reasonable value. Subsequent changes of the reasonable value are adjusted debited or credited to results as applicable.

The Bank designates the hedge derivatives as:

Hedges of a net investment in foreign currency which are recorded the same as the speculations of prior cash flows. The accumulated profit or loss in the patrimony are included in the statement of results when the net investment in an affiliate abroad is total or partial sold, when is partially sold.

The hedges of any net investment in business abroad, including the hedge of any monetary item accounted for as a portion of the net investment, will be accounted for in the same way as the cash flows hedges, the portion of the profit or loss hedge instrument determined as the efficacious portion will be recognized in other integral result the inefficacious portion will be recognized in the result. When a business abroad is totally or partially disposed, the profit or loss of the instrument of hedge related to the efficacious portion of the hedge recognized in other integral result, need to be reclassified from the patrimony to results as an adjustment of reclassification.

For hedging purposes, the Bank has decided to use hedging accounting of investments in the affiliates abroad as from January 1, 2014 with obligations in foreign currency as it is provided in paragraphs 72 and 78 of the IAS 39.

By the use of hedging accounting, the potential distortion existing is prevented of the non-use because the investments in foreign currency which are non-monetary assets in separated financial statements would not be adjusted by difference, by contrast, while the liabilities economically are used as hedging if they are adjusted with a balancing entry in statement of results.

The Bank documents at the beginning of transaction the relation existing between the speculation instrument and the hedged item, as well as the objective of risk and the strategy to make the speculation relation. The Bank documents as well its evaluation both in the date of beginning the transaction and over recurrent bases that the speculation relation is highly effective to compensate the changes of the reasonable value or in the cash flows of the items hedged; see detail of hedging in Note 9.

The financial assets and liabilities for operations in derivatives are not compensated in the statement of financial situation and there exists the intent to liquidate over a net base or realize the asset and liquidate the liabilities and at the same time the nets are included in the statement of financial situation.

The investments abroad have a hedge to remedy the variations of the type of Exchange, represented in obligation in foreign currency for equal value in dollars of the investments on each closing, the effect in result and in the OIR originated by the joint operations is neutral.

2.9. Credit card and financial leasing operations

According to the provisions by Colombia Finance Superintendence, this account records the credits granted under the different modalities authorized. The resources used in the granting of credits are derived from own resources, of the public in the modality of deposits and from other external and internal financing sources.

The loans are accounted for by the par value usually equal to the value paid, excepting purchase of portfolio “Factoring”, which are recorded at cost.

Credit Policy

Bank credit policy in the granting of credit is mainly based on the analysis of client’s financial situation, by studying the client’s financial statements and cash flows.

The guarantees are required mainly when the operations are at long-term or when it is an amount higher than the normal according to the client’s characteristics.

Modalities of Credit

The structure of credit portfolio includes three (3) credit modalities and leasing operations:

Commercial

Are the credits granted to natural or legal persons; to develop economic activities organized, different from obligations under microcredit modality

Consumption

Are those credits granted that, regardless of the amount, are granted to natural persons to finance the procurement of consumption goods or to pay service for non-commercial or business purposes, different from those granted under microcredit modality.

Housing

These are the credits that, regardless of the amount, are granted to natural persons, used to acquire new or used housing, or the construction of individual housing, According to Act 546/1999, the credits are nominated in UVR or in legal tender and covered with guarantee of first mortgage over the housing financed.

The minimum redemption term is five (5) years and maximum term twenty (20) years. The credits can be prepaid at any time without any penalty. In the event of partial prepayments, the debtor is entitled to choose if the amount advanced reduces the amount of the installments or the term of the obligation. Additionally, these credits have an internal remunerating rate, applied on the balance of the debt nominated in UVR or in Col. Pesos; the interest is charged in arrears and may be capitalized up to seventy percent (70%) of the value of property, determined by purchase Price or the appraisal technically made within the six (6) months before she granting of credit. The real property financed need to be insured against fire and earthquake risks.

Criteria to assess the credit risk

The Bank assesses, on a permanent basis, the risk incorporated in its credit assets, both at the time when the credit is granted and throughout the life of the credits, included the restructuring events. For such purpose, the bank designed and adopted a CRMS (Credit Risk Management System) which includes the policies and processes of credit risk management, reference models to cover the credit risk and internal control processes.

The granting of credit is based on the knowledge of subject of credit, its payment capacity and the characteristics of the contract to be entered into, including, inter alia, the loan financial conditions, the guarantees, sources of payment and macroeconomic conditions the Bank may be subject to.

In the granting process there are variables established for each one of the portfolios, allowing for discriminating the subjects of credit and adapted to the Bank’s risk profile. The segmentation and discrimination processes of credit portfolio and the potential subject of credit are used as the basis for its classification, and the application of internal statistic models evaluating the different aspects of the applicant in order to quantify the credit risk.
The methodologies and procedures implemented in granting process allow for monitoring and controlling the credit exposure of the different portfolios, as well as the aggregated portfolio, thereby preventing from any excess of credit concentration per debtor, economic sector, economic group, risk factor, etc.

The Bank implements a continuous monitoring and qualification of credit operations according to the granting process, supported, among other criteria, on the information related to the historical behavior of portfolios and the credits, the debtors’ specific characteristics, their credits and supporting guarantees; the debtor’s credit behavior in other entities and the financial information of debtor allowing for knowing its financial situation and sector and macroeconomic variables influencing the normal development thereof.
In the evaluation of territorial public entities the Bank verifies the compliance with the conditions set forth in Acts 358/1997, 550/1999, 617/2000 and 1116/2006.

Evaluation and reclassification of credit portfolio

The Bank evaluates the risk of credit portfolio introducing modifications to the relevant ratings when there are new analysis and information justifying such changes.

For the proper compliance with this obligation, the bank takes into account the debtor’s credit behavior in other entities, according to information from the central of risk or any other source. On a monthly basis the portfolio behavior of the clients, related to payments, cancellations, sanctions, and amount of arrears of the operations.

The Bank implements the evaluation of credit portfolio in the following events:

- When the credits are in default after restructuring, the credit shall be reclassified.
- At least on May and November the results of applicable evaluation and reclassification at the closing of the following month

Classification of credit risk

The Bank qualifies the credit operations based on the criteria aforementioned, and operations are reclassified in the following credit risk categories, taking into account the following minimum objective conditions:

Category	Granting	Commercial Portfolio Granted	Consumption Portfolio Granted
"AA"	The new credits which qualification assigned at the time of granting is AA".	The credits already granted with default of contractual obligations no more than 29 day, i.e. between 0 and 29 days in arrears.	The credits which qualification obtained by applying the MRCO methodology qualification set forth by the regulation, is equal to "AA".
"A"	In this category shall be classified the new credits which qualification given at the time of granting is "A".	The credits already granted with default higher or equal to 30 days and less than 60 days in the contractual obligations, i.e. between 30 and 59 days in arrears	The credits which qualification obtained by applying the MRCO qualification methodology set forth by the regulation is equal to "A".
"BB"	In this category shall be classified the new credits which qualification assigned at the time of granting is "BB".	The credits already granted with default higher or equal to 60 days and less than 90 days in the contractual obligations, i.e. between 60 and 89 days in arrears	The credits which qualification obtained by applying the MRCO qualification methodology set forth by the regulation is equal to "BB".
"B"	In this category shall be classified the new credits which qualification assigned at the time of granting is "B".	The credits already granted with default higher or equal to 90 days and less than 120 days in the contractual obligations, i.e. between 90 and 119 days in arrears	The credits which qualification obtained by applying the MRCO qualification methodology set forth by the regulation is equal "B".
"CC"	In this category shall be classified the new credits which qualification assigned at the time of granting is "CC".	The credits already granted with default more than or equal to 120 days and less than 150 days in the contractual i.e. between 120 and 149 days in arrears	The credits which qualification obtained by applying the MRCO qualification methodology the credits set forth by the regulation is equal "CC".
"Default"	In this category shall be classified the new credits when the applicant is reported by any entity in the central of risk CIFIN in classification D, E or written down portfolio .	The credits already granted in arrears more than or equal to 150 days.	Consumption credits in arrears more than 90 days

For homologation purposes, the risk qualifications of commercial and consumption portfolios indebtedness reports and in the registry in financial statements the Bank applies the following table:

Grouped Category	Categories of Report	
	Commercial	Consumption
A	AA	AA
		A In arrears between 0-30 days
B	A	A in arrears more than 30 days
	BB	BB
C	B	B
	CC	CC
	C	C
D	D	D
E	E	E

When by reason of the implementation of reference models adopted by Colombia Finance Superintendence, the Bank qualifies its clients as in default, and they are homologated as follows:

Category E = The clients in default which PDI assigned is equal to one hundred percent (100%).

Grouped Category D = The other clients qualified in default.

For homologation purposes, in the consumption portfolio, actual arrears the above Table refers to, it is understood as the maximal recorded by the debtor in the aligned products.

Other criteria considered by the Bank to qualify the credit operations, are the following: for commercial portfolio granted, the qualification at the time of granting in the closing of months corresponding to the quarter when the credit is granted, the qualification in the granting process with the features of each debtor and other factors considered of Higher Risk. For the consumption portfolio, the qualification assigned in granting of credit, is only at the closing of month when the credit was disbursed.

The housing portfolio, considering the height criterion is qualified in:

Category	Criterion (Months in arrears)
"A" Normal Risk	With installments paid or overdue up to 2 months
"B" Acceptable Risk	Overdue more than 2 months and up to 5 months
"C" Appreciable risk	Overdue more than 5 months and up to 12 months
"D" Significant Risk	Overdue more than 12 months and up to 8 months
"E" Unrecoverable Risk	Overdue more than 18 months

Classification of credit of housing mortgage portfolio

Category "A": Credit with NORMAL credit risk. The credits qualified in this category reflect appropriate structuring and compliance, the financial statements of debtors or the cash flows of the project, as well as the other credit information, indicate appropriate payment capacity related to the amount and origin of income of debtors to comply with the payments required.

Category "B": Credit with ACCEPTABLE risk. The credits qualified in this category are acceptably complied and protected, although there exists transient or permanent issues potentially influencing the debtor's payment capacity or cash flows of the project in such a way that if not timely remedied could influence the normal recovery of credit or contract

Category "C": Deficient credit, with APPRECIABLE risk. The credits or contracts are qualified in this category when they involving deficiencies in the debtor’s payment capacity or in the cash flows of the project, jeopardizing the normal recovery of the obligation under the terms agreed on,

Category "D": Doubtful Credit, with SIGNIFICANT risk. This is the credit including any of deficient characteristics, although in a higher degree, in such a way that the probability of recovery is highly doubtful.

Category "E": UNCOLLECTIBLE Credit. Is that credit considered as uncollectible

Restructuring Processes

Restructuring credit is any exceptional mechanism implemented by entering in any legal business, the purpose of which is to amend the conditions initially agreed upon in order to allow for the debtor to properly comply with the obligations, taking into account the potential impairment of payment capacity. Additionally, restructurings are considered as well the agreements entered in the context of Laws 550/1999, 617/2000 and 1116/2006 as amended and complemented, as well as the extraordinary restructurings and the novation.

Fiscal Reorganization Act 617/ 2000

In the restructurings derived from the subscription of Fiscal financial reorganization programs under the terms of the Act 617/2000, the Nation assigned guarantees to the obligations assumed by the territorial entities controlled by Colombia Finance Superintendence, provided that the requirements of such Act were accomplished and fiscal adjustment agreement was subscribed before June 30/2001. Such guarantee would be up to forty point zero percent (40%) for credits existing at December 31/1999 and up to one hundred point zero (100%), for the new credits used by the fiscal adjustment.

The features of these restructurings were that reverted provisions constituted over the obligations subject matter of the restructuring in the part guaranteed by the Nation, while the part of the obligations subject matter of the restructuring that were not guaranteed by the Nation, maintained the qualification prevailing at June 30/2001.

Should the restructuring agreement is accomplished; the debtor is qualified in the category held before restructuring or in any higher risk category.

For the purposes to improve the qualification after the relevant restructurings, the terms of the agreement need to be fully complied.

Restructuring Agreements

For the credits restructured before taking force the Act 550/1999, at the beginning restructuring negotiation, the Bank stopped the accrual of interest on the credit pending and maintained the qualification held in the date of negotiation. If client’s situation is impaired or it is considered that the ongoing agreement does not cover the Bank’s expectations, the qualification is reviewed, and the client is reclassified in the relevant risk category. If an agreement is not reached or the judicial liquidation is declared, the client is classified as in default.

Especial Criteria for restructured credits classification

The restructured credits may maintain the immediate precedent qualification, as long as the restructuring agreement involves any improvement of debtor’s payment capacity and/or the probability of default. If restructuring includes periods of grace to pay the capital, only such qualification is maintained when such periods do not exceed one (1) year term as from the execution of the agreement.

The credits may improve the qualification or modify it compliance condition after restructuring, only when the debtor evidences regular and effective payment of capital according to the normal credit behavior, provided that its payment capacity is maintained or improved.

Writing down portfolio and leasing operations

Obligations subject to writing down are those ones that, at discretion of Bank's management are considered as unrecoverable or remote or uncertain recovery and that are one hundred percent (100%) provisioned, after exhausting all means of collection, according to the concepts of the areas responsible for the collection in the Bank.
The writing down does not release the employees responsible for the credit approval and management, and does not exempt them from the obligation to continue the effort of collection to obtain the payment.

The Board of Directors is the sole competent body to approve the writing down of the operations deemed unrecoverable.

Provision for credit portfolio, accounts receivable and leasing operations

The Bank, to hedge the credit risk has in place a provisioning system, calculated over the outstanding balance by the application of Commercial Portfolio (MRC) reference models, and consumption portfolio (MRCO) reference models For the loans under housing portfolio modality, the provision is determined according to the client's arrears.

Commercial and consumption portfolio

The Bank applies the provisions calculation methodology in the accumulative and de-accumulative phase based on the monthly evaluation impairment, efficiency, stability and growth indicators described below, as long as they are accomplished during three consecutive months:

Evaluation	Indicator	Accumulative Stage	Deacumulative Stage
Impairment	Actual quarterly variation of individual provisions of the total portfolio B, C, D and E.	<9%	>= 9%
Efficiency	Quarterly net provisions accumulation of recoveries as percentage of quarterly accumulate income for portfolio and leasing interest	<17%	>=17%
Stability	Quarterly accumulate of net provisions of portfolio recovery as percentage of quarterly accumulate of gross adjusted financial margin	>0 and < 42%	< 0 or >=42%
Growth	Actual annual rate of gross portfolio.	>= 23%	<23%

As from May 2011, the changes to calculate these indicators were implemented according to the external Circular 017 of May 4/2011 and as indicated in the item 1.3.4.1 Chapter II of the

External Circular 100/1995. Above includes the deflation of Impairment Indicators (actual quarterly variation of individual provisions of the total portfolio B, C, D and E) and Growth (annual Growth Rate of the gross portfolio). Additionally, income for accrued interest of the gross portfolio were discounted from the calculation of the indicator during the quarter the sub-accounts [410238, 410240 and 410244]. (Interest on arrears of consumption)

With the indicators above detailed, the individual provision of portfolio was calculated as the sum of Procyclical Individual Component and the Contra cyclic Individual Component.

The Procyclical individual Component (PIC): Corresponds to the portion of individual provision. The PIC is the expected loss calculated with the matrix A.

The Contra-cyclic Individual Component (CIC): Corresponds to the individual portion of credit portfolio reflecting the potential changes in the credit risk of the borrowers in time when the impairment of such assets is increased. Such portion is made for the purpose to reduce the impact on the statement of results when such situation occurs. The CIC corresponds to the higher value between the CIC of the precedent month influenced by the exposure and the difference between the expected loss of B and A matrixes of the evaluation month. The estimation of the expected loss (provisions) is the result of the application of the formula below:

Expected Loss = **CIP** + **CIC**

Where,

$$\mathbf{CIP} = \mathbf{PI}_{\mathbf{Matriz\ A}} * \mathbf{PDI} * \mathbf{EDI}$$

$$\mathbf{CIC} = \mathbf{max}\ (\mathbf{CIC}_{\mathbf{i,t-1}} * \left(\frac{\mathbf{EDI}_{\mathbf{i,t}}}{\mathbf{EDI}_{\mathbf{i,t-1}}}\right); (\mathbf{PE}_{\mathbf{B}} - \mathbf{PE}_{\mathbf{A}})_{\mathbf{i,t}}$$

The segmentation and discrimination processes of the credit portfolios and of the potential subjects of credit are used as the base to estimate the expected loss in the reference Model of Commercial Portfolio (MRC) based on the segments differentiated by the level of assets of the debtors, under the following criteria:

Portfolios	**Concept**
Big Companies	More than 15,000 MMLS active
Medium Companies	Between 5,000 and 15,000 MMLS Active
Small Companies	Less than 5,000 MMLS active
Natural Persons	Natural persons debtor of commercial credit

The Reference Model for Consumption Portfolio (RMCP), is based on differentiated segments according to the products and the credit establishments authorizing them, for the purposes to maintain the specificities of the niches of market and the products granted.

- General - Automobiles: Credits authorized to buy automobiles.
- General - Other: Credits authorized to buy consumption goods different from automobiles. In this segment the credit cards are not included.
- Credit Cards: Revolving Credit to buy consumption goods used through a plastic card.

For following up and portfolio rating the Bank applies the reference models defined by Colombia Finance Superintendence. For Commercial Portfolio in the qualification process an automatic qualification methodology is used for portfolio not individually evaluated, based on the clients' classification models in function of the probability of default, adjusted with macroeconomic and sectors factors. This methodology was implemented since December 2010.

The estimation of expected loss (provisions) results from the application of the following formula:

EXPECTED LOSS= [Probability of default] x [Exposure of asset in the time of Default] x [Loss given the default]

The external Circular 047 of November 22, 2016 issued by Colombia Finance Superintendence incorporates amendments in the calculation of PE for the consumption portfolio adding a new variable named "adjustment for term, as follows:

EXPECTED LOSS: = [Probability of default] x [Exposure of asset in the time of Default] x [Loss given the default] x [adjustment for Term]

Where: Adjustment for term (AP) = $\left[\frac{\text{Probability of Default}}{72}\right]$

Permanent Term = Corresponds to the remaining moths of the term related to the term of credit at the date of expected loss calculated. In the event that the term agreed on or the remaining term are less than 72, AP will be equal to one (1). For the segments Credit Card and Rotating, AP will be equal to one (1)
For the credits originated, disbursed, restructured or acquired before December 1, 2016, the expected lost shall be calculated by applying the adjustment for term (AP) resulting.

The additional provisions resulting from the implementation of this adjustment by term will be recognized on February 2017 in a retroactive manner, as provided in the External Circular 047, 2016.

a. Probability of default

Corresponds to the probability that within twelve (12) months period, the debtors incur in default.

The probability of default was defined according to the following matrices, set forth by Colombia Finance Superintendence:

Commercial Portfolio

Rating	Big Company		Medium Company		Small Company		Natural Persons	
	Parent A	Parent B	Parent A	Parent B	Parent A	Parent B	Parent A	Parent B
AA	1.53%	2.19%	1.51%	4.19%	4.18%	7.52%	5.27%	8.22%
A	2.24%	3.54%	2.40%	6.32%	5.30%	8.64%	6.39%	9.41%
BB	9.55%	14.13%	11.65%	18.49%	18.56%	20.26%	18.72%	22.36%
B	12.24%	15.22%	14.64%	21.45%	22.73%	24.15%	22.00%	25.81%
CC	19.77%	23.35%	23.09%	26.70%	32.50%	33.57%	32.21%	37.01%
Default	100%	100%	100%	100%	100%	100%	100%	100%

Consumption Portfolio

	General Automobile	General Other	Credit Card	General Automobile	General Other	Credit Card
AA	0.97%	2.10%	1.58%	2.75%	3.88%	3.36%
A	3.12%	3.88%	5.35%	4.91%	5.67%	7.13%
BB	7.48%	12.68%	9.53%	16.53%	21.72%	18.57%
B	15.76%	14.16%	14.17%	24.80%	23.20%	23.21%
CC	31.01%	22.57%	17.06%	44.84%	36.40%	30.89%
Default	100%	100%	100%	100%	100%	100%

This way, for each debtor-segment of commercial and consumption portfolio the probability of migration between the rating prevailing and the qualification of default in the next twelve (12) months is obtained, according to the general behavior cycle of credit risk.

b. The Loss Given the Default (LGD)

Defined as the economic impairment incurred by the Bank in the event that any default situation will occur. The LGD for debtors qualified in the category of default will imply a gradual increase according to the days elapsed after the classification in such category.

The guarantees supporting the operation are necessary to calculate the expected loss in the event failure to pay and, hence, to determine the level of provisions.

The Bank considers that as suitable guarantees those assurances duly performed holding a value set forth based on technical and objective hedging, offering support legally efficacious for the compliance with the obligation ensured and which possibility of compliance is reasonably sufficient.

To evaluate the support offered and the possibility of compliance with every guarantee, the Bank takes into account the following factors: Nature, value, hedging and liquidity of the guarantees, as well as the potential cost of its performance and the legal requirement necessary to be enforceable.

The LGD by type of guarantee is as follows:

Commercial Portfolio

Type of guarantee	LGD	Days after default	New LGD	Days after default	Nuevo PDI
SUITABLE GUARANTEES					
- Subordinate credits	75%	270	90%	540	100%
- Financial Collateral Admissible	0-12%	-	-	-	-
- Commercial and Real Housing Real Property	40%	540	70%	1080	100%
- Goods given in real Estate leasing	35%	540	70%	1080	100%
- Goods given in Guarantee other than Real Estate	45%	360	80%	720	100%
- Collection rights	45%	360	80%	720	100%
- Other suitable guarentees	50%	360	80%	720	100%
NON-SUITABLE GUARANTEES	55%	270	70%	540	100%
WITHOUT GUARANTEES	55%	210	80%	420	100%

Consumption Portfolio

Type of guarantee	L.G.D.	Days after Default	New LGD	Days after Default	New LGD
SUITABLE GUARANTEES					
-Financial colateral admissible	0-12%	-	-	-	-
- Commercial and residential real estate	40%	360	70%	720	100%
- Goods given in real estate leasing	35%	360	70%	720	100%
- Goods given in leasing other than real estate	45%	270	70%	540	100%
- Collection Rights	45%	360	80%	720	100%
- Other guarantees	50%	270	70%	540	100%
SUITABLE GUARANTEES	60%	210	70%	420	100%
WITHOUT GUARANTEE	75%	30	85%	90	100%

To homologate the several different guarantees of the credit contracts with the above listed segments, the Bank classifies within every group of guarantees the following:

Suitable guarantees: The suitable guarantees are those guarantees complying with the characteristics indicted in the literal d) of item 1.3.2.3.1 of Chapter II of Accounting and Financial Basic Circular

1. Financial admissible collateral (FAC) is classified as FAC the following guarantees:

- Deposits of money in collateral guarantee. This guarantee hold a LGD of zero percent (0%)
- Stand By Letters have LGD zero percent (0%)
- Credit insurance: This guarantee has a LGD twelve percent (12%).
- Sovereign guarantee of the Nation (Act 617/2000): This guarantee has a LGD zero percent (0%).
- Guarantees issued by Funds of Guarantees managing public resources have a LGD

twelve percent (12%).

- Securities endorsed in guarantee issued by financial institutions have a LGD 12%.

2. Rights of Collection (RC): Guarantees granting the rights collect commercial rent or flows related to the debtor's underlying assets, represented by:

- Irrevocable Commercial trust funds of guarantee
- Pledging of income of territorial and decentralized entities of any order

3. Commercial and residential real property: Classified within this category the goods given in the following leasing contracts:

- Mortgage Trust.
- Real estate collateral.

4. Goods given in real property leasing:. Classified within this category the goods given in the following leasing contracts:

- Real Property Leasing
- Housing leasing

5. Goods given in leasing different from real property. Classified within the category the goods given in the following leasing contracts:

- Leasing of machinery and equipment.
- Leasing of vehicles.
- Leasing furniture and fixture
- Leasing vessels, trains, and aircraft
- Leasing of computing equipment.
- Leasing livestock
- .Leasing of software

6. Other suitable guarantees: Classified within this category the guarantees which are not included in the literals above and the guarantees the Act 1676/2013 makes reference (Real Estate property guarantees).

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- Pledges over processed inventory.
- Pledges over inputs – basic goods
- Pledges over equipment and vehicles.
- Bonds of pledging.

7. Unsuitable guarantee: Classified within this category the guarantees (including real property guarantees) that do not accomplish with the characteristics listed in literal d) of the item 1.3.2.3.1 in Chapter II Accounting and Financial Basic Circular such as co-debtors, guarantors and guarantee by draft.

8. Without guarantee: Bank classifies within this category, all the obligations that have not any guarantee.

This way, for every debtor a LGD is obtained, different from the agreement with the type of guarantee which will be applied over the actual percent of coverage representing that guarantee related to the obligation.

Since the guarantees imply a significant factor in the calculation of the expected loss, below the Bank's policies and criteria are described applicable to such guarantees:

Guarantee Policy

- The Guarantee is a legal mechanism used to support the obligations of the clients acquired with the Bank.
- When credits are going to be granted, approval entities condition the delivery of money to the compliance of some conditions, among which the constitution of guarantees.
- The purpose of guarantees is to support and ensure the compliance with the obligation (capital plus interest, commissions, and other expenses) in the event of any contingency.
- There exist two types of suitable or unsuitable guarantees. Suitable guarantees are those collaterals duly issued, with a determined value based on the technical and objective criteria offering legal and efficacious support for the compliance with the obligation covered, and the Bank grants a preference of better right to obtain the compliance with the obligation of payment and possibility for the performance is reasonably adequate.
- The credit operations approved with suitable guarantee are neither accounted for nor disbursed until the guarantee is duly issued and legally perfected, unless there is explicit authorization of the approval body.
- The guarantees will be chosen taking into account its liquidity, that is, the easy to capture the goods involved. The evaluation of guarantees shall be based on technical appraisals made by expert professionals.

c. The value exposed of the asset

In the commercial portfolio it is understood as value exposed of the asset the balance prevailing of capital, accounts receivable from interest and other accounts receivable.

As from December 31/2012, in compliance with the provisions in the External Circular 026/ 2012, the Bank constituted an additional individual provision on the consumption portfolio equivalent to the individual Procyclical component of 0.5% s on the balance of capital of each consumption credit of the reference month, multiplied by the relevant LGD.

Housing Portfolio

General provision

Corresponding, at least, to the one percent (1%) on the total gross credit portfolio for Housing modality.

The Bank maintains at any time provision no less than the percent indicated below over the outstanding balances:

Category	Capita % portion Ensured	Capital % Portion Unensured	Interest and Other Concepts
A – Normal	1	1	1
B – Acceptable	3.2	100	100
C – Appreciable	10	100	100
D – Significant	20	100	100
E – Uncollectible	30	100	100

For housing portfolio, if during two (2) consecutive years, the credit remains in category "E", the percent of provision over the guaranteed portion reaches sixty point zero percent (60.0%). If one additional year has elapsed in these conditions, the percentage of provision over the guaranteed portion is increased to one hundred point zero percent (100.0%).

Effect of suitable guarantees over the constitution of individual guarantees

For individual provisions purposes, the guarantees only unsure the capital of credits. Consequently, the balances to be redeemed of the credits supported with securities bearing the nature of suitable guarantees are provisioned in the appropriate percentage, by applying such percentage to:

- In dealing with housing credits, in the unguaranteed portion, at the difference between the unpaid balance and the one hundred percent (100%) of the amount of guarantee. For the guaranteed portion, at one hundred percent (100%) of the balance unguaranteed debt.
- In dealing with microcredit, at the difference between the amount of unpaid balance and the seventy percent (70%) the amount of guarantee. In these events, depending on the nature of guarantee and the time in arrears, to constitute provisions only the percentages of the total amount of guarantee are considered as indicated in the tables below:

Non-Mortgage Guarantee	
Time in arrears	**Percent of Hedging**
From 0 to 12 months	70%
More than 12 months to 24 months	50%
More than 24 months	0%

Garantia Hipotecaria o Fiducia en Garantía Hipotecaria Idónea	
Time in arrears	**Percent of Hedging**
From 0 to 18 months	70%
More than 18 months to 24 months	50%
More than 24 months 30 months	30%
More than 30 months to 36 months	15%
More to 36 months	0%

Alignment Rules

The Bank performs the alignment of rating of debtors according to the criteria below:

a. Before the provisions constitution process and homologation of ratings, the Bank monthly and for each debtor, performs the internal alignment, and for such purpose, the credits of the same modality granted to debtor are carried to the higher risk category.

b. According to the relevant legal provisions, the Bank is under the obligation to consolidate financial statements, and for such reason, applies equal qualification to the credits of the same modality authorized to the same debtor.

Provisions for impairment of loans (Note 10): According to the standards by Colombia Finance Superintendence, the Bank regularly reviews its credit portfolio in order to evaluate if any impairment needs to be recorded charged to the results of the operational period following the guidelines set forth by that Office indicated in Note 2.8 above. The top management makes judgments in the event of the portfolio of commercial credits and commercial leasing, in the determination of its qualification by risk of credit in accordance with its payment capacity evaluated based on the financial statements 12 months old and the reasonable value of the guarantees granted indicated in Note 2.8 above.

The qualification by risk of mortgage and housing portfolio, its classification is mainly based on the number of days of arrears of the clients.

Upon the completion of qualification the different portfolios by level or risk, it is proceeded to the calculation of provisions using the percentage tables of provisions specifically established for each type of credit by Colombia Finance Superintendence also indicated in Note 2.8 above, taking into account for such purposes the guarantees supporting the obligations.

Additionally, and also by instruction of Colombia Finance Superintendence, the Bank performs a general provision for mortgage and housing credit portfolio for 1% of the total portfolio charged to results.

Taking into account that the provisions for impairment of financial assets by credit portfolio are calculated based on specific percentages set out by Colombia Finance Superintendence, the Bank does not make sensitiveness analysis of changes in those percentages inasmuch as this Superintendence is the sole authorized to make such changes.

The Bank management estimates the provisions for impairment of loans, constituted at December 31, and June 30, 2016, are sufficient to cover the potential loss materialized in its loan portfolio prevailing in those dates.

Inter-banking funds, repo operations, simultaneous and temporary transfer of securities

Inter-banking Funds

Inter-banking funds are those ones placed or received by the Bank in or from other financial entity in a direct manner without the need of any investment transfer agreement or credit portfolio. These are operations connected to the corporate purpose agreed on for a term no more than thirty (30) calendar days provided that with this operation it is intended to take advantage of the excess or supply defects of liquidity. In the same way, they include the overnight transaction made with foreign banks using funds of the Bank.

The returns for interest resulting from the operation are recorded in the statement of results.

Report of Repo Operations

Any repo operation occurs when the Bank acquires of transfers securities in exchange of the delivery of any sum of money, assuming in such act and time the commitment to transfer or acquire again the property of securities of the same species and features to its “counterpart”, the same day or in any subsequent date and at any given price.

The initial amount may be calculated with a discount over the market price of the securities subject matter of the operation; it is possible to establish that during the duration of the operation, the securities initially delivered by others and restriction to mobility securities subject matter of operation may be included.

The returns recorded in this item, are exponentially calculated during the term of the operation and recognized in the statement of results.

The securities transferred subject matter of the repo operation will be recorded in the debit or credit contingent accounts, depending on if this is an open or closed repo operation, respectively.

Simultaneous Operations

Occurs when the Bank acquires or transfers securities in exchange of the delivery of any sum of money, in such act and time the commitment to transferor acquire again the property of securities of the same species and features to its “counterpart”, the same day or in any subsequent date and at any given price.

It is not possible to establish that initial amount to be calculated with a discount over the market price of the securities subject matter of the operation initially delivered by others; no constraints are placed to mobility of securities subject matter of the operation.
In this account, the returns accrued by the buyer are recorded and the transferor pays as cost of the operation during the term of the operation.

The difference between the present value (delivery of cash) and the future value (final transfer price) involves an income of financial returns calculated exponentially during the term of the operation and is recognized in the statement of results.

The values transferred subject matter of the simultaneous operation are recorded in the debit or credit account for asset or liabilities positions, respectively.

Securities temporary transfer operations

Are those operations whereby the Bank transfers the ownership of some securities with agreement to back transfer in the same date or in a subsequent date. The counterpart, in turn, transfers the ownership of other securities or an amount of money of equal value to the securities subject matter of the operation.

2.10. Non-current asset maintained for sale

The goods received in payment of credits and the assets are current maintained for sale whereby the Parent Company has the intent to sell them during a term no more than one year and the sale thereof is considered as highly probable, are recorded as “non-current asset maintained for sale”. Such goods are for the lower value between their carrying values at the time of transfer to that account for their reasonable value less the estimate sale cost. The goods received in payment that fail to accomplish with the conditions to be classified as maintained for sale, are recorded in other accounts of the statement of financial situation according to their nature as investments, property and equipment for the own use or properties of investment for the value of cost.

According to provisions in the External Circular 036, 2014 by Colombia Finance Superintendence, the goods received in payment must be provisioned regardless of their accounting classification, pursuant to instruction given in Chapter III of Accounting and Financial Basic Circular. For the reason above, the goods received in payment IFRS will be carried at the carrying value and will be provisioned as follows:

Real Property

A provision in monthly installments is made during the year following the receipt of the good, equivalent to thirty percent (30%) of its acquisition cost, and is increased in monthly installments during the second year by thirty percent (30%) additional until reaching sixty percent (60%). Upon the expiry legal term for the sale and the extension has not been authorized, the provision is increased to eighty percent (80%), unless the authorization of extension has been obtained, and in such event, the twenty percent (20%) may be made within the term thereof.

When acquisition cost of the real property is lower than the value of the debt recorded in balance, the difference is immediately recognized in the statement of results.

When the commercial value of the real property is lower than the carrying value of the good received in payment, a provision for the different is accounted for.

Movable Property

Within the year following the receipt of good a provision is made equivalent to thirty five percent (35%) of the acquisition cost of the good received in payment, which is increased in the second year by thirty five percent (35%) additional until reaching seventy percent (70%) of the carrying value of the good received in payment before provisions. Upon the expiry legal term for the sale and the extension has not been authorized, must one hundred percent (100%) of the carrying value. If extension is authorized, the remaining thirty percent (30%) of the provision may be made within the term thereof.

Without prejudice of the provisions aforementioned, the goods received as dation in payment corresponding to investment papers shall be valued by applying the criteria indicated for such purposes in Chapter I-I of the Accounting and Financial Basic Circular, taking into account their classification of marketable investments, available for sale or to be maintained up to maturity.

The provisions made over the goods received in payment or goods delivered back of leasing operations could be reverted when they are sold for cash, if such goods are placed in portfolio or in financial leasing operations, the profits obtained as a result of the transfer of asset to the credit portfolio account and financial leasing operations, shall be deferred in the term the operation is agreed on.

Regulations related to legal term for sale

The sale of goods received in dation of payment will be made within the year following the date of acquisition, nevertheless, they may be accounted for as fixed assets, when they are necessary for the corporate purpose, and the limits of asset investments are accomplished.

It is possible to request to Colombia Finance Superintendence an extension to sell goods, such request to be submitted before the expiry of legal term set forth.

In the relevant request, it is necessary to document that notwithstanding management procedures for sale have been accomplished. In any case, the extension of term shall not exceed two years as from the initial legal expiry term, and during such period, the operations involving to the sale of those unproductive, assets shall be continued as well.

2.11. Goods delivered in leasing

The goods delivered in leasing by the Bank are classified at the time of execution of contract as financial or operative leasing. A leasing is classified as financial when transfers essentially all the risk and advantages inherent to the property. Any leasing is classified as operative if it does not transfer essentially all the risks and advantages inherent to the property. The leasing contracts classified as financial are included in the balance within the item “Portfolio of credits and operations of financial leasing” and accounted for in the same way as the other credits granted (See Note 10). The leasing contacts classified as operative are included in the account of property, equipment and accounted for and depreciated in the lower time between the useful life and the term of the leasing contract (See Note 14).

2.12. Property and equipment for own use

The properties and equipment materials of own use include the assets in property or in regime of financial leasing, the Bank maintains for actual or future own use and that is expected to use during more than one operational period.

The properties and equipment for own use are recorded in the balance by the acquisition cost, less the relevant accumulated depreciation and, if applicable, the estimate loss resulting from comparing the accounting net value of every item to its corresponding recoverable value. The cost includes the expenses directly attributable to the acquisition of the asset.

Depreciation is calculated by applying the straight line method over the acquisition cost of the assets, less the residual value, understanding that the land where the buildings and other constructions will be built have an indefinite useful life and therefore, they are not subject to depreciation. Such depreciation recorded charged to results, is calculated based on the following useful lives:

Asset	Years
Buildings	
Foundation - structure & roof	50 to 70
Walls and divisions	20 to 30
Finishing	10 to 20
Office Equipment	10 to 25
Furniture and fixture	3 to 10
Vehicles	5 to 10
Informatics equipment	3 to 5
Web and communication	3 to 5
Mobilization & machinery equipment	10 to 25

For real property the Bank proposes 3 building components to wit: foundation – covered structure, walls and divisions and finishing, with the following ranges of residual values:

Component	Residual Value
Comments – Structure ad roof	0 – 20%
Walls and Divisions	0 – 10%
Finishing	0 – 10%

The improvements made to real property taken in lease may be susceptible of capitalization if they is expected to be used for more than one period and are depreciated lease agreement period.

The criterion of the Bank to determine the useful life and the residual value of those assets and, specially, of the building for own use, was based on independent appraisals, so that such appraisals were made less than 3 years ago, excepting if there are traces of impairment.

In every accounting closing, the Bank analyses if there are external or internal evidences that any material asset is impaired. If there are impairment evidences, the entity analyzes if indeed exists such impairment comparing the net carrying value of the asset with its recoverable value (such as the higher between its reasonable value less the disposition cost and its value of use). When the carrying value exceeds the recoverable value, the carrying value is adjusted to its recoverable value, changing the future charges of amortization, in accordance with its new remaining useful life.

In the same way, when there exists evidence that the value of any material asset has been recovered, the Bank estimates the recoverable value of the asset and is recognized in the account of results, recording the reversion of loss for impairment accounted for in precedent periods and, adjust, consequently, the future charges in concept of amortization. In no any event, the reversion of loss for impairment of any asset can suppose the increment of its carrying value above the value that would have if the loss for impairment had not been recognized in precedent operational periods.

The expenses for conservation and maintenance of properties and equipment are recognized as expense in the period when occurred and are recorded in the item “Administration Expenses”

The profits and loss of the sale of any item of properties and equipment are recognized in the results.

2.13. Investment properties

According to the International Accounting Standard IAS 40 "Investment Properties" the investment properties are defined as those land plots or buildings considered as a whole, in part or in both two held by the Bank to obtain income, valuation of the asset or both, instead of their use for own purposes of the Bank. The Investment Properties are recorded initially at the cost which includes all the costs associated to the transaction and subsequently such assets are measured in their balance at reasonable value with changes in the results. Such reasonable value is determined based on the appraisals periodically made by independent experts using valuation of the level two described in the IFRS13 "Measurement of Reasonable Value". The goods received in dation of payment (BRDPS) classified as investment property are recorded at its same carrying value and continued to be provisioned according to the provisions in the External Circular 036/2014 issued by Colombia Finance Superintendence.

2.14 Goods received in leasing

The goods received in leasing in its initial receipt are classified as well in financial or operative leasing in the same way as the goods delivered in lease described in item 2.10 above. The leasing contracts classified as financial contracts, are included in the balance sheet as property and equipment of own use or as investment property, according to their object and are accounted for initially in the asset and in the liabilities as well for a value equal to the fair value of the good received in lease, or otherwise, for the present value of the minimum payments of lease, if this is lower. The present value of the minimum payments of the lease is determined using the current interest rate implicit of leasing contract or if such rate is not available, a mean interest rate is used of bonds placed by the Bank in the market. Any initial direct cost if the tenant is added to amount recognized as asset. The value recorded as liability is included in the account of financial liabilities and is recorded in the same way as the financial liabilities. The leasing contracts classified as operative are recorded at the cost.

2.15. Intangible Assets

a) Plus Value

The plus value recorded by the Bank in the financial statement corresponds to a merge made by the Bank in previous years with Banco Unión and Banco Aliadas, which, according to the transition standard set forth in IFRS 1, the Bank availed itself to the exemption of recording under IFRS for its carrying value at January 1, 2014. According to IAS 38, such plus value is considered of indefinite live and is not amortized although it is subject to annual evaluation for impairment, and for such reason the Bank implements a valuation by an independent expert of value of corpora line of business which are related to plus value (Banco Unión Line of business) and based on such valuation an impairment is determined, if any, and if impairment exists, it is recorded charged to results; subsequent recoveries in the valuation of Bank the impairments previously recorded are not reversed.

b) Other intangible

The other intangible assets held by the Bank mainly correspond to computer programs, which are initially measured by the cost incurred in the acquisition or in the phase of internal development. The costs incurred in the investigation phase are directly carried to results. After the initial recognition such assets are amortized by applying the straight line method during its useful life estimated, which, in dealing with computer programs is between 1 to 15 years.

The costs incurred in the computer programs which are in the development stage, are capitalized taking into account the following evaluations made by the Bank management:

a) The Project, from the technical stand point, is possible to be completed for its production in such a way to be used in the Bank's operations.
b) The intent of the Bank is to complete the Project to be used in the development of its line of business not just to sell it.
c) The Bank has the capacity to use the asset
d) The asset produces economic benefits to the Bank inuring in the completion of a higher number of transactions with lower cost.
e) The Bank has available, both technical and financial resources necessary to complete the development of the intangible asset, for the own use,
f) The disbursements incurred during the development of Project and which are susceptible of capitalization make part of the Higher value of this asset.
g) The disbursements incurred after leaving the asset in the conditions required by the management for its use, will be recorded as expense, affecting the statement of results.

2.16. Financial Liabilities

A financial liability is any Bank's contractual obligation to deliver cash or other financial asset to other entity or person, or to exchange financial assets or financial liabilities in conditions potentially unfavorable to the Bank or a contract that will be or may be liquidated using the own patrimonial instruments of the entity. The financial liabilities are recorded initially by their transaction value in the date when they are originated, which unless otherwise determined, it similar to their reasonable value, unless the costs of transaction which are directly attributable to their issuance. Subsequently, such financial liabilities are measured at their amortized cost with the effective interest method determined at the initial time debited to results as financial expenses.

The financial liabilities related to financial instruments derivatives, are measured at the reasonable value. See note accounting policies item 2.7 above.

The financial liabilities only are written down in the separated statement of financial situation when the obligations generating have been are extinguished or acquired (either with the intent to cancel them or with the intent to locate them again).

2.17. Benefits to employees

According to the International Accounting Standard IAS 19 "Benefits to Employees" for the accounting recognition all the ways of compensation granted by the Bank in exchange of services provided by the employees are divided into three classes:

a) Short-term Benefits

According to Colombian labor regulations, such benefits correspond to salaries, legal and extra-legal premiums, vacations, severance and parafiscal contributions to State entities paid before 12 months following the final of period. Such benefits are accrued by the accrual system charged to results.

b) Post-employment benefits

These are benefits the Bank pays to employees at the employees leave the company of after completing their employment period, different from indemnities. Such benefits, according to

Colombian labor regulations correspond to retirement pension directly assumed by the Bank, severance payable to employees included in the labor regime previous to Act 50, and some extra-legal benefits or benefit agreed on in collective labor bargaining.

The liability for post-employment benefits is determined based on the present value of the estimate future payments to be made to employees, calculated based on actuarial studies prepared by the projected credit unit method, using for such purposes actuarial assumptions of mortality rates, increment of salary and personnel turnover, and interest rates determined with reference to market returns prevailing of bonds at the end issuance period of National Government or high quality corporate obligations

Under the credit unit method projected, the future benefits to be paid to employees, are assigned to each accounting period where the employee provides the services. Therefore, the expense corresponding for these benefits recorded in the Bank's statement of results includes the cost of the present service assigned in the actuarial calculation plus the financial cost of the liability calculated. The variations in the liability for changes in actuarial assumptions are recorded in the patrimony in the account "other integral result".

The variations of the actuarial liability for changes in the labor benefits granted to employees involving retroactive effect are recorded as an expense in the first of the following dates:

- When the modification of labor benefits granted occurs
- When provisions for restructuring cost is recognized by any subsidiary or Bank business

On December 2016, the National Government issued de decree 2131 in order to update some of the standards indicated in annexes included in the Decrees 2420 and 2496/2015. For the determination of calculation of postemployment liabilities in Colombia, inclusive since December 2016, the Regulatory Technical Framework shall be used as provided in the Annex 1-1 of Decree 2420, 2015 (using current interest rates and inflation, as it is provided in IAS 19, disclosing in the financial statements the differences between such calculation versus the calculation made under the Decree 1625, 2016 article 1.2.1.18.47 (inflation rate and TD average of last 10 years).

c) Other long-term benefits to employees

These are all those benefits different from short-term benefits to employees and after the employment period, and indemnities for cessation of employment. According to labor collective conventions and Bank rules, such benefits correspond, basically, to seniority premiums.

The liabilities for long-term benefits to employees are determined in the same way as the post-employment benefits described in literal b) above, with the only difference that the changes in the actuarial liability for changes in the actuarial assumptions are recorded in the statement of results

d) Benefits for termination of the labor agreement with the employees

Such benefits correspond to payments made by the Bank resulting from an unilateral decision of the Bank to terminate the labor agreement or a decision of the employee to accept an offer of the Bank for benefits in exchange of the termination of the labor agreement. According to Colombia labor legislations such payments correspond to indemnities for layoff and other and to other benefits the Bank unilaterally grants to its employees in such events.

The benefits due to termination of labor agreement are recognized as liability charged to results in the first of the following dates:

- When the Bank communicates formally its decision to finish the employment
- When restructuring provision costs are recognized by a subsidiary or business of the Bank involving the payment of benefits for termination

2.18. T a x e s

Current Tax

The expense, or income for tax, includes the income tax and the current and deferred equity tax (CREE). The tax expense is recognized in the statement of results excepting in the portion corresponding to items recognized in the account of other integral result in patrimony. In the event, the tax is recognized as well in such account.

The current tax is the amount payable or recoverable for the income current tax and the current equity tax (CREE) is calculated based on the tax laws enacted or substantially enacted in the date of the statement of financial situation. The management periodically evaluates the position assumed in the tax returns, concerning the situations where the tax laws are subject matter of interpretation, and if deemed necessary, involves provisions over the amounts expected to be paid to tax authorities.

Deferred Tax

The deferred taxes are recognized over the temporary differences between the taxation bases of asset and liabilities and amounts recognized in the separated financial statements, giving rise to deductible of taxable amounts to determine the profit of loss corresponding to future periods when the amount in books of the asset is recovered or the liability is liquidated. Notwithstanding, the deferred tax liabilities are no recognized if they are the result from the initial recognition of Goodwill, nor deferred tax is also accounted if it is the result of the initial recognition of an asset of liability in any transaction different from any business combination that at the time of transaction does not affect the accounting or taxation profit or loss. The deferred tax is determined using the tax rates prevailing at the date of the balance and it is expected to be applied when the asset for deferred tax is realized or when the liability for deferred tax is compensated.

The deferred tax assets are recognized only in the extent it is probable that future tax income will be available against which the temporary difference may be used.

The deferred tax liabilities are provided on the temporary taxable differences resulting, excepting for deferred tax liability over investments in subsidiaries, associates, and Joint venture when the opportunity of reversion of the transient difference is controlled by the Bank and it is probable for the difference will be not reversed in the near future.

Usually the Bank is not in condition to control the transient differences in asociated companies.

The deferred income assets are recognized on the temporary differences deductible form the investments in subsidiaries, in associates and in joint business only in the extent that it probable that the temporary difference will be reversed in the future and there if enough tax profit against which the temporary difference may be used.

The deferred tax asset and liabilities are set off when there exists a legal right to set off the current deferred tax against liabilities for current tax and when the deferred tax asset and liability relates to taxes levied by the same tax authority on the same entity or different entities when there is the intent to set off the balances over net bases.

2.19. Provisions

The provisions for dismantling and lawsuits are recognized when the Bank has any actual or assumed legal obligation as a result of past events, it is probable that an outflow of resources is required to liquidate the obligation and the amount has been estimated in a reliable manner.

Where there exist several similar obligations, the probability that any outflow of cash is required, it is determined taking into account the type of obligations as a whole. A provision is recognized even though the probability of outflow of cash with regards to any item included in the same class of obligations could be small.

When the financial effect resulting from the discount is considered relevant, the provisions are valued for the present value of the disbursements expected necessary to liquidate the obligation, using a rediscount rate before tax reflecting the evaluations of actual market of the value of money in the time and the specific risks of the obligation. The increase in the provision due to the elapse of time is recognized as a financial expense.

2.20. Income

The income is measured by the reasonable value of the compensation received or to be received, and represent the amounts receivable for the goods delivered, net of discounts, devolutions and the value aggregated tax. The Bank recognizes the income when the amount thereof is measured in a reliable manner, is probable that the future economic benefits will flow to the entity and specific criteria for each one of the activities of have been accomplished as described below

a) Interest

The interest is recorded in account of income paid or received in advance

The income for financial returns and financial leasing and other concepts are recognized at the time of accrual, excepting the interest, indexation, adjustment in exchange and other concepts originated from:

- Commercial credits in arrears more than 3 months
- Consumption credits in arrears more than 2 months
- Housing credits in arrears more than 2 months

Therefore, they will not impact the statement of results if they are effectively collected. While collection is made, the Bank controls and keeps the records of such interest.

In those events where, as the result of restructuring agreement or any other modality of Agreement, the interest capitalization is considered to be recorded in memorandum accounts of balances from written down portfolio, including capital, interest and other concepts, will be accounted for as deferred payment in 290800 code interest resulting from restructuring processes and the amortization to the statement of results will be made in a proportional manner to the amounts effectively collected.

b) Income for commissions

The commissions are recognized as income in the separated statement of results as follows:

i. Commissions for banking services when the relevant services are supplied

ii. The annual commissions of the credit cards are recorded and amortized over a straight line basis during the useful life of the product
iii. The commissions incurred in the granting of new loans are recorded in income together with the costs incurred in the disbursement.

c) Clients' loyalty programs

The Bank operates a loyalty program, whereby the clients accrue points for the purchases made with the credit cards issued by the Bank, entitling the clients to redeem the points for rewards according to the policy and the reward plan prevailing at the time of redemption. The points of reward are recognized as an identifiable component separated from the sale initial operation, assigning the reasonable value of the compensation received between the points of reward and the other components of the sale, so that the points for loyalty are recognized initially as deferred income at the reasonable value. The income of compensation points are recognized in the results when exchanged.

2.21. Wealth Tax

On December 2014, the National Government enacted the Act 1739, whereby the wealth tax was introduced to be payable by all entities in Colombia holding net patrimony more than COP1.000 million which is liquidated, as described in the Note 16 below. Said Act provides that, for accounting purposes in Colombia such tax may be recorded debited to patrimonial reserves within the patrimony. The Bank made the decision to avail itself to such exception and has recorded the wealth tax accrued in January 1/2016 debited to its patrimonial reserves.

2.22. Net profit per share

In order to determine the net profit per basic share, the Bank divides the net result of period between the weighted average of the outstanding common shares. During the semesters ended in December 31, and June 30 2016 the outstanding common shares were 155.899.719 shares.

2.23. New pronouncements issued by IASB at international level:

According to the provision in Decree 2496 of December 2015, below the standards issued are listed, applicable as from 2017 even though its application could be made in a voluntary manner (excepting the IFRS 15 and IFRS 9 applicable as from January 1, 2018) although the early application is allowed). The impact of those standards is under evaluation by Bank's management.

Financial Information Standard	Topic of amendment	Detail
IAS 1 – Submission of financial statements	Initiative of disclosure in connection with the submission of financial statements the amendment makes clear the requirements of disclosure	Some relevant matters indicated in the amendments are the following: • Requirement of material IAS1 • Indicates the specific lines in the statement of results, of integral results and the changes in financial situation that may be ungrouped • Flexibility related to the order to submit the notes to financial statements • The entity does not need to disclose specific information

		required by any IFRS if the resulting information is not material. The application of amendments is not required to be disclosed.
IFRS 9 – Financial Papers	Financial papers (in the version reviewed 2104	The of replacement makes reference to the following phases: • Phase 1: Classification and measurement of financial asset and liabilities • Phase 2: Impairment methodology • Phase 3: Accounting of hedging On July 2014, the IASB finished the reform of accounting financial instruments and the IFRS 9 was issued – Accounting of financial instruments (in its version reviewed 2014) that will replace IAS 39 - Financial instruments and the: Recognition and measurement after the expiry date of validity of the previous.
IFRS 11 – Joint operations	Accounting for acquisitions of interest in joint operations	Provides indications about the accounting of the procurement of an interest in a joint operation where the activities imply a business, according to the definition of IFRS 3 – Combinations of businesses. The entities must apply the amendments in a prospective manner to the acquisitions of interests in the joint operations (where the activities of the joint operations imply a business as defined in IRFS 3).
IFRS 10 – Consolidated financial statements IFRS 12 – Information to be disclosed in other entities IAS 28 – Entities of investment	Application of the exception of consolidation.	It is made clear that the exception of preparing consolidated financial statements applies for a controller entity which is a subsidiary of an entity of investment, when the entity of investment measures all its subsidiaries at reasonable value according to IFRS 10. The application of the participation method to an investor in any associate or joint venture is allowed, if this is subsidiary of an entity of investment that measures all its subsidiaries at reasonable value.
IFRS 10 – Financial statements consolidated IAS 28 – Entities of investment	Sale or the contribution of goods between an investor and the associate or joint venture.	Treat about anything related to IFRS 10 an the IAS 28 in the treatment of the loss of control of any subsidiary associated sold or contributed to an associate or Joint venture It is explained that the profit or loss resulting from the sale or contribution of assets represent a business, as it is defined in the IFRRS 3, between the investor and its associate or joint business and is totally recognized
IFRS 15 – Income from contracts with clients	Income derived from contracts with clients.	Establishes a five-steps model applied to income derived from contracts with clients. Will replace the following standards and interpretations of income after the date when begins to take force: • IAS 18 – Income. • IAS11 – Construction contracts • IASIFRS 13 - Programs of loyalty of clients. • IASIFRS 15 – Agreements for real property construction. • IASIFRS 18 – Transfers of assets from clients. SIC 31 – Barter transactions including advertising services.
IFRS 16	Recognition	Introduces a single accounting model and requires for a

Leases	principles, measurement, presentation and information leasing to be disclosed	lessee to recognize assets and liabilities for all the leases with a term more than 12 months, unless the underlying asset would be of low value. It is required for any lessee to recognize an asset by right of use representing its right to use the underlying leased asset and a liability by lease representing its obligation to make payments for the lease. Maintains essentially the accounting lessee´s requirements of the IAS 17 Leases. Therefore, any lessee will continue classifying its leases as operative leases or financial leases, will account for such two types of leases in a different manner. The IFRS 16 will apply to annual operational periods as from January 1, 2019. The early application is allowed for those entities applying the IFRS 15 Income from Ordinary Activities resulting from Contracts with Clients before the date of the initial application of IFRS 16. The IFRS 16 replaces the IAS 17 Leases, IFRS 4, Determination whether any Agreement contains a Lease. SIC-15 Operating Leases - incentives and SIC-27 Evaluating the essence of Transactions adopting the legal form of any lease.
IAS 16 - Property, plant and equipment.	Explanation of the accepted depreciation methods.	• The entities are prohibited to use a depreciation method based on the income for items of property, plant and equipment.
IAS 38 – Intangible Assets	Making clear the amortization Acceptable methods	Provides conditions related to amortization of intangible assets about: a) When the intangible asset is named as a measure of income. b) When it is possible to prove that the income and the consumption of economic benefits of the intangible assets are closely related.
Annual enhancement Cycle 2012 – 2014	These amendments reflect topics discussed by the IASB, subsequently included as modifications to IFRS	• IFRS 5 – Non-current asset maintained for sale and discontinued operations • Changes in the disposal methods of assets • IFRS 7 – Financial instruments: • Information to be disclosed (with modifications resulting from modifications to IFRS 1) • Modifications related to service supply agreements • Applicability of modifications to IFRS 7 in disclosures of compensations in intermediate condensed financial statements • IAS 19 – Benefits to employees. Discount rate: topics about regional market • IAS 34 – financial Information intermediate: disclosure of information included in any other site in the intermediate financial report.

Other Standards Issued

According to the provision in Decree 2131, 2016, below the standards issued applicable as from 2018 are listed, corresponding to the amendments issued by IASB released during the first semester 2016.

Financial Information Standard	Topic of the Amendment	Detail
IAS 7 - Statements of Cash Flows	Initiative about information to be disclosed	To require for the entities to provide information allowing for the users of financial statements to assess the changes of liabilities resulting from financing activities.
IAS 12 – Tax to Profits	Recognition of assets by deferred tax unrealized loss	Make clear the requirements of assets recognition by deferred tax for unrealized loss measured at the fair value.
IFRS 15 – Income from ordinary activities resulting from contracts with clients	Clarifications	The purpose of these amendments is to make clear the requirements of IAS 15 without changing the underlying principles of IFRS 15.

Even though the new IFRS 16 – Leasing was issued on January 2016 it has not been adopted to be applicable in Colombia.

2.24 New accounting requirements at Colombia level

On December 2016, the National Government issued the Decree 2131 whereby authorized some standards indicated in the annexes included in the Decree 2420 and 2496, 2015. Among such actuations, the following are to apply by the bank as follows:

- Provided that the amendments made by the International Accounting Standards Board (IASB) to the IAS 7, IAS 12 and IFRS 15 and that were incorporated into the Decree 2420/2015, will be of mandatory application as from January 1, 2018.

- Provided that IFRS 15 – Income from routine activities derived from the Contract with Clients and IFRS 9 – Financial instruments, incorporated by the Decrees 2420 and 2496, 2015, will apply for the operational periods beginning on January 1, 2018, allowing its early application. In 2017, those who do not apply the IFRS 9 and IFRS 15 as indicated in annex 1-1 in Decree 2496, 2015, will continue applying the standards incorporated in the annex 1 of Decree 2420, 2015.

- In order to determine the calculation of postemployment liabilities in Colombia, inclusive since December 2016, the Regulatory Technical Framework provided in Annex 1-1 of the Decree 2420, 2015 shall be used (using the interest rates and the actual inflation, as it is required by IAS 19), disclosing in their financial statement the differences between such calculation versus the calculation made under the Decree 1625/2016, article 1.2.1.18.47 (inflation and TD interest rate average of the last 10 years).

Note 3 - Use of judgments and accounting estimates critical in the application of accounting policies.

Preparing the Financial Statements in accordance with IRFS requires for the management to make judgments, estimates and assumptions affecting the application of accounting policies and the amounts recognized in the separated financial statements and the carrying value of the assets, liabilities, income and expenses reported. The actual results may differ from these estimates within the following operational period. The judgments and estimates are assessed on a continuous basis and are based on the management expertise and other factors, including the expectation of future events considered as reasonable in the current circumstances.

The management makes as well some judgments in addition to those involving estimates in the process to apply the accounting standards. The judgments involving the most significant effects in the amounts recognized in the preparing financial statements in accordance with IFRS requires for the management to make judgments, estimates and assumptions affecting the application of accounting policies and the following:

Ongoing business: Bank's management prepare financial statements based on an in progress business. In the performance of this judgment, the management considers the financial position, the actual intents, the results of the operations and the access to financial resource in the financial market and analyzes the impact of such factors on the Bank's future operations. As of the date of this report the management is not aware of any situation leading to think the Bank is not in condition to continue as an in progress business during the year 2017.

Provision for loans impairment (Note 10): According to the standards issued by Colombia Finance Superintendence, the Bank reviews on a regular basis credit portfolio in order to determining if any impairment is to be recorded charged to results of the operational period following the guidelines set forth by Colombia Finance Superintendence indicated in Note 2.8 above. The Management makes judgments related to commercial credits and commercial leasing, in the determination of credit risk rating in accordance with its payment capacity evaluated based on financial statements up to 12 months before and the reasonable value of guarantees granted indicated in Note 2.8 above.

The rating by risk level of mortgage portfolio and housing is mainly based on the number of days in arrears of the debtor.

After doing the rating of the several different by level of risk, it is proceeded to calculate the provisions using the provision percent tables established specifically for each type of credit by Colombia Finance Superintendence, also indicated in Note 2.8 above, taking into account for such purpose, the guaranteed supporting the obligations.

Additionally and also by instructions given by Colombia Finance Superintendence, the Bank makes the general provision of mortgage and housing credit portfolios by 1% of the total portfolio charged to results.

Taking into account that the provisions for financial assets impairment by credit portfolio are calculated based on specific percentages set forth by Colombia Finance Superintendence, the Bank's management makes no any sensitiveness analysis of changes in those percentages, taking into account that the Superintendence is the only entity authorized for make such changes.

Bank's management considers for the provisions for impairment of loans, made at June 30, 2016 and December 31/2015, are sufficient to cover the potential loss occurred in the credit portfolio prevailing on those dates.

Reasonable value of financial instruments and derivatives instruments (Note 9): Information about reasonable values of financial instruments and derivatives evaluated using assumptions which are not based on observable date of the market is disclosed in note 5.

Determining investments classification (Notes 7 and 8): In accordance with Colombia Finance Superintendence standards, the Bank classifies financial asset for investment as marketable, maintained up to maturity and available for sale, such classification was made by the Bank up to December 31/2014 at the time each investment constitution taking into account the such factors as Bank's Liquidity, profitability, need of resources for placement as credit portfolio and macroeconomic factors prevailing at the time when investment is made.

As from January 1/2015, the Bank makes the above classification following the model of business indicated below, according to provisions set forth in the External Circular 034/2014:

Marketable Investments

Banco de Occidente classifies in marketable portfolio the fixed income investments structured as part of the liquidity management strategy resulting from the dynamics of financial intermediation central vocation. This portfolio is made for the purpose to obtain contractual flows according to the returns offered by the issuer, used as support to face with potential liquidity requirements as uses as guarantee in the acquisition of liquidity passive operations (Repos) with the Central Bank

The main type of securities to support this need of liquidity may be the following:

- Public Debt TES (TF, UVR, TCO, IPC, inter alia)
- Nation investment different from TES
- Foreign Debt
- Corporate debt

Investments available for sale

The Bank classifies in the portfolio available for sale the fixed income investments structure as part of liquidity management and that may be sold in the event of opportunities of sale in order to provide profitability to the portfolio.

The main types of securities to support this need of liquidity may be the listed below:

- National debit TES (TF, UVR, TCO, IPC (inter alia)
- Nation investment different from TES
- Foreign debt
- Corporate debt

Investments to maintain up to maturity

The Bank classifies in the portfolio to maintain up to maturity the portfolio made up by the Agribusiness Development Securities (ADS) and Debt Reduction Securities (DRS) in order to accomplish with the article 8 of External Resolution 3 /2000 of the Central Bank which are made as compulsory investment, will be also classified as papers of subordinate debt issued by the affiliates.

Deferred income tax (Note 16): The Bank evaluates the application throughout the time of the active deferred income tax. The active deferred income tax represents income taxation recoverable during by future deductions of taxable profits and are recorded in the statement of financial situation. The active deferred taxes are recoverable in the extent that the obtainment of tax benefits is probable. The future tax income and the amount of tax benefits which are probable in the future are based on medium-term plans prepared by the top management. The business plan is based on the expectations which are considered reasonable under the actual circumstances. As prudential action in order to determining the deferred taxes, the financial and taxation projections of the Bank have been made taking into account exclusively, a 3% vegetative growth annual .of the inflation 5 years projected.

As of December 31 and June 30/2016, Bank's management estimates that the items of deferred income tax active would be recoverable according to the estimates of the future taxable profits. Deferred passive tax has not been recorded over subsidiaries' profits that the Bank does not expect to bring in a near future, because the Bank controls subsidiaries' dividend policy has not intent to distribute dividends or sell such investments in a near future

Initial recognition of transactions with related parties: During the normal line of business the Bank makes transactions with related parties. The IFRS 9 requires initial recognition of financial instruments based on their reasonable values; the judgment is applied to determine whether the transactions are made at market values of interest rates when there is not active market for such transactions. The bases of judgments are to value similar transactions with non-related parties and an analysis of the effective interest rates. The terms and conditions of transactions with related parties are disclosed in the Note 30.

Plus value (Note 15): On an annual basis, the Bank's management performs an evaluation of the capital gain impairment recorded in its financial statements; such evaluation is made for such purposes with closing September 30 every year based on a study made for such purpose by independent experts hired for such purpose. Such study is made based on the valuation of the line of business related to the Capital Gain (lines of business of Banco Unión), By applying the discounted cash flow method, taking into account such factors as the country's economic situation and the situation of the sector where the Bank is operating, historical financial information and the projected growth of Bank' income and expenses in the coming five years and the subsequent perpetual growths taking into account their profit capitalization, discounted at risk-free interest rates which are adjusted by risk premiums requires in the specific circumstances.

Valuation of investment properties (Note 14): The investment properties are reported in the balance sheet at their reasonable value determined in separated reports by independent experts at the end of each period of report. Due to the current conditions of the country, the frequency of transactions of properties is low; notwithstanding, the Bank's management estimates that there are enough activities of market to provide comparable prices for transactions of similar properties when the reasonable value of the investment properties is determined, excepting for goods received in payment, classified as properties of investment, which are recorded according to the indicated for this type of goods in note 2.12 above.

In the preparing of valuation reports of the Bank's investment properties the transactions of forced sale are excluded. The management has reviewed the assumptions used in the valuation by independent experts and considers that factors such as inflation, interest rates, etc., have appropriately determined considering the market condition at the end of period reported; nevertheless above consideration, the top management considers that the valuation of the properties of investment is currently subject to a high degree of judgment and an increased probability that the current income for sale of such assets may differ from their carrying value.

Estimation for contingencies (Note 23): The Bank estimates and records an estimation for contingencies in order to cover the potential risks related to the labor events, lawsuits and mercantile events and tax claims or other ones, according to the circumstances that, based on the opinion of external legal advisors, are considered of probable loss and may be reasonably quantified. Given the nature of many claims, events and/or lawsuits, it is not possible, in some opportunities, to do an accurate forecast or quantify an amount of loss in a reasonable manner, for such reason the actual amount of disbursements effectively made for the claims, events and/or legal actions is frequently different from the amounts estimated and initially provisioned, and such differences are recognized in the year when they are identified.

Pension plan (Note 19): The measurement of pensions, costs and liabilities are dependent on several long-term premises determined on actuarial calculations, including present value estimates of the future payments projected of pension's participants of the plan, taking into consideration the probability of potential future events, such as increments of urban minimum salary and demographic experience. Those premises may imply an effect on the amount of future contributions, if any variation will occur.

The discount rate allows for establishing future cash flows at present value in the date of measurement. The Bank determines a long-term rate representing market rate of high quality fixed income investment or government bonds denominated in Colombian pesos, the currency used to pay the benefit and considers the opportunity and the amounts of the payments i future benefits, to which the Bank has chosen the Government bonds.

The Bank uses other key premises to value the actuarial liabilities, such premises calculated based on the Bank's specific experience combined with statistics released and indicators of markets (See Note 19, where the most used assumptions are used in the actuarial calculations and the relevant sensitivity analysis).

Note 4. Risk Administration and management

The Bank's activities expose the entity to several different financial risks of market (including foreign currency exchange risk, reasonable value risk for interest rate, risk of cash flow for interest rate, risk of Price, risk of credit and risk of liquidity). In addition to above, the Bank is exposed to operational and legal risks.

The Bank has in place a Financial Risk Committee holding monthly meetings in order to discuss, control, and analyze the Credit and Treasury risk management of the Bank. In the same way, there a exists the weekly Finance Committee to define the short-term actions of liquidity management, in general defines the strategy of Treasury in the short-term and examines the weekly report submitted by the Division of Treasury risk. There exits as well the ALCO Committee, that makes decisions related to medium- and long-term asset and liabilities management, the issues related to the analysis and following up of the Operative Risk Management System and the Continuance of Business (ORMS-PCN) and also the ALCO Committee, (ORMS-PCN) developed in the ORMS committee. Periodical reports are submitted to the Board of Directors concerning the Risk Management Risk (policies, procedures, methodology, profile of risk, limits, etc.), and every six months to the Auditing Committee of Board, the management report of areas of risk (projects, standards, relevant facts, changes in the structure, functions, etc.).

According to the regulations issued by Colombia Finance Superintendence, the risk management process is included in the guidelines designed by the Top Management, congruent with the management general directives and administration approved by the Board of Directors taking into consideration the regulation applicable and the internal policies.

Objective and general guidelines for risk management

The aim is to maximize returns to the investors through a prudent management of risk; and for such purpose, the principles guiding the Bank in the management of risk are the following:

a. Provide security and continuity of service to the clients.
b. Integration of risk management to the institutional processes.
c. Decisions at the level of the Bank's Board of Directors to make commercial loans
d. Through and external acknowledge of market as a result of our leadership of Bank's management
e. Implementation of clear policies of risk by using a top-down approach, concerning:
    - The compliance with the know-the-client policy, and
    - Structures to grant the commercial credits based on a clear identification of the factors of risk and the debtors' capacity for generation of flows
f. Use of analytical tools and determination of credit interest rates
g. Diversification of commercial portfolio of loans related to industries and economic groups.
h. Specialization in niches of consumption products
i. Extensive use of scoring models and updated and permanent rating of credits to ensure the growth of high-quality consumption loans
j. Conservative policies about:
    - The composition of negotiation portfolio with bias towards instruments of lower volatility.
    - Negotiation operations by the own account, and
    - Variable compensation of negotiation personnel.

Culture of risk

The Bank's culture of risk is based on the principles indicated in the item above supported on the following directives:

a. In the Bank the function or risk is independent on the business units
b. The structure of powers delegation at the level of Bank requires for a great number of transactions to be sent to the decision centers such as the committees of risk. The great number and frequency of meetings held by such committees ensures a high degree of agility in resolution of the proposals and ensures the continuous participation of the top management and the key areas in the management of the different risks
c. The Bank has in place detailed action manuals and policies related to risk management, the groups of business and risk of the Bank hold periodical meetings of guidance with risk focus in line with the Bank's culture risk.
d. Plan of limits: The Bank has implemented a system of limits of risks, periodically updated; taking into account the new market conditions and the risk, they are exposed to.
e. Appropriate information system allowing for monitoring the daily exposure to risks in order to verify that the limits of approval are completely accomplished, and adopt, if required, approved corrective actions.
f. The primary risks are analyzed both when they are originated and when the problems occur in the regular course of business upon a permanent basis for all the clients,
g. The Bank implements appropriate and permanent training courses addressed to all organizational levels concerning the culture of risk and compensation plans for some employees according to the adherence to the culture of risk.

Corporate Structure of risk function

According to the directives set out by Colombia Finance Superintendence, the corporate structure at Bank's level for the management of the several different risks is made up by the levels indicated below:

- Board of Directors
- Committee of Risks
- Vice Presidency of Risk
- Administrative Processes of risk management
- Internal Audit

Board of Directors

The Bank's Board of Directors is responsible for the adoption, inter alia, the following decisions related to appropriate organization of Bank's risk management system:

- Defining and approving the general strategies and policies related to the internal control system for the management of risk.
- Approval of entity's policies related to the management of the several different risks.
- Approval of the operation quotas and counterpart, according to the duties defined.
- Approval of the exposures and limits at different types of risks.
- Approval of the different procedures and methodologies of risk management.
- Approval of the allocation of human, physical and technical resources for risk management.
- Propose the responsibilities and duties assigned to the positions and areas responsible for risk management.
- Indicating the responsibilities and duties assigned to the positions and areas responsible for the management of risk.
- Approval of the internal control systems for risk management.
- Require from the Bank's administration the different periodical reports about processes of exposure to the different risks.
- Evaluation of the proposals, recommendations and corrective actions about the risk management process.
- Implement the monitoring in the ordinary meetings through periodical reports submitted to the Auditing Committee about the risk management and the actions implemented to control or reduce the most relevant risks.

Committees of Risk

The Bank has in place, inter alia, credit risk and treasury committees (financial risk committee) comprised by members of the Board of Directors or with analysis made by the Board of Directors in the meeting, in a regular basis in order to discuss, measure, and analyze credit risk management (CRM) and treasury of the Bank (ORMS). In the same way, there exists the technical committee of asset and liabilities or the analysis by the Board of Directors to make decisions related to asset and liabilities, and liquidity management through the Liquidity Risk Management System (LRMS); concerning the analysis and monitoring of the Operative Risk Management and Continuance of Business System (ORMS-CB) is developed in the Auditing Committee. The Legal Risks are monitored, in connection with the compliance by the Legal Vice Presidency. The duties of such committees include, among others, the following:

1. To propose to Bank's Board of Directors the policies deemed advisable for the management of risk corresponding to every committee and the processes and methodologies of management.
2. Conduct systematic revisions of the exposure to risk of the entity and take the corrective actions deemed necessary.

3. Ensure for the Bank's actions in connection with risk management to be permanent with the previous levels defined of appetite of risk.
4. Approve the decisions in accordance with the instructions given to each committee by the Board of Directors.

Below the risk, committees are detailed:

i. Financial Risk Committee, ORMS committee and compliance committee

The aim of these committees is to set forth the policies, procedures and strategies for the integral management of credit, market, liquidity, operative risk, laundry asset and financing of terrorism. Among the primary duties, the following:

- To measure the integral risk profile of the entity
- Designing, monitoring and following-up the schemes to the level of exposure to the different risks the Bank is subject to.
- Review and propose to the Board of Directors the level of tolerance and the extent of exposure to risk the entity is in conditions to assume in the development of the business. This implies the evaluation of alternatives to align the appetite of risk of the different risk management systems.
- Evaluation of risks committee involved in the venture in new markets, products segments, countries, inter alia.

ii. Financial Risks committees (Credit and Treasury Risk)

Its objective is to discuss measure, control and analyze the Credit Risk Management System (CRMS) and treasury. Among its duties the following:

- Monitoring the profile of risk and treasury, in order to ensure for the risk level to maintain within the parameters set forth, according to the Bank's risk limits and policies.
- Evaluation the risks involved in venture of new markets and products.
- Evaluation of policies, strategies and actuation standards in the commercial activities, both of treasury and credit.
- Ensure for the measurement and risk management methodologies to be appropriate, given the features and activities of the entity.

iii. Asset and Liabilities Committee

The objective is to support the top management in the definition of policies and limits, follow-up, control and measurement systems accompanying the management of assets and liabilities and management of liquidity risk through the different Liquidity Risk Management Systems (LRMS).

Among the main duties the following:

- To establish the appropriate procedures and mechanisms to manage and administer the liquidity risks.
- Monitoring the reports about liquidity risk exposition.
- Identify the origin of exposures and by the analysis of sensitivity to determine the probability of lower returns or the need of resources due to the movements of cash flows.

iv. Audit committee

Its objective is to evaluate and monitor the internal Control System.

Among the committee main functions are:

- Propose to the approval by the Board of Directors, the structure, procedures and methodologies necessary for the operation of the Internal Control System,
- Evaluation of the entity's internal control structure in such a way that it will be possible to determine if the procedures designed reasonably protect the assets, as well as those ones of third parties, administered and guarded, and if there exist controls to verify that transactions are being properly authorized and recorded. For such purpose the areas responsible for the administration of the different risk systems, the statutory Auditing submits to the Committee the periodical reports required and the other relevant reports required.
- To make follow-up about the risk exposure levels, the consequences to the entity and the actions implemented for the control and mitigation.

Vice Presidency of Risk

The vice presidents of risk appearing in the organization chart, discharge, inter alia, the following duties:

a. Ensure the proper compliance, at the Bank level, with the policies and procedures set forth by the Board of Directors and several different committees of risk for the proper management of risks.
b. Design methodologies and procedures to be implemented by the administration for the management of risks.
c. Establish permanent monitoring procedures allowing for timely identifying any type of deviation from the policies set forth for risk management.
d. Prepare periodical reports both to the different committees of risk, Board of Directors of the Bank about the status of control and vigilance in connection with the compliance with the policy of risk.

Administrative processes of risk management

According to Bank's business models, the Bank operates structures and procedures properly defined and documented in manuals about the administrative processes to be implemented for the different risks management; in turn, there are in place different technological tools detailed below, whereby every risk is analyzed in order to monitor and control the risks.

Internal Audit

Internal audit of Bank is independent from the administration, and are directly depending on the audit committee and in the development of duties perform periodical evaluations of policies and procedures implemented by the Bank for risk management; its reports are directly submitted to the committee of risk and to the committee of audit, which are responsible for monitoring the Bank Administration about the corrective actions implemented.

Individual Analysis of the different risks

The financial risks include the risk of market (including the risk of negotiation and the risk of price as below indicated) and the structural risks for composition of the assets and liabilities of balance sheet, including the risk of credit, of variation in the type of exchange, of liquidity and interest rate.

Below an analysis of each type of risk above indicated are included in the order of relevance

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a. Risks of market

1. Risk of market of financial asset in certificates of fixed income debt and derivatives of interest rate:

The risk of market of the financial assets in certificates of debt of fixed income originates as the result that the Bank manages a portfolio of those certificates classified as marketable. The risk originates as the result of increments of the interest rates of the market and unfavorable changes in the credit risk associated to the issuer of the instrument.

As indicated in Note 2 above, the portfolio of investments in fixed income is structured as a part of the strategy to manage the liquidity derived from the dynamics of central vocation of financial intermediation. This portfolio is make for the purpose to obtain the contractual flows according to the return offered by the issuer and to maximize the Bank's income, Additionally, the Bank has in place a portfolio of fixed income investments classified as available for sale that may sell in the event of opportunity of sale in order to provide profitability to the portfolio.

In order to reduce the risk of market of this portfolio, the Bank takes part in financial instruments derivatives transactions of the interest rate minimizing through the compensation of positions the adverse variations in the risk of market. The Bank participates as well in the derivatives transactions of interest rate with clients in a financial intermediation process whereby immediately is entered into other derivative of contrary position in the financial market to close the position. As general guideline the Bank uses the restriction of the max. number of operations, as it is in a stage of consolidation of product, a 10 years max. term by operation (the market operates up to 25 years), a maximal duration allowed of the mean portfolio no more than4.5 years, capacity to exclusively operate fixed rate against the IBR indicators (Reference Banking Indicator) and DTF (fixed Time Deposits) which are the more transacted in Colombian economy, a level of loss, stop loss and a reasonable VeR daily reported by the middle office and weekly submitted to the Finance Committee. With these limits it is allowed to control the exposures and reduce the negative events in the levels acceptable by the top management and rent according to expectations of the different products aiding the entity to go in deep and diversify the number of products offered.

According to the regulations given by Colombia Finance Superintendence, the management process of the market risk of Bank's investment portfolio makes part of the guidelines designed by Top Management, consistent with the management general directives and administration approved by the Board of Directors.

The Bank has in place a Financial Risk Committee of Treasury that meets periodically in order to discuss, measure and analyze the management of the risk market (MRMS) and liquidity (LRMS). Additionally, there is in place two Finance, Audit and Ethics Committee complementing the Corporate Government of those risks.

The Top Management and the Board of Directors, take active part in the risk management and control, by the analysis of a protocol of reports established and the conduction of several Committees that in an integral manner perform both technical and fundamental monitoring of the different variables influencing on the markets at internal and external level in order to support the strategic decisions.

The risk assumed in operations are consistent with the Bank general strategy of business and are reflected in the structure of limits for the positions in the different instruments according to specific strategy, the depth of the markets where the Bank operates, the impact on the asset for risk and level of solvency as well as the balance structure.

Those limits are monitored on a daily basis and monthly reported to the Board of Directors. On a quarterly basis in this same report the results of individual risks management are included.

This way, the analysis and follow-up of the different risks incurred by the Bank in the operations is essential to make the decisions and for the evaluation of results. On the other hand, a permanent analysis of the macroeconomic conditions is essential to obtain the risk, profitability and liquidity optimal combination.

In addition, for the purposes to minimize the risks of interest rate and exchange rate of some items of balance sheet, the Bank implements compensations strategies in speculation derivatives by taking the positions in instruments such as Forwards, Futures and Swaps,

As a complement to the treasury management results, a daily and consolidated calculation is made allowing for submitting, from financial standpoint, the accounting results, segmented by each one of the products and business currently held, which involves as benefit, a more understanding and sensitivity about the management made by Treasury, as well as the impact on the results given the transactions of the market.

The Bank uses the standard model of measurement, control and management of market risk of the interest rates, exchange rates, and the price of shares in Threasury and Bank books, concordant with the the requirements by Colombia Finance Superintendence Circular Letter, contained in the Chapter XXI of the Accounting and Financial Basic Circular and specifically, the Annex 1 in such Chapter. Those measurements are made on a daily basis for each one of the Bank's risk exposures.

Similarly, the Bank has in place parametric models of internal management in the methodology of the Value in Risk (VeR), allowing for complementing the market risk management as from the identification and analysis of variances in the risk factors (interest rates, exchange rates) over the value of the different instrument making up the portfolios. Said models are JP Morgan's risk Metrics with 99% confidence level, and price historical simulation.

The use of VeR methodology allows for estimating the profits and the capital in risk, this way facilitating the allocation of resources to the different business units, as well as comparing the activities in different markets and identify the positions with more contribution to the risk of Treasury business. In the same way, the VeR is used to determine the limits to negotiation positions and quickly review positions and strategies, in extent of the market conditions changes.

The methodologies used to measure VeR are periodically evaluated and subject to backtesting allowing for determining their effectiveness. In addition, the Bank has in place tools to perform the tests stress and sensitivity of portfolio under the simulation of extreme scenarios.

Additionally, there are limits associated to each one of the products making up the different portfolios segmented in Local Currency and Foreign Currency.

In the same way, the Bank established counterpart and negotiation quotas by operator for each one of the markets negotiation platforms where the Bank operates. Such limits and quotas are daily managed by Bank's Middle Office.

In the same way, there is in place a process to follow-up the clean prices and inputs of valuation released by the pricing supplier Infovalmer where on a daily basis it is intended to identify those prices with significant differences between the price supplied by supplier of prices and the price observed in alternate suppliers of information by Bloomberg, Brokers inter alia. This follow-up is made with the purpose to feedback the supplier about the most significant price differences and such price are reviewed. This process is complemented with periodical revision of methodologies of valuation of Fixed Income and Derivatives investment portfolios.

According to the standard model, the market risk value (VeR) at December 2016 was $107,703 with effect of 66 basic points in individual solvency relation of the Bank.

The VeR indicators of transmission to Colombia Finance Superintendence submitted by the Bank during the semesters ended on December 31 and June 30, 2016 and December 31, 2015 are summarized below:

		Second semester 2016			
Risk Factor		**Minimum**	**Mean**	**Maximum**	**Last**
Interest Rate Local Currency	$	61,061	66,840	76,188	64,459
Interest Rate Foreing Currency		854	1,999	4,216	1,340
Interest Rate UVR		39,876	44,470	47,803	39,876
Exchange Rate		1,628	2,166	2,635	2,028
VeR Total	$	107,696	115,474	130,444	107,703

		First semester 2016			
Risk Factor		**Minimum**	**Mean**	**Maximum**	**Last**
Interest Rate Local Currency	$	80,889	89,647	94,186	80,889
Interest Rate Foreing Currency		1,532	2,931	4,578	3,396
Interest Rate UVR		39,998	42,185	44,478	43,752
Exchange Rate		1,488	2,105	3,567	1,818
VeR Total	$	129,854	136,868	139,865	129,855

As a result of VeR behavior, Bank's assets weighted by market risk maintained an average of 4.47% of the total assets weighted by risk during the semester ended on December 31, 2016 and and 5.36% in the semester ended on June 30, 2016.

According to the model under Bank's internal methodology, value in market risk /VeR) at June 2016 was $35,977.

The VeR indicators under this methodology of the Bank during the semesters ended on December 31, 2016 and June 30, 2016 are summarized below:

Currency		Second semester 2016 Minimum	Mean	Maximum	Last
Local currency	$	27,062	33,867	46,238	28,282
Foreign Currency		1,363	4,214	8,305	7,695
Total VeR	$	29,074	38,080	52,277	35,977

Currency		First semester 2016 Minimum	Mean	Maximum	Last
Local currency	$	25,041	37,771	48,239	38,489
Foreign Currency		1,965	5,049	10,226	3,740
Total VeR	$	28,481	42,820	55,899	42,229

As management tool for the administration to manage investment portfolios, several sensitivity analysis on such portfolios are made in different key points.

Below, the sensitivity results for the
semesters ended on December 31, 2016 and June 30, 2016 and, are show:

Classification		Second semester 2016 Value portfolio	25 BP	50 BP	75 BP	100 BP
Negotiation	$	470,333	(1,071)	(2,132)	(3,187)	(4,232)
Available for Sale		1,864,610	(10,316)	(20,514)	(30,600)	(40,568)
At maturity		569,222	(822)	(1,642)	(2,460)	(3,276)
VeR Total	$	2,904,164	(12,209)	(24,288)	(36,247)	(48,076)

Classification		First semester 2016 Value portfolio	25 BP	50 BP	75 BP	100 BP
Negotiation	$	395,604	(1,167)	(2,319)	(3,456)	(4,579)
Available for Sale		2,128,113	(14,348)	(28,518)	(42,523)	(56,355)
At maturity		514,079	(717)	(1,432)	(2,144)	(2,854)
VeR Total	$	3,037,796	(16,232)	(32,269)	(48,123)	(63,788)

In the monitoring activity the daily control of local and foreign currency negotiations is made versus the policies and limits approved by the Board of Directors which are in line with the risk profile of the entity. Additionally, it ensures for the total operations made by treasury to be made at market price.

In the same way, there is in place a monitoring at the pace of business of the trading positions in local currency made by treasury allowing to know the results of position of portfolio and the evolution of the same front at the levels of value in risk and Stop Loss authorized.

In connection with related and associated parties by Middle Office, the Board of Directors is monthly informed the detail of such parties indicating the type and amount of operation; as well as the other operations, which are subject of revision of market prices.

Concerning the topic of follow-up to means verifiable on a daily basis and through random sampling process the monitoring of Calls, E-mails, and Chats is made where the market negotiation conditions is evaluated as well, and the conduct of Treasury employees.

Finally, and as a complement to the control processes aforementioned, the administration and management of the users of the transactional systems MEC, SETFX, AND XSTREAM is centralized by the revision of the roles and profiles and the respective certifications by the immediate heads.

2. Risk of Interest Rate

The Bank has exposition to the effects of the interest rates market fluctuations influencing the financial position and the future cash flows. The risk arises as a result of placements made in investments and credit portfolio at variable interest rates and to use them with liabilities with cost at fixed interest rate or vice versa. The interest margins may increase as a result of the changes of interest rates, although they may as well reduce and create loss in the event that unexpected variation in such rates will occur.

Usually, the Bank obtains long-term external resources with variable interest, such as rediscounts with second floor financial entities which rates are compensated mainly with credit portfolio.

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The following table summarizes the Bank's exposure to changes in the interest rates. The table shows the average amount of asset and liabilities bearing interest or similar or with financial cost, respectively, during the semesters ended on December 31, 2016 and June 30, 2016 and December 31 and a sensitivity analysis of 50 points changes.

Semester ended on December 31, 2016

Details of the Account		Average of Semester	Income Expense of Interest	Mean interest rate	Variation 50 pb in the Interest Rate	
Financial Assets bearing interest					Favorable	Unfavorable
Market Active monetary operations in Col. Pesos	$	60,929	2,413	7.92%	1,523	(1,523)
Market Active monetary operations in foreign currency		25,426	204	1.60%	636	(636)
		86,355	**2,617**	**6.06%**	**2,159**	**(2,159)**
Investment in debt securities at reasonable value in Col. Pesos		2,171,236	6,048	0.56%	54,281	(54,281)
Investment in debt securities at reasonable value in foreign currency		208,465	832	0.80%	5,212	(5,212)
		2,379,701	**6880**	**0.58%**	**59,493**	**(59,493)**
Investment in debt securities at amortized cost in Col.		533,557	61,647	23.11%	13,339	(13,339)
Investment in debt securities at amortized cost in foreign currency		14,826	993	13.40%	371	(371)
		548,383	**62,640**	**22.85%**	**13,710**	**(13,710)**
Credit Portfolio in Col. Pesos		24,815,768	1,287,648	10.38%	620,394	(620,394)
Credit Portfolio in foreign currency		1,530,608	32,250	4.21%	38,265	(38,265)
		26,346,376	**1,319,898**	**10.02%**	**658,659**	**(658,659)**
Total financial Asset bearing interest in Col. Pesos	$	**27,581,490**	**1,357,756**	9.85%	**689,537**	**(689,537)**
Total financial Asset bearing interest in foreign currency	$	**1,779,325**	**34,279**	3.85%	**44,483**	**(44,483)**
Total financial Asset bearing interest	$	**29,360,815**	**1,392,035**	9.48%	**734,020**	**(734,020)**
Financial liabilities with financial cost						
Market Active monetary operations in Col Pesos	$	986,231	13,345	2,71%	24,656	(24,656)
Market Active monetary operations in foreign currency		555,941	69	0,02%	13,899	(13,899)
		1,542,172	**13,414**	**1,74%**	**38,554**	**(38,554)**
Client´s deposits in saving accounts and CDAT in Colombian Pesos		8,882,311	256,045	5,77%	222,058	(222,058)
		8,882,311	**256,045**	**5,77%**	**222,058**	**(222,058)**
Client´s deposits in certificates and fixed time deposits in Colombian Pesos		6,688,123	166,807	4,99%	167,203	(167,203)
		6,688,123	**166,807**	**4,99%**	**167,203**	**(167,203)**
Financial obligations in Colombian Pesos		4,507,939	175,364	7,78%	112,698	(112,698)
Financial obligations in foreign currency		2,186,708	16,867	1,54%	54,668	(54,668)
		6,694,647	**192,231**	5,74%	**167,366**	**(167,366)**
Total financial liabilities with financial cost in Col. Pesos	$	**21,064,604**	**611,561**	**5,81%**	**526,615**	**(526,615)**
Total Financial liabilities with financial cost in foreign currency	$	2,742,649	16,936	1,24%	68,566	(68,566)
Total financial liabilities with financial cost	$	**23,807,253**	**628,497**	**5,28%**	**595,181**	**(595,181)**
					162,922	(112,698)
Total net financial asset subject to risk of interest rate in Col. Pesos	$	**6,516,886**	**746,195**	**22,90%**	**162,922**	**(162,922)**
Total net financial asset subject to risk of interest rate in foreign currency	$	**(963,324)**	**17,343**	**-3,60%**	**(24,083)**	**24,083**
Total net financial asset subject to risk of interest rate	$	**5,553,562**	**763,538**	**27,50%**	**138,839**	**(138,839)**

Semester ended on June 30, 2016

Details of the Account		Average of Semester	Income Expense of Interest	Mean interest rate	Variation 50 pb in the Interest Rate	
					Favorable	Unfavorable
Financial assets bearing interest						
Market Active monetary operations in Col. Pesos	$	92,221	3,252	7.05%	2,304	(2,304)
Market Active monetary in foreign currency		39,867	196	0.99%	998	(998)
		132,088	**3,448**	**5.22%**	**3,302**	**(3,302)**
Investment in debt securities at reasonable value in Col. Pesos		2,217,021	3,548	0.32%	55,425	(55,425)
Investment in debt securities at reasonable value in foreign currency		191,997	2,536	2.64%	4,798	(4,798)
		2,409,018	**6,084**	**0.51%**	**60,223**	**(60,223)**
Investment in debt securities at amortized cost in Col.		499,941	103,218	41,29%	12,493	(12,493)
Investment in debt securities at amortized cost in foreign currency		15,570	1,262	16.21%	389	(389)
		515,511	**104,480**	**40.53%**	**12,882**	**(12,882)**
Credit Portfolio in Col. Pesos		22,649,190	1,142,011	10.08%	565,738	(565,738)
Credit Portfolio in foreign currency		1,786,597	33,929	3.80%	44,681	(44,681)
		24,435,787	**1,175,940**	**8.32%**	**610,419**	**(610,419)**
Total financial Asset bearing interest in Col. Pesos	$	25,458,373	1,252,029	9,84%	635,960	(635,960)
Total financial Asset bearing interest in foreign currency	$	2,034,031	37,923	3,73%	50,866	(50,866)
Total financial Asset bearing interest	$	27,492,404	1,289,952	9,38%	686,826	(686,826)
Financial liabilities with financial cost						
Market Active monetary operations in Col Pesos	$	755,404	23,456	6,21%	18,884	(18,884)
Market Active monetary operations in foreign currency		451,507	2,203	0,98%	11,297	(11,297)
		1,206,911	**25,659**	**4,25%**	**30,181**	**(30,181)**
Client´s deposits in saving accounts and CDAT in Colombian Pesos		9,990,638	228,654	4,58%	249,898	(249,898)
		9,990,638	**228,654**	**4,58%**	**249,898**	**(249,898)**
Client´s deposits in certificates and fixed time deposits in Colombian Pesos		5,571,495	114,403	4,11%	139,379	(139,379)
		5,571,495	**114,403**	**4,11%**	**139,379**	**(139,379)**
Financial obligations in Colombian Pesos		3,321,458	150,741	9,08%	83,090	(83,090)
Financial obligations in foreign currency		2,164,370	18,773	1,73%	54,058	(54,058)
		5,485,828	**169,514**	**6,18%**	**137,148**	**(137,148)**
Total financial liabilities with financial cost in Col. Pesos	$	**19,638,995**	**517,254**	**5,00%**	**491,251**	**(491,251)**
Total Financial liabilities with financial cost in foreign currency	$	**2,615,877**	**20,976**	**2,00%**	**65,355**	**(65,355)**
Total financial liabilities with financial cost	$	**22,254,872**	**538,230**	**5,00%**	**556,606**	**(556,606)**
Total net financial asset subject to risk of interest rate in Col. Pesos	$	**5,819,378**	**734,775**	**25,00%**	**144,709**	**(144,709)**
Total net financial asset subject to risk of interest rate in foreign currency	$	**(581,846)**	**16,947**	**(-6.00%)**	**(14,489)**	**(14,489)**
Total net financial asset subject to risk of interest rate	$	**5,237,532**	**751,722**	**29,00%**	**130,220**	**(130,220)**

Should during the semester ended on December 31, 2016, the interest rates had been 50 basic points lower, the other variables maintained unchanged, the profit of semester would be increased by $138,839 (June 30, 2016 $130,220), mainly as result of a lower expense for interest on variable liabilities interest.

Should during the semester ended on December 31, 2016, the interest rates had been 50 basic points higher, the other variables maintained unchanged, the profit of semester of the Bank would be decreased by $138,839 (June 30, 2016 $130,220), mainly as result of a decrease of marketable investments reasonable value.

The Bank is exposed to the risk of prepayment of loans granted at fixed interest rates including housing mortgage loans entitling the debtor to early repay the loans with no any sanction. The Bank's profits of the operational periods ended on December 31, 2016 and June 30, 2016 would not be changed in a significant manner due to changes in prepayment index because the credit portfolio and the right to prepay are for an amount similar to that of the credits.

3. Risk of foreign currency exchange rate variation

The Bank operates at international level and is exposed to variation of the exchange type resulting from the exposure in several currencies, mainly in connection with dollars of the United States of America, Euros, inter alia.

The risk of exchange type in foreign currency is the result of assets and liabilities recognized in the credit portfolio, financial obligations, investment in subsidiaries and branch offices abroad and in future commercial transactions.

In the same way, the Bank needs to comply with the own spot position which is determined by the difference between the asset and liabilities nominated in foreign currency, the derivatives and some investment excluded. The arithmetic average of three business days of the own spot position will not surpass 50% of the technical patrimony in foreign currency of the entity; in the same way, the arithmetic average of three business days this position can be negative without surpassing the equivalent to 20% of technical patrimony in foreign currency of the entity.

Additionally, it needs to accomplish with the limits of the leverage gross position, which is defined as the summation of the rights and obligations in contracts with future compliance in foreign currency with compliance between one bank business day (t+1) and three bank business days (t+3) and other derived over the type of exchange. The average of three business days of leverage gross position will not exceed five hundred fifty percent 550 (%) of amount of the entity´s technical patrimony.

The determination of maximum. or minimum amount of daily own position and of own spot position in foreign currency needs to be established based on the Bank's technical patrimony the last day of the second precedent calendar month, converted to the exchange rate set forth by Colombia Finance Superintendence at the closing month immediately precedent. Such limits are legally defined although usually the Bank uses lower limits. Below, the legal limits for own position and spot own position.

Own Position: Average of the third between 5% and 20% of entity's Technical Patrimony

Spot Own Position: Average of the third between -20% and 50% of entity's Technical Patrimony in foreign currency.

Additional to the legal limits, for the own position there is an internal limit of value in risk corresponding to $700 daily.

At December 31 and June 30, 2016, the exchange rates in foreign currency were the following in connection with Colombian Peso:

Type of currency		December 31, 2016	June 30, 2016
US Dollars (USD/COP)	$		
At the closing		3,000.71	2,919.01
Average of semester		2,981.98	3,126.03
Euros (EURO(COP)			
At the closing		3,152.31	3,240.68
Average of semester	$	3,246.92	3,470.52

Basically, all asset and liabilities in foreign currency of the Bank are maintained in US$ dollars. The following is the detail of asset and liabilities in foreign currency given in Col. Pesos maintained by the Bank at December 31, 2016 and June 30, 2016

December 31, 2016

Account		USA Dollars (millions)	Euros (millions)	Other currencies given in USA dollars (millions)	Total Col. Pesos (millions)
Asset	$				
Cash and equivalent to cash		54,68	9,43	0,15	194,245
Investments in certificates of debt marketable		58,63	-	-	175,925
Investments in certificates of debt available for sale		9,41	-	-	28,231
Investments in certificated of debt up to maturity		5,01	-	-	15,034
Investments in patrimony instruments available for sale		1,29	-	-	3,874
Instruments of derivatives of negotiation		(1,345.32)	(15,26)	-	(4,085,023)
Financial assets for credit portfolio at amortized cost		522,39	3,83	0,49	1,581,070
Other accounts receivable		0,00	1,13	-	3,580
Investments in controlled, associated companies and joint business		43,42	-	-	130,305
Total Asset		**(650,49)**	**(0,87)**	**0,64**	**(1,952,759)**
Liabilities					
Instruments derivatives of negotiation		(1,282,99)	(13,00)	-	(3,890,851)
Client´s deposits		8,56	1,27	0,08	29,925
Financial obligations		684,76	10,03	0,90	2,089,073
Other liabilities		1,78	0,01	0,01	5,408
Total liabilities		**(587,89)**	**(1,70)**	**1,00**	**(1,766,444)**
Net Active Position (liabilities)		**(62,60)**	**0,83**	**(0,36)**	**(186,315)**

June 30, 2016

Account		USA Dollars (millions)	Euros (millions)	Other currencies given in USA dollars (millions)	Total Col. Pesos (millions)
Asset					
Cash and equivalent to cash	$	60,0	6,00	0,10	194,032
Investments in certificates of debt marketable		71,00	-	-	207,009
Investments in certificates of debt available for sale		6,00	-	-	16,574
Investments in certificated of debt up to maturity		5,00	-	-	14,600
Investments in patrimony instruments available for sale		1,00	-	-	3,198
Instruments of derivatives of negotiation		29,00	(21,00)	-	16,897
Financial assets for credit portfolio at amortized cost		566,00	1,00	0,20	1,657,305
Other accounts receivable		1,00	-	-	2,304
Investments in controlled, associated companies and joint business		44,00	-	-	127,743
Total Asset		**783,00**	**(14,00)**	**0,30**	**2,239,662**
Liabilities					
Instruments derivatives of negotiation		29,00	(21,00)	-	16,920
Client´s deposits		18,00	1,00	0,10	56,267
Financial obligations		727,00	6,00	0,40	2,144,245
Other liabilities		1,00	-	-	2,689
Total liabilities		**776,00**	**(14,00)**	**0,40**	**2,220,121**
Net Active Position (liabilities)	$	**7,00**	**(0,10)**	**(0,10)**	**19,541**

Bank´s management has implemented policies requiring its subsidiaries to manage their type of exchange in foreign currency versus the functional currency. The Bank's Subsidiaries are required to economically cover their exposition to the type of exchange and for such purposes operations with derivatives especially with forward contracts.

The net position in foreign currency is controlled by the division of treasury who are the responsible for closing the positions adjusting them to the tolerance levels set out.

The Bank holds several investments in subsidiaries and branch offices abroad, which net assets are exposed to conversion risk of their financial statements for consolidation purposes. The exposure resulting from the net asset in operations abroad are covered mainly by obligations in foreign currency.

The effect estimated by the increase of each 0.10/US$1 in respect to the type of exchange at December 31/2016 would be an increase of $65 on the assets, $58 on the liabilities and $2 in the results ($77, $76 and $2, respectively, in nominal values, at June 30, 2016).

4. Risk of price

The Bank has exposure to risk of price of financial assets in patrimony instruments, due to changes in the price of the stocks in the stock markets. The most relevant risk is centered in the investments in stocks held in the Colombian Company subsidiary of the Grupo Aval, parent company as well of Banco de Occidente, where, at December 31, 2016 held participation by 4,6142% and at June 30, 2016 held participation by 4,5952%.

The Bank classifies its investments of variable income in equity securities where neither control nor significant influence is held, in the category of available for sale, when the basic objective is not to obtain profits from market price fluctuations, they are not listed in stock exchange or are of low marketability, nor in maturity expectation of the investment, nor make part of the portfolio supporting its liquidity in the financial intermediation nor expect to use it as guarantee in passive operations, because its raison d'etre is strategic, directly coordinated with the parent company.

According to the model of business, these investments will be sold when some of the condition below are accomplished:

- The investment no longer fulfills the conditions of Bank's investment policies (e.g. the credit rating of the asset drops below the required by Bank's investment policy);
- When important adjustments need to be made in the maturity structure of assets in order to become adapted to unexpected changes in maturity structure of Bank's liabilities.
- When the Bank requires to make significant capital investments, for instance, acquisition of other financial entities.
- When significant disbursements are to be made for acquisition or construction of property and equipment and the liquidity for such purposes is not sufficient.
- In the event of corporate reorganization process of Banco de Occidente holding company.
- To attend the requirements or unusual needs of credit disbursements.

In addition to above, the Bank has exposure to risk of price of the properties classified as investment, which are recorded at the reasonable value although the purpose is to obtain income with the lease. The Bank, on a semestral basis, updates the fair value of such assets based on appraisals made by independent experts.

5. Risk of liquidity

The risk of liquidity has to do with the impossibility of Bank to accomplish with the obligations assumed with the clients and counterparts of financial market at any time, currency and place, for such reason the Bank reviews on a daily basis its resources available.

The Bank manages the risk of liquidity according to the standard model set forth in Chapter VI of Accounting and Financial Basic Circular by Colombia Finance Superintendence and concordant with the regulations related to management of liquidity risk through the basic principles of the Liquidity Risk Management System (LRMS), listing the minimal prudential parameters in the supervision of the entities in the operation to efficiently manage liquidity risk they are exposed to.

In order to measure the liquidity risk indicators (LRI), the Bank calculates on a weekly basis at the terms 7, 15 and 30 days, according to provisions in the standard model of Colombia Finance Superintendence.

As a part of liquidity risk analysis, the Bank measures the volatility of deposits, the indebtedness levels, the structure of asset and liabilities, the degree of liquidity of asset and liabilities, the availability of financing lines and the general effectiveness of asset and liabilities management; above, for the Bank to ensure enough liquidity (including liquid asset, guarantees and collaterals) to face with potential scenarios of own or systemic stress.

The quantification of funds obtained in the monetary market is an integral part of the measurement of liquidity made by the Bank; supported on the biweekly reserve requirement, the Bank determines the primary and secondary liquidity sources in order to diversify the suppliers of funds, for the purpose to maintain the ensure the stability and sufficiency of resources and minimize the concentration of sources.

Once the source of recourses have been determined, they pass to support the need of funds, according to the demand and need of placement taking into account the budget, the nature and the depth of markets.

The availability of resources are daily monitored both to accomplish with requirements of reserve and to foresee and/or anticipate the potential changes in the Bank's profile of risk of liquidity and this way to make the strategic decisions as applicable. In this connection, the Bank has available alert indicators of liquidity allowing for establishing and determining the scenario where the Bank is found, as well as the strategies to be followed in any event. Such indicators include, inter alia, the LRI, the deposit concentration levels, the use of quotas of liquidity of the Central Bank, inter alia.

Based on the technical committees of assets and liabilities (Finance Committee and ALCO Committee), the Bank management is aware of the liquidity situation of the entity and makes the decisions necessary taking into account the high-quality liquid assets to be maintained, the prudence in the management of liquidity or the minimum liquidity, the strategies to grant loans and the raise of resources, the policy about the placement of the excess of liquidity, the changes in features of existing products, as well as the new products, the diversification of sources of funds to prevent the concentration of fundraising in few investors or savers, the strategies of hedging, the results of the Bank and the changes of balance structure. To control the risk of liquidity between the assets and liabilities, the Bank conducts statistics analysis in order to determine the stability of fundraising with and without contractual maturity.

To accomplish with the requirements by the Central Bank and Colombia Finance Superintendence, the banks in Colombia need to maintain cash and banks restraint as part of legal reserve required and calculated over the daily average of the different deposits of clients, the current percent is 11% over the requirements excepting the time deposit certificates with term less than 540 days the percent of which is 4.5% and 0% when exceeds such term. The Bank has been properly complying with this requirement.

Item	Required
Deposit of enforceability at sight and before 30 days	11%
Deposit of official establishments	11%
Deposit enforceability after 30 days	11%
Ordinary saving deposit	11%
Time saving deposit	11%
Back-purchase commitment of marketable investments	11%
Other accounts different from deposits	11%
Time deposit certificates	
With term less than 540 days	4.5%
With term equal to or more than 540 days	0%

The following is the summary of the liquid assets available projected in 90 days period of Bank with closing December 31 and June 30, 2016, according to the provisions for such purposes by Colombia Finance Superintendence.

December 31, 2016

Description		Balance December 31, 2016	1 to 7 days	8 to 15 days	16 to 30 days	Day 1 to 30 total	31 to 90 days
Assets							
Liquid Assets (1)							
Cash and Bank Deposits	$	1,947,601	-	-	-	-	-
Monetary Market Operations		-	4,545	-	-	4,545	-
Marketable investments in certificates of debt		1,429,433	1,434	313	3,687	5,434	80,050
Marketable investments in participation securities		-	-	-	-	-	-
Investments to hold up to maturity		504,225	-	-	111,744	111,744	111
Other liabilities and credit contingencies		985	-	-	-	-	-
Sub-Total		3,882,244	5,979	313	115,431	121,723	80,161
Contractual Assets Maturity		-					
Ordinary inter-banking funds sold		-	136,634	-	-	136,634	-
Rights of investment Transfer		-	615,581	20,494	-	636,075	21,470
Credit Portfolio		-	397,415	417,826	1,000,995	1,816,236	2,858,830
Financial Instruments Derivatives		-	99,917	114,338	276,154	490,410	572,791
Others		-	147,802	168,917	316,719	633,439	1,628,603
Flow of income with contractual maturities of asset and off-balance positions – FIVC		-	1,403,328	721,888	1,709,299	3,834,517	5,161,855
Contractual maturities liabilities		-					
Monetary Market Operations		-	828,193	140,850	30,091	999,135	60,412
Time Deposit Certificates CDT and CDAT'S		-	282,015	263,736	474,015	1,019,765	1,877,962
Financial Instruments derivatives		-	94,022	-	418,109	512,131	621,300
Financial Obligations		-	32,727	80,281	128,240	241,248	628,734
Other Liabilities		-	137,042	137,042	293,661	567,744	278,829
Flow of expenses with contractual maturities and off-balance positions – FEVC		-	1,373,999	621,908	1,344,116	3,340,023	3,467,237
Net (estimate) flow of contractual maturities - FNVNC		14,646,215	341,745	390,566	732,311	1,464,622	2,929,243
Net Flow		-	(318,022)	(295,285)	(493,069)	(1,106,376)	(1,344,805)
Net (estimate) Liquid requirement – RLN (2)	$	-	428,936	295,285	519,107	1,201,161	1,599,120
IRL Partial		-	3,453,307	3,158,023	2,638,916	2,681,082	1,081,962
IRL Partial		-	905.09%	536.06%	312.25%	323.21%	138.64%

Description		Balance June 30 2016	1 to 7 days	8 to 15 days	16 to 30 days	Day 1 to 30 total	31 to 90 days
ASSETS							
Liquid Assets (1)							
Cash and Bank Deposits	$	2,039,859	-	-	-	-	-
Monetary Market Operations		-	5,618	-	-	5,618	-
Marketable investments in certificates of debt		1,570,947	62,822	2,857	77,102	142,781	16,227
Marketable investments in participation securities		-	-	-	-	-	-
Investments to hold up to maturity		454,438	-	-	119,543	119,543	8,791
Other liabilities and credit contingencies		502	-	-	-	-	-
Sub-Total		4,335,746	68,440	2,857	196,645	267,942	25,018
Contractual Assets Maturities							
Ordinary inter-banking funds sold		-	79,416	-	-	79,416	-
Rights of investment Transfer		-	724,811	-	-	724,811	-
Credit Portfolio		-	355,131	512,336	1,003,306	1,870,773	2,599,664
Financial Instruments Derivatives		-	100,577	185,536	273,763	559,877	579,396
Others		-	152,264	174,016	326,281	652,562	10,624,021
Flow of income with contractual maturities of asset and off-balance positions – FIVC		-	1,412,199	871,888	1,603,350	3,887,439	13,803,081
Contractual maturities liabilities							
Monetary Market Operations		-	812,704	-	-	812,704	
Time Deposit Certificates CDT and CDAT'S		-	180,209	190,286	403,278	773,773	2,111,179
Financial Instruments Derivatives		-	107,107	-	423,398	530,505	522,465
Financial Obligations		-	46,533	77,272	203,913	327,718	979,661
Other Liabilities		-	125,269	125,269	268,434	518,972	4,853,529
Flow of expenses with contractual maturities and off-balance positions – FEVC		-	**1,271,822**	**392,827**	**1,299,023**	**2,963,672**	**8,466,834**
Net (estimate) flow of contractual maturities - FNVNC		15,074,743	351,744	401,993	753,737	1,507,474	3,014,949
Net Flow		-	(211,367)	77,068	(449,410)	(583,709)	2,346,317
Net (estimate) Liquid requirement –RLN (2)		-	405,892	198,705	513,190	1,117,787	2,870,446
IRL Partial		-	3,929,854	3,731,149	3,217,959	3,217,959	347,513
IRL Partial			1068.20%	717.13%	387.88%	387.88%	108.71%

(1) The liquid assets correspond to the sum of the assets existing at the closing each period that, due to their characteristics can be quickly convertible into cash. Within these assets the cash and banks are found, the securities or coupons transferred to the entity in development of monetary market active operations made by such entity and that have not been subsequently used in passive operations in the monetary market, the investments in certificates of indebtedness at reasonable value and the investments at amortized cost, as long as in this last event, it refers to forced or compulsory investments subscribed in the primary market and that it is allowed to make in them monetary market operations. For calculation purposes of the liquid asset, all investments indicated, with no any exception, are computed by their exchange reasonable price in the date of evaluation.

(2) The balance corresponds to residual value of the liquid asset of the entity in the days following the closing of period, after discounting the net difference between the flows of income and expenses of cash of the entity in that period. This calculation is made by the analysis of mismatching of contractual and non-contractual cash flows of the assets, liabilities and off-balance position in range of time 1 to 90 days.

Above liquidity, calculations are prepared assuming a normal situation of liquidity according to the contractual flows and the historical experience of the Bank. For extreme liquidity events due to withdraw of deposits, the Bank has in place contingency plans including the existence of credit lines from other entities and access to especial credit lines with the Central Bank according to the regulations prevailing, which are granted at the time required with the support of Colombian Government obligations and with the credit portfolio of high-quality credit in accordance with the rules issued by the Central Bank. During semesters ended on December 31, and June 30, 2016, the Bank did not use these quotas of credit as the last resource.

The Bank has made an analysis of the maturities for financial liabilities showing the following remaining contractual maturities:

December 31, 2016

Description		Up to 1 Month	More than 1 month and no more than 3 months	More than 3 months and no more than 1 year	More than 1 year and no more than 5 years	More than Years	Total
Financial Liabilities							
At reasonable value							
Instruments derivatives	$	53,758	45,390	84,455	7,932	657	192,192
		53,758	**45,390**	**84,455**	**7,932**	**657**	**192,192**
At amortized cost							
Monetary market operations		1,006,399	60,285	-	-	-	1,066,684
Clients' Deposits		15,428,534	1,840,250	1,516,477	1,201,210	883,367	20,869,838
Short- and long-term financial operations		411,792	512,918	559,880	117,938	-	1,602,528
Bonds and securities of investment		-	150,030	376,700	2,284,863	-	2,811,593
Obligations with rediscount entities		395	2,919	29,709	389,031	564,697	986,751
Total financial liabilities	**$**	**16,847,120**	**2,566,402**	**2,482,766**	**3,993,042**	**1,448,064**	**27,337,394**
		16,900,878	**2,611,792**	**2,567,221**	**4,000,974**	**1,448,721**	**27,529,586**

June 30, 2016

Description		Up to 1 Month	More than 1 month and no more than 3 months	More than 3 months and no more than 1 year	More than 1 year and no more than 5 years	More than Years	Total
Financial Liabilities							
At reasonable value							
Instruments derivatives	$	52,610	87,782	70,929	14,249	109	225,679
		52,610	87,782	70,929	14,249	109	225,679
At amortized cost							
Monetary market operations		951,266	108,512	38,083	-	-	1,097,861
Clients' Deposits		15,830,233	2,049,418	1,264,127	1,371,451	813,803	21,329,032
Short- and long-term financial operations		374,530	757,882	556,217	130,773	-	1,819,402
Bonds and securities of investment		-	71,940	150,030	939,423	1,319,836	2,481,229
Obligations with rediscount entities		542	7,797	37,644	389,304	507,370	942,657
		17,156,571	**2,995,549**	**2,046,101**	**2,830,951**	**2,641,009**	**27,670,181**
Total financial liabilities	$	**17,209,181**	**3,083,311**	**2,117,030**	**2,845,200**	**2,641,118**	**27,895,860**

Through Finance Committee, the Financial Risk Committee (risk of treasury and credit risk) and the Board of Directors is aware of the Bank's liquidity situation and makes the decisions necessary taking into account the high-quality liquid assets to be maintained, the tolerance in the liquidity management or minimum liquidity, the strategies to grant the loans and the gathering of resources, the policies about the placement of liquidity investment, the changes in the characteristics of the products existing, as well as the new products, the diversification of fund sources to prevent the concentration of resources in some few investors or savers, the hedging strategies, the Bank's results and the changes of balance structure.

b. Risk of credit

Exposure to credit risk

The Bank has exposure to credit risk, when the debtor produces any financial loss to the Bank due to the default to timely comply with the obligations related to the total debt. The exposure of Bank to risk of credit results from its credit activities and transactions with counterparts giving rise to financial assets.

The maximal Bank exposure to credit risk, according to IFRS 7, is reflected in the carrying value of financial assets in Bank's statement of financial situation.

The potential netting impact of assets and liabilities to potentially reduce the exposure to risk of credit is not significant.

For guarantees and commitments to extend the amount of credits, the maximal exposure to credit risk is the amount of commitment for such effect; see Note 23. The credit risk is reduced by guarantees and collaterals, as described below:

Mitigation of credit risk, guarantees and other improvements of credit risk

In most of the events, the Bank max. exposure to credit risk is reduced by collaterals and other improvement of credit, which reduce the Bank credit risk. The existence of guarantees may be an action necessary but not a sufficient instrument to accept the credit risk. The Bank's policies related to the credit risk require the evaluation of debtor´s payment capacity and that the debtor may obtain enough funding resources allowing for the amortization of debts.

The policy of acceptance of risk is, therefore, organized at three different levels in the Bank.

- **Analysis of financial risk:** To grant credits, there are several different models to assess the credit risk: scoring models to assess the credit risk of consumption portfolio. In the initial client's evaluation logistic regression models are applied by assigning a score to the client, based on socio-demographic variables and some other factors of behavior with the sector, and allow for determining whether the applicant is subject of credit according to the policy of Bank concerning the minimum score required. There are as well tracking models mainly using client´s payment behavior variables and some socio-demographic variables, allowing for rating the clients and determining the probability of default in the next year.
  For commercial portfolio, the Bank has in place rating models, specifically logistic regression models, the variables of which are basically financial indicators. With these variables, the entry models are obtained, and for tracking models, payment behavior variables are added as the maximal default in the precedent year, counters of arrears, inter alia. This way, there are in place entry and tracking models for the Industry, Commerce, Services segments, Territorial Entities and Financial Entities.

- The provision of guarantees with proper debt compliance rates and accepted according to the policy of credit of each bank according to the risk assumed in any of requirements such as personal guarantees, monetary deposits, securities and mortgage guarantees.

Evaluation of liquidity risk of the guarantees received

The methods used to evaluate the guarantees are in line with the best market practices and imply the use of independent appraisers of real property, the market value of securities or the valuation of the companies issuing the securities.

All guarantees need to be legally evaluated and made following the provision parameters according to the legal provisions applicable.

At December 31, 2016 and June 30, 20, the following is the detail of credit portfolios by type of guarantee received to support the credits granted by the Bank:

December 31, 2016

		Commercial	Consumption	Housing	Financial Leasing	Total
Unsecured Credits	$	7,344,859	4,717,724	2,216	39,947	12,104,746
Credits Ensured by other Banks		413,045	3,145	-	4,779	420,969
Housing		20,235	10,220	438,469	11	468,935
Other Real Property		1,024,933	17,230	-	4,975	1,047,138
Investment in Patrimony Instruments		499,520	1,779	-	-	501,299
Goods in leasing		-	-	559,914	2,148,734	2,708,648
Non-real property goods		-	-	-	1,802,273	1,802,273
Trust Contracts, standby and funds of guarantees		2,456,673	2,625	-	137,547	2,596,845
Pledging of Income		928,188	401	-	5,740	934,329
Pledges		479,486	2,030,343	-	1,183	2,511,012
Other Assets		1,185,894	40,042	10,042	368,383	1,604,361
Total Gross Credit Portfolio	**$**	**14,352,833**	**6,823,509**	**1,010,641**	**4,513,572**	**26,700,555**

June 30, 2016

		Commercial	Consumption	Housing	Financial Leasing	Total
Unsecured Credits	$	7,689,909	4,467,300	1,548	43,644	12,202,401
Credits Ensured by other Banks		339,119	4,335	-	3,860	347,314
Housing		23,571	11,767	377,859	-	413,197
Other Real Property		906,178	17,103	-	3,156	926,437
Investment in Patrimony Instruments		509,909	5,149	-	-	515,058
Goods in leasing		-	-	548,673	2,405,393	2,954,066
Non-real property goods		-	-	-	1,815,664	1,815,664
Trust Contracts, standby and funds of guarantees		2,416,483	1,205	-	159,170	2,576,858
Pledging of Income		866,326	-	-	7,366	873,692
Pledges		496,325	1,956,210	-	1,620	2,454,155
Other Assets		843,271	59,965	-	118,892	1,022,128
Total Gross Credit Portfolio	**$**	14,091,091	**6,523,034**	**928,080**	**4,558,765**	26,100,970

Policies to prevent excess of credit risk concentration

In order to prevent excess of credit risk concentration, at individual level, of the country or of economic sectors, the Bank maintains indexes of max. risk concentration levels updated at individual level and by portfolios of sectors. The Bank's exposure limit in any credit commitment to any specific client is dependent on the client's risk rating, the nature of risk involved, and the presence of the Bank in any specific market.

For the purposes to prevent credit risk concentration, the Bank has in place the Vice Presidency of Risk to consolidate and monitor the exposure to credit risk of the Bank as a whole, and the Board of Directors at the level of the Bank issues policies and consolidated maximal exposure limits.

Under credit risk management, continuous tracking of risk concentration through the exposure limit or concentration of commercial portfolio, determining that in no any economic activity (CIIU at 4 digits) may be held debts more than 9% of the commercial portfolio without exceeding 40% Total Patrimony of the Bank.

The following is the detail of credit risk at Bank level in the several different geographic areas determined in accordance with the debtor's country of residence, irrespective of the provisions made by impairment of debtors' credit risk.

December 31, 2016

		Commercial	Consumption	Housing	Financial Leasing	Total
Colombia	$	14,057,684	6,823,509	1,010,641	4,513,572	**26,405,406**
Panama		3,765	-	-	-	3,765
United States		4,242	-	-	-	4,242
El Salvador		45,108	-	-	-	45,108
Guatemala		4,254	-	-	-	4,254
Other Countries		237,780	-	-	-	237,780
Total Gross Credit Portfolio	**$**	**14,352,833**	**6,823,509**	**1,010,641**	**4,513,572**	**26,700,555**

June 30, 2016

		Commercial	Consumption	Housing	Financial Leasing	Total
Colombia	$	14,057,684	6,823,509	1,010,641	4,513,572	**26,405,406**
Panama		3,765	-	-	-	3,765
United States		4,242	-	-	-	4,242
El Salvador		45,108	-	-	-	45,108
Guatemala		4,254	-	-	-	4,254
Other Countries		237,780	-	-	-	237,780
Total Gross Credit Portfolio	**$**	**14,352,833**	**6,823,509**	**1,010,641**	**4,513,572**	**26,700,555**

Below the distribution of Bank's credit portfolio is showed by economic sector at December 31, 2016 and June 30, 2016.

December 31, 2016

Sector		Trading	Consumption	Housing	Financial Leasing	Total General	% Part
Salaried	$	111,595	5,088,853	757,462	36,228	5,994,138	22,45%
Wholesale and retail trade, repair of automobiles and Motorcycles		2,713,082	357,308	33,717	901,257	4,005,364	15,00%
Manufacturing industries		2,037,803	103,447	9,069	607,578	2,757,897	10,33%
Construction		2,448,504	37,547	9,749	440,765	2,936,565	11,00%
Transport and Storing		969,380	62,699	18,430	436,632	1,487,141	5,57%
Financial and Insurance Activities		945,056	10,390	4,242	126,230	1,085,918	4,07%
Public and Defense Administration, Social Security Plans of Mandatory Affiliation		1,112,044	1,517	126	21,966	1,135,653	4,25%
Capital Rentier		222,788	722,260	84,472	26,977	1,056,497	3,96%
Human Healthcare Activities and Social Assistance		551,567	53,956	22,719	297,936	926,178	3,47%
Real Estate Activities		372,189	29,724	8,251	491,425	901,589	3,38%
Professional, Scientific and Technical Activities		483,897	113,280	32,824	189,274	819,275	3,07%
Agriculture, Cattle Raising, Hunting, Forestry, and Fishing		493,965	73,051	6,449	120,588	694,053	2,60%
Administrative Services and Support Activities		355,320	40,348	6,493	139,980	542,141	2,03%
Supply of Electricity, Gas, Steam Conditioning Air		340,839	536	-	218,904	560,279	2,10%
Exploitation of Mines and quarries		395,909	2,705	-	77,130	475,744	1,78%
Accommodation and Meals Services		263,819	56,195	8,903	82,603	411,520	1,54%
Information and Communications		104,918	12,529	1,583	88,519	207,549	0,78%
Education		144,513	9,327	2,297	61,800	217,937	0,82%
Other Activities of Services		96,230	31,741	1,738	63,115	192,824	0,72%
Water Distribution, Water Evacuation and Treatment of sewage waters, waste management and environmental Sanitation activities		113,426	3,707	89	57,460	174,682	0,65%
Artistic Activities, Training and Recreation		74,647	8,682	1,597	27,156	112,082	0,42%
Household Activities as employers, activities not differentiated from individual households as producers of goods and services for the own use		1,162	3,441	431	33	5,067	0,02%
Activities of Organizations and extra territorial entities		**180**	266	-	16	462	0,00%
Total by Economic Destination	$	14,352,833	**6,823,509**	**1,010,641**	**4,513,572**	**26,700,555**	**100%**

June 30, 2016

Sector		Trading	Consumption	Housing	Financial Leasing	Total General	% Part
Salaried	$	118,407	4,861,344	695,781	37,217	5,712,749	21.89%
Wholesale and retail business, repair of automobiles and Motorcycles		2,741,531	344,212	28,837	879,524	3,994,104	15.30%
Manufacturing industries		2,073,715	97,692	8,488	591,963	2,771,858	10.62%
Construction		1,918,542	37,908	9,214	448,705	2,414,369	9.25%
Transport and Storing		938,660	60,712	17,332	479,056	1,495,760	5.73%
Financial and Insurance Activities		1,249,253	10,290	4,610	93,002	1,357,155	5.20%
Public and Defense Administration, Social Security Plans of Mandatory Affiliation		1,099,320	2,880	142	19,362	1,121,704	4.30%
Capital Rentier		213,739	684,538	75,012	24,347	997,636	3.82%
Human Healthcare Activities and Social Assistance		507,189	55,150	22,705	309,961	895,005	3.43%
Real Estate Activities		333,777	27,868	6,976	505,403	874,024	3.35%
Professional, Scientific and Technical Activities		500,060	112,188	31,176	188,031	831,455	3.19%
Agriculture, Cattle Raising, Hunting, Forestry, and Fishing		532,999	69,512	6,105	107,801	716,417	2.74%
Administrative Services and Support Activities		384,457	37,192	7,026	152,083	580,758	2.23%

Supply of Electricity, Gas, Steam Conditioning Air	321,137	355	-	223,429	544,921	2.09%
Exploitation of Mines and quarries	434,254	2,650	-	107,037	543,941	2.08%
Accommodation and Meals Services	193,879	52,406	7,681	81,466	335,432	1.29%
Information and Communications	119,045	13,010	1,382	92,822	226,259	0.87%
Education	119,121	9,212	2,281	67,619	198,233	0.76%
Other Activities of Services	104,154	30,643	1,320	58,254	194,371	0.74%
Water Distribution, Water Evacuation and Treatment of sewage waters, waste management and environmental Sanitation activities	120,882	2,907	95	61,490	185,374	0.71%
Artistic Activities, Training and Recreation	66,364	8,375	1,597	30,160	106,496	0.41%
Household Activities as employers, activities not differentiated from individual households as producers of goods and services for the own use	407	1,710	320	-	2,437	0.01%
Activities of Organizations and extra territorial entities	199	280	-	33	512	0.00%
Total by Economic Destination	**$ 14,091,091**	**6,523,034**	**928,080**	**4,558,765**	**26,100,970**	**100%**

Process to granting credits and counterpart quotas

The Bank assumes the risk of credit in two fronts: the credit activity itself, including commercial, consumption, and mortgage operations and treasury activity, including inter-bank operations, investment portfolios administration, operations with derivatives and negotiation of foreign currency, inter alia. In spite that they are independent business, the nature of counterparty insolvency risk is equivalent, and hence, the management criteria are the same.

The principles and standards to manage the credit and the risk of credit in the Bank are included in the Manual of Credit Risk Management System (CRMS), worked out both for traditional banking activity and for treasury activity. The evaluation criteria to measure the risk of credit follow the main instructions given by the Committees of Financial Risks.

The top authority in connection with credit activity is the Board of Directors, that have in place the general policy and is empowered to grant the highest credit levels allowed. In the banking operation the faculties to grant quotas and credits are dependent on the amount, term and guarantees offered by the client. The Board of Directors has delegated a portion of its credit faculty to several different states and officers, who process the credit applications and are responsible for the analysis, tracking and result.

On the other hand, in the operations of treasury, the Board of Directors approves the operation and counterpart quotas. The control of risk is made through essential mechanisms: annual allocations of operation and daily control quotas, quarterly solvency evaluation by issuers and report of investment concentration by economic group.

Additionally, for the approval of credits the probability of compliance, the counterpart's quotas, and the recovery rate of guarantees received, the term of credits and the concentration by economic sectors, among other considerations, are taken into account.

The Bank has in place a Credit Risk Management System (CRMS), administered by the Directorate of Credit and operative Risk and includes, inter alia, the design, implementation and evaluation of policies and tools of risk defined by the Committee of Financial Risks and the Board of Directors. The progression obtained by CRMS have allowed to obtain significant achievements in the integration of the credit risk measurement tools in credit granting process and tracking by the Bank.

In the granting process, the Macroeconomic adjustment to the probability of default (PD) is taken into account, applied in order to identify and consider the relationship and the trend potentially existing between behavior of macroeconomic variables and the probability of default.

The off-balance credit risk of financial instruments is defined as the possibility to have loss due to failure of the counterpart to accomplish with the contract terms. The Bank uses the same credit policies in the assumption of the off-balance contractual obligations through the policies given to approve credits, limits and monitoring procedures.

Monitoring process of credit risk

Monitoring and tracking process to Bank's credit risk is made in several stages including tracking and management of daily collection based on the analysis of overdue portfolio by age, rating by risk levels, permanent follow-up to high-risk clients, operation restructuring process and receipt of goods received in payment.

On a daily basis, the Bank produces expired portfolio listings and based on these analyzes, various Bank personnel perform collection procedures through telephone calls, emails, or written collection requirements.

The Bank, under the credit risk management, performs, on a monthly basis, the tracking of concentration risk by the exposure limit or concentration of the Commercial Portfolio, determining that in no any economic activity (CIIU at 4 digits) will be not debts exceeding 9% of the Commercial Portfolio without exceeding 40% Total Bank Patrimony.

The Bank quarterly makes an individual analysis of credit risk with outstanding balance more than $500, based on the client's updated financial information, compliance with the terms agreed on, guarantees received, and consultations to risk centrals, based on such information, the clients are classified by risk levels, in Category A – Normal, B – Subnormal, C – Deficient, D – Doubtful collection, E – unrecoverable.

For the mortgage credits, the above qualification by risk levels, is monthly made taking into account mainly the arrears.

The exposure to credit risk is managed through a periodical analysis capacity of the borrowers, or potential borrowers to determine their capacity to pay capital and interest. The exposure to credit risk is limited as well, partially, by the obtainment of collateral corporate or personal guarantees.

At December 31 and June 30, 2016 the following is the summary of portfolio by rating of risk levels:

		December 31, 2016	June 30, 2016
Commercial			
“A” Normal Risk	$	13,206,150	13,034,789
“B” Acceptable Risk		509,012	539,162
“C” Appreciable Risk		280,128	196,455
“D” Significant Risk		272,345	249,085
“E” Risk of Uncollectible		85,198	71,600
Gross balance of commercial portfolio		**14,352,833**	**14,091,091**
Consumption			
“A” Normal Risk		6,242,079	5,974,883
“B” Acceptable Risk		157,801	170,769
“C” Appreciable Risk		137,605	137,562
“D” Significant Risk		173,322	149,504
“E” Risk of Uncollectible		112,702	90,316
Grossbalance of consumption portfolio		**6,823,509**	**6,523,034**
Housing			
“A” Normal Risk		970,936	887,530
“B” Acceptable Risk		7,512	13,593
“C” Appreciable Risk		253	371
“D” Significant Risk		28,057	23,193
“E” Risk of Uncollectible		3,883	3,393
Gross balance of housing portfolio		**1,010,641**	**928,080**
Financial leasing			
“A” Normal Risk		4,066,680	4,064,859
“B” Acceptable Risk		189,370	216,205
“C” Appreciable Risk		114,110	133,532
“D” Significant Risk		98,248	91,785
“E” Risk of Uncollectible		45,164	52,384
Gross balance of leasing portfolio		**4,513,572**	**4,558,765**
Gross balance of financial assets by ca	**$**	**26,700,555**	**26,100,970**

The Bank, on a quarterly basis makes the analysis of clients with potential significant impact for loss to the Bank and the relevant provisions are made according to provisions by Colombia Finance Superintendence. The follow-up to clients under risk of default, is made by UNA “Unidad de Normalización de Activos” and based on such list, the persons to make the individual follow-up are appointed for each client. This activity includes meetings in order to determine the potential reason of risk and to implement joint solutions to obtain the debtor’s compliance with its obligations.

Restructuring of credit operations due to debtor’s financial problems

The Bank periodically makes restructuring of the debt of those clients with problems to comply with their credit obligations to the Bank requested by the borrower. Such restructuring usually consists in extension of term initially agreed upon, lower interest rate, partial debt forgiveness or any combinations of the above.

The basic policy to grant such refinancing is to provide the clients with a financial viability allowing for them to adapt the condition to pay the debt to a new situation of funds generation.

When any credit is restructured due to borrower’s financial problems, Colombia Finance Superintendence labels such debt in the records of the Bank as restructured credit according to the regulations. The restructuring process implies a negative impact on the borrower’s credit rating. The risk rating made at the time of restructuring only is improved when the client is properly accomplishing with the terms of the agreement a prudential period and its new financial situation is suitable or additional sufficient guarantees have been obtained.

Restructured Credits		**December 31, 2016**	**June 30, 2016**
	$		
Local interest-bearing		$ 203,830	151,660
Local non-interest bearing		233,933	247,035
Total restructured	**$**	**$ 437,763**	**398,695**

Receipt of goods received in payment

When the compelling collection processes or restructured credits are not effective within the prudent time, it is proceeded to make the legal collection or agreements with the clients are reached to receive the good received in payment. The Bank has in place clearly established policies to receive goods in payment and there are separated departments specialized in the management of these events, receipt of goods in payment and the subsequent sale.

During semesters ended on December 31 and June 30, 2016, the following is the detail of the goods received in payment and sold in such periods:

		December 31, 2016	**June 30, 2016**
Goods received in payment	$	55,681	3,182
Goods sold		(4.610)	(23)
Total	**$**	**$ 51,071**	**3,158**

c. Operative Risk

The Bank has in place the Operative Risk Management System (ORMS) implemented in accordance with the guidelines set forth in the Chapter XXIII of Accounting and Financial Basic Circular (External Circular 100/1995), by Colombia Finance Superintendence.

Thanks to ORMS the Bank has improved the understanding and control of risks in processes, activities, products and operative lines, and this way the reduction of errors and the identification of enhancement opportunities supporting the development and operation of new products and/or services.

In the Bank’s Operative Risk Manual, the policies, standards and procedures are found ensuring the business management under the levels defined of appetite to the risk. There is in place as well the Manual of Continuance of Business Plan for the operation of Bank in the event of critical processes interruption.

The Bank keeps a detailed registry of the Operative Risk Events, supplied by the Bank’s operative Risk Events, supplied by the Bank’s information systems and the Managers of Risk, with the registry of accounts of expenses allocated to the proper accounting tracking.

On monthly and quarterly basis, the ORMS committee is informed and the Board of Directors, respectively, about the most important issues occurred in connection with operative risk, such information including monitoring to corrective actions implemented aimed at mitigating the risk qualified in extreme and high zones, the evolution of loss for operative risk, the action plans based on the events occurred, inter alia. In the same way, the changes in the profile of risk are reported, as from the identification of new risks in the actual and new processes.

The Operative Risk Unit, is administered by the Operative Risk and Continuance of Business Management, under the Credit and Operative Risk Management, and this, in turn, under the Risk and Collection Vice Presidency.

The Operative Risk and Continuance of Business Unit includes three analysts of Continuance of Business and one Coordination of Operative Risk with seven analysts of Operative Risk involved.

The net loss recorded due to operative risk events in the second half-year 2016 were $ 3.462, discriminated as follows: Other Lawsuits in Judicial or Arbitration Administrative Process (50%), Operative Risk (21%), other assets (19%) and other accounting Accounts (10%).

According to Basle Classification Risk, the events occurred in: Legal (52%, $1,806), External Fraud (17%, $571), $ 402), Technological Failures (16%, $564) Execution and Administration of Processes (13%, $439), and other (2%, $ 81).

The legal risk, the most relevant events corresponds to sentence against the Bank for the receipt od Leasing Habitational prepayment with resources of a client, who was under judicial liquidation ($1,003).

In the external fraud, the events with more incidence are those originated by non-face-to-face purchases ($ 140), substitution ($56), lost card ($43) and falsehood or copy of the magnetic band ($53),

In technological failures, the events corresponds to failures in the Core Pasivs implementation project ($564).

Due to errors in the execution and administration of processes, the main event originates for sanction due to the untimely submission of self-withholding declarations of ICA in Manizales Municipality ($254).

Concerning the operative risk profile, at December 31, 2016, 193 processes are considered, to which the Bank has identified the risks and controls. To generate the profile of risk, the debugging of duplicate risk and control, movements of charges (Risk Managers) updating applicative and procedures were taking into account, as well as the modification to documented processes by the Process and Project Division.

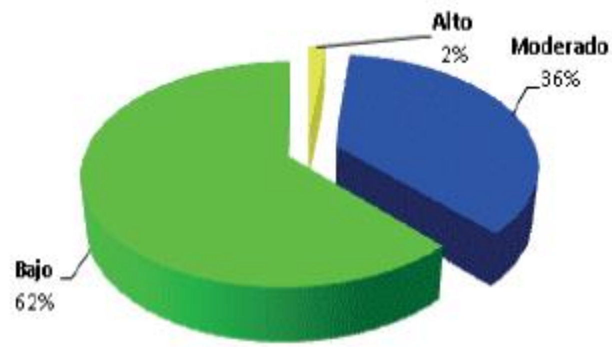
The evolution of figures resulting from the updating of profile of the Bank's operative risk at December 31, and June 30, 2016, is shown below:

	December, 2016	**June, 2016**
Processes	193	208
Risks	995	1,199*
Failures	3,167	4,106
Controls	3,606	4,701*

*The diminution of risks and controls is the result from an impairment project for optimization thereof

Below the Bank`s consolidate risk profile is given with closing June 2016:

Residual risks December 2016		
Extreme	0	0%
High	16	2%
Moderate	361	36%
Low	618	62%
Total	**995**	**100%**



Continuance of Business Plan

According to the definition by Colombia Finance Superintendence and as a portion of the Operative Risk Management, the Continuance Business Plan makes reference to the detailed set of actions describing the procedures, the systems and the resources necessary to take again and continue the operation in the event of any interruption.

In the second semester 2016, the work of permanent updating of the Continuity model (updating of strategies, plans, and directories) as well as the permanent monitoring of compliance to the agreements of levels of service for the relevant updating of them, and the conduction of both technological and operative tests.

Lastly, and in compliance with External Circular 042, 2016 of Colombia Finance Superintendence, follow-up was made, on a permanent basis over the continuance plans of the third parties offering services to the Bank, such scheme reinforced with the support of Asobancaria.

d. Risk of Laundry Asset and Financing of Terrorism

Within the framework of regulation by Colombia Finance Superintendence, and specially following the instruction issued in the Legal Basic Circular, Part I, Title IV, Chapter IV, the Bank shows satisfactory results in the management implemented in connection with the Laundry Asset and Financing of Terrorism System Risk Management (LA/FT), which in line with the regulations prevailing, the policies and methodologies adopted by Bank's Board of Directors and the Recommendations of the International Standards related to this scourge.

The activities deployed to prevent the risk of laundry asset and financial of terrorism, were developed taking into consideration the methodologies adopted by the Parent Company, allowing for the entity to go ahead with the mitigation of risks the Bank is subject to, such results obtained as the consequence of the application of controls designed for each one of the factors of risk defined in the Basic Legal Circular Part I, Title IV, Chapter IV of Colombia Finance Superintendence (Client, Product, Channel and jurisdiction), maintaining quite low Consolidated Risk Level, such aspect confirmed by the existence of events or situations contrary to good image maintained by Banco de Occidente related to LA/FT.

Adhering the recommendations by the International Bodies and the national legislation about LA/FT, the risk of Laundry Asset and Financing of Terrorism (LA/FT) identified by the Bank are properly managed within the concept of continuous enhancement and addressed to reasonably minimize the existence of those risks in the organization.

For the continued development of this management, the Bank has in place technological tools allowing for the Bank to implement the Know-the-Client policy, knowledge of market, transnational customs of clients, inter alia, with the purpose to identify unusual operations and timely report the suspect operations to the Unidad de Información y Análsis Financiero (UAIF). It shall be underlined that the Bank implements continuous enhancement of the functions supporting LA/FT in the Division of Compliance, related to the different applications and analytical methodologies allowing for the mitigation of Laundry Asset and Financing of Terrorism eventual risks.

This risk management system is reinforced by risk factors segmentation developed by the entity using tools of data of recognized technical value allowing, for each factor of risk (client, product, channel and jurisdiction) to make the identification of risk and monitoring the operations made in the entity in order to detect unusual operations based on the profile of the segments.

On the other hand, the Bank maintains its training institutional program addressed to the employees where the directives concerning the regulatory framework are given and the control mechanisms available about LAF/T prevention in the organization, this way promoting the culture of the SARLALFT, satisfactorily accomplished and in accordance with the program.

In compliance with the provisions in the legal regulations, and in accordance with amounts and characteristics required in the Part I, Title IV, Chapter IV of Legal Basic Circular of Colombia Finance Superintendence, the Bank timely submitted the information and institutional reports to the different controlling entities.

Banco de Occidente maintains the policy stating that Bank's operations are to be made with the highest ethical and control standards giving preference the ethical and moral principles to too the reaching of commercial goals, such that, from the practical standpoint have been translated into the implementation of criteria, policies and procedures used to manage the LA/FT risk, which have been implemented in order to mitigate these risks reaching the minimum possible exposure level.

In accordance with the results of the different stages related to the risk management system of laundry asset and financing of terrorism and the reports of the controlling entities, Internal Audit Statutory Audit as well as the directives of the Board of Directors in connection with the quarterly reports submitted by the Compliance Officer, the entity maintains a proper LA/FT risk management.

During the second semester 2016, follow-up was made to the reports made by the Internal Audit and the Statutory Audit concerning LATFT, in order to adopt the recommendations addressed to optimize the System. According to the reports received, the results of management by the Compliance Officer about LA/FT, they are considered as satisfactory and there is not opportunity for material enhancement.

f. Legal Risk

The Legal Vice-Presidency support the task of legal risk management in the operations made by the Bank and the processes to be implemented against the entity. Specifically, defines and determines the procedures necessary to properly control the legal risk of operations, ensuring the compliance with the legal regulations documented, analyzes and writes the contracts supporting the operations made by the several different units of business. The Vice Financial Presidency supports the management of tax legal risk, as well as the Vice Presidency of Human Resources the risk of legal labor.

The Bank, in compliance with the instructions given by Colombia Finance Superintendence, valued the allegations of the processes against the Bank based on the analysis and concepts of responsible lawyers, and in the events required, the relevant contingencies are duly provisioned.

In connection with the copyrights, the Bank uses only software or licenses legally acquired and it is forbidden to use software different from those officially approved.

In the note 20 to financial statements, the proceedings against the Bank are detailed.

Note 5. Fair value estimations

The fair value of the financial assets and liabilities negotiated in the active markets (such as financial assets in certificates of indebtedness and of patrimony and derivatives actively traded in stocks exchanges or in the inter-banking markets) is based on prices supplied by the supplier official prices, authorized by Colombia Finance Superintendence, and determined by weighted averages of transactions occurred during the day of negotiation.

An active market is any market where asset and liabilities transactions are made with frequency and volume sufficient in order to provide, in a continuous manner, information about prices. Any dirty price is that one including the accrued interest and the pending on the security since the date of issue or the last payment of interest up to the date of sale/purchase operation.

The fair value of financial assets and liabilities that are not traded in tan active market is determined by using valuation techniques determined by the supplier of prices to the Bank. The valuation techniques used for non-standardized financial instruments such as swaps options of foreign currency and derivatives of the over-the-counter market include the use of valuation curves of interest rate or the currencies constructed by the suppliers of prices based on data of market and extrapolated to specific conditions of the instrument valued, discounted cash flow analysis, model of option prices and other valuation techniques usually used by participant of market mainly using the data of market and do not trust in specific data of entities.

The Bank may use models internally developed for financial instruments that are not in possession of active markets. Such models usually are based on valuation methods and techniques financial instruments of patrimony unlisted in the stock exchange, the certificates of indebtedness and other instruments of debt to which the markets were or have been inactive during the financial operational period. Some inputs of those models may be unobservable in the market and therefore, they are estimated based on assumptions.

The exit of any model always is an estimation or approximation of a value that cannot certainly determined and the valuation techniques used will not reflect completely all factors relevant to the Bank's positions. Therefore, the valuations are adjusted, if deemed necessary in order to allow additional factors, included risk-country, liquidity risk and risk of counterpart.

The fair value of non-monetary assets, such as property of investment or guarantees of credits in order to determine the impairment, is made based on the appraisals made by independent experts holding enough expertise and knowledge of real-estate market or of the asset under valuation. Usually, those valuations are made by reference to data of market or based on the replacement cost where there are not enough available data of market.

The hierarchy of reasonable value includes the following levels:

- The entries Level 1 are quoted prices (not adjustment) in active markets for assets or liabilities identical to those that the entity may access at measurement date.
- The entries Level 2 are those entries different from the quoted prices included in the level 1 that are observable for asset or liability, either directly or indirectly.
- The entries Level 3 are those entries unobservable for the asset of liability

The level in the hierarchy of fair value in which the measure of fair is classified in its entirety is determined based on the entry of the lowest level for the measurement of reasonable value in its entirety. For such purpose, the significance of an entry is assessed in connection with the measurement with the fair value in its entirety. Should any measurement of the fair value uses observable entries requiring significant adjustments based on the non-observable entries, such measurement is a measurement Level 3. The evaluation of significance of any specific entry to the measurement of the fair value in its entirety requires judgment taking into account specific factors of the asset or of liabilities.

The determination of the “observable” requires a significant to judgment by the Bank. The Bank considers as observable data those ones of the market that are already available and are regularly distributed or updated, are reliable and verifiable, that have not copyright and are supplied by independent sources taking active part in the market of reference.

(a) Measurement of reasonable value based on recurrent base

Measurements of fair value on recurrent bases are those ones that the IAS require or allow in the statement of financial situation at closing end of accounting period.

The Table below analyzes, within the hierarchy of reasonable value the asset and liabilities (by type) of the Bank ensured at the reasonable value at December 31 and June 30, 2016 on recurrent bases.

December 31, 2016

		Effects of the reasonable assumptions on the Reasonable value					Effects of the reasonable assumptions on the Reasonable value		
		Level 1	Level 2	Level 3	Total	Valuation Technique For 2 & 3 levels	Main input data	More favorable	Less favorable
Asset									
RECURRENT MEASUREMENTS AT FAIR VALUE									
Investments of certificated of debt reasonable value									
Issued or guaranteed by Colombian Government	$	1,792,751	297,129	-	2,089,880	Interest rate	Transactional Systems	22,180	(21,965)
Issued or guaranteed by other Colombian Financial institutions		-	56,970	-	56,970	Interest rate	Transactional Systems	517	(503)
Issued or guaranteed by other entities of the real Sector abroad		-	6,167	-	6,167	Interest rate	Transactional Systems	88	(86)
Issued or guaranteed by other financial institutions Abroad		-	175,741	-	175,741	Interest rate	Transactional Systems	426	(424)
Other		-	6,185	-	6,185	Interest rate	Transactional Systems	6	(6)
Investment in patrimony instruments		396,411	-	53,945	450,356	Market Prices			
Derivatives of Negotiation									
Forward of Currency			133,484		133,484	Interpolation	Transactional Systems	744	(745)
Swap Interest Rate			7,088		7,088	Interpolation	Transactional Systems	(43)	**43**
Swap Currency			6,866		6,866	Interpolation	Transactional Systems	(146)	150
Other			8,464		8,464	Interpolation	Transactional Systems	(67)	68
Properties of Investment at reasonable value			144,865		144,865	Market Focus	Maintained and used construction	-	-
Total asset at reasonable value, recurrent		**2,189,162**	**842,959**	**53,945**	**3,086,066**			**23,705**	**(23,196)**
LIABILITIES									
Derivatives of Negotiation									
Forward of Currency		-	163,344	-	163,344	Interpolation	Transactional Systems	(547)	547
Swap Interest Rate		-	6,837	-	6,837	Interpolation	Transactional Systems	38	(38)
Swap Currency		-	6,089	-	6,089	Interpolation	Transactional Systems	(85)	85
Other		-	15,922	-	15,922	Interpolation	Transactional Systems	(32)	32
Total liabilities at reasonable value, recurrent	$	**-**	**192,192**	**-**	**192,192**			**(626)**	**626**
Instruments of patrimony valued at patrimonial Variation	$	-	-	4,242	4,242				

June 30, 2016

		Effects of the reasonable assumptions on the Reasonable value					Effects of the reasonable assumptions on the Reasonable value		
		Level 1	**Level 2**	**Level 3**	**Total**	**Valuation Technique For 2 & 3 levels**	**Main input data**	**More favorable**	**Less favorable**
Asset									
RECURRENT MEASUREMENTS AT FAIR VALUE									
Investments of certificated of debt reasonable value									
Issued or guaranteed by Colombian Government	$	2,146,179	87,467	-	2,233,646	Interest rate	Transactional Systems	30,666	(29,914)
Issued or guaranteed by other Colombian Financial institutions		-	82,138	-	82,138	Interest rate	Transactional Systems	301	(924)
Issued or guaranteed by other entities of the real Sector abroad		-	7,278	-	7,278	Interest rate	Transactional Systems	107	(105)
Issued or guaranteed by other financial institutions Abroad		-	200,542	-	200,542	Interest rate	Transactional Systems	604	(599)
Other		-	113	-	113	Interest rate	Transactional Systems	1	(1)
Investment in patrimony instruments		399,409	-	27,012	426,421	Market Prices			
Derivatives of Negotiation		-							
Forward of Currency		-	292,148	-	292,148	Interpolation	Transactional Systems	2,021	(2,015)
Swap Interest Rate		-	5,574	-	5,574	Interpolation	Transactional Systems	26	**(26)**
Swap Currency		-	15,880	-	15,880	Interpolation	Transactional Systems	(105)	96
Other		-	8,518	-	8,518	Interpolation	Transactional Systems	27	(27)
Properties of Investment at reasonable value		-	91,759	-	91,759	Market Focus	Maintained and used construction	-	-
Total asset at reasonable value, recurrent		**2,545,588**	**791,417**	**27,012**	**3,364,017**			**33,648**	**(32,885)**
LIABILITIES									
Derivatives of Negotiation									
Forward of Currency		-	192,145	-	192,145	Interpolation	Transactional Systems	(1,695)	1,688
Swap Interest Rate		-	4,629	-	4,629	Interpolation	Transactional Systems	(23)	23
Swap Currency		-	16,149	-	16,149	Interpolation	Transactional Systems	92	(92)
Other		-	12,756	-	12,756	Interpolation	Transactional Systems	71	(70)
Total liabilities at reasonable value, recurrent	$	**-**	**225,679**	**-**	**225,679**			**(1,555)**	**1,549**
Instruments of patrimony valued at patrimonial Variation	$	-	-	330	330				

The investments, which values are based on market prices quoted in the active markets, and hence, classified in Level 1, include patrimonial active investments in stock exchanges, some investments issued or guaranteed by Colombia Government, other Colombian financial institutions and entities of the Colombian real sector.

Financial instruments listed in the markets which are not considered asset, although valued according to prices listed in the market, quoted by stockbrokers or alternate sources supported by observable entries, are classified in Level 2. Other investments issued or guaranteed by Colombia Government, other Colombia financial institutions, entities of Colombian real sector, foreign governments, other financial institutions abroad, entities of the real sector abroad, derivatives and properties of investment are included. Since investments of Level 2 include positions that are not negotiated in active markets, and/or are subject to transfer restrictions, the variations may be adjusted in order to reflect the absence of liquidity or the impossibility of transference, usually used in information available of the market.

As pointed out in this note, formerly the fair value of investment properties are determined based on the appraisal made by independent experts at December 31, 2016, which were prepaid under comparative approach of sale methodology, determining the asset value according to the comparison with other similar under transaction, or have been transacted in the real estate market, this comparative approach considers the sale of similar or substitutive goods, as well the data obtained from the market, and establishes an estimate value using procedures including the comparison.

According to External Circular 034, 2014, by Colombia Finance Superintendence, the investments unlisted in the stock exchange and there the Bank has not significant influence of control, which at December 31, 2015 amount to $33,640, its carrying value was determined adjusting the investments by proportional participation in the patrimonial variations of the entities where the Bank holds determined investments based on financial statements of certifications issued by said entities until six months before. At December 31, 2016, these same investments amount to $58,287, out of which $50.070 its fair value was determined by the methodology of fair value for securities of variable sale by the supplier of prices INFOVALMER and classified in Level 3.

The table below contains the transfers between levels 1 and 2 for the semesters ended on December 31, and June 30, 2016:

December 31, 2016

		Level 1 to Level 2
MEASUREMENT AT REASONABLE VALUE		
Asset		
Investments at fair value fixed income	$	208.468

Given the liquidity of the last business days of the year, the transfer of level 1 to level 2 is made by the assignment that the memorandum of valuation by Inforvalmer releases for the TES UVR reference with expiry date March 10, 2021

June 30, 2016

		Level 2 to Level 1
MEASUREMENT AT REASONABLE VALUE		
Asset		
Investments at fair value fixed income	$	1,054,586

The investments transferred from Level 2 to Level 1 are related to positions for which there existed significant commercial activity on June 30, 2016, bur inconsistently negotiated on December 31, 2015 or near to such date.
The following table contains the movement of patrimonial instruments with less participation (less than 20%) valued at patrimonial valuation and fair value classified as level 3 for the semesters ended on December 31, and June 30, 2016:

		Patrimony Instruments
Balance on December 31, 2015	**$**	**33,460**
Adjustment of valuation effective in ORI		5.332
Additions		3,712
Withdrawals / Sales		(3,457)
Difference in exchange		(9)
Balance at June 30, 2016		**39,218**
Adjustment of valuation with effect on ORI		(246)
Adjustment of valuation with effect on ORI for fair value		(282)
Additions		31,369
Withdrawals / Sales		(11,876)

Difference in exchange		3
Balance at December 31, 2016	**$**	**58,186**

In the ORI in semester II $11,841 are recognized corresponding to the valuation of financial instruments measured at fair value level 3 for $-282, and Corficolombiana level 1 for $-11,559.

In November the Bank concerted Credibanco S.A. in stockholder with 362,729,302 shares resulting from the capitalization of the contributions that Bank had grated to this company when such company was a non-profit entity; the initial recognition of this investment was $31,369, according to the market value determined by Infovalmer S.A. In December such investment was adjusted to its fair value for $30,767 which generated a diminution of investment and of the ORI account by $602.

In the movement of withdrawals/sales corresponds a reclassification made on August, 2016 for $11,876 of the “Goods in dation of payment – Trusts, to the account of investment – Fiduciary rights”

The following table contains the summary of financial assets and liabilities of the Bank recorded at the amortized cost at December 31, and June 30, 2016 compared to the values determined at fair value, which it is practicable to calculate the fair value.

		December 31, 2016		June 30, 2016	
		Carrying Value	Estimated Reasonable value	Carrying Value	Estimated Reasonable value
Asset					
Investments of fixed income at amortized cost	$	569,222	556,827	514,079	503,971
Credit portfolio at reasonable cost		26,280,751	28,954,918	25,045,146	27,732,903
		26,849,973	**29,511,745**	**25,559,225**	**28,236,874**
Liabilities					
Deposits of clients	$	20,869,838	21,281,185	21,329,032	21,576,191
Financial obligations		6,467,556	6,870,499	6,341,149	5,264,684
	$	**27,337,394**	**28,151,684**	**27,670,181**	**26,840,875**

Methodologies of fair value for fixed-interest securities in the time zero correspond to the adjustment of the difference between the purchase price (TIR purchase) and the market price published by the supplier of prices INFOVALMER. For subsequent measurement, this fair value on each one of the investments is determined with the daily variation using the market price published by the supplier of prices.

The methodology of fair value of the liabilities of Banco de Occidente (TDs, Bonds and Financial Obligations is made using the applicative named PWPREI, which values at standardized market prices of the Bank in Pesos, using the information pubished by the supplier of prices INFOVALMER.

Note 6.- Cash and equivalent to cash

The cash and equivalent to cash balances include the following:

		December 31 2016	June 30 2016
In Col. Pesos			
Cash	**$**	**548,948**	397,321
In Colombia Central Bank		1,219,883	1,733,334
Bank and other financial entities, at sight		137	281
Deposits and investment in certificates of debt with less than three months maturity		1,724	1,982
Spot operations - Net		-	3
		1,770,692	**2,132,921**
In Foreign Currency			
Cash		5,773	5,813
Bank and other financial entities at sight		188,471	188,219
		194,244	194,032
Total asset and equivalent to asset	**$**	**1,964,936**	**2,326,953**

Below a detail of crediting quality determined by independent risk rating agents of the main financial institutions where the Bank holds cash funds:

Crediting quality		December 31 2016	June 30 2016
Central Bank	$	1,774,604	2,136,468
Grade of Investment		188,608	188,503
Without Rating or unavailable		1,724	1,982
Total	**$**	**1,964,936**	**2,326,953**

The spot operations at December 31 and June 30, 2016 are the following:

		December 31 2016	June 30 2016
Active counting operations	$	-	3

Concept		December 31 2016	June 30 2016
Reserve 4.5%	$	155,242	138,857
Reserve 11%		1,580,830	1,652,205
Total Reserve	**$**	**1,736,072**	**1,791,062**

At December 31, 2016 the legal reserve in Colombia is 4.5% and 11% on the total deposits (4.5% and 11% at June 2016)

Cash and equivalent to cash for $1,219,883 at December 31, 2016 make part of legal reserve required to comply with liquidity legal requirements ($ 1,733,334 at June 30, 2016).

There are not any restrictions on cash and equivalent to cash.

Note 7. Investment financial assets

a) Marketable investments

The marketable investments at December 31, and June 30, 2016 are itemized below:

		December 31, 2016	June 30 2016
Certificates of indebtedness In Col. Pesos			
Issued or Guaranteed by Colombian government	$	253,920	123,459
Issued or guaranteed by other financial institutions		40,488	65,136
		294,408	**188,595**
In Foreign currency			
Issued or guaranteed by other financial institutions		175,925	207,009
Total Certificates of Indebtedness	**$**	**470,333**	**395,604**
Patrimony Instruments			
With adjustment to results			
In Col. Pesos			
Promotora La Alborada S.A. under Restructuring	$	205	205
Promotora la Enseñanza S.A.		124	124
Plaza Mayor Medellín Convenciones y Exposiciones S.A.		**1**	1
		330	**330**
Total Patrimony instrument		330	330
Total financial assets of negotiation	**$**	**470,663**	**395,934**

b) **Investments available for sale**

The investments available for sale at December 31 and June 30, 2016 are detailed below:

December 31, 2016

Financial assets in certificates of debt with adjustment to Patrimony - ORI		**Amortized Cost**	**Unrealized Profit**	**Unrealized Loss**	**Reasonable Value**
In Col. Pesos					
Issued or guaranteed by Colombian Government	$	1,835,871	11,001	(10,913)	1,835,959
Issued or guaranteed by other financial institutions		284	1	-	285
Other		136	-	(1)	135
		1,836,291	**11,002**	**10,914**	**1,836,379**
In foreign currency					
Issued or guaranteed by other financial institutions		21,580	484	-	22,064
Issued or guaranteed by entities of the real sector		6,285	-	(118)	6,167
		27,865	**484**	**(118)**	**28,231**
Total Certificates of Debt		**1,864,156**	**11,486**	**(11,032)**	**1,864,610**

Financial assets in participation securities with changes in Patrimony - ORI		**Cost**	**Unrealized Profit**	**Unrealized Loss**	**Reasonable Value**
In Col. Pesos					
Corporate Stocks (1)		201,684	250,683	(1,973)	450,394
In foreign currency					
Corporate stocks		115	3,759	-	3,874
Total patrimony instruments		201,799	254,442	(1.973)	**454,268**
Total investments available for sale and unrealized profit (loss) in other integral results	**$**	**2,065,955**	**265,928**	**(13,005)**	**2,318,878**

June 30 2016

Financial assets in certificates of debt with adjustment to Patrimony - ORI		**Amortized Cost**	**Unrealized Profit**	**Unrealized Loss**	**Reasonable Value**
In Col. Pesos					
Issued or guaranteed by Colombian Government	$	2,088,644	26,861	(5,318)	2,110,188
Issued or guaranteed by other financial institutions		1,238	-	-	1,238
Other		116	-	**(3)**	113
		2,089,998	**26,861**	**(5,321)**	2,111,539
In foreign currency					
Issued or guaranteed by other financial institutions		9,684	-	(388)	9,296
Issued or guaranteed by entities of the real sector		5,354	1,924	-	7,278
		15,038	**1,924**	**(388)**	**16,574**
Total Certificates of Debt		**2,105,036**	**28,785**	**(5,709)**	**2,128,113**

Financial assets in participation securities with changes in Patrimony - ORI		**Cost**	**Unrealized Profit**	**Unrealized Loss**	**Reasonable Value**
In Col. Pesos					
Corporate Stocks (1)		400,345	23,936	(1,058)	3,198
In foreign currency					
Corporate stocks		111	3,087	-	
Total patrimony instruments		**400,456**	**27,023**	**(1,058)**	**426,421**
Total investments available for sale and unrealized profit (loss) in other integral results	**$**	**2,505,492**	**55,808**	**(6,767)**	**2,554,534**

(1) The investment in Corficolombiana was reclassified from marketable to available for sale, duly authorized by Colombia Finance Superintendence (See Note 2.6).

Below the detail of investments available for sale in patrimony instruments:

Entity	December 31 2016	June 30 2016
Redeban Multicolor S.A. (1)	**6,801**	**8,846**
Depósito Centralizado de Colombia Deceval S.A. (1)	2,918	2,490
A.C.H. Colombia S.A. (1)	8,521	7,324
Cámara de Compensación de Divisas de Colombia S.A. (1)	593	551
Cámara de Riesgo Central de la Contraparte de Colombia S.A. (1)	471	446
Corporacion Financiera Colombiana Conficol S.A.	396,411	399,409
Master Card Inc. (1)	3,874	3,197
Credibanco S.A. (3)	30,767	-
Aportes en Línea S.A. (Gestión y Contacto) (2)	374	280
Casa de Bolsa S.A. Sociedad Comisionista de Bolsa (2)	2,298	2,587
Pizano S.A. En Restructuración (2)	**1,240**	1,291
Total	**454,268**	**426,421**

(1) These financial instruments were recognized at reasonable value according to the market prices supplied by INFOVALMER as provided in item i) subparagraph 6.25 Chapter I-I; the effect of this valuation is recognized against ORI for reasonable value of the patrimony instruments which at December 31, 2016 amounted to $30,724 and June 30, 2016, amounted to $ 5,332, (See Note 5).

(2) These financial instruments were measured at December 31, 2016 and at June 30, 2016 at the patrimonial variation (see note 5)

(3) On August 26, 2016, the general meeting of associates of Credibanco passed the transformation process of non-profit society to Stock Company, becoming Credibanco S.A. On October 26, 2016, Colombia Finance Superintendence issued the authorization resolution; on November 11, 2016 the stock company is files in the Notary 24 for Bogotá under public deed 4071 the transformation of society and on November 28 was registered with the Chamber of Commerce. In this transformation process of transformation, and the Bank in its conditions as one of the contributors, receives 362,729,302 shares with face value one peso accounting for the investment an historical cost $362,729,302 the day November 30, 2016 with a participation of 4.0163% corresponding to this entity. The Bank contracted Infovalmer as supplier of prices to develop a valuation of the entity for the initial registration of investment. El result of the process was the following:

Date Release Valuation	Patrimony Instruments	Tax No.	Asset Valued	Approach	Valuation Price by share	Currency
09/12/2016	CREDIBANCO S.A.	860032909	Company	Income	$ 86.48*	COP

As a result of the valuation made by Infovalmer $ 31,361 was recognized as initial value of investment, and the balancing entry was a income. *Credibanco value November 2016.

For its subsequent measurement this investment is recognized at fair value with exchange in the ORI.

The financial assets in patrimony instruments at fair value with adjustment to other integral results gave been designed taking into account that they are strategic investments to the Bank and therefore it is not expected to be sold in a near future, and there some extent of higher uncertainty in the determination of the fair value generating significant fluctuations from one to the other period. During the semester ended on December 31, 2016 dividends have been recognized in the statement of results for such investments for $11,522 ($9,932 during the semester ended on June 30, 2016). In the same w ay, during the aforementioned semesters transfers of ORI account have been made corresponding to accrued profit for sale of such investments.

c) Ensuring repo operations

Below the description of financial asset at fair value which are supporting the repo operations, that have been delivered in collateral guarantee to third parties, in order to support the financial obligations with other banks (see Note 18).

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		December 31 2016	June 30 2016
Delivered in guarantee of operations with Instruments derivatives			
Delivered or guaranteed by Colombian government	$	635,764	724,681
Total Operations in Guarantee		**635,764**	**724,681**
Delivered in Guarantee of operations with derivatives Instruments			
Issued or guaranteed by Colombian Government		95,423	82,913
Total operations in guarantee	**$**	**731,187**	**807,594**

Below the detail of crediting quality determined by independent risk raters agents from the counterparties certificates of debt and patrimony investments where the Bank holds the financial assets at reasonable value.

		December 31 2016	June 30 2016
Investment degree			
Sovereign	$	2,089,879	2,233,646
Corporate		408,470	7,278
Financial entities		238,762	682,202
Total investment grade		**2,737,111**	**2,923,126**
Speculative			
Other public entities		**6,301**	-
Total speculative		**6,301**	**-**
Without qualification or unavailable			
Corporate		46,129	39,218
	$	**2,789,541**	**2,962,344**

At December 31, 2016 financial assets available for sale are guaranteeing the repo operations for $549,987 (June 30, 2016 for $671,353).

On financial assets in certificates of indebtedness and patrimony instruments at reasonable value there are not legal or economic restrictions, pledging or liens, there is no ownership limitation.

The following is the summary of financial assets available for sale in certificated of indebtedness by maturity dates:

		December 31 2015	June 30 2016
Less than 1 year	$	648,256	507,583
Between more than 1 year and 5 years		823,243	1,114,943
Between more than 5 years and 10 years		392,976	461,079
More than 10 years		135	44,508
Total	$	**1,864,610**	**2,128,113**

Note 8 Investments maintained up to maturity, net

The balance of investments maintained up to maturity includes the following at December 31, and June 30, 2016.

		December 31 2016	June 30 2016
Certificated of Indebtedness			
In Col. Pesos			
Issued or guaranteed by entities of Colombian Government		554,187	499,479
Total certificates of debt		**554,187**	**499,479**
In foreign currency			
Issued or guaranteed by other financial institutions		15,035	14,600
Total financial asset in certificates of indebtedness at amortized cost	**$**	**569,222**	**514,079**

Bellow the detail of crediting quality determined by independent raters risk agents of the main counterparts in certificates of debt where the Bank holds investments maintained up to maturity:

		December 31 2016	June 30 2016
Colombian Pesos			
Issued or guaranteed by the Nation and/or the Central Bank	$	554,187	499,479
Foreign Currency			
Without rating or not available		15,035	14,600
	$	**569,222**	**514,079**

The following is the movement of provision for credit risk impairment of investments maintained up to maturity during operational periods ended on December 31, 2016 and June 30, 2016:

	December 31 2016	June 30 2016
Balance at the beginning of period	-	(30)
Recovery of provisions during the period	-	30
Balance at the closing period	-	-

The following is the summary of the investments maintained up to maturity by maturity dates:

		December 31 2016	June 30 2016
Up to 1 month	$	107,719	124,887
More than 1 month and no more than 3 months			-
More than 3 months and more than 1 year		446,468	374,592
More than 5 years and no more than 10 years		15,035	14,600
	$	**569,222**	**514,079**

Note 9. Instruments derivatives and hedging accounting

a. Instruments derivatives of negotiation

The following table contains the reasonable values at December 31, 2016 and June 30, 2016, of forward contracts, futures, options, swaps of interest rate and foreign currency the Bank is committed:

Concept		December 31, 2016		June 30, 2016	
		Amount notional	**Fair Value**	**Notional Amount**	**Reasonable Value**
Assets					
Contracts forward					
Contract forwards purchase of foreign currency	$	1,009,524	3,350	681,325	1,017
Forward Contracts sale of foreign currency		4,320,056	130,134	5,157,601	291,131
Sub-Total		**5,329,580**	**133,484**	**5,838,926**	**292,148**
Swap					
Contracts swap of foreign currency		52,258	6,866	77,540	15,880
Contracts of interest rate		666,399	7,088	489,518	5,574
Sub-total		**718,657**	**13,954**	**567,058**	**21,454**
Contracts futures					
Contract futures sale of national bond		21,470	-	6,572	-
Purchase Options					
Options to purchase foreign currency		405,403	8,464	309,624	8,518
Total Asset	$	**6,475,110**	**155,902**	**6,722,180**	**322,120**
Liabilities					
Contracts forward					
Contracts forward purchase of foreign currency	$	4 ,518,279	160,467	4,366,243	191,374
Contract forward sale of foreign currency		1 ,852,454	2,877	672,529	771
Sub-Total		**6,370,733**	**163,344**	**5,038,772**	**192,145**
Swap					
Swap contracts of foreign currency		28,309	6,089	34,113	16,149
Swap contracts interest rate		686,080	6,837	554,511	4,629
Sub-Total		**714,389**	**12,926**	**588,624**	**20,778**
Contracts of options					
Options sale of foreign currency		355,519	15,922	353,482	1 2,756
Total liabilities	$	**7,440,641**	**192,192**	**5,980,878**	**225,679**
Net position	$	**(965,531)**	**(36,290)**	**741,302**	**96,441**

The instruments derivatives accepted by the Bank usually are transacted in markets organized and with clients, local and foreign counterparts of the Bank. The derivatives instruments have net favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in the exchange rates of foreign currency and in the market of interest rates or other variables relative to the conditions. The accrued amount of assets and liabilities reasonable value in instruments derivatives may significantly vary from time to time.

.At December 31, 2016 there not contracts derivatives in other contracts to maintain separated, accounted for and disclosed according to provision in IAS 39.

The maturities of terms of instruments derivatives of negotiation at December 31, 2016 and June 30, 2016, are the following:

LESS THAN ONE YEAR

Concept		31 December 2016		30 june 2016	
		Monto nocional	Valor razonable	Monto nocional	Valor razonable
Assets					
Contracts forward					
Contracts forward purchase of foreign currency	$	1,004,878	3,350	671,847	707
Contracts forward sale of foreign currency		4,271,033	128,876	5,082,956	288,097
Sub-total		**5,275,911**	**132,226**	**5,754,803**	**288,804**
Contracts futures					
Contracts futures sale of bond		21,470	-	6,572	-
Contracts futures purchase of bond		-	-	-	-
Sub-Total		21,470	-	6,572	-
Swap					
Contract forward purchase of foreign currency		7,568	**259**	46,490	13,998
Contracts swap interest rate		594,558	1,525	218,441	2,487
Sub-total		**602,126**	**1,784**	**264,931**	**1 6,485**
Purchase Options					
Options to purchase foreign currency		339,755	5,484	261,076	6,400
Total Asset	$	**6,239,262**	**139,494**	**6,287,382**	**311,689**
Liabilities					
Contracts forward					
Contracts forward purchase of foreign currency	$	4,511,210	160,125	4,252,794	184,505
Contract forward sale of foreign currency		1,822,889	2,466	637,523	**646**
Sub-Total		**6,334,099**	**162,591**	**4,890,317**	**185,151**
Swap					
Swap contracts of foreign currency		12,614	5,889	32,205	15,795
Swap contracts interest rate		645,100	2,520	291,511	2,058
Sub-Total		**657,714**	**8,409**	**323,716**	**1 7,853**
Contracts of options					
Options sale of foreign currency		292,986	11,508	310,744	9,560
Total liabilities	$	**7,284,799**	**182,508**	**5,524,777**	**212,564**
Net position	$	**(1,045,537)**	**(43,014)**	**762,605**	**99,125**

MORE THAN ONE YEAR

Concept		December 31, 2016		June 30, 2016N	
		Notional Value	Reasonable Value	Notional Amont	Reasonable Value
Assets					
Contracts forward					
Contract forwards purchase of foreign currency	$	4,646	-	9,478	310
Forward Contracts sale of foreign currency		49,024	1,258	74,645	3,034
Sub-Total		**53,670**	**1,258**	**84,123**	**3,344**
Swap					
Contract forward purchase of foreign currency		44,690	6,607	31,050	1,882
Contracts swap interest rate		71,841	5,563	271,077	3,087
Subtotal		**116,531**	**12,170**	**302,127**	**4,969**
Purchase Options					
Options to purchase foreign currency		65,648	2,980	48,548	2,118
Total Asset	$	**235,849**	**16,408**	**434,798**	**1 0,431**
Liabilities					
Contracts forward					
Contracts forward purchase of foreign currency	$	7,069	**342**	113,449	6,869
Contract forward sale of foreign currency		29,565	**411**	35,006	**125**
Sub-Total		**36,634**	**753**	**148,455**	**6,994**
Swap					
Contratos swap de moneda extranjera		15,695	**200**	1,908	**354**
Contratos swap de tasa de Interés		40,981	4,317	263,000	2,571
Subtotal		**56,676**	**4,517**	**264,908**	**2,925**
Contracts of options					
Options sale of foreign currency		62,533	4,414	42,738	3,196
Total liabilities	$	**155,843**	**9,684**	**456,101**	**1 3,115**
Net position	$	**80,006**	**6,724**	**(21,303)**	**(2,684)**

The financial instruments derivatives of negotiation contain the component CVA/DVA associated to the crediting component of those contracts at December 31, 2016 the effect of CVA/DVA in the statement of results was an outflow de $233.

Definition of credit risk adjustment model – CVA/DVA Bank´s instruments derivatives:

In order to incorporate credit risk into valuation methodology under IFRS 13 for Bank's instruments derivatives, the decision was made to carry out, under the discount rate affectation premise, within the valuation of such instruments at relevant closing date. Above is made making up groups or sets, within Derivatives Portfolio, according to the currency, (e.gr. pesos, euros or dollars) of the instrument, the accounting nature in its valuation (asset or liability) and the type of counterpart whereby the operation is made.

In connection with transacted derivatives in any standardized market or even novated with any Counterpart's Central Risk Chamber, the price includes the concept of credit risk equal zero, due to the intervention of any counterpart's central risk chamber, and therefore, it is not necessary to do the exercise. For the event of marketable derivatives OTC (Options Forwards, IRS, CCS) that do not include concept the analysis was made.

This way credit risk calculation was made to all non-standardized or novated instruments derivatives maintained by the entities. For adjustment determination for portfolios credit risk.

Below, the detail of crediting risk is given, determined by independent risk certifier's agents, of the main counterparts in asset instruments derivatives:

Credit Quality		**December 31 2016**	**June 30 2016**
	$		
Grade of investment		94,854	219,501
Without Qualification or unavailable		61,048	102,619
Total	**$**	115,902	322,120

b) Financial instruments and accounting of hedging

In the development of its operations the Bank holds the following investments in affiliates abroad at 31 and June 30, 2016:

		December 31 , 2016			
		Thousand American Dollars		**Million Colombian Pesos**	
Detail of Investment		**Value of Investment**	**Value of hedging in obligations in foreign currency**	**Exchange difference of obligations in foreign currency**	**Exchange difference of investments**
Occidental Bank (Barbados) Ltd.	$	24,139	18,239	18,925	18,925
Banco de Occidente Panamá S.A.		19,195	28,179	29,879	29,879
Total	$	**43,334**	**46,418**	**48,804**	**48,804**

The table below shows the detail of transactions that are made to these investments before taxes:

		December 31, 2015			
		Thousand American Dollars		**Million Colombian Pesos**	
Detail of Investment		**Value of Investment**	**Value of hedging in obligations in foreign currency**	**Exchange difference of obligations in foreign currency**	**Exchange difference of investments**
Occidental Bank (Barbados) Ltd.	$	18,239	18,761	17,434	17,434
Banco de Occidente Panamá S.A.		28,179	29,449	27,577	27,577
Total	$	**46,418**	**48,210**	**45,011**	**45,011**

Since these investments are in dollars, the functional currency of the affiliates above, the Bank is subject to variation risk in the Exchange peso, the Bank's functional currency versus dollar. In order to hedge this risk the Bank has entered into indebtedness operations in foreign currency ,and as such, the Bank has assigned obligations in foreign currency for USD 47,771 at December 31, 2016 and USD $ 48,210 at June 30, 2016 hedging 100% of investments in effect in those affiliates, the financial obligations are with short-term maturity, and therefore, upon the maturity of such obligations, the Bank's management assigns some new obligations in foreign currency in order to maintain the hedging 100% of the investments.

Since the obligations are in the same currency as the investments are recorded abroad, the hedging is considered perfect, and hence, does not involve any ineffectiveness in the hedging, according to above inefficacy of hedge was not recognized in the statement of results. In the ORI $13,793 and $10,698 and December 31, 2016 and June 30, 2016 respectively were recognized as a result of the efficacy of hedging.

Note 10. Credit Portfolio and Financial Leasing Operations, Net

1. Credit Portfolio by modality

Below the distribution of credit portfolio in the Bank is shown by modality:

		At December 31 2016	At June 30 2016
Ordinary loans	$	18,450,423	18,137,587
Loans with resources from other entities		826,294	799,454
Letters of Credit hedged		92,555	112,699
Overdrafts in bank current account		77,145	115,469
Discounts		73,442	76,160
Credit cards		1,352,701	1,280,695
Mortgage letter for housing		438,428	377,693
Credits to employees		17,898	16,975
Real property given in leasing		566,432	545,265
Remittances in transit		1,319	1,567
Operations of monetary market and related		141,249	85,040
Portfolio Interest		251,605	223,776
Interest financial component operations of financial leasing		25,868	26,969
Letter of Credit, bank guarantees and charge of debit card management		5,054	4,522
Payments on account of clients of consumption		20,514	17,718
Payments on account of clients, of commercial		10,360	9,254
Letters of credit of deferred payment		2,296	2,778
Income in advance on interest		(2,477)	(3,014)
Income in advance on commissions		(8,803)	(8,943)
Credits to apply to obligation to collection		(28,479)	(18,787)
Other		1,298	1,128
Total gross credit portfolio		**26,700,555**	**26,100,970**
Provision for impairment of financial asset by Credit Portfolio (*)		(1,142,271)	(1,038,452)
Total net credit portfolio	$	**25,558,284**	**25,062,518**

(*) The item of provisions includes the general provision of housing and leasing housing which balances at December 31 amounts to $10,049 (June 30, 2016 amounts $9,230)

2. Credit portfolio movement of provision

The following is the movement of provision for impairment of financial assets for credit portfolio during the semesters ended on December 31, and June 30, 2016:

December 31, 2016

Classification		Commercial	Consumption	Housing	Financial Leasing	Total
Balance at the at the beginning of semester	$	(437,662)	(408,262)	(25,455)	(167,073)	(1,038,452)
Provision recorded charged to results		(193,740)	(350,817)	(6,103)	(55,205)	(605,865)
Writing down of credits		33,217	180,510	217	18,382	232,326
Recovery of loans		107,210	123,939	3,082	35,489	269,720
Balance at the end of semester	$	**(490,975)**	**(454,630)**	**(28,259)**	**(168,407)**	**(1,142,271)**

June 30, 2016

Classification		Commercial	Consumption	Housing	Financial Leasing	Total
Balance at the at the beginning of semester	$	(415,663)	(373,588)	(23,692)	(166,586)	(979,529)
Provision recorded charged to results		(190,615)	(296,367)	(5,294)	(60,479)	(552,755)
Writing down of credits		59,658	146,953	119	25,972	232,702
Recovery of loans		108,959	114,739	3,412	34,020	261,130
Balance at the end of semester	$	**(437,661)**	**(408,263)**	**(25,455)**	**(167,073)**	**(1,038,452)**

3. Credit Portfolio period of maturity

Following the distribution of credit portfolio is shown in Bank per maturity period:

		December 31 2016				
		Up to 1 year	Between 1 and 3 years	Between 3 and 5 Years	More than 5 Years	Total
Commercial	$	8,388,575	3,478,016	1,306,550	1,179,692	14,352,833
Consumption		2,014,025	3,120,895	1,415,822	272,767	6,823,509
Housing		84,513	164,076	155,424	606,628	1,010,641
Financial leasing		1,291,368	1,620,681	806,547	794,976	4,513,572
Total gross credit portfolio	$	**11,778,481**	**8,383,668**	**3,684,343**	**2,854,063**	**26,700,555**

		June 30, 2016				
		Up to 1 year	Between 1 and 3 years	Between 3 and 5 Years	More than 5 Years	Total
Commercial	$	8,597,655	3,237,241	1,237,277	1,018,918	14,091,091
Consumption		1,941,072	2,985,150	1,366,753	230,059	6,523,034
Housing		78,338	152,268	144,226	553,248	928,080
Financial leasing		1,321,475	1,641,350	796,045	799,895	4,558,765
Total gross credit portfolio		**11,938,540**	**8,016,009**	**3,544,301**	**2,602,120**	**26,100,970**

4. Credit portfolio by Type of Currency

Below the classification of credit portfolio by type of currency:

		December 31, 2016			June 30, 2016		
		Legal Currency	Foreign Currency	Total	Legal Currency	Foreign Currency	Total
Commercial	$	12,848,165	1,504,668	14,352,833	12,560,664	1,530,427	14,091,091
Consumption		6,775,227	48,282	6,823,509	6,477,304	45,730	6,523,034
Housing		1,010,641	-	1,010,641	928,080	-	928,080
Financial Leasing		4,512,673	899	4,513,572	4,557,855	910	4,558,765
Total Portfolio	$	**25,146,706**	**1,553,849**	**26,700,555**	**24,523,903**	**1,577,067**	**26,100,970**

5. Financial Leasing Credit Portfolio

At December 31, and June 30 2016, the following in the conciliation between gross financial investments and the present value of minimum payments to be received in those dates:

		December 31, 2016	June 30, 2016
Total gross rentals receivable in the future	$	6,500,997	6,569,016
Estimate residual value for assets delivered in lease (unguaranteed)		1,129	1,365
Gross investment in unrealized financial lease Contracts		**6,502,126**	**6,570,381**
Less unrealized financial income		(1,988,554)	(2,011,616)
Net investment in financial lease contracts		**4,513,572**	**4,558,765**
Impairment in net investment in Financial Lease	$	**(168,407)**	**(167,073)**

6. Financial Leasing Credits Portfolio – Maturity

The following is the detail of gross investment and net investment in financial lease contracts receivable on December 31 and June 30, 2016 in each one of the following periods:

		December 31, 2016		June 30, 2016	
		Gross Investment	Net Investment	Gross investment	Net investment
Up to 1 year	**$**	1,603,199	1,087,712	1,611,381	1,089,482
Between 1 and 5 years		3,372,325	2,260,167	3,398,156	2,290,786
More than 5 years		1,526,602	1,165,693	1,560,844	1,178,497
Total	**$**	**6,502,126**	**4,513,572**	**6,570,381**	**4,558,765**

In the financial leasing operations the Bank as the lessor delivers the goods to the lessee to be used during a term agreed on in exchange of a rental fee and the lessee is entitled to acquire the assets through purchase option agreed upon at the beginning, usually corresponding to a price significantly lower than the commercial value at the time of exercise the option.

In most of the contracts, the rental fee is calculated taking as reference the FTD or IBR adding some nominal points. The maintenance insurance and any charge over the asset are to be paid by the lessee. On the other hand, there are lease operations without purchase option that since the beginning have guaranteed residuals or if not guaranteed, the residuals correspond to a low percent of asset value. In most of the previous contracts, the rental fee is calculated taking as a reference the FTD or IBR adding up or subtracting some nominal points maintaining the VAT charged to the lessee, the insurance and the asset maintenance.

Note 11. Other accounts receivable, net

The following is the detail of other accounts receivable at December 31, 2016 and June 30, 2016:

Detail		December 31, 2016	June 30, 2016
Dividends	$	9,821	17,275
Commissions		5,517	5,015
Rent Fees		237	340
Sale of goods and services		3,449	4,236
Abandoned Accounts - Icetex		27,790	-
To holding company, subsidiaries, related, associated		29	116
Rental fees of goods given in operational leasing		197	243
Committing sellers		1,376	1,376
Advance payments suppliers contract		1,954	682
Complaints to insurance companies		2,567	1,816
Advanced payment industry and commerce tax		8,754	7,697
Other		-	1,717
Expenses payment in advance		19,210	16,184
Overdue bonds pensions		2,364	-
Master Card M/E		3,471	2,172
Servibanca and other networks		16,193	16,305
Balance Business Credit card of Bank		2,044	2,364
Transfer of DTN		2,783	2,665
DIAN – Credit balance CREE 2013		-	31,125
DIAN – Credit balance CREE 2014		-	19,722
DIAN – Credit balance CREE 2015		55,916	46,478
Forwards undelivered		6,195	16,441
Forwards through the central Risk Chamber counterparts		5,285	1,376
Value Debtors SIIF and TC in collection		2,797	3,402
Automatic payment System		60	8,596
Collection motorcycle guaranteed Fanalca		1,401	1,250
Sundry		6,322	10,364
Total Other Accounts Receivable		**1 85,732**	**218,957**
Provisions other accounts receivable		(6,176)	(7,136)
Total other accounts receivable	**$**	**1 79,556**	**211,821**

The following is the movement of provisions for semesters ended on December 31 and June 30, 2016 and:

		December 31 2016	June 30 2016
Balance at the beginning of semester	$	**7,136**	**5,514**
Provision charged to results		1 8,100	14,210
Recovery of other accounts receivable		(263)	(162)
Written down		(18,797)	(12,426)
Balance at the end of semester	$	**6 ,176**	**7,136**

Note 12. Non-current assets maintained for sale

The following is the detail of the non-current assets maintained for sale:

		December 31 2016	June 30 2016
Other non-current asset maintained for sale			
Vehicles	$	-	1

Below the detail of profit and/or loss from the sale of the goods classified as maintained for sale during the semesters ended on December 31, 2016 and June 30, 2016:

Assets Maintained for sale

At December 31, 2016		**Carrying Value**	**Value of Sale**	**Profit**
Chattels	$	6,792	6,792	165

At June 30, 2016		**Carrying Value**	**Value of Sale**	**Profit**
Chattels	$	1,498	1,596	98

Note 13. Investments in subsidiaries, associated and joint venture companies

Below the detail of investments in subsidiaries, associated, and joint venture:

	December 31, 2016	30 June, 2016
Subsidiaries	348,169	327,206
Associates	434,595	407,595
Joint Ventures	-	1,368
Total	**782,764**	**736,169**

Below the detail of movements of the accounts investments in subsidiaries, associated and joint ventures for the semesters ended on December 31 and June 30, 2016 and December 31, 2015.

		Subsidiaries	Associates	Joint Business	Total
Balance at December 31, 2015	$	**288,681**	**373,902**	**3,362**	**665,945**
		8 ,156	45,461	6 59	54,276
Participations recorded in the profits					
Participations recorded in other integral results		54,363	2,808	-	57,171
Dividends received in companies recorded by the participation method		(17,489)	(28,593)	-	(46,082)
Purchases and capitalization of period		4,193	14,017	-	18,210
Adjustment for difference in exchange		-	-	(2,653)	(2,653)
		(10,698)	-	-	(10,698)
Participations recorded in the profits					
Saldo al 30 de junio de 2016	$	**327,206**	**407,595**	**1,368**	**736,169**
Participations recorded in the profits		21,137	40,311	1,952)	59,496
Participations recorded in other integral results		(3,967)	1,754	6	(2,207)
Dividends received in companies recorded by the participation method		-	(32,641)	-	(32,641)
Purchases and capitalizations of period		-	17,576	-	17,576
Adjustment in joint venture		-	-	578	578
Adjustment for difference in exchange		3,793	-	-	3,793
Balance at December 31, 2016		**348,169**	**434,595**	-	**782,764**

The Bank in compliance with the Decree 2496 of December 2015, used the early application of modification included by the IASB to the IAS 27 "Separated Financial Statements" in connection with record of investments in subsidiaries and joint venture by patrimonial participation method.

Below, the detail of the Investments in subsidiaries, associated and joint venture is shown:

		December 31, 2016	June 30 2016
Subsidiaries	$	**348,169**	**327,206**
Fiduciaria de Colombia S.A:		207,000	189,196
Ventas y Servicios S.A.		11,136	10,456
Banco de Occidente Panama S.A.		57,600	58,581
Occidental Bank (Barbados) Ltd.		72,433	68,973
Associates		**434,595**	**407,595**
Porvenir S.A.		433,075	406,120
A.T.H.		1,520	1,475
Joint Ventures		-	**1,368**
A.T.H. Accounts in Participation		-	1,368
Total	$	**782,764**	**736,169**

The patrimonial participation method recorded for investment in subsidiaries, was calculated taking as a basis the financial statements of those entities at December 31, 2016, these financial statements being available more recent.

a. Detail of investment in Subsidiaries

December 31, 2016

Name of subsidiary	Percent of Participation	Main Domicile		Carrying Value	Assets	Liabilities	Result
Fiduciaria de Occidente S.A.	94,98%	Bogotá	$	2 07,000	236,137	18,883	27,299
Ventas y Servicios S.A.	45,00%	Bogotá		11,136	66,606	41,862	(287)
Banco de Occidente Panama S.A.	95,00%	Panamá		57,600	2,595,580	2,534,949	6,953
Occidental Bank (Barbados) Ltd.	100,00%	Barbados		72,433	901,933	829,500	3,190
Total			$	**348,169**	**3,800,256**	**3,425,194**	**37,155**

June 30, 2016

Nombre de la subsidiaria	Percent of Participation	Main Domicile		Carrying Value	Assets	Liabilities	Result
Fiduciaria de Occidente S.A.	94,98%	Bogotá	$	189,196	229,473	31,121	13,007
Ventas y Servicios S.A.	45,00%	Bogotá		10,456	80,462	56,985	(1,554)
Banco de Occidente Panama S.A.	95,00%	Panamá		58,581	2,793,097	2,738,525	1,520
Occidental Bank (Barbados) Ltd.	100,00%	Barbados		68,973	866,886	795,043	1,387
Total			$	**327,206**	**3,969,918**	**3,621,674**	**14,360**

The corporate purpose of Fiduciaria de Occidente S.A. – Fiduoccidente is entering into mercantile fiducia and non translational domain fiduciary mandates pursuant to legal provisions. The essential purposes is to acquire, sell, lien, administer chattels and real property and intervene as debtor or as creditor in any type of credit operations.

Banco de Occidente (Panama) S.A. is an entity incorporated under the legislation of Republic of Panama and started banking operations on June 30, 1982 supported on the international license issued by the National Banking Commission of Republic of Panama.

Occidente Bank (Barbados) Ltd. was incorporated under Barbados Laws on May 16, 1991, and is authorized to manage banking operations within Barbados Territory.

The line of business of Ventas y Servicios S.A. is the supply of technical and administrative services as provided in article fifth in Act 45 / 1990, such as: Computer programming, marketing, creation and organization of consultation files and performing statistics calculations and reports in general. The company Ventas y Servicios S.A. becomes consolidated by virtue of prevailing domain at administrative level given by the holding company thereof.

The activities conducted by those entities are strategy to reach de Bank's purposes.

During the second semester 2016, dividends from subsidiaries were not received; they were delivered during the first semester to be paid in 12 installments.

During the first semester 2016 dividends from subsidiaries were received as indicated below:

Fiduciaria de occidente S.A.	Cash	$	13,296
	Shares	$	3,946
Ventas y servicios S.A.	Shares	$	247
		$	17,489

Over the investments, there is no legal or economic restrictions, pledging or integral liens there are no limitations on ownership.

The table below shows the effect on the statement of results and on the account other integral results of the patrimonial participation method at December 31 and June 30, 2016:

Entity	31 de diciembre de 2016		30 de junio de 2016	
	ORI by application MPP	P&L for application MPU	ORI by application MPP	P&L for application MPU
Fiduciaria de Occidente S.A.	72,620	13,770	(68,585)	12,734
Ventas y Servicios S.A.	931	570	(821)	(1,008)
Banco de Occidente Panamá S.A.	(13,878)	5,052	5,541	1,013
Occidental Bank (Barbados) Ltd.	19,876	1,745	(19,650)	(4,584)

b. Detail of Investments in Associates

December 31, 2016

Name of Associate	Percent of Participation	Headquarters		Carrying Value	Asset	Liabilities	Result
Porvenir S.A	24,16%	Bogotá	$	433,075	2,428,156	903,534	166,625
A.T.H.	20,00%	Bogotá		1,520	8,104	506	306
Total			$	**434,595**	**2,436,260**	**904,040**	**166,931**

30 de junio de 2016

Nombre de la asociada	Percent of Participation	Headquarters		Carrying Value	Asset	Liabilities	Result
Porvenir S.A	24,16%	Bogotá	$	406,120	2,377,804	963,680	188,135
A.T.H.	20,00%	Bogotá		1,475	8,123	796	198
Total			$	**407,595**	**2,385,927**	**964,476**	**188,333**

During the second semester 2016, dividends from associates were received as follows:

Porvenir S.A.	Cash	$	15,065
	Shares	$	17,576
		$	**32,641**

During the second semester 2016, dividends from associates were received as follows:

Porvenir S.A.	Cash	$	14,576
	Shares	$	14,017
		$	**28,593**

At December 31 and June 30, 2016 the investments in associates were recorded by the patrimonial participation method, according to the change of the accounting policy applied in a retroactive manner, from the Statement of Financial Situation of Opening (ESFA) this way using in an early manner the IAS 27 Separated Financial Statements.

c. Detail of investments in Joint Ventures

December 31, 2016

Name of Joint Venture	Percent of Participation	Main Office		Carrying Value	Asset	Liabilities	Result
Joint Venture (A.T.H.)	**25%**	Bogotá	$	-	39,515	41,828	(3,590)
Total			$	-	**39,515**	**41,828**	**(3,590)**

June 30, 2016

Name of Joint Venture	Percent of Participation	Main Office		Carrying Value	Asset	Liabilities	Result
Joint Ventures (A.T.H.)	**25%**	Bogotá	$	1,368	45,147	39,674	4,219
Total			$	1,368	45,147	39,674	4,219

For the development of the operations ATH has entered into a contract of accounts in participation with other financial entities of Grupo Aval for the purpose to develop all mercantile operations related to the centralized management electronic data and funds transfer through the teller machines, internet or any other electronic media.

ATH takes part in its condition as manager of such contract to develop in its own name and under its personal credit the subject matter of contract.

At December 31 and June 30, 2016, the investments in joint ventures are recorded by the Patrimonial Participation Method in accordance to the accounting policy applied in an early manner from the Statement of Financial Situation, (ESFA) this way using the early application of IAS 27 Separated Financial Statements.

For the closing December 2016, the investments in joint ventures finished in zero because the joint venture showed loss because ATH made the invoicing from $8,715 on account of software developments, fees in technology, software maintenance and transport. The difference resulting from the calculation of participation method influencing the results was carried to a liability for $578 according to IAS 28 paragraph 39.

Note 14. Tangible Assets, Net

The following is the movement of tangible assets accounts (property and equipment for own use, properties given in operative lease and properties of investment) at December 31 and June 30, 2016:

		For the Own use	Given in operative Lease	Properties of Investment	Total
Cost at reasonable value:					
Balance at December 31, 2015	$	**675,977**	**10,491**	**92,115**	**778,583**
Purchases or capitalized expense, (net)		24,008	362	7,631	32,001
Withdrawals/Sales (net)		(11,297)	(1,921)	(7,083)	(20,301)
Reclassifications		(1,317)	-	(1,900)	(3,217)
Changes u the reasonable value		-	-	996	996
Balance at December 31, 2016		**687,371**	**8,932**	**91,759**	**788,062**
Purchases or capitalized expense, (net)		130,160	-	30,414	160,574
Withdrawals/Sales (net)		(106,240)	(1,885)	(5,675)	(113,800)
Changes u the reasonable value		-	-	28,367	28,367
Balance at December 31, 2016	$	**711,291**	**7,047**	**144,865**	**863,203**
Accrued Depreciation					
Balance at December 31, 2015	$	**(171,632)**	**(7,064)**	**-**	**(178,696)**
Depreciation of semester charge to results		(22,696)	**(771)**	-	(23,467)
Withdrawals/Sales		6,809	1,701	-	8,510
Saldo al 30 de junio de 2016		**(187,519)**	**(6,134)**	**-**	**(193,653)**

Depreciación del semestre con cargo a resultados		(27,992)	(461)	-	(28,453)
Retiros / Ventas		18,753	1,625	-	20,378
Balance at December 31, 2016	$	**(196,758)**	**(4,970)**	-	**(201,728)**
Balance at December 31, 2015		**(43,883)**	**(50)**	-	**(43,933)**
Charge for impairment of the semester		(7,823)	**(40)**	-	(7,863)
Return for Impairment		**713**	**22**	-	**735**
Balance at June 30, 2016		**(50,993)**	**(68)**	-	**(51,061)**
Charge for impairment of the semester		(30,492)	**(14)**	-	(30,506)
Return for Impairment		8,379	**36**	-	8,415
Balance at December 31, 2016	$	**(73,106)**	**(46)**	-	**(73,152)**
Activos Tangibles de neto:					
Balance at 30 June, 2016	$	**448,859**	**2,730**	**91,759**	**543,348**
Balance at 31 December, 2016	$	**441,427**	**2,031**	**144,865**	**588,323**

a. Properties and equipment for own use

The following is the detail of the balance at December 31 and June 30, 2016, by type of property and equipment for own use:

For Own Use			**Cost**	**Accrued Depreciation**	**Loss for Impairment**	**Carrying Value**
Land	$	$	73,372	**-**	**-**	73,372
Buildings			374,684	(58,163)	(73,048)	243,473
Office equipment, furniture and fixture			73,515	(43,178)	**(58)**	30,279
Informatics Equipment			104,591	(63,947)	**-**	40,644
Network and communication equipment			28,132	(18,102)	**-**	10,030
Vehicles			11,847	(5,231)	**-**	6,616
Mobilization equipment and machinery			22,047	(1,539)	**-**	20,508
Properties in joint operations			4	-	**-**	4
Machinery, Plant and mounting equipment			3,919	-	**-**	3,919
Improvements in alien properties			17,651	(6,598)	**-**	11,053
Ongoing Constructions			1,529	-	**-**	1,529
Balance at December 31, 2016		$	**711,291**	**(196,758)**	**(73,106)**	**441,427**
Land		$	70,567	**-**	**-**	70,567
Buildings			325,262	(48,073)	(50,873)	226,316
Office equipment, furniture and fixture			68,347	(40,162)	**-**	28,185
Informatics Equipment			99,347	(73,676)	**(71)**	25,600
Network and communication equipment			22,247	(16,757)	**-**	5,490
Vehicles			5,694	(3,078)	**-**	2,616
Mobilization equipment and machinery			2,784	(1,064)	**(49)**	1,671
Machinery, Plant and mounting equipment			24,792	**-**	**-**	24,792
Improvements in alien properties			14,713	(4,709)	**-**	10,004
Ongoing Constructions			53,618	**-**	**-**	53,618
Balance at December 31, 2016		$	**687,371**	**(187,519)**	**(50,993)**	**448,859**

Constructions in progress and improvements in properties other than December 31, 2016, include
Mainly the following:

Work		Value
Work Soacha	$	248
Work Paseo Bolívar		235
Work Poblado Medellín		165
Santa Barranquilla Principal		122
Work Club Banco Salon de Eventos		111
Work Banca Vehículos		50
Work ed. Centro Internacional P. 17		49
Work Off. Centro Piso 2		46
Work Local 4 Buld. Torre 2 Cali		41
Work C.C. Chipichape		39
Other		423
Total Ongoing Constructions	**$**	**1,529**

Work		Cost	Accrued Depreciation	Carrying Value
Ed. Calle 72 P. 10 Torre B – Bta	$	570	(148)	422
Edificio Citibank Piso 10		551	(128)	423
Antonio Nariño Popayán		530	(208)	322
Santa Marta Ppal. (Remodelación)		524	(186)	338
Cúcuta ampliación		490	(196)	294
Montería Principal		460	(138)	322
Calle 15 Cali		458	(85)	373
CC Tesoro (Traslado)		445	(19)	426
Santander Manizalez		445	(57)	388
Of. Las Peñitas		437	(133)	304
Soledad Atlantico		413	(49)	364
Edificio Bochica Piso 8 – Bogotá		400	(400)	-
Paseo La Castellana (Remodelación)		392	(19)	373
Apartadó		381	(72)	309
Credicentro Bucaramanga		376	(229)	147
CC Jardín Plaza (Traslado)		347	(20)	327
Parquiamerica		346	(129)	217
Autopista Sur – Medellín		342	(313)	29
CC La Estación Cali (Traslado)		339	(13)	326
Pitalito		330	(91)	239
Others		9,075	(3,965)	5,110
Total improvements in alien properties	$	17,651	(6,598)	11,053

Upon the completion, such assets will be internally transferred to the relevant asset account.

All Bank's properties and equipment, as well as those given in operative leasing are duly ensured against fire, weak power and other risks, with insurance policies in effect. The Bank holds insurance policies to protect its properties and equipment for $871,085 at December 31, 2016 covering deft, fire, lightning, explosion, earthquake, strike, riot, and other. Over Bank's properties and equipment, there is neither mortgage nor pledging.

The Bank establishes impairment on properties and equipment when its carrying value exceeds their value of recovery. The Bank appraises at the end of every operational period reported, if there is any indication of impairment of value of any asset, and if any, the recoverable value is estimated of such impaired asset.

To assess whether there is any indication that the value of an asset may have deteriorated, the following factors are considered:

External sources of information:

(a) There exist observable indications that the value of asset has significantly decreased during the operational period more than the expected impairment as a result of the time elapsed or due to the normal use.
(b) During the operational period have occurred, or will occur in any near future, significant changes involving any adverse impact on the entity, related to the legal, economic, technological or market contexts where the entity operates, or even, in the market to which the asset is destined.
(c) During the operational period, the market interest rate, or any other rates of the market related to investment returns, have implied increments probably affecting the interest discount rate to calculate she value in use of the asset in such a way that the recoverable amount significantly decreased.
(d) The carrying value of the net assets of the entity is higher than its market capitalization.

Information Internal sources:

a) There is evidence about obsolescence or physical impairment of any asset.
b) During the operational period have occurred or it is expected to occur in the near future significant changes in the scope or the way about the use or expected use of the asset unfavorably affecting the entity.
c) There is available evidence from internal reports indicating that the economic performance if the asset is or will be worse than the expected performance.

b) Properties and equipment given in operational lease

The following is the detail of balance at December 31, and June 30, 2016 by type of properties and equipment given in operative lease:

Given in Operative Lease		Cost	Accrued Depreciation	Loss for Impairment	Carrying Value
Equipment, furniture and fixture of office	$	264	(264)	-	-
Computing equipment		1,838	(1,799)	**(1)**	38
Vehicles		3,876	(1,968)	**(43)**	1,865
Mobilization equipment and machinery		1,069	(939)	**(2)**	128
Balance at December 31, 2016	$	**7,047**	**(4,970)**	**(46)**	**2,031**
Equipment, furniture and fixture of office	$	266	(263)	-	**3**
Computing equipment		3,017	(2,845)	**(10)**	**162**
Vehicles		4,551	(2,132)	**(54)**	2,365
Mobilization equipment and machinery		1,098	(894)	**(4)**	200
Balance at June 30, 2016	$	**8,932**	**(6,134)**	**(68)**	**2,730**

Below the summary of minimum rental fees of lease receivable in the following terms over goods delivered in operative lease at December 31, and June 30. 2016:

		December 31, 2016	June 30 2016
No more than one year	$	1,937	1,728
More than one year and less than five years		1,170	1,480
Total	$	**3,107**	**3,208**

During semesters ended on and December 31, and June 30, 2016 incomes were not recorded in the results of semester for contingent rental fees received from goods delivered in operative lease.

In the operative lease operations, the Bank, as the lessor delivers goods in lease to be used for any terms set forth in exchange of a rental fee. Upon the completion of the term of the lease, the lessee may either purchase the asset for its commercial value, or extend the term of the lease, or deliver back the asset. In most of the contracts, the rental fee is calculated taking into account as reference the DTF adding or subtracting some nominal points and for the extension of contract, fixed rental fees are established. The VAT, the insurance, the maintenance and any other charge on the asset will be paid by the lessee. The assets delivered back are relocated or marketed by the Bank.

c) Properties of investment

The following is the detail of balance at December 31, and June 30, 2016 by type of properties of Investment:

Properties of investment		Cost	Adjustment Accrued to Fair value	Carrying Value
Land	$	64,532	20,399	84,931
Buildings		51,966	7,968	59,934
Balance at December 31, 2016	$	**116,498**	**28,367**	**144,865**
Land	$	43,520	318	43,838
Buildings		47,243	678	47,921
Balance at June 30, 2016	$	**90,763**	**996**	**91,759**

The following amounts have been recognized in the statement of results reported by the administration of the properties of investment during the semesters ended on December 31, and June 30, 2016:

		December 31, 2016	June 30, 2016
Revenues for rentals	$	1,396	1,266
Direct operational expenses derived from properties of investment generating revenues for income		52	39
Direct operational expenses derived from properties of investment that do not generate revenues for income		1,175	658
Net	$	**169**	**569**

The properties of investment are annually valuated at reasonable value based on market values determined by independent experts with enough experience in the appraisal of similar properties. The methods and assumptions used to determine the fair value according to provision in IFRS 13 were the following:

Market comparative method

This is the devaluation technique aimed at establishing the commercial value of the asset, based on the study of the recent offers or transactions of and similar and comparable to the subject of appraisal. Such offers or Transactions need to be classified, analyzed and interpreted in order to obtain an estimation of the commercial value.

Approach of comparison of sales

The approach of comparison of sales allows for determining the value of any property appraised by comparison to other similar properties under transactions or that have been recently transacted in the real estate market.

This comparative approach considers the sale of similar or substitute goods, as well as the data obtained from the market and determines an estimate value using procedures including the comparison. In general, any good that its value (the good subject matter of valuation) is compared to the sales of similar goods marketed in the open market. Advertisements and offers may be considered as well.

As of the date, the Bank neither issues restrictions in the collection of rental fees nor the sale of the goods classified in the property of market.

Note 15. Intangible assets, net

The following is the movement of intangible asset accounts for the semesters ended on December 31 and June 30, 2016:

		Plus Value	Other Intangible	Total Intangible Asset
Cost				
Balance at December 31, 2015	$	**22,724**	**114,599**	**137,323**
Additions/Purchases (net)		-	18,489	18,489
Balance at June 30, 2016		**22,724**	**133,088**	**155,812**
Additions/Purchases (net)		-	19,424	19,424
Balance at December 31, 2016	$	**22,724**	**152,512**	**175,236**
Accrued amortization:				
Balance at December 31, 2015		-	**(1,622)**	**(1,622)**
Amortization of semester charged to results	$	-	(3,589)	(3,589)
Balance at June 30, 2016		-	**(5,211)**	**(5,211)**
Amortization of semester charged to results		-	(4,943)	(4,943)
Additions/Purchases (net)		-	-	-
Balance at December 31, 2016	$	-	**(10,154)**	**(10,154)**
Intangible Assets net:				
Balance at June 30, 2016	$	**22,724**	**127,877**	**150,601**
Balance at December 31, 2016		**22,724**	**142,358**	**165,082**

In the closings aforementioned, the Bank did not have loss of impairment for those intangible assets

Plus Value

The plus value recorded corresponds to the merging of the Bank with Banco Union occurred in some years before the implementation of the IFRS which for purposes of evaluation has been assigned to the Bank as a whole and as unit generating cash to such plus value.

The technical plus value valuation study for the acquisition of Banco Unión was made by the firm Estructuras Financieras S.A.S. and Independent specialized in financial valuations, the completion of plus value evaluation recorded by the Bank at September 2016, concluded that impairment indexes did not occur to the line of business acquired by the Bank.

The retrieval amount of unit generating cash was determined based on calculations of the value of use. Such calculations used cash flow projections approved by management including five years and three months periods the following are the main assumptions used in such valuations:

Macroeconomic Assumptions						
Índice	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
IPC Nacional Anual	6.8%	4,0%	3.4%	4.0%	3.6%	3.7%
DTF (EA Promedio Anual)	7.0%	6,9%	6,8%	6,5%	5,8%	6,0%
Tasa impuesto renta	39.0%	39,0%	37,0%	33.0%	33,0%	33.0%

According to IAS 36 the projections of most recent cash flows in budgets or financial forecasts have been approved by Bank's management, excluding any estimations of inflows or outflows of cash expected to occur in future restructuring or improvements of efficiency of assets. The projections based on these assumptions or forecasts will cover at most five years period.

The macroeconomic assumptions for the projection horizon 2016/2021 were taken from Bancolombia and according to the last tax reform passed on December 2016 the income tax is considered

In order to define the rate to discount the flows there is as reference framework the capital cost concept, as from the CAPM model (Capital Asset Pricing Model). This model is defined in function of the free-risk rate, added up with a market free-risk premium component, which may increase or decrease depending on the behavior versus the market of asset which specific valuation will be implemented (beta coefficient). The construction of discount rate to be used in the valuation of lines of business acquired by the Bank in acquisition of Banco Unión is as follows:

Discount Rate

a) **Risk-free rate** (**Rf**): Was taken as free-risk rate the rate of return of American Treasury Bonds with 30 years Maturity. Rf = 3.13%. Source Ministry of Treasury and Public Credit, December 22, 2016

b) **Risk country (Rc)** This rate represents the risk premium of the sovereign bond Republic of Colombia (with maturity 2.044) over the risk-free rate (described in the item a). This premium reflects the valuation made by the risk market capital of investment in Colombia. related to the management of economic policies.

Rc = 2.43%: Source: Ministry of Treasury and Public Credit, December 22, 2016

c) **Market risk premium (Rm):** A market risk premium was taken for the American market. Since the Colombian market allows for the access of investments from other markets, and it being that Colombia, the same as in most of the emergent economies, there is no any mean return rate of the market for a diversified portfolio. It is reasonable to assume that such investment expect to obtain a risk premium no less than that obtained in the American market. Rm = 6.00% Source; Damodaran URL www.damodaran.com (22/01/16).

d) **Beta (β):** Coefficient beta applied to the rage calculated by Demodaran for several banking entities giving as result 0.94.

e) In those conditions the discount rate obtained is the following:

$$\text{Capital Cost} = ((Rf + Rc) + \beta^*(Rm))$$

As a result of the valuation it was determined that it is not necessary to construct any provision for impairment corresponding to plus value at December 31 and June 30, 2016.

Estimate capital cost for acquisition valuation Banco Union

Banco de Occidente: Banco Unión

Variable	**Rate 1**	**Rate 2**	**Rate 3**
Risk-free rate	3,13%	3,13%	3,13%
Risk Country	2,43%	2,43%	2,43%
Market Risk Premium	6.00%	6.00%	6.00%
Beta	1,10%	0,94%	0,78%
Capital Cost (USD)	**12,20%**	**11,20%**	**10,20%**
Devaluation (Peso/Dollar)	6,20%	6,20%	6,20%
Capital Cost (COP)	**19,19%**	**18,13%**	**17,07%**

Result valuation line of business acquisition Banco Unión at September 30, 2016

Lines		**Result valuation line of business acquisition Banco Unión at September 30, 2016**						
		Scenario – Discount rate in COP			**% participation**	**Scenario – Discount rates in COP**		
		19,19%	**18,13%**	**17,07%**	**To apply**	**19,19%**	**18,13%**	**17,07%**
	$	1,560,963	1,837,767	1,979,339	11,10%	173,853	204,682	220,450
Ordinary Portfolio $								
Credit Treasury		77,713	98,598	104,650	17,00%	13,246	16,806	17,838
		41,289	44,328	47,852	100,00%	41,289	44,328	47,852
Unidirecto								
		549,649	590,273	637,383	6,20%	33,875	36,378	39,282
Vehicles								
		518,548	558,638	605,192	20,80%	108,072	116,427	126,130
Personal Loans								
		571,960	616,459	668,142	11,30%	64,385	69,395	75,213
Credencial and Visa								
Crediunión Plus		-	-	-	100,00%	-	-	-
Verdrafts Current Accounts		103,210	110,810	119,619	15,30%	15,743	16,902	18,245
Promotion Portfolio		55,066	59,043	63,652	2,30%	1,256	1,347	1,452
		45,102	48,552	52,555	7,10%	3,187	3,430	3,713
Sundry Debtors ME								
TOTAL	$	3,523,500	3,964,468	4,278,384		454,906	509,695	550,175
Consolidated participation						12,90%	12,90%	12,90%

December 31, 2016

UGE		Plus Value	Carrying Value	Amount Retrievable	Excess
Banco Unión	$	22,724	22,724	454,906	432,182

With these scenarios the valuation of each one of the lines of business of Banco Unión (acquired under merging Process) add up more than $450,000, widely exceeding the plus value balance amounting to $22,724; based on this results it was determined that it is not necessary construct any provision for impairment corresponding to the plus value at December 31 and June 30, 2016.

Detail of intangible assets different from plus value

December 31, 2016		Cost	Accrued Amortization	Amount in Books
Programs and informatics Applications	$	152,512	10,154	142,358

June 30, 2016		Cost	Accrued Amortization	Amount in Books
Programs and informatics Applications	$	133,088	5,211	127,877

Note 16. Provision for income tax and CREE

Tax Reform

On December 29, 2016, the Act 1819 of 2016, was enacted, whereby new regulations taxations were introduced and the more relevant aspects are indicated below:

As from 2017 the tax for equity tax CREE is removed and the income a complementary tax is unified. The rates applied will be the following: 34% in 2017 and 33% in 2018 and 2019, with a corresponding surcharge 6% in 2017 and 4% in 2018. Such surcharge is applicable when the taxable base is higher than or equal to $800 million pesos.

The percent of presumptive income is increased to 3.5%, which will continued to be liquidated over the net patrimony.

The taxation system over the profit obtained is amended as from 2017 to be drafted as dividend, which will be taxed both charged both to society and to the shareholder. For the profits that according to articles 48 and 49 of Tax Statute appear as “not taxed” will apply the following rates considering the quality of beneficiary:

- Marginal rates between 0%, 5%, and 10% in the payment in cash or payment in account to residing natural persons.

- Rate 5% in payment in cash or payment in account non residing persons, foreign societies and branch offices of foreign societies.

The treatment of payment of in cash or payment in account made to domestic societies remained unchanged.

The profit holding the quality of “taxed”, will be initially subject to 35% taxation, and once decreased this tax that rates 0%, 5%, and 10% will apply, to resident natural persons or 5% for natural persons not residing, foreign societies and branch offices of foreign societies.

The fiscal loss only may be set off against the net income obtained within the 12 following taxable operational periods and the possibility of readjust fiscal credits derived from presumptive income and fiscal loss is eliminated. The among of fiscal loss and the excess of presumptive income generated before 2017 in the income and complementary tax and/or in the income tax for the equity CREE, will be setoff in proportion and not be limited to the time.

The excess of presumptive will continued to be amortizing within the five (5) years term.

- The general term firmness of the tax returns is three (3) years. For the entities subject to transfer pricing studies the term of firmness will be six (6) years, such term applies as well in the event of declaration where fiscal loss is compensated- The firmness of declarations where fiscal loss is generated, will the same time as that to be compensated, i.e. twelve (12) years; nevertheless, if the taxpayer compensates the loss in the two last years given to do so, the firmness term will be extended for three (3) more years as from that compensation in connection with the declaration where such loss was liquidated, and therefore, the fiscal period could be 15 years.

- The withholding at source rates are changed for foreign payments and now is 15$ capital and labor income, consultancy, technical services, technical assistances, payments to parent companies on account of administration and financial returns, inter alia. The rate corresponding to 33% over 80% of payment or credit in account, for exploitation of computer software.

- In connection with sale tax, the general rate was changed going from 16% to 19% and the generating fact was changed including the sale or assignment of rights over intangible assets associated to industrial property and services supplied from abroad. For such purpose, the services supplied and the intangibles acquired or licensed from abroad, will be considered as supplied or acquired or licensed in the national territory, when the direct beneficiary or recipient has its fiscal residence, domicile, establishment or permanent headquarters or the economic activity in the national territory.

The liabilities for income tax and CREE at December 31 and June 30, 2016 include the following:

		December 31 2016	June 30 2016
Income tax and Cree Current	$	86,954	124,174
Adjustment prior operational periods		-	1,058
Tax Uncertainty		31,464	23,980
Total	$	**118,418**	**149,212**

a. Components of the expense for income tax and CREE

The expense for income tax and CREE for the semesters ended on December 31 and June 30, 2016 include the following:

		Semesters ended on	
		December 31, 2016	**June 30, 2016**
Income tax of the current operational period	$	111,301	78,940
CREE tax		35,666	29,427
CREE tax surcharge		23,729	19,570
Sub-Total tax current operational period		**170,696**	**127,937**
Adjustment of prior periods		(10,498)	5,847
Adjustment for uncertain tax positions of previous operational periods		7,484	(503)
(Deficit provision of period		-	(3,762)
Net deferred tax of period		(56,903)	(30,575)
Sub-Total		**(59,917)**	**(28,993)**
Total	$	**110,779**	**98,944**

b) Tax rate Reconciliation according to tax provisions and effective rate

The tax provisions prevailing applicable to companies, provide that:

i. The fiscal income is taxed at 25% rate by way of income and complementary tax.

ii. As from January 1, 2013 the Act 1607 of December 2012 established the income tax for equity - CREE as the contribution made by the companies and legal persons and assimilated entities tax payers of the income and complementary tax for the benefit of workers, employment promotion and social investment.
The income tax for equity "CREE" for the year 2014 and 2015 and subsequent periods is 9%.

iii. As from 2015 an additional 5% surtax of CREE was created for the year 2015, 6% 2016, 8% 2017, and 9% 2018.

iv. The base to determine the income tax and CREE will be no less than 3% of the net patrimony in the last day of the precedent operational period.

The Council of State, under writ 20998 of February 24, 2015, provided the provisional suspension of the Paragraph 1 in Article of Decree 2701 of November 22, 2013, stating the taxable basis of the income tax for equity-CREE and Includes the recovery of deductions as net income of such tax, and therefore Banco de Occidente taking into account this consideration by the Council of State, applied the project of amendment to DIAN for $33,585 of the tax returns for CREE of the taxable year 2014, filed with DIAN on June 30, 2015, similarly, and accounted for a recovery in the first semester for $33,000, in the same way, in the second semester 2015 the correction project was filed to DIAN with regards to the income declaration CREE 2013 for $34,106, under writing communication filed on September 15, 2015. In 2015, under resolution No. 900036 and in 2016 under Resolution No. 900005, DIAN approved the above mentioned correction projects for the taxable years 2014 and 2013, respectively.

The Constitutional Court, under rules C-291 / 2015, by analyzing the possibility for the fiscal loss incurred in the income Tax for the Equity (CREE) may be compensated with the income of future periods according to provisions in Article 147 of National Tax Statute, the Constitutional Tribunal considers that it is possible, considering that the Congress incurred in a relative legislative omission becoming it unconstitutional, because infringes the principle of taxation equity provided in articles 95-9 and 363 of the National Constitution because fail to take into account this possibility in the determination of taxable base of the income tax for the Equity (CREE) regulated by article 22, Act 1607 / 2012. Therefore, on occasion of the corrections made by the Bank in the income tax returns for the Equity (CREE) 2013 and 2014, losses were generated susceptible of compensation in future periods for $10,663 and $56,806 respectively that will be carried as compensation in the income for Equity (CREE), 2016

Pursuant to article 165 in Act 1607/2012, and regulatory Decree 2548/2014, for taxation purpose, the remissions contained in the tax regulations to the accounting standards, will continue to be in force in force during the four (4) years following the taking force of the IFRS accounting standards. Consequently, during the years 2015 to 2018 inclusive, the fiscal basis of the items included in the tax returns will continue unchanged and the determination of liabilities current income tax for the equity (CREE), will be realized based on the tax standards prevailing, that in some instances are remitted to the previous accounting principles up to December 31, 2016 and December 31, 2014 (Decree 2649/1993 and other complementary provisions).

According to above, the determination of taxable base of income tax and CREE for the semesters ended on December 31, and June 30, 2016 was made based on the applicable tax provisions.

The following is the detail of reconciliation between the total income tax expense of the Bank calculated at the tax rates currently prevailing and the tax expense effectively recorded in the statement of results.

		December 31 de 2016	June 30 2016
Profit before income tax	$	**353.088**	**386.758**
Tax rate prevailing		40%	40%
Tax expense theoretical calculated according to the Tax rates prevailing		141,235	154,704
Non-deductible expenses		35,492	16,710
Dividends received non-constitutive or income		(17,665)	(26,805)
Profit on sale or investment valuation non-constitutive of income		(407)	(1,054)
Interest and other non-taxable income		(5,076)	(6,590)
Deductions with rates different for CREE		4,142	4,059
Tax benefit in acquisition of productive assets		(6,305)	(6,099)
Adjustment of prior periods		(10,497)	-
Adjustment for uncertain tax positions of prior periods		7,484	(503)
Other concepts		(37,624)	(35,478)
Total tax expense of period	$	**110,779**	**98,944**

c) Tax Uncertainty

The following is the movement of tax uncertainty during the semesters ended on December 31, 2016 and June 30, 2016:

		December 31, 2016	June 30, 2016
Balance at the beginning of period	$	**23,980**	**24,483**
Increase(Decrease) of uncertainties during the semester		5,115	4,710
Amounts reversed for unrealized provisions		-	(7,425)
Adjustment previous periods		-	293
Financial Cost		2,369	1,919
Balance at the end of period	$	**31,464**	**23,980**

The liabilities for current income tax at the closing December 31 and June 30, 2016 includes $31,464 and $23.980, respectively, with respect of the uncertainties related taken on account of services to employees forgiveness and accidents. The Bank's top management estimates that such exposures are more probable that are required to compensate if they rare questioned by tax authorities. The sanctions and the arrears interest related to such tax uncertainties are accrued and recoded as an expense.

The balance at December 31, 2016 which will be used or released when the inspection rights of tax authorities with respect of declaration expire, is as follows:

Year		Amount
2017	$	7,477
2018		7,146
2019		11,989
2020		2,700
2021		2,152
Total	**$**	**31,464**

d) Deferred tax related to Subsidiary companies, Associates, and Joint ventures

During the semester ended on December 31, 2016, the Bank did not record deferred tax liabilities related to temporary differences of investments in subsidiaries, associates and joint ventures, as a result of the application of exemption provided in Paragraph 39 of IAS 12, taking into account that the requirements set out in such provision are accomplished, because the Bank holds the control on reversion of such temporary differences and the management considers that it is probable they will be not reversed in the medium-term.

e) Deferred tax by type of temporary difference

The differences between the carrying value of asset and liabilities and the fiscal bases thereof, give raise to the following temporary differences involving deferred tax at December 31 and June 30, 2016 based on the tax rates currently prevailing for the years where such temporary differences will be reversed.

Semester ended on December 31, 2016

		June 30, 2016	Credited (charged) to Realized	Credited (charged) to ORI	December 31, 2016
Active Deferred Tax					
Investments available for sale in certificates of Indebtedness	$	8,825	1,106	(9,931)	-
Investments in Subsidiaries and associates		1	-	-	1
Investments Equity Variation		81	4,774	(4,721	134
Valuation of derivatives		91,397	(14,974)	-	76,423
Depreciación de bienes dados en Leasing		2,515	(601)	-	1,914
Provisión para cartera de créditos		10,354	(201)		10,153
Differences between the accounting and fiscal bases I the deferred charges and the intangible asset		13	(2)	-	11
Non-deductible passive provisions		4,836	(4,771)	-	65
Fiscal losses to be set off in CREE originated in 2013 and 2014		10,120	(10,120)	-	-
Income received in advance		1,688	(164)	-	1,524
Other assets		10,988	10,777	-	21,765
Benefits to employed		8,315	(1,606)	(776)	5,933
Sub-Total		**149,133**	**(15,782)**	**(15,428)**	**117,923**

		June 30, 2016	Credited (charged) to Realized	Credited (charged) to ORI	December 31, 2016
Deferred Tax Liabilities					
Valuation of fixed income investments		(37,416)	19,446	(137)	(18,107)
Valuation of variable income investments		(2,471)	(11,316)	-	(13,787)
Valuation of derivatives		(130,337)	68,345	-	(61,992)
Difference between accounting and taxation bases of credit portfolio		(10,638)	4,175	-	(6,463)
Accounts Payable		(328)	(1,482)	-	
Provision to accounts payable		(239)	(95)	-	(334)
Difference between accounting and fiscal bases of property, equipment and investment properties		(66,006)	(9,185)	-	(75,191)
Differences between accounting and fiscal bases of causation of property and equipment depreciation		(49,678)	5,474	-	(44,204)
Differences between accounting and fiscal bases of intangible asset deferred charges		(838)	(977)	-	(1,815)
Mercantile credit		(7,725)	-	-	(7,725)
Other asset		-	948	-	948
Other liabilities		(37)	(2,650)	-	2,687)
Subtotal		**(305,713**	**72,683**	**(137)**	**(233,167)**
Total	$	**(156,580)**	**56,901**	**15,565)**	**(115,244)**

Semester ended on June 30, 2016

		December 31, 2015	Credited (charged) to Realized	Credited (charged) to ORI	June 30 2016
Active Deferred Tax					
Investments available for sale in certificates of Indebtedness	$	29,853	-	(21,028)	8,825
Investments in Subsidiaries and associates		3,986	(5,410)	1,425	1
Investments to patrimonial variation		-	81	-	81
Valuation of derivatives		107,576	(8,564)	-	91,397
Depreciation of goods given in leasing		-	2,515	-	2,515
Provision for credit portfolio		11,409	(1,055)	-	10,354
Differences between the accounting and fiscal bases of credit portfolio		5,751	(5,751)	-	-
Accounts receivable		7,852	(7,852)	-	-
Differences between the accounting and bases of the property, equipment and properties of investments		502	(502)	-	-
Differences between accounting and fiscal bases between deferred charges and intangible assets		2,533	(2,520)	-	13
Non-deductible liabilities provisions		3,702	1,135	-	4,837
Fiscal losses to be set off in CREE originated in 2013 and 2014		-	10,120	-	10,120
Income received in advance		-	1,688	-	1,688
Other assets		-	10,987	-	10,987
Benefits to employed		2,248	6,747	(680)	8,315
Sub-Total		**175,412**	**1,619**	**(27,898)**	**149,133**

		December 31, 2015	Credited (charged) to Realized	Credited (charged) to ORI	June 30 2016
Deferred Tax, Liability					
Valuation of fixed income investments		(43,974)	6,558	-	(37,416)
Variable income investment valuations		(3,223)	770	(18)	(2,471)
Valuation of derivatives		(141,387)	11,050	-	(130,337)
Differences between the accounting and fiscal bases of credit portfolio		-	(10,638)	-	(10,638)
Accounts receivable		-	(328)	-	(328)
Provisions for accounts receivable		(210)	(29)	-	(239)
Differences between the accounting and fiscal basses of properties, equipment and properties of investment cost		(64,372)	(1,634)	-	(66,006)
Differences between the accounting and fiscal bases accrual of depreciation of property and equipment		(61,368)	11,690	-	(49,678)
Provision for property and equipment		(34)	34	-	-
Depreciation of goods given in Leasing		(5,199)	5,199	-	-
Difference between the accounting and fiscal bases of deferred charges of intangible assets		(66)	(772)	-	(838)
Commercial credit		(7,399)	(326)	-	(7,725)
Other assets		(2,414)	2,414	-	-
Other liabilities		(5,008)	4,968	-	(37)
		(334.654)	**28.956**	(18)	**(305.713)**
Sub-total	$	**(159,242)**	**30,575**	**(27,916)**	**(156,580)**

The analysis of asset and liabilities for deferred tax at December 31 and June 30, 2016 **is as follows:**

		December 31 2016	June 30 2016
Assets for deferred tax			
Assets for deferred tax to be recovered after more than 12 months	$	79,983	34,450
Assets for deferred tax to be recovered in 12 months		37,940	114,683
Total asset tax		**117,923**	**149,133**
Liabilities for deferred tax			
Liabilities for deferred tax to be recovered after more than 12 months		(87,295)	(156,202)
Liabilities for deferred tax to be recovered in 12 months		(145,872)	(149,511)
Total Liability Tax		**(233,167)**	**(305,713)**
Asset or liability deferred tax (Net)	$	**(115,244)**	**(156,580)**

f. Effect of current or deferred tax on each component of the account other integral results in patrimony:

The effects of current and deferred tax on each component of account other income, are detailed below:

		Semester ended in December 31, 2016			June 30, 2016		
		Amount Before Tax	Cost (income) of tax	Net	Amount Before Tax	Cost (income) of tax	Net
Difference in exchange in conversion of foreign operations	$	(3,792)	-	(3,792)	(6,067)	1,425	(4,642)
Investments available for sale certificate of indebtedness		(11,689)	(10,068)	(21,757)	53,288	(21,028)	32,260
Investments available for sale participation securities		246	(4,721)	(4,475)	(4,579)	(18)	(4,597)
Labor obligations		(2,389)	(776)	(3,165)	(2,855)	(680)	(3,535)
Net unrealized Profit (loss) in foreign hedging operations		3,792	-	3,792	(6,067)	(7,615)	(13,682)
Total other integral results during the operational period	$	**(13,832)**	**(15,565)**	**(29,397)**	**33,720**	**(27,916)**	**5,804**

g. Transference pricing

As from the taxable year 2004, the taxpayers of the income and complementary tax that have been entered into operations with associated companies abroad, are under the obligation to determine, for income and complementary tax purposes their ordinary and extraordinary income, the cost and deductions and their asset and liabilities, considering for those operations the prices or profit margin agreed on by independent third parties (principle at market value). As of this date, Bank's management and its advisors have not concluded the study as yet, corresponding to taxable year 2016. Nevertheless, they consider that based on the result of the study corresponding to 2015, additional provisions of income tax derived from the analysis of prices 2016 affecting the results of period, are not required.

In article, 260-7 amended by Act 1607/2012 indicated in paragraph 2, that the operations made by income and complementary taxpayers with individuals, societies, entities or companies located, residing, or domiciled in tax heavens will be subject to transfer pricing regime and comply with the obligation to submit the relevant documentation and the reporting declaration concerning such operations.

Note 17. Client Deposits

Below the detail of the balances of deposits received from clients in the development of their operations of taking of deposits:

Detail		December 31, 2016	June 30 2016
Sight deposits			
Current Accounts	$	5,602,172	5,007,802
Saving Accounts		8,722,464	9,905,043
Other Funds at sight		47,475	60,077
		14,372,111	**14,972,922**
At term		6,497,727	6,356,110
Time Deposits	$	**20,869,838**	**21,329,032**
Total Time Deposits			
By Currency	$	20,839,913	21,272,765
In Colombian Pesos		29,925	56,267
In other currency	$	**20,869,838**	**21,329,032**

Below the detail of maturity of time deposits valid at December 31, 2016:

Year		Nominal Amount
2016	$	84,198
2017		4,374,536
2018		509,382
2019		167,509
2020		191,944
After 2020		1,170,158
	$	**6,497,727**

Below a summary of effective interest rates is given charged to clients' deposits:

	December 31, 2016		**June 30, 2016**	
	Deposit in COP Rate		Deposit in COP Rate	
	Min. Rate %	Max. Rate %	Min. Rate %	Max. Rate %
Current Accounts	-	3,2%	-	3,2%
Saving Account	1,0%	8,75%	1,0%	8,5%
Time Deposits Certificates	0,05%	9,31%	0,05%	9,35%

Interest liquidation Frequency: For Time Deposits Certificates, the interest liquidation frequency corresponds to the agreement entered into with every client in the security; for saving accounts the liquidation is made on a daily basis.

The following shows the detail of concentration of deposits received from the clients by economic sector:

Sector		**December 31, 2016**		**June 30, 2016**	
		Amount	%	Amount	%
Colombia Government or Govern Entities*	$	4,351,612	21%	4,390,983	21%
Manufacture		457,535	2%	347,713	2%
Real Property		307,373	1%	252,720	1%
Commerce		1,116,653	5%	610,979	3%
Agriculture and livestock		132,141	1%	133,105	1%
Individuals		2,361,566	11%	2,150,346	10%
Other**		12,142,958	58%	13,443,186	63%
Total	**$**	**20,869,838**	**100%**	**21,329,032**	**100%**

(*) Government includes sectors O and U (according to CIIU classification) corresponding to public administration and defense and social security plans of mandatory affiliation and activities of organizations and extraterritorial bodies, respectively.

(**) The most representative item included in this category corresponds to Financial and insurance activities (Sector K), which at the closing December 31 showed a total balance for $ 6,722,706, representing 32,21% of category.

At December 31, 2016 there were 8,471 clients with balances higher than $250 for $17,428,483 total balance (At June 30, 2016 there were 8,042 clients for $18,160.768).

For clients deposits the expenses caused in results for interest cost for saving accounts, for certificates of time deposits and current accounts at closing of semesters ended on December 31, and June 30, 2016, was $556.822 and $443.558, respectively.

Note 18. Financial Obligations

1. Financial obligations

The following is the summary of financial obligations obtained by the Bank at December 31 and June 30. 2016, with the basic purpose to fund mainly its international Trade operations:

		December 31 2016	June 30 2016
Colombia Legal Tender			
Interbank and overnight funds			
Correspondent Banks	$	**306**	**273**
Ordinary interbank funds purchased		**-**	105,064
Simultaneous operations		76,744	62,702
Transfer operations Commitments		550,327	650,129
Total Interbank and Overnight funds	$	**627,377**	**818,168**
Foreign Currency			
Interbank and overnight funds			
Correspondent Banks	$	3,165	3,115
Ordinary purchases interbank funds		436,142	276,578
Total Interbank and Overnight funds	$	**439,307**	**279,693**
Credits	$	1,586,090	1,790,589
Letters of credit		2 296	2,778
Acceptances		14,142	26,035
		1 602,528	**1,819,402**
Total financial obligations	$	**2,669,212**	**2,917,263**
Less short-term obligations		**1,066,684**	**1,097,861**
Long-term obligations	$	**1,602,528**	**1,819,402**

At December 31, 2016 short-term financial obligations corresponding to simultaneous and repo operations for $627,071 were ensured with investments for $635,764 (at June 30, 2016 for $712,831 ensured with investment for $724,681)

Below the summary of effective interest rate charged on short-term financial obligations:

	In Colombian Pesos		In Foreign Currency	
	Minimun Rate %	**Maximum Rate %**	**Minimun Rate %**	**Maximum Rate %**
Interbank funds and repo & Simultaneous Operations				
December 31, 2016	4,5	7,5	0,6	1,3
June 30, 2016	7,3	7,503	7,3	7,503

For short-term financial obligations charged to results of interest of the monetary market operations of interbank funds committed of transfer in repo, simultaneous operations and other interest at the closing of semesters ended on December 31, 2016 and June 30, 2016 was $22,000 and $ 25,659, respectively.

2 Bonds and investment securities

The Bank is authorized by Colombia Finance Superintendence to issue and invest bonds, of bonds of general Guarantee. The total issues of bond by the Bank have been issued unguaranteed and represent exclusively the obligations of each one of the issuers.

The following is the detail of liabilities at December 31, and June 30, 2016, by date of issue and date of maturity in legal tender:

Issuer	Date issue		December 31 2016	June 30 2016	June 30 2016	Interest Rare
Ordinary bonds Leasing de Occidente	25-aug-08	$	52,903	52,903	25-aug-18	IPC + 7,00
Ordinary bonds Leasing de Occidente	30-mar-09		-	-	30-mar-16	IPC + 6,00
Ordinary bonds Leasing de Occidente	30-apr-09		1,000	1,000	30-mar-16	IPC + 5,75
Ord. Bonds 2nd issue of the program	02-mar-11		-	-	02-mar-16	IPC + 3,05%
Ord. Bonds 3rd issue of the program	22-sep-11		-	59,180	22-sep-16	IPC + 4,0%
	22-sep-11		-	12,760	22-sep-16	7,25%
	22-sep-11		32,000	32,000	22-sep-18	IPC + 4,20%
	22-sep-11		134,300	134,300	22-sep-21	IPC + 4,50%
Subordinate Bonds 1st issue of program	09-feb-12		80,000	80,000	09-feb-19	IPC + 4.34%
Ordinary bonds 4th issue of program	09-feb-12		120,000	120,000	09-feb-22	IPC + 4.65
Ordinary bonds 2nd issue of program	09-aug-12		100,950	100,950	09-aug-22	IPC + 4.10%
Ordinary bonds 5th h issue of program	09-aug-12		149,050	149,050	09-aug-27	IPC + 4.27%
Ordinary bonds 5th h issue of program	30-jan-13		200,000	200,000	30-ene-25	IPC + 3.58%
Ordinary bonds 6th issue of program	20-may-13		-	-	29-may-16	IBR + 1.30
	20-may-13		19,540	19,540	29-may-20	IPC + 2.90%
	20-may-13		2,750	2,750	29-may-28	IPC + 3.10%
Ordinary bonds 6th issue of program	21-nov-13		70,750	70,750	21-nov-17	IPC + 2.89%
Ordinary bonds 6th issue of program	21-nov-13		61,050	61,050	21-nov-20	IPC + 4.35%
Ordinary bonds 7th issue of program	08-may-14		150,030	150,030	08-may-17	IBR + 1.39%
	08-may-14		122,180	122,180	08-may-21	IPC + 3.70%
	08-may-14		77,790	77,790	08-may-24	IPC + 4.00%
Ordinary bonds 8th issue of program	18-july-15		205,950	205,950	16-jul-17	6,00%
	18-july-15		45,050	45,050	16-jul-18	6,26%
	18-july-15		99,000	99,000	16-jul-20	IPC + 3.48%
Ordinary bonds 9th issue of program	19-nov-15		100,000	100,000	19-nov-17	IBR + 2.04%
	19-nov-15		50,000	50,000	19-nov-20	IPC + 3.51%
	19-nov-15		250,000	250,000	19-nov-27	IPC + 4.65%
Ordinary bonds 3rd issue of program	10-jun-16		247,750	247,750	10-jun-26	IPC + 4,60%
	26-oct-16		128,640	-	26-oct-19	7,85%
Ordinary bonds 10rd issue of program	26-oct-16		90,160	-	26-oct-21	7,77%
	26-oct-16		181,200	-	26-oct-28	IPC + 3.9%
INTEREST PAYABLE FOR BONDS			**39,550**	**37,246**		
		$	**2,811,593**	**2,481,229**		

a) Issues of Subordinated Ordinary Bonds in 2012 I and 2016 I issues of Ordinary Bonds in 2008, 2009, (two issues), 2010 I, 2011 (two issues) 2012 II 2013 (three issues) 2014 I, 2015 (two issues) and 2016 (two issues).

Amount of issue authorized:

Year		Amount
2008	$	400,000
2009		500,000
2010		550,000
2011 I		400,000
2011 II		247,120
2012 I		200,000
2012 II		300,000
2013 I		300,000
2013 II		253,390
2013 III		350,000
2014 I		350,000
2015 I		350,000
2015 II		400,000
2016 I		250,000
2016 II	**$**	400,000

Note: The issue made in 2010 for $550,000 was made in two stretches. The first was November 25, 2010 for an amount of $359,500 and the second stretch was made May 10, 2011 for $190,450 total amount corresponding to an issue in 2010.

c) The legal representative of the holders of bonds is Helm Fiduciaria S.A.

d) For the issues 2010 ($550,000), 2011 ($400,000 and $247,120) 2012 ($200,000 and $300,000), 2013 ($200,000, $253,390 and $350,000), 2014 ($350,000) and 2015 ($350,000 and $400,000) and 2016 ($247,750 and 400,000) the par value and minimum investment is $10,000,000 and $10,000,000 (in Col. Pesos) respectively.

For the issues 2008 (400,000) and 2009 (500,000) the par value and minimum investment is $100,000 and $1,000,000 (in Col.pesos) respectively.

The future maturities at December 31, 2016 of outstanding investment instruments in indebtedness at long-term, are:

Year		Nominal Amount
2016	$	39,550
2017		526,730
2018		129,953
2019		209,640
2020		229,590
After 2020		1 ,676,130
	$	**2 ,811,593**

For long-term financial obligations by issue of Bonds caused in results for interest ended on December 31, 2016 for $141,102 and June 30, 2016 for 122,678, respectively. To the closing December 2016, the last date of payment December 12, 2016 was taken.

3. Financial obligations with rediscount entities

Colombia government has implemented some credit programs in order to promote the development of economic specific sectors, including foreign trade, agriculture, tourism, construction of housing and other industries. Such programs are managed by several government entities such as Banco de Comercio Exterior (”BANCOLDEX”), Fondo para el Seguimento del Sector Agropeuario (“FINAGRO”) and Financiera de Desarrollo Territorial (“FINDETER”).

The following is the detail of loans obtained by the Bank from those entities at December 31 and June 30, 2015:

	Interest rate in Force at closing		December 31, 2016	June 30 2016
Banco de Comercio Exterior - “BANCOLDEX”	Between 2,19% - 11,98%	$	3 19,426	282,394
Fondo para el Financiamiento del Sector Agropecuario - “FINAGRO”	Between 2,58% - 13,13%		77,867	95,235
Financiera de Desarrollo Territorial “FINDETER”	Between 2,62% - 12,64%		5 89,458	565,028
Total		$	**9 86,751**	**9 42,657**

The following is the detail of financial obligations maturities with rediscount entities prevailing at June 30, 2016:

Year		Amount
2017	$	1,169
2018		177,696
2019		186,938
2020		152,718
2021		124,892
After 2021		343,338
Total	$	**986,751**

For financial obligations with rediscount entities and foreign banks at interest charged in results for the semesters ended at December 31 and June 30, 2016 and, were $51,129 and $46,836, respectively.

Note 19. Provisions for benefits to employees

According to Colombian labor legislation and based on the labor bargaining and collective agreements entered into with the employees, the several different Bank’s employees are entitled to short-term benefits such as: salaries, vacations, legal and extralegal premiums and severances and interest on severance, and long-term benefits such as extralegal premiums and benefits retirement such as severance to employees included in the labor regime before the Act 50/1990 and legal and extralegal pensions of retirement The For compensation of the key personnel of the management includes salary, benefits different from cash and contributions to a plan of post-employment benefits, See Note 30

Based on the plans of benefits to employees the Bank assumes some risks (of interest rates and Operations) which are minimized by the application of the policies and procedures or by the Management of risk previously defined in Note 4.

The following is the detail of balances of provisions for benefits to employees at December 31, and June 30, 2016:

		December 31 2016	June 30 2016
Short-term benefits	$	38,842	32,285
Post-employment benefits		9,923	12,862
Long-term benefits		27,107	30,035
Total	$	**75,872**	**75,182**

a) Post-employment benefits

- In Colombia the retirement annuity when the employees leave the company after reaching the age and the time of service, is assumed by the public or private funds of pensions based on the contribution plans defined where the entities and the employees contribute, on a monthly frequency with the amounts defined by laws in order be entitled to the pension at the time of retirement of employee; notwithstanding some employees hired by the Bank before 1968 who accomplished with the requirements of the age and time of service, the pensions are directly assumed directly by the Bank.
- 120 employees contracted by the Bank before 1990 are entitled to receive in the date when the employee or the company made the decision for the employee to leave the company, a compensation corresponding to the last month of salary multiplied by each year worked at December 31, 2016, the provision for this concept corresponds to $2,065.
- The Bank either extra-legally or by collective bargaining recognizes to its employees leaving the entitled when they complete the age and the time of service to obtain the pension awarded by the pension funds at December 31, 2016 the provision for this concept corresponds to $4,790.
- In the Bank an extralegal premium is recognized an additional bonus to the employees leaving the company when they complete the age and years of service to obtain the pension by the pension funds. The amount assigned to the professional personnel is $10 and to operative personnel $5 (Retirement pension bonus).
- In the Bank there are employees included in the prior labor regimes according to which their severance are assumed by the Bank at the time when the employee leaves de entity (severance of employees according the prior Act) the new regimes involve this benefit in the Contribution plans defined.

The following is the movement of the employee's retirement benefits and the long-term benefits during the periods ended on December 31 and June 30, 2016:

		Retirement Benefits		Retirement Benefits	
		December 31 2016	June 30 2016	December 31 2016	June 30 2016
Balance at the beginning of semester	$	**12,862**	**12,593**	**30,035**	**28,563**
Cost incurred during semester					
Interest expense		1,282	492	1,061	1,061
Past services expense		196	196	2,470	2,470
Total benefit costs		**1,478**	**688**	**3,531**	**3,531**
Changes in the actuarial assumptions		9,841	-		-
Payments to employees		(102)	(553)	(2,375)	(2,059)
(Profit/Loss) for arrangements with employees		(14,156)	134	(4,083)	-
Balance at the end of semester	$	**9,923**	**12,862**	**27,107**	**30,035**

The variables used to calculate the projected obligation of the different benefits of retirement and long-term benefits of employees are shown below:

	December 31 2016	June 30 2016
Discount rate	7,87%	8,68%
Inflation rate	3,86%	3,98%
Salary increase rate	3,86%	3,98%
Pension increase rate	3,86%	3,98%
Employees turnover rate (between the service year 1 and 40 male and 50 female the following is the turnover rate	12,2%	6,6%

The expected life of employees is calculated based on the mortality tables released by Colombia Finance Superintendence that have been developed based on the mortality experience supplied by the different insurance companies operating in Colombia.

The sensitivity liability analysis for retirement benefits to employees of the different financial and actuarial variables is the following, the other variables servatis servandis:

Retirement benefits

	Variable Used			Increase of Variable			Decrease of Variable		
Discount Rate	8.15%	$	9,923	8,65%	$	9,599	7,65%	$	10,268
Salary increasing rate	3,98%		9,923	4,48%		10,289	3,48%		9,577
Pension increasing rate	3,98%		9,923	4,48%		10,289	3,48%		9,577
Increasing 1 year life expectation	6,28	$	9,923	6,19		10,289	6,36		9,577

Long-term benefits

	Variable Used			Increase of Variable			Decrease of Variable		
Discount Rate	7,00%	$	27,107	7,50%	$	26,565	6,50%	$	27,676
Salary increasing rate	3,50%		27,107	4,00%		27,826	3,00%		26,416
Pension increasing rate	3,50%		27,107	4,00%		27,826	3,00%		26,416
Increasing 1 year life expectation	4,10	$	27,107	4,04		27,826	4,15		26,416

b) Long-term Benefits to employees

- The Bank provides its employees with long-term extralegal premiums during their labor depending on the number of years of service. Every five, ten, fifteen and twenty years etc. calculated as days of salary (between 15 and 180 days) each payment.

- The Bank has recorded the liabilities corresponding to these benefits based on the actuarial calculations made under the same parameters of retirement benefits, the benefits for retirement correspond to $9,923 at December 31, 2016.

c) Payments of Expected future benefits

The payments of expected future benefits reflecting services, as applicable, it is expected to be paid as follows:

Year		Post-employment Benefits	Other long-term Benefits
2017	$	923	4,996
2018		1,186	4,920
2019		900	4,677
2020		1,200	3,812
2021		1,007	3,725
2022-2028	$	5,997	14,878

The Bank will provide own resources for future cash flows to pay the extralegal and pension benefits

	December 31 2016	June 30 2016
Postemployment participants	7,074	7,025
Long-term participants	6,926	6,873

Note 20. Provisions for legal contingencies and other provisions

The movement and the balances of legal provisions and other provisions during the periods ended on December 31 and June 30, 2016 are described below:

		Other legal Provisions	Other provisions	Total Provisions
Balance at December 31, 2015	$	4,016	**1,713**	**5,729**
Increase of provisions in the semester		2,378	**51**	2,429
Use of provisions		(289)	**(3)**	(292)
Amounts invested of unused provisions		(456)	-	(456)
Balance at June 30, 2016		**5,649**	**1,761**	**7,410**
Increase of provision in the semester		**520**	**-**	**520**
Use of provisions		(1,816)	-	(1,816)
Amounts invested of unused provisions		(389)	-	(389)
Balance at December 31, 2016	$	**3 ,964**	**1,761**	**5,725**

Other legal provisions

The 20 civil actions filed against the Bank derived from the development of its line of business representing a risk, have to do mainly with claims of clients considering that; (i) checks were unduly cashed from their accounts, or (ii) that without client's authorization withdrawal of resources was allowed through electronics means, as well as the lawsuits related to labor issues, due to the non-conformity with the labor agreement termination or the conditions related to the contract development representing risk, are duly provisioned for $3,152 at December 31, 2016.

Fiscal Provisions

The three fiscal lawsuits filed against the Bank as a result of development of the line of business and representing a risk, correspond to: customs sanction of Aloccidente that was reconciled with DIAN which following the submission was rejected, proceeding of industry, commerce, signs and boards tax in Cartagena Municipality where the determination in the taxable base is discussed in connection with the inclusion of sundry income when they do not make part of the taxable base and sanctions of account of impositions by DIAN and SHD. The sanctions above indicated are duly provisioned for $513 at December 31, 2016.

.Other Provisions

On December 31, 2016 the other provisions correspond to the costs of disassembling of the space of teller Machines and offices/premises taken in lease which, valuating the outfitting to be made in order to deliver back the Premises to the lessor, the Bank incurred in dismantling costs for $1,761 at December 31, 2016.

Note 21. Other Liabilities

The other liabilities include the following:

		December 31 2016	June 30 2016
Dividends and surplus payable	$	80,724	78,199
Suppliers and services payable		213,607	144,741
Withholdings and labor contributions		47,441	46,702
Differences between accounting and fiscal bases between deferred charges and intangible assets		18,947	17,307
Collections made		39,912	64,053
Cashier’s check		280,615	107,280
Collection service		24,228	25,117
Contributions over transactions		11,882	2,796
Commissions and fees		2,183	1,988
Industry and Commerce		18,104	12,029
Tax on sales payables		5,862	5,586
Other taxes		294	19,701
Promising buyers		23,952	26,005
Accounts Paid		3,121	3,047
Checks drawn and not cashed		5,212	7,076
Payments to third parties - Occired		14,279	9,501
Capital bond collection		3,128	3,130
Forward NDR undelivered		2,853	13,220
Forwards CRDC		7,916	868
Fondo nacional de garantías		3,625	5,992
Non-active accounts		3,841	1,840
Credit balance of credit card		5,141	10,302
Bonds for the Peace		21,377	21,376
Master card movement		4,234	2,039
Other		16,049	24,708
	$	**858,527**	**654,603**

Note 22. Patrimony

The number of authorized shares, issued and outstanding at December 31, and June 30, 2016 were the following:

	December 31 2016	June 30 2016
Number of authorized shares	200,000,000	200,000,000
Number of subscribed and paid.in shares	155,899,719	155,899,719
Total shares	**155,899,719**	**155,899,719**
The total subscribed and paid share is break-down as follows:		
Subscribed and paid-in Capital	**$ 4,677**	**4,677**

Retained Profit appropriated to reserves

The composition at December 31, and June 30, 2016 is as follows:

	December 31, 2016	June 30, 2016
Legal reserve	$ 2,589,255	2,489,135
Mandatory and voluntary reserve	356,489	339,822
Total	**$ 2,945,744**	**2,828,957**

Legal reserve

Pursuant to legal provisions prevailing, the Bank must create a legal reserve through the appropriation of ten percent (10%) of the net profit every year until reaching an amount equal to fifty percent (50%) of the subscribed capital stock. This reserve may be reduced under fifty percent (50%) of the capital stock in order to catch-in losses in excess of the retained profit. The legal reserve will not be less than the percentage aforementioned excepting to cover losses in excess of the retained profit.

Mandatory and voluntary reserves

The mandatory and voluntary reserves are approved for the constitution by the General Stockholders in the ordinary meeting held every semester.

Based on article 10 in Act 1739 /2014 of National Government providing that: "The taxpayers of the wealth tax may allocate this tax against patrimonial reserves without affecting the profit of the operational period both in the separated and individual balance sheet, as well as in the consolidated balance sheets", the Bank, under minutes of the stockholders general meeting 120 dated January 26, 2015 in the first semester 2016 allocated to patrimonial reserves the amount of $36,882 to pay the wealth tax of the taxable year 2016. In accordance with the final liquidation of the Wealth tax 2016, declared on May 2016 was $36,787, occurring an adjustment in patrimonial reserves for $95.

Dividends decreed

The dividends are decreed and paid to shareholders based on the net profit of the immediate precedent semester. The dividends decreed were the following:

		December 31 2016	June 30 2016
Profit of semester determined in the separated Financial Statements	$	287,814	258,766
Dividends paid in cash		Dividendos pagados en efectivo a razón de $165 pesos mensual por acción, Pagadero dentro de los diez primeros días de cada mes, desde octubre de 2016 hasta marzo de 2017, inclusive, sobre un total de 155,899,719 acciones suscritas y pagadas al 30 de junio de 2016.	Dividendos pagados en efectivo a razón de $160 pesos mensual por acción, Pagadero dentro de los diez primeros días de cada mes, desde abril de 2016 hasta septiembre de 2016, inclusive, sobre un total de 155,899,719 acciones suscritas y pagadas al 31 de diciembre de 2015.
Outstanding common shares		155,899,719	155,899,719
Total outstanding shares		155,899,719	155,899,719
Total dividends decreed and paid in cash	**$**	**154,341**	**149,663**

Net profit per share

The following chart is the summary of the net profit per share basic, for the semesters ended on December 31 and June 30, 2016:

		December 31 2016	June 30 2016
Net profit of the operational period	$	242,309	287,814
Common and preferred shares used in the calculation of net profit per basic share (in Col pesos)		155,899,719	155,899,719
Net Profit per basic share (in Col. Pesos)	**$**	**1,554**	**1,846**

The Bank holds s simple capital structure and therefore, there is no any difference between the basic profit per share and the diluted profit.

Note 23. - Commitments and Contingencies

a. Commitments

Credit commitments

In the development of operations, the Bank issues guarantees or letters of credit to the clients whereby the Bank become committed to make payments to third parties in the event that the clients fail to comply with their obligations to such third parties, with the same credit risk of credit card. The granting of guarantees and letters of credit are subject to the same policies for approval of the disbursement of loans related to credit quality of the clients and the guarantees considered advisable according to the circumstances are obtained.

The commitments for credit extension represent unused portions of authorizations to extend credits by way of loans, use of credit cards or letter of credit. In connection with credit risk on commitments to extend the credit lines the Bank is potentially subject to loss in an amount equal to the total amount of unused commitments, if the unused amount would be totally withdrawn, nevertheless, the amount of loss is lower than the total amount of unused commitments because most of the commitments to extend the credits are contingent when the client maintains the specific credit risk standards. The

Bank monitors the maturity term of commitment relative to credit quotas because the long-term commitments involve higher risk than the short-term commitments.

The following is the detail of guarantees, letters of credit and credit commitments in unused credit lines at December 31, and June 30, 2016:

		December 31, 2016		June 30, 2016	
		Notional Amount	Reasonable Value	Notional Amount	Reasonable Value
Guarantees	$	846,704	45,682	839,737	49,148
Unused Letters of Credits		138,850	341	91,508	427
Quotas of unused credit cards		1,984,812	-	2,013,341	-
Credits approved but not delivered		659,446	-	1,177,247	-
Total	**$**	**3,629,812**	**46,023**	**4,121,833**	**49,575**

The outstanding balances of the unused credit lines and guarantees do not necessarily represent future requirements of cash because such quotas may expire and not totally or partially used .

The following is the detail of credit commitments by type of currency:

		December 31, 2016	June 30, 2016
Colombian Pesos	$	3,028,242	3,563,579
Dollars		579,718	508,800
Euros		21,852	48,898
Other		-	557
Total	**$**	**3 ,629,812**	**4 ,121,833**

Commitments of disbursement of capital expenses

At December 31, 2016, the Bank had the following contractual commitments of disbursement for capital expenses (intangible and other):

Subject Matter	Currency	Contract Amount	Scope
2519adn change of platform of mra.cqpro00001753	COP	327	Otros
Additional Clause No.1 to the contract of licensing and implementation software of foreign trade	USD	782,069	Intangible
Perform technical adaptations to the Bank Trade application and payment module as a result of the gap analysis in addition to the purchase of conciliation module	USD	249,122	Intangible
Ti-mi-voicq29298-project safety in –acquisition, support, installation, training and maintenance of product of code safety and application through fortify products of hp	USD	134,028	Otros
Contracts to supply consultancy services and implementation of erp (ecc – afi) system	COP	2,194	Intangible
Acquisition of infrastructure for the project connection aval., purchase order No. 14860	USD	1,258,560	Otros
Supply the services for the construction of 22 services for solution of mobile bank in Smartphone and tablets of the AV Villas Banks, Bogotá, Occidente and Popular un Kony platform	COP	472	Otros
Contract of maintenance SAP licenses by contract entered into between SAP as ATH	USD	173,592	Otros
Admincq35578-Project connection AVAL-new scope to implement afi	COP	591	Intangible
Development and implementation of cbs actives – Flex cube	USD	6,050,964	Intangible
Contract Solem professional services for the continuance of project icbs	USD	1,241,114	Intangible
Payment of safety project in electronic channels concepts agreed upon for December			

2014, January, February, and March 2015.	USD	321,021	Otros
Bpm person implementation of process.	COP	2,608	Intangible
It – rcaq48484 – Re-engineering of monitor phase II	USD	231,986	Otros
Extension machine power 795 of contingency	USD	378,948	Otros
Contract if service supply of project history	USD	776,771	Otros
Idm licenses	COP	362	Otros
Contracting 5 outsourcing resources to continue supporting the front of tests in the design tasjs and execution of events of tests and in general for quality assurance of software (functional tests)	COP	340	Otros
SW licenses governance tool of data and quality data and maintenance support of licenses since 2016 up to 2018	USD	811,333	Intangible
Contract for outsourcing resources renewal of 5 analysts q-vision for one year	COP	330	Otros
Postproduction accompaniment and support	USD	278,520	Intangible
Travel expenses of supplier csi agreed on the licensing and services contract #201100496 for year 2016	USD	144,000	Intangible
Occired-contract of engineering	COP	524	Otros
Admincq35578-connection aval – request additional service PCR003 – mercantile offer 1702pb15014	COP	645	Intangible
Services within the project management of configuration –cms configuration bus monitoring	COP	406	Otros
Management configuration – cms configuration & migration to new versions monitoring tools	COP	821	Otros
Admincq35578-connection aval – request additional service cra no. 016-mercantile offer 1702pb15014	COP	445	Intangible
To make an addition to contract 201500114 to the completion of project	USD	207,180	Otros
Software licenses to update monitoring project cms	USD	472,259	Otros
Personnel to monitor supplier evolution	COP	342	Otros
Concept: development of components integration-factory IBM value $400,000,000 budget 1-a-469-	COP	400	Otros
Admincq35578-project connection aval service maxattention SAP erp – renewal 2916-2018 phase 2	USD	235,269	Otros
Admincq35578-project connection aval service maxattention SAP – Charge other entities	USD	168,775	Intangible
Admincq35578-project connection aval acquisition infrastructure phase II – pcr Contract No. 1506rs26-299	USD	269,531	Otros
Admincq35578- connection aval request additional service prc016 mercantile offer 1702pb15014	COP	305	Intangible

Commitments of operative leasing

The Bank receives real property via operative leasing for its use during any term agreed upon in exchange of any rental fee. In most of the contracts the rental fee is calculated taking as reference the Consumer Price Index (CPI), usually such contracts are entered for 5 and 10 years term. Below, the detail of payment commitments of operative rental fees in the next years are indicated.

		December 31, 2016	June 30 2016
No more than one year	$	4,625	2,833
More than 1 year and less than 5 years		47,154	45,122
More tan 5 years		47,559	46,747
Total	$	**99,338**	**94,702**

b. Contingencies

Legal contingencies

From time to time, in the normal operations development, arise claims against the Bank of any of the Subsidiaries based on their own estimates; the Bank management considers that it is probable to occur significant loss in connection with such claims. The provisions required have been recognized in the financial statements.

For December 31, 2016, there are pending gainst the Bank the following processes resulting material (equal or higher than $3,100):

(i) A group legal action in the Civil Court 15 for Medellín file No. 5001310315-20140004500 filed by Mrs. Adriana Patricia Benitez Benitez and others of which in addition there are other six respondents among them Meta Petroleum Transmasivo S.A. and Masivo Carga S.A. The proceedings originates from a transit accident resulting in the death an injuries to several individuals where supposedly a trailer truck was involved such trailer property of the Bank, by reason of leasing contract of which the company Trans Masivo S.A. is tenant. The Bank proceeded to answer the claim in due time and the proceeding is in the notification stage to the other respondent parties called in guarantee. The allegations amount to $7,326. The judicial proceeding did not showed significant progression during the first semester 2016. It is considered that probabilities to lose the process are remote taking into account that the eventual damages occurred with the assets given in leasing are to be assumed by the tenant as provided in the contract.

(ii) An ordinary civil proceeding in the Third Civil Court in Pasto, file No 201300232, filed by Mrs. Gloria Janeth Caicedo. Under this proceeding, the plaintiff applies termination of an import leasing contract, alleging default by the Bank, such situation, according to the plaintiff, involving damages for $5,702. The Bank answered the claim in an opportune date and currently the proceeding is suspended upon the request of the plaintiff that the Bank helped. It is considered that the possibilities to lose the process are remote.

Civil Lawsuit filed by Juan Esteban González within criminal proceeding in Prosecutor Office 3, Girardot Sectional Office file No. 253073. The claim was filed within the ongoing criminal investigation related to the death and personal injuries resulting from the transit accident occurred in 2006 where allegedly was involved a vehicle of the entity which is under a leasing agreement contract. The claim was timely answered by the Bank and the tenant of leasing contract was called in guarantee and the insurance company. The clam was filed by some relatives of the deceased person and request an indemnity for $3,215. The proceeding continues in the judging stage. It is considered that the possibilities to lose are remote taking into account the eventual damages infringed with the assets given in leasing shall be assumed by the tenant, as provided in the contract.

(iii) Popular action promoted by Carlos Julio Aguilar against Banco de Occidente and other financial entities filed in Administrative Eleven Court of Cali file 2004-1924. The proceeding was filed against the financial entities taking part in the Performance Plan of Valle Department in 1998, considering that an interest over interests was agreed upon. The process in the trial stage and the final decision have not been issued in the first instance and there is not the evidence about the facts of the claim, for such reason at the closing December 31, 2016 it is not required the estimation of provisions for this proceeding. The claims were estimated in $15.900.

In connection with the proceedings against the Bank described above, upon the completion of the relevant evaluation, it was determined that such proceeding did no required any provision.

Note. 24. Management of sufficient capital

The aims of the Bank concerning the management of sufficient capital are focused to: a) comply with the capital requirements set forth by the Colombian Government, and b) maintain a suitable patrimony structure allowing for maintaining the Bank as going concern.

According to the requirements by Colombia Finance Superintendence, the financial entities need to maintain a minimum patrimony s determined by the legal provisions prevailing which may be less than 9% of the weighted assets by level of risks, such levels of risk also determined by the legal provisions.

During the semesters ended on December 31 and June 30, 2016, the Bank has properly accomplished with the capital requirements. The following is the detail of Bank's solvency at December 31, and June 30. 2016.

			December 31 2016	June 30, 2016
Technical patrimony				
Technical Patrimony		$	3 ,034,366	2,952,362
Additional patrimony			749,445	751,820
			3 ,783,811	**3,704,182**
Máximum asset growth cap less:				
Asset and contingencies weighted per risk level				
Category II	**20 %**		97,413	7,891
Category III	**50%**		708,473	626,473
Category IV	**75%**		-	-
Category IV	**80%**		3 ,455,543	3,465,519
Category V	**90%**		135,935	144,150
Category VII	**95%**		215,486	152,974
Category VIII	**100%**		21,483,151	21,652,927
Category IX	**110%**		119,275	150,685
Category X	**120%**		35,487	41,191
Category IX	**130%**		14	41
Contingences			1 ,511,565	1,566,345
Total weighted asset and contingencies		**$**	**27,762,342**	**27,808,196**
Market risk value		$	1 ,196,694	1,442,819
Solvency ratio			13,07%	12,66%

Note 25. Income and Expense for commissions and fees

Below the de detail of income and expenses for commissions and fees for the semesters, ended on December 31, and June 30, 2016:

		December 31 2016	June 30 2016
Income for commissions and fees			
Banking services	$	74,730	72,602
Banking Guarantees		16,995	5,410
Commissions establishments affiliated to credit and debit card		22,149	20,338
Branch Offices network services		1,570	1,443
Credit card management fee		20,840	20,676
Drafts, checks and checkbook commissions		8,139	9,388
Insurance commission		24,518	21,969
Debit card management fee		2,017	2,405
Other commissions gained		3,485	3,900
		174,443	**158,131**
Expenses for commissions and fees			
Bank services	$	15,623	11,847
Bank guarantees		**16**	-
Information processing services of operators		**195**	146
Services of contributions to financial institutions		2,149	1,704
Commission sale-for of personal banking		17,097	13,284
Placements		11,217	11,248
Master Card operation costs		1,810	1,701
Other		5,182	4,973
		53,289	**44,903**
Net income for commissions and fees	$	**121,154**	**113,228**

Note 26. Other net income

Below the detail of the other income, for the semesters ended on December 31 and June 30, 2016:

		December 31 2016	June 30 2016
Other income			
Difference in exchange	$	657,057	1,310,817
Sale of non-current assets maintained for sale		165	98
Sale of investments		419	44,235
Participation in profits of associated companies and business		63,613	62,827
Dividends		11,522	9,932
Sale of property and equipment		4,397	3,378
Rentals		1,234	1,059
Reversion of loss for impairment		7,988	653
Recover of operative risk		179	235
Indemnities		1,731	1,168
Rental fees for operative leasing		1,407	2,029
Inactive liabilities reinstatement dormant liabilities		5,917	3,577
Profit in sale of goods received in dation in payment and delivered back of leasing		3,514	-
Income of Credibanco investment		31,006	-
Income for fair value of chattels		11,598	1,670
Income for fair value of goods received in dation in payment		12,377	-
Income for valuation of goods delivered back from leasing		14,492	-
Income for valuation of own goods		1,498	-
Recovery provision commercial budgets		14,231	624
Other sundry		8,999	6,148
Total other income		853,344	1,448,450
Other expenses			
For difference in exchange		638,775	1,307,915
Participation in loss of companies associates and of joint ventures for patrimonial participation method		4,117	8,551
Total other expenses		642,892	1,316,466
Total other net income	$	**210,452**	**131,984**

Note 27. Management Overhead

Below the detail of administration overhead, for semesters ended on December 31 and June 30, 2016:

		December 31, 2016	June 30, 2016
Fees of consultancy, audit and other (1)	$	33,354	23,905
Tax and rates		69,596	59,980
Rental fees		34,041	30,851
Contributions affiliations and transfers		38,743	37,233
Insurance		29,981	29,759
Maintenance and repairs		6,211	5,514
Adequacy and installation		2,989	2,930
Cleaning and vigilance services		5,208	4,738
Advertisement and propaganda		32,623	19,862
Utilities		12,405	12,849
Electronic data processing		5,441	4,106
Travel expenses		5,142	4,600
Transport		5,041	4,795
Supplies and stationary		2,785	2,438
Special care services		8,164	7,054
Commercial Budgets		8,995	12,218
Cafeteria		1,531	1,412
Other outsourcing services		10,150	5,775
Security service		1,686	1,010
Building administration expense		4,751	4,281
Postage expenses		2,575	2,859
Cardholders marketing		8,142	7,441
Commercial and credit information		2,766	2,562
Professional training		2,168	549
Other		8,909	12,712
	$	**343,397**	**301,433**

(1) At December 31 and June 30, 2016 includes fees of financial advisory for $9,227 and $7,730, respectively.

Note 28. Analysis of operation segments

The operation segments are components of the Bank responsible for the development of commercial Activities that may generate income or incur in expenses and which operative results are usually reviewed by Bank's Board of Directors and to which the specific financial information is available, according to which the Bank has defined as business services four sub-segments, the Company Banking, Persons Banking, Credit Card and Drawing and Other Operations.

a. Description of products and services from which every reportable segment derives the Income

In the financial information available in the Bank at level of Commercial Units (Banking/Segments), the Main items of Statement of Results associated to each reportable sub-segment, are indicated as

Follows: the credit of ordinary portfolio in the Company Banking, the credit of Personal Loans in the Persons Banking, the Credit Card and drawings in their respective Banking, and lastly, the Treasury Operations in the segment Other Operations.

In all segments compensated concepts are managed, for instance, the item appearing of interest for the Bank related to placements according to the term and rate agreed upon.

b. Factors used by management to identify the reportable segments

The previously identified operation segments correspond to the internal composition of the trading units that the Bank, in its corporate structure, defined and adopted since the first semester of the precedent operational year.

The Bank group is organized in for sub-segments of the Government Banking, the Corporate Banking, and the 1 and 2 Company Banking; in the same way, there is the segment of Persons Banking and the segment Credit Card and Drawing.

The consolidated information is reviewed by the Bank's Board of Directors and available to the market of values taking into account that the Bank has its share and securities recorded in Colombia National Values Registry.

c. Measurement of the net profit and the asset and liabilities for the operative segments

The Bank's Board of Directors reviews the consolidated financial information of each of the operation Segments prepared according to Colombia accounting information standards in force at December 31, 2016, as described in Note 2.

The Board of Directors evaluates the performance of each segment based on the net unit of each one of segments and some credit risk indicators.

d. Information of net profit, asset and liabilities of the reportable operation segments.

The following is the detail of the summarized reportable financial information by each segment at and December 31 and June 30, 2016:

December 31, 2016

Banco de Occidente
Statement of Result by commercial segment
-June – Dec. 2016

Concept		Total Company Banking	Persons Banking	Credit card and drawing	Other Operations	Total Bank IAS
Interest received ML + ME portfolio	$	1,004,959	392,157	230,649	1,501	1,629,266
Interest paid ML + ME		(384,431)	(48,560)	(1,169)	(320,493)	(754,653)
Commissions net ML + ME + sundry		73,244	33,618	51,321	51,843	210,026
Net Income ML		**693,772**	**377,214**	**280,801**	**(267,149)**	**1,084,638**
Portfolio net provision and other provisions		(97,291)	(116,097)	(88,875)	(21,903)	(324,166)
Interest of transfer		(14,155)	(148,229)	(106,737)	269,121	-
Net financial income		**582,325**	**112,888**	**85,189**	**(19,931)**	**760,471**
Sub-Total Overhead		**(214,332)**	**(123,426)**	**(91,642)**	**(137,320)**	**(566,720)**
Subtotal other concepts income and expenses		**29,090**	**2,968**	**(21)**	**127,303**	**159,340**
Gross operational profit		**397,083**	**(7,570)**	**(6,474)**	**(29,951)**	**353,088**
Income tax		**(155,385)**	**(939)**	**(187)**	**45,732**	**(110,779)**
Distribution DG (compensated)		**(32,109)**	**(10,519)**	**(5,225)**	**47,853**	**-**
Profit of the operational period	$	**209,590**	**(19,028)**	**(11,886)**	**63,634**	**242,309**

June 30, 2016

Banco de Occidente
Statement of Result by commercial segment
Dec. - June 2016

Concept		Total Company Banking	Persons Banking	Credit card and drawing	Other Operations	Total Bank IAS
Interest received ML + ME portfolio	$	894,928	355,937	202,876	2,895	1,456,637
Interest paid ML + ME		(334,150)	(30,804)	(1,257)	(250,822)	(617,033)
Commissions net ML + ME + sundry		62,879	32,585	47,249	26,107	168,820
Net Income ML		**623,657**	**357,718**	**248,868**	**(221,820)**	**1,008,424**
Portfolio net provision ML + ME and other provisions		(99,903)	(95,017)	(68,950)	(7,954)	(271,826)
Interest of transfer		18,183	(136,460)	(89,541)	207,818	-
Net financial income		**541,937**	**126,241**	**90,377**	**(21,956)**	**736,598**
Sub-Total Overhead		(194,567)	(111,450)	(80,685)	(140,005)	(526,706)
Subtotal other concepts income and expenses		27,931	890	155	147,892	176,866
Gross operational profit		**375,301**	**15,681**	**9,847**	**(14,069)**	**386,758**
Income tax		(144,086)	(3,768)	(4,425)	53,335	(98,944)
Distribution DG (compensated)		(13,962)	(4,060)	(2,077)	20,100	-
Profit of the operational period	$	**217,252**	**23,509**	**16,349**	**59,365**	**287,814**

Note 29. Offset of financial assets with financial liabilities

The following is the detail of financial instruments subject to setoff contractually required at December 31 and June 30, 2016:

December 31, 2016

		Gross amount of financial Assets recognized	Gross amount of financial Liabilities recognized Offset in the statement of financial situation	Net amount of financial assets included in the Statements of financial Situation
Paragraph applying IFRS 7 – 13 C		(a)	(b)	(c) = (a)-(b)
Assets				
Financial Instruments Derivatives	$	6,186,929	(6,031,027)	155,902
Liabilities				
Financial Instruments Derivatives	$	7,038,875	(7,231,067)	(192,192)

June 30, 2016

		Gross amount of financial Assets recognized	Gross amount of financial Liabilities recognized Offset in the statement of financial situation	Net amount of financial assets included in the Statements of financial Situation
Paragraph applying IFRS 7 – 13 C		(a)	(b)	(c) = (a)-(b)
Assets				
Financial Instruments Derivatives	$	7,453,178	(7,131,058)	322,120
Liabilities				
Financial Instruments Derivatives	$	6,390,366	(6,164,687)	225,679

The Bank holds financial instruments derivatives which are legally payable according to Colombian Legislation or the laws of the country where counterpart is found. In addition, Colombian legal provisions allow for the Bank to setoff derivatives instruments of its same liability obligations.

Note 30. Related parties

According to IAS 24, any related party is any individual or entity related with the entity preparing its financial statements over which a control or joint control could be exercise on the reporting entity; or to be considered member of the key personnel of an entity's management of reporting entity or of any controller of the reporting entity. In the definition of related party it is included: a) individuals and/or relatives related to the entity, entities that are members of the same group (controller and subsidiary), associated or joint ventures of the entity or entities of the group, post-employment benefit plans for benefit of employees of the reporting entity or any related-entity.

The related parties for the Bank are the following:

1. Stockholders holding participation equal to or more than 10% together with the transactions made with their related parties as it is defined in IS 24.

2. Members of the Board of Directors: Include the principal and the related parties of the members of the board of directors, together with the transactions made with their related parties as it is defined in IAS 24.

3. Key staff of management include the President and Vice presidents of the Bank who are the Persons taking part in the planning, management and control of Bank.

4. Subordinate companies: include the companies where the Bank hold control according to the definition of control by Commercial Code and the IFRS 10 of consolidation.

5. Associated companies and the other entities making up the Grupo Aval: Companies where the Bank holds exercises significant influence, usually considered when a participation between 20% and 50% of its capital is held and the entities making up the Grupo Aval.

All transactions with related parties are made at the market conditions, the more representative balances at December 31 and June 30, 2016, with related parties are included in the following Bank,s Accounts:

December 31, 2016

	Stockholders	Members of the Board of Directors	Key personnel of management	Subsidiary Companies	Associate Companies and Grupo Aval entities
Asset					
Cash and equivalent	$ -	-	-	29,456	153
Financial asset and investments	-	-	-	363,172	434,595
Financial asset in credit operations	-	582	2,484	26	26,931
Accounts receivable	-	-	-	3,324	10,236
Liabilities					
Deposits	2,446	-	-	396,938	327,930
Accounts payable	55,772	-	-	-	304
Financial obligations	-	-	-	588,080	-
Other liabilities	$ -	-	-	1	6

June 30, 2016

	Stockholders	Members of the Board of Directors	Key personnel of management	Subsidiary Companies	Associate Companies and Grupo Aval entities
Asset					
Cash and equivalent	$ -	-	-	14,563	286
Financial asset and investments	-	-	-	341,801	407,595
Financial asset in credit operations	-	707	2,322	21	24,072
Accounts receivable	-	-	-	9,972	10,995
Liabilities	-	-	-	-	-
Deposits	1,934	-	-	275,345	187,815
Accounts payable	54,082	-	-	2,260	365
Financial obligations	-	-	-	589,101	-
Other liabilities	$ -	-	-	-	-

There are unguaranteed loans to directors bearing no any interest, i.e. with personal signature, at December 31 and June 30, 2016 for $582 AND $707, respectively.

There are not loans to directors bearing not interest; all those loans are granted at market rate.

The key directors of Banco de Occidente hold participation in the Board of Directors from other related Entities of Grupo Aval, over which the Bank, after respective analysis, it was not determined that due to such participation and significant influence is made over operative and financial policies of such related parties.

The more representative transactions for the semesters ended on December 31 and June 30, 2016 with related parties, include:

a. Sales, services and transfers

December 31, 2016

		Shareholders	Companies Subsidiaries	Associated Companies and Grupo Aval Entities
Income from interest	$	-	10	17
Financial expenses		38	(2)	7,589
Income of fees and commissions		2	82	2,147
Expenditures fees and commissions		9,227	-	1,145
Other operative income		-	692	2,539
Operation expenses	$	-	49,824	2,471

June 30, 2016

		Shareholders	Companies Subsidiaries	Associated Companies and Grupo Aval Entities
Income from interest	$	-	20	10
Financial expenses		56	18	7,426
Income of fees and commissions		2	152	2,203
Expenditures fees and commissions		7,730	-	1,058
Other operative income		-	700	3,131
Operation expenses	$	-	42,680	2,771

***The stockholders with participation more than 10% are included**

The amounts pending are not guaranteed with and liquidated in cash. Guarantees have neither granted not received. No any expense has been recognized neither in the current period not in prior period in respect of amounts or bad accounts (related to the amounts owed by related parties.

b. Management key staff compensation

The top management includes the President and Vice President. The compensation received by top management personnel includes the following, by semesters ended on December 31 and June 30, 2016:

Concept	December 31, 2016		June 30, 2016
Salaries	$	6,448	6,123
Short-term benefits to employees		182	372
Other long-term benefits to employees		173	47
Total	**$**	**6,803**	**6,542**

Management key staff compensation includes benefits different from cash and contributions to the plan of post-employment benefits defined (See Note 19).

c. Loans and oder concepts with related parties

Others		Members of Board of Directors	Key Staff of Management	Subsidiary Companies	Associated companies and Grupo aval Entities
December 31, 2016	$	582	2,484	26	26,931
June 30, 2016	$	707	2,322	21	24,072

Note 31. Events after the closing date to prepare financial statements

The licensee of Ruta del Sol S.A.S. (the “Assignee”) is the successful bidder company of the contract of assignment No. 001 of January 14, 2010 the subject matter thereof is the construction, operation and maintenance of the Sector 2 of Project Ruta del Sol, comprised between Puerto Salgar and San Roque (the “Contract”).

In connection with this contract, the Bank has granted credits to the Assignee the balance of which at December 31 and June 30, 2016 amounts to $230,496 million and $222,818 million, respectively, representing 0.70% and 0.68% of the total asset at each closing period.

On occasion of the investigations and proceedings made by the criminal, judicial and administrative authorities as a result of corruption events in twelve countries, including Colombia, confessed to United States Judicial Courts by the Brazilian firm Odebrecht S.A., taking part as controlling of the Assignees company (62.01%) through its affiliates Constructora Norberto Odebrecht S.A. and Odebrecht Latinvest S.A.S. the referred contract has been subject to recent discussions given by Colombia Superintendences and Courts.

Accordingly, for the purpose to allow the soon continuance of Ruta del Sol Sector 2 project and in compliance with the decisions made in this connection, the Assignee and the Agencia Nacional de Infraestructura (ANI), subscribed last February 22, 2017 an agreement whereby is was decided the early termination of the Contract, as well as the formula to apply for the liquidation thereof the (the “Agreement”).

Based on the formula for the liquidation of Agreement and preliminary thereof, the Bank considers that the whole capital owed by the Concessionaire as well as the interest accrued up to the date of concession reversion to the ANI. The Agreement provides that those resources will be delivered to the Bank, indexed, between the years 2017 and 2021, charged to future operational periods.

Note 32. Approval of Financial Statements

The separated financial statements and the accompanying notes were approved by the Board of Directors and by the Legal Representative, according to Minutes No. 1445, dated February 27, 2017 to be submitted to the Stockholders General Meeting for its approval, or amendment.

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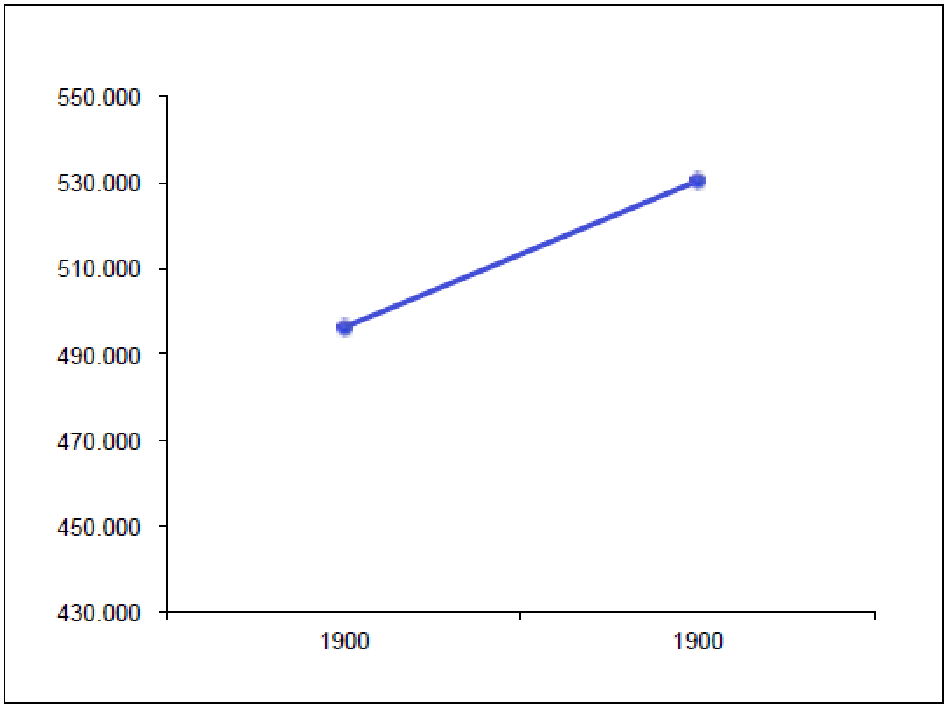
Profit

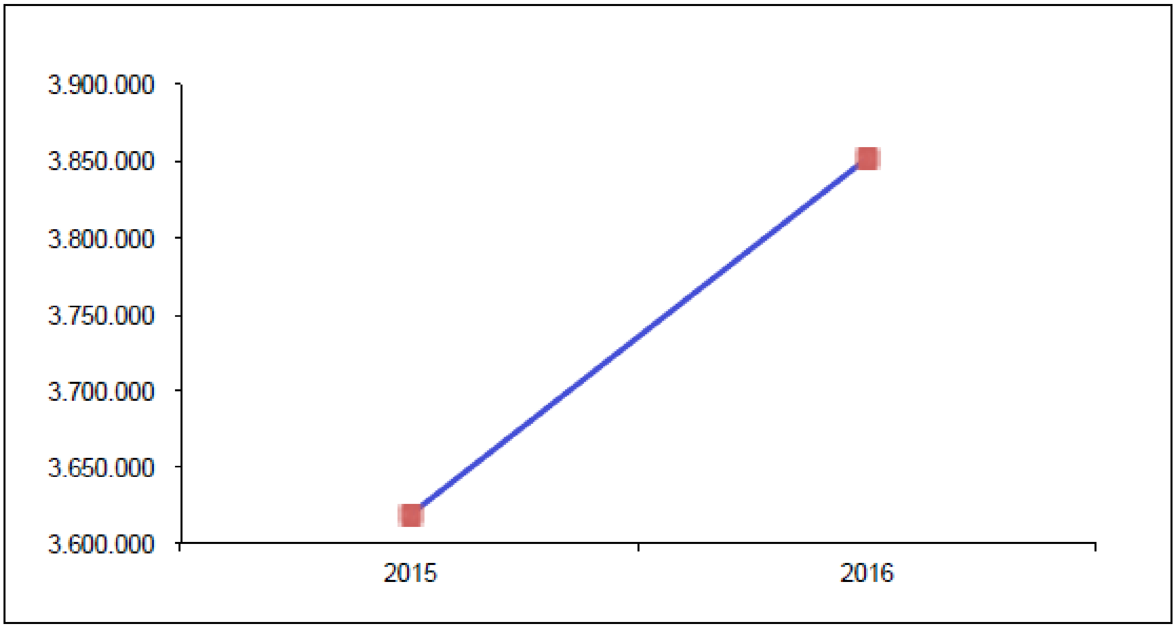
(Million Pesos)



Year	First Semester	Second Semester	Total
Dec-15	237,605	258,766	496,371
Dec-16	287,815	242,309	530,124

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP

Capital, Reserves and Surplus
(Million Pesos)

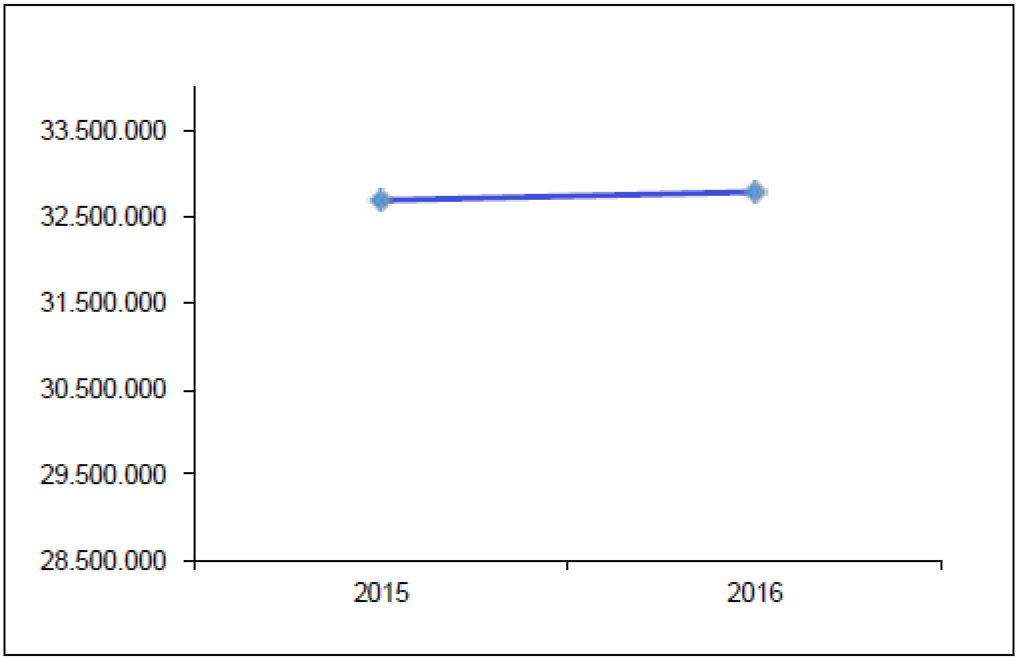


Period	Paid Capital	Legal Reserve	Occasional Reserves	Surplus	Sub-total
Dec-15	4,677	2,388,810	351,412	874,473	3,619,373
Dec-16	4,677	2,589,254	356,489	901,242	3,851,663

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Total Assset

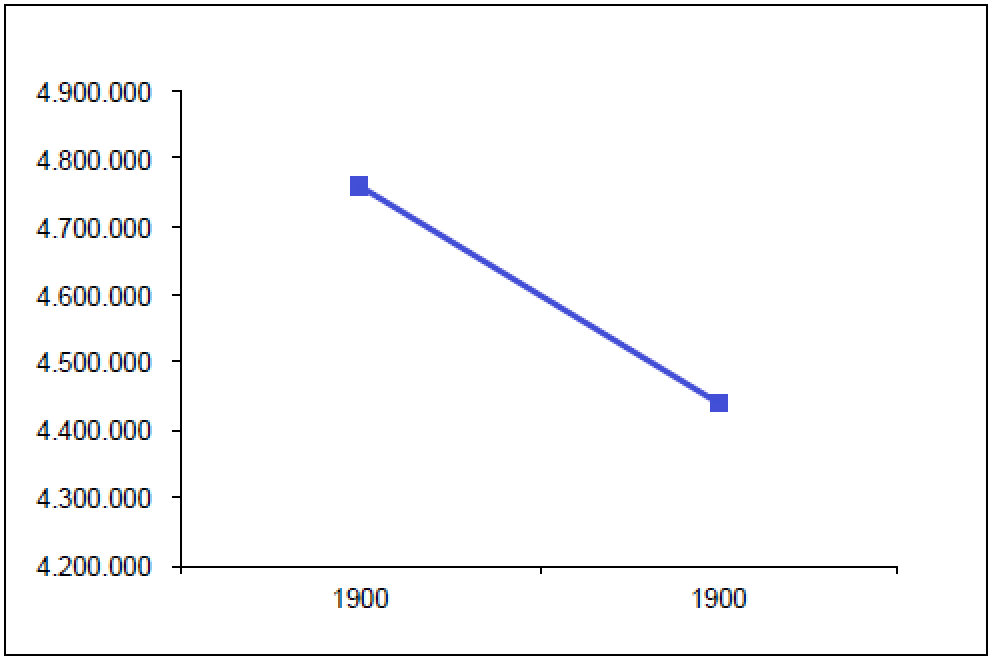
(Million Pesos)



Period	**Total**
Dec- 15	32,679,126
Dec- 16	32,797,344

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Investments
(Million Pesos)

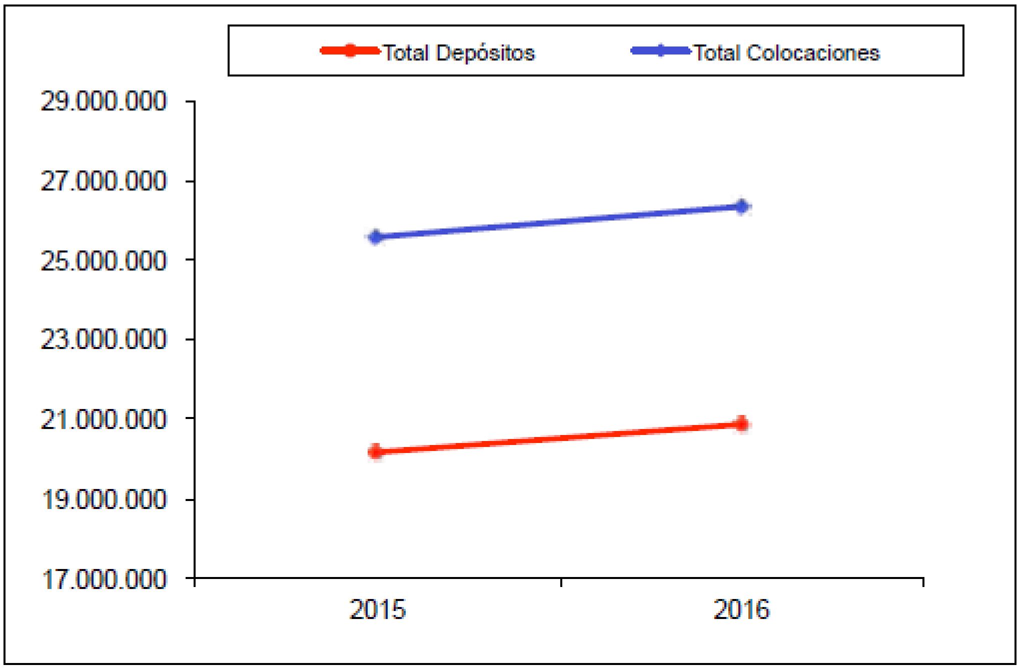


Period	**Total**
Dec- 15	4,761,420
Dec- 16	4,438,677

Note: Investments
Resale commitments
Ordinary matured interbank funds

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Deposits and Placements
Legal Tender and Foreign Currency
(Million Pesos)



Period	Total deposits	Total Placements
Dec-15	20,158,706	25,546,452
Dec-16	20,869,838	26,312,594

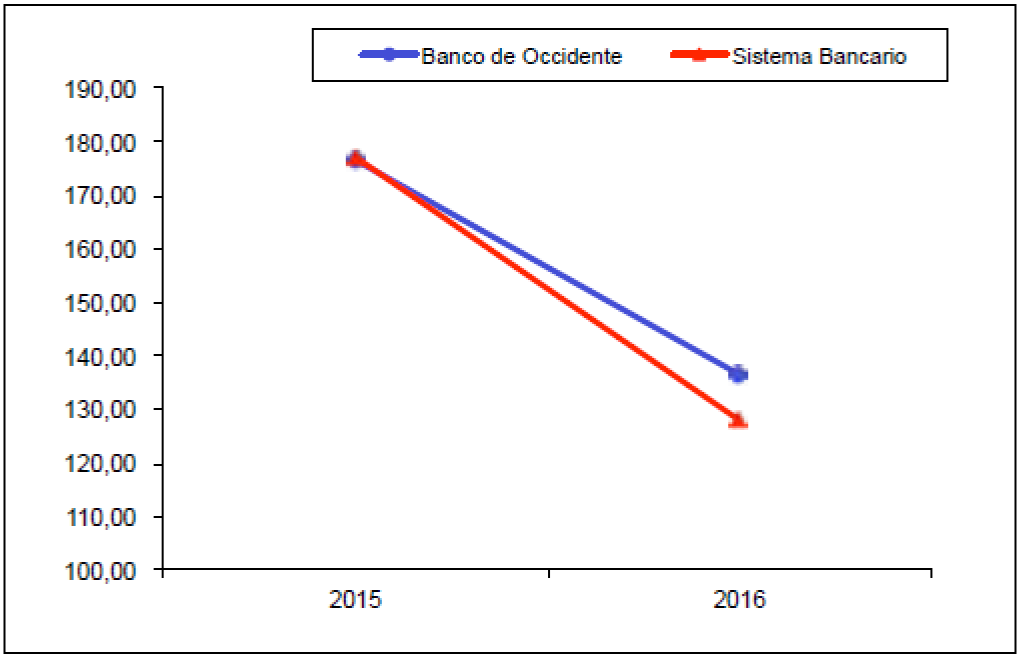
Notes:

(1) Include Deposits in Current Accounts, Time Deposit Certificates, Saving Deposits, Trust Funds and Bank Collection Services.

(2) Include Credit Portfolio, Provisions, Provisions, Credits to Employees, Accounts Receivable, Credencial Clients M/L, Accounts Receivable ME, Excepting Accounts Receivable Sundry ME.

(3) The submission of report is made according to the approval by Colombia Finance Superintendence, in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Gross Intermediation Margin

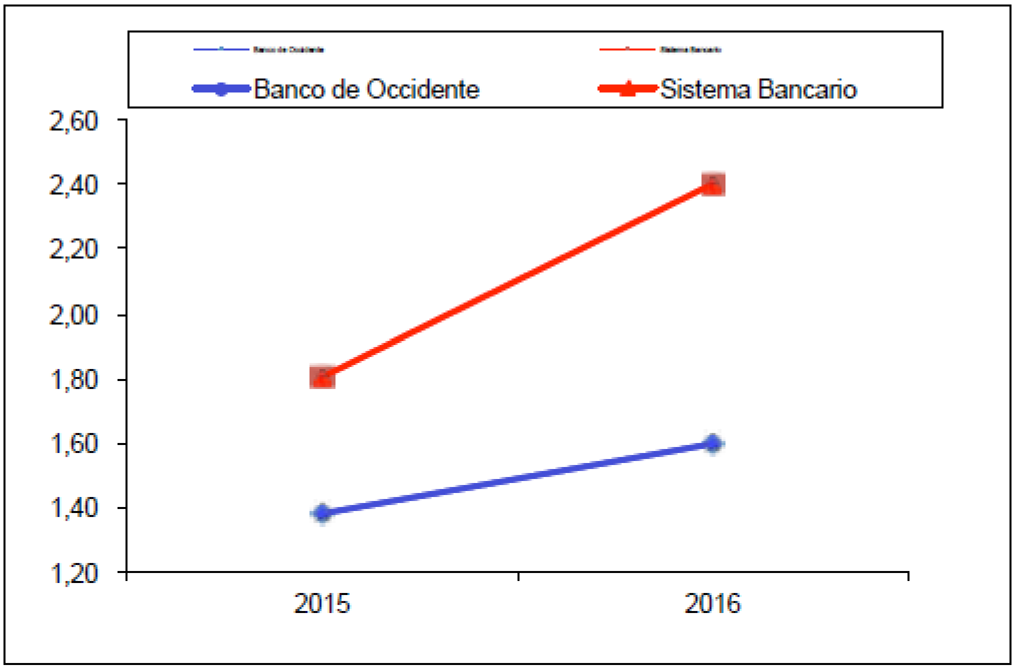


Period	Banco de Occidente (%)	Banking System (%)
Dec 15	176,52	177,23
Dec 16	136,65	128,05

	Income for Interest Received ML + ME + Income for Commissions received ML + ME Sundry Income + Investment Valuations and Returns -1
Gross Intermediation Margin	Expenses of Interest Paid ML + ME + Expense Commissions Paid ML + ME + Investment Valuations

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Profitability on Total Assets



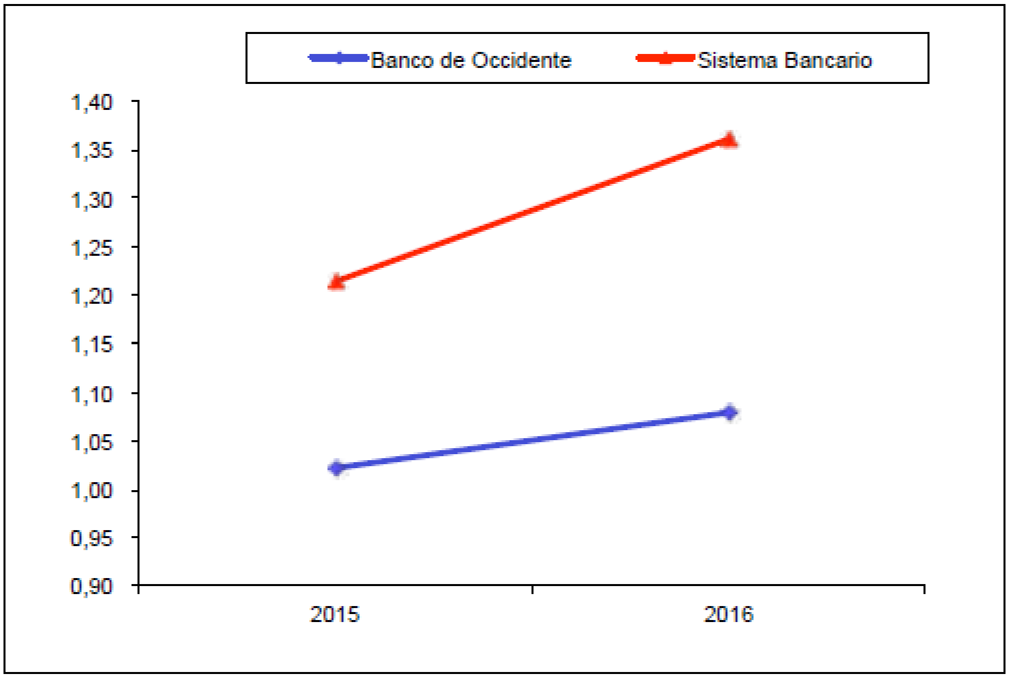
Period (*)	Banco de Occidente (%)	Banking System (%)
Dec-15	1,38	1,80
Dec-16	1,60	2,40

(*) The indicator corresponds to profitability analyzed for the periods between January 1 and June 30, every year

$$\textbf{Profitability on Asset Total} = \frac{\text{Net Profit}}{\text{Total Asset}}$$

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Past Due Portfolio Ratio

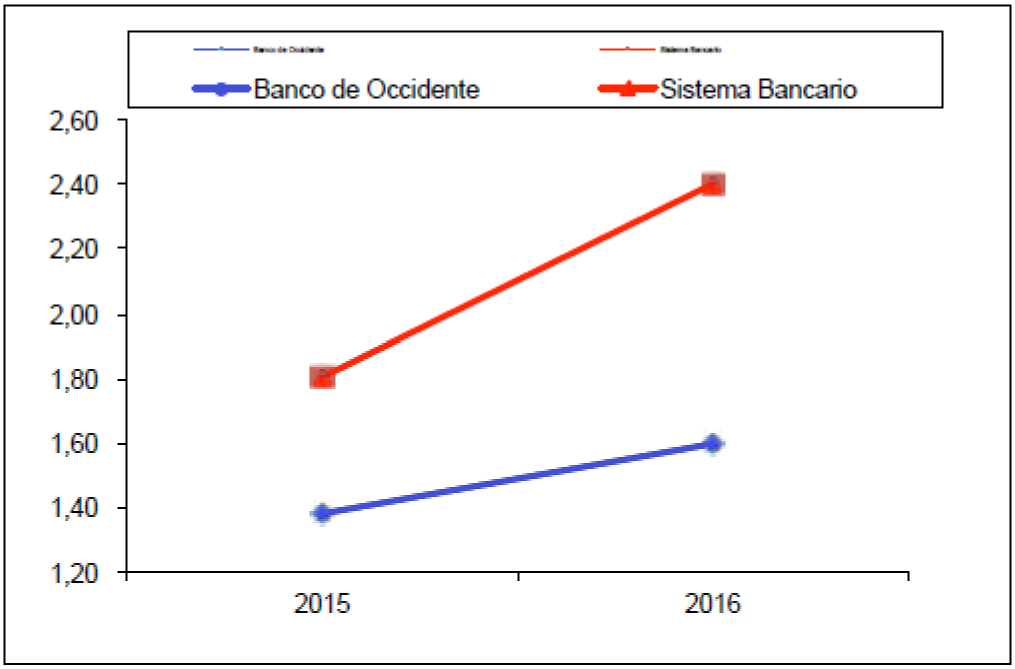


Period	Banco de Occidente (%)	Banking System (%)
Dec- 15	1,02	1,21
Dec- 16	1,08	1,36

Past Due Portfolio Ratio = $\dfrac{\text{Portfolio overdue more than 6 months} \quad \text{Admissible Guarantee \& other guarantees}}{\text{Credit Portfolio + Provision Credit Portfolio}}$

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Quality of Portfolio per Rating



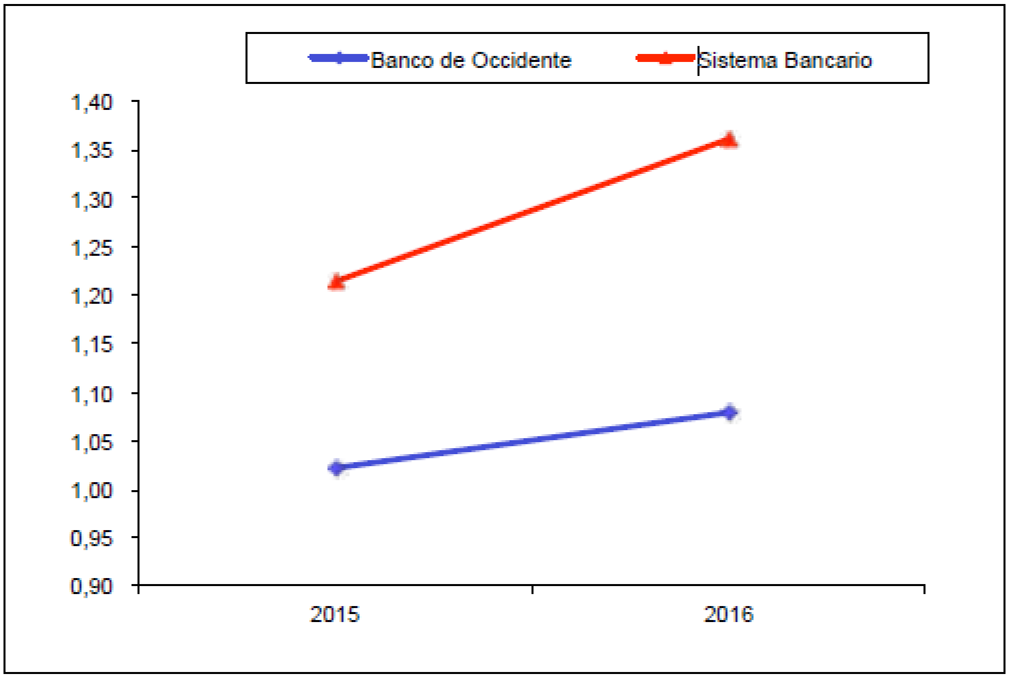
Period (*)	Banco de Occidente (%)	Banking System (%)
Dec-15	1,38	1,80
Dec-16	1,60	2,40

(*) The indicator corresponds to the annualized return for the periods from 1 January to 30 June of each year.

$$\text{Quality of portfolio per Rating} \quad \frac{\text{Updated weekly utility}}{\text{Total assets}}$$

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Relation Expired Portfolio

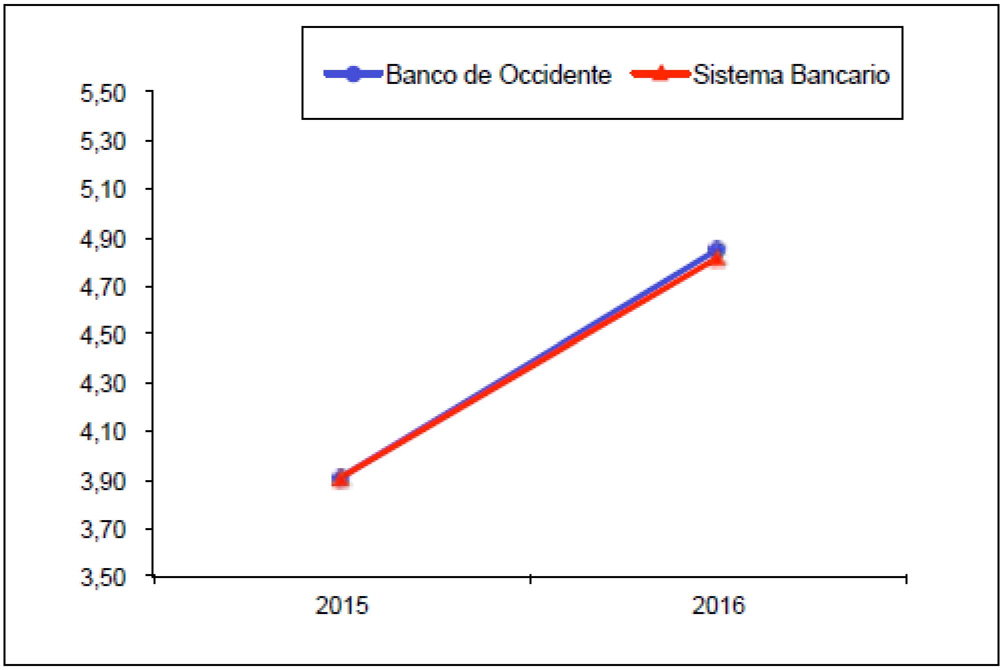


Period (*)	Banco de Occidente (%)	Banking System
Dec-15	1,02	1,21
Dec-16	1,08	1,36

Relation Expired Portfolio = $\dfrac{\textbf{Expired Portfolio with more than six months Admissible guarantee and other guarantees}}{\textbf{Credit Portfolio + Credit Portfolio Provision}}$

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Portfolio Quality per Rating



Period (*)	Banco de Occidente (%)	Banking System
Dec-15	3,91	3,91
Dec-16	4,85	4,81

$$\textbf{Quality of portfolio per Rating} = \frac{\text{Total Rating C + D + E}}{\text{Credit Portfolio + Provision Credit Portfolio}}$$

Note: The submission of report is made according to the approval by Colombia Finance Superintendence in Financial Information Unique Catalogue (Catálogo Único de Información Financiera (CUIF)), for such reason, only the last two years are considered, given that the history before 2014 is under COLGAAP.

Bank Branch Network

Aguachica
Andalucía
Armenia
2 Branches
1 Credicenter
Barrancabermeja
12 offices
1 Credicenter
1 Payment Center and Collections
1 Leasing Office
Bello
Bogotá
60 Branches
2 Credicenters
2 payment and collection offices
Bucaramanga
6 Branches
1 Credicenter

1 Leasing Office
Buenaventura
Buga
Cali
31 Branches
3 Credicenters

1 Leasing Office
Cartagena
8 Branches
1 Credicenter
Casanare
(San Luis de Palenque)
Cartago
Chiriguaná
Chia
Cúcuta
2 Branches
Dosquebradas

Duitama

Envigado
Espinal
Facatativá
Florencia
Galapa
Girardot
Girón
Guatapé
Ibagué
3 Branches
1 Credicenter
1 Leasing Office
Ipiales
Itaguí
La Unión
La Victoria
Leticia
Manizales

2 Branches
1 Credicenter
Medellín
19 Branches
2 Credicenters
1 Payment and CollectionCenter
1 Leasing Office
Montería
2 Branches
1 Credicenter
Mosquera
Neiva
3 Branches
Palmira
2 Branches
Pasto
2 Branches
1 Payment & collection Center
1 Credicenter

Pereira
3 Branches
1 Credicenter
1 Leasing Office
Piedecuesta
Pitalito
Popayán
2 Branches
Puerto Tejada
Riohacha
Rionegro
Sabaneta
San Andrés (Islas)
San Antero
San Gil
Santa Marta
2 Branches
1 Payments & Collection Center
Santander de Quilichao
Soledad
Siberia
Sincelejo
Sogamoso
Tuluá

Tunja
2 Branches
1 Credicenter
Valledupar
2 Branches
Villavicencio
3 Branches
1 Credicenter
Yopal
1 Branch
1 Credicenter
Yumbo

Zipquirá