



BBVA Creando
Oportunidades

Management Report

Colombia 2017

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1. Letter from the President

GRI - 102-14

Dear Shareholders,

The dynamics of the worldwide economy reflects an improved performance in all areas, with a clearer convergence between the growth rates of developed and emerging countries, which makes the current recovery the most synchronized since financial crisis of 2008 and 2009.

The positive growth setting and convergence were followed by moderate inflation levels despite the ample liquidity in markets. This way, central banks in emerging economies had more room for maneuver and were able to use the monetary as a support for growth. It also allowed monetary authorities in advanced economies to keep on being cautious when implementing the normalization and withdrawal of monetary incentives.

In the first half of 2017 Colombian economy continued the slow and gradual deceleration process which started with the fall of oil prices in 2014. Said deceleration was intensified by negative effects of the tax reform on internal confidence and remaining sequels about consumption and investment of higher interest rates and inflation of 2016. As a result, the economic performance was not good during said period.

For second half of 2017 the economy showed a greater dynamism thanks to the reduction of interest rates, the sharpest downturn of inflation rate, the improvement in prices of raw material, the higher activity in civil works and public expense, and the better behavior of exports in a recovery environment of global growth.

Nevertheless, the GDP growth rates remained below their historic averages and it is estimated that growth over 2017 should be at 1.5% annually.

In turn, banks portfolio has decelerated. According to the Financial Superintendence, the nominal annual growth of gross portfolio was 5.7% at the closing of November, 2017, which implies a 3.8 times multiplier of economy growth and 1.4 above inflation. The portfolio quality indicator was 4.4% (figure at closing of November 2017), which represents 110 basic points increase versus the closing at November, 2016.

Additionally, the system intermediation margin contracted by 10 basic points by going from 7.18% average for the first eleven months of year 2016 to 7.08% average for the first eleven months of year 2017.

Under such scenario, BBVA Colombia could close the year with a positive balance. In retail banking segment, the Bank focused its efforts toward profitability and transactionality. With regard to return, enhancement initiatives for operations pricing were conducted with regard to customers' profiles. For transactionality, efforts were aimed at the transformation through the strategic and differential view, improving the usability of digital channels, mainly the mobile banking, and fostering a new interaction model with the customer that is looking for turning the products sale experience into an experience of comprehensive advisory around digital channels.

At closing of November, 2017, BBVA was ranked as the second leader bank in the consumption portfolio in Colombia, reaching 14.68% share, and +6 bp growth versus same period of previous year. Total portfolio of retail banking recorded 14.74% share and resources of the segment closed November with 9.91% share, +32 bps.

For the companies segment, BBVA reaches 6.92% market share, +28 bp growth versus the same period of previous year. With regard to advances, and in line with capital return requirements, the new version of Pricing tool was launched, focused toward those with relevant linking levels and adjusting our price policy to higher return demand standards. Also, the new SMEs management model was developed and implemented, which allowed the extension of offices with segment specialized management, reducing the operation burden of the commercial team, thus improving the response times and customer experience.

The focus to attract transactional resources for individuals and legal entities enabled BBVA Colombia to close with 11.81% market share in deposits, +4 bp more versus same month of year 2015.

As to the digital matter, we achieved more than 249,000 activations of BBVA Mobile and increased by 12% the number of clients with more than 60% electronic transactions. Work where digitalization and migration of transactions were determinant, reducing the use of cash and generating a change in the transactional usage of our clients.

At the closing of December 2017, the Bank has a basis of active customers of 2,2 million, 4,5% more than in December 2016. From the total of customers, 519 thousand are digital customers with high recurrence, 31.0% more than in December of previous year and 426 thousand mobile customers, 50.5% more than in December 2016.

As a consequence, BBVA Colombia closed year 2017 with income after taxes for \$457 bn and very good levels of solvency and liquidity exceeding the demands of the regulatory entity and corporate standards.

With regard to Corporate Responsibility, 2017 was a highly important year where we invested \$6,5 bn in our programs.

As a conclusion, BBVA Colombia, in a year framed by a complex economic environment, closed with a positive balance and increases in market shares. As to digital banking, important progress was made.. Year 2018 will be a challenging one and we have the best team to overcome them.



OSCAR CABRERA IZQUIERDO
BBVA Colombia President



2. Performance

2.1. BBVA Colombia Profile

P.13

2.2. BBVA Colombia in figures

P.22

2.1. BBVA Colombia Profile

GRI-102-1 • GRI-102-2
GRI-102-5

GRI-102-7 • GRI-102-45

In Colombia the BBVA Group is present through Banco Bilbao Vizcaya Argentaria Colombia S.A. - BBVA Colombia- with its affiliates BBVA Asset Management S.A. Sociedad Fiduciaria and BBVA Valores Colombia S.A. Comisionista de Bolsa; and also through BBVA Seguros Colombia S.A. and BBVA Seguros de Vida Colombia S.A.

Banco Ganadero was incorporated in June, 1956 within the framework of the First Agricultural Exhibition Fair and supported by the local stock farmers. Law 26 of 1959 defined the legal nature of the Bank as a mixed-economy bank with public and private capital of 20% and 80% interest, respectively. In 1992 its legal nature was amended and since then it operates as a corporation. In 1996 Banco Bilbao Vizcaya (BBV) acquired 34.70% of stock capital through hammer auction and direct subscription of shares. In 1998 BBV increased its share by 49.14% through the Public Exchange Offer (OPI per its acronym in Spanish); in the same year the corporate name was modified to BBV Banco Ganadero and in 2000 to BBVA Banco Ganadero. In year 2001 a takeover bid took place simultaneously in USA and Colombia for shares of Banco Ganadero by virtue of which BBVA acquired common shares with preferential dividend, increasing its interest to 94.16% of the Bank capital. In year 2004 the brand was changed, and the corporate name was modified from BBVA Banco Ganadero S.A. to its current denomination Banco Bilbao Vizcaya Argentaria Colombia S.A. "BBVA Colombia".

At the closing of year 2016, BBVA has 95.43% interest.

Ownership interest of BBVA Colombia

Shareholders	No common shares	No shares with preferential dividend	% interest
Banco Bilbao Vizcaya Argentaria, S.A	10,766,099,008	196,857,652	76.2
BBV America, SL	2,511,124,962	256,150,000	19.23
Others	630,705,101	26,752,348	4.57
Total shares	13,907,929,071	479,760,000	100

In year 2017, the integration between Bolsa de Valores (BVC) and Depósito Centralizado de Valores de Colombia, Deceval S.A. took place after a successful close of the transaction and exchange of shares. As a result thereof, Deceval is positioned as the principal subsidiary of Grupo Bolsa de Valores de Colombia S.A, and will be responsible for managing post-negotiation solutions of capital market.

With regard to shareholding, BBVA Colombia contributed to BVC 66,217 shares that represented 13.7369% of capital paid and subscribed by Deceval, and as consideration for said contribution, BVC subscribed 2,218,269,500 dematerialized common shares on behalf of BBVA Colombia.

Management 2017

The Management Report submitted for approval to the Shareholders' General Meeting, adopted by the Board of Directors pursuant to Minutes No. 1641 of January 29, 2018, contains the economic and financial analysis of the Balance Sheet and Statement of Income of Banco Bilbao Vizcaya Argentaria Colombia S.A. "BBVA Colombia", banking establishment incorporated as Stock Company by Public Deed 1160 of April 17, 1956, for a term until December 31, 2099.

The Audited Financial Statements of BBVA Colombia are attached herein, in conformity with the standards of the Financial Superintendence of Colombia (SFC per its acronym in Spanish) and the Commerce Code.

In accordance with Article 57 of Decree 2649 of 1993, the information and statements in connection to the Financial Statements have been duly verified and obtained from the accounting records of the Bank, prepared in conformity with International Financial Reporting Standards and guidelines provided by the Financial Superintendence of Colombia.

The Financial Statements include descriptive notes about accounting standards and accounts required for their preparation. Specifically in Note 43, balances and transactions with related parties (affiliates, partners and administrators) at December 31, 2017 have been disclosed.

The figures of the Statement of Income and Balance Sheet included herein, were taken from the Audited Financial Statements. They have been classified and grouped in accordance with the methodology of the Financial Superintendence of Colombia, pursuant the convergence with IFRS.

Financial Performance

Balance

At year end, total assets of BBVA Colombia reached \$57,4 trillion. They showed 11.9% annual growth, representing +\$6.1 trillion variation

Balance

(Individual items – Million pesos)

	dec-17	dec-16	dec-16 Adjusted	Var	TAM
Cash	\$ 4,735,857	\$ 4,448,180	\$ 4,448,180	\$ 287,677	6.5
Lending positions in market operations	1,032,004	448,960	448,960	583,044	129.9
Investments and operations with derivatives	8,409,898	6,405,251	6,405,251	2,004,647	31.3
Loans and leasing portfolio	43,649,649	39,618,528	39,618,528	4,031,121	10.2
Impairment	(2,290,570)	(1,562,298)	(1,562,298)	(728,273)	46.6
Other assets	1,890,374	2,166,914	1,972,537	(82,162)	(4.2)
Assets	57,427,212	51,525,534	51,331,157	6,096,055	11.9
Deposits and receivables	46,866,106	43,260,193	43,260,193	3,605,913	8.3
Borrowing positions in market operations	2,635,115	533,645	533,645	2,101,470	393.8
Financial instruments at fair value	840,020	950,926	950,926	(110,906)	(11.7)
Banks and other financial obligations	1,842,312	1,552,578	1,552,578	289,734	18.7
Trade payables	581,558	639,434	627,201	(45,643)	(7.3)
Labor obligations	212,217	186,462	186,462	25,754	13.8
Other assets	425,892	391,593	391,593	34,298	8.8
Liabilities	53,403,220	47,514,832	47,502,600	5,900,620	12.4
Share capital	89,779	89,779	89,779	-	-
Reserves and specific-purpose funds	2,535,777	2,279,237	2,279,237	256,539	11.3
Surplus	956,523	1,128,758	962,167	(5,644)	(0.6)
Profits or losses	441,913	512,928	497,374	(55,461)	(11.2)
Shareholders' equity	4,023,992	4,010,702	3,828,557	195,434	5.1
Total Liabilities and Shareholders' Equity	\$ 57,427,212	\$ 51,525,534	\$ 51,331,157	\$ 6,096,055	11.9

With regard to the liquidity resources of the Bank, Cash recorded an increase by \$287,7 billion versus previous year. This was due to the increase in deposits in Banks and other financial entities for \$183 billion and an increase in deposits in the Central Bank (Banco de la Republica) for \$129 billion. Cash showed a -25 billion variation.

The balance of Lending Positions in Market Operations closed with \$1 trillion, representing 129.9% increase versus 2016. This increase for \$583 billion was due mainly to a higher volume in concurrent operations. In turn, investments and operations with derivatives showed a positive variation, 31.3% versus 2016, closing the year with \$8,4 trillion. Said increase was largely caused by a positive variation of \$1,9 trillion in investments at fair value with changes in income.

The gross portfolio of Loans and Leasing recorded an annual growth of 10.2% or \$4 trillion, closing the year with \$43,6 trillion. In turn, the Impairment account that corresponds to the specific and generic provisions of the portfolio showed 46.6% increase. Other assets showed 4.2% reduction or \$82,2 billion.

With regard to liabilities, deposits and receivables accounts, they showed an annual growth of 8.3% or \$3,6 trillion, reaching \$46,9 trillion. Said increase is due mainly to the 10.8% increase of Term Deposit Certificates (CDTs per its acronym in Spanish). Borrowing positions in market operations increased by 393.8% or \$2,1 trillion. This increase was recorded mainly in concurrent operations.

Financial Instruments at fair value, closed with \$840 billion which represented 11.7% decrease versus 2016. This variation is explained mainly for the lower value in operations with derivatives, forwards and swaps.

Credit facilities with banks and Other Financial Obligations recorded an increase of \$289,7 mM or +18.7%, explained by the increase for \$108 billion in credit facilities with foreign financial entities.

Trade payables showed -7.3% variation, while labor obligations showed 13.8% increase. Other liabilities increased by 8.8% or \$34 billion, closing the year with \$425,8 billion.

Finally, the Shareholders' Equity account showed 5.1% increase reporting \$4,0 trillion at the closing of 2017.

Loans portfolio

At December, 2017, the gross loan portfolio closed with \$43,6 trillion pesos and showed +10.2% variation versus 2016. In the same way, the net loan portfolio showed a positive variation of 8.7%, closing with \$41,4 trillion.

Loans portfolio

(Individual items – Million pesos)

	dec-17	dec-16	Var	TAM
Gross loan portfolio	\$ 43,649,649	\$ 39,618,528	\$ 4,031,121	10.2
Consumer	14,311,984	13,292,263	1,019,721	7.7
Commercial	15,802,077	14,114,413	1,687,664	12.0
Microloans	-	-	-	N.C
Mortgages	10,075,289	9,519,344	555,946	5.8
Leasing	1,661,208	1,640,013	21,194	1.3
Non-performing loan portfolio	286,059	252,328	33,731	13.4
Delinquent loan portfolio	1,513,031	800,166	712,865	89.1
Provisions	(2,290,570)	(1,562,298)	(728,273)	(46.6)
Net loan portfolio	\$ 41,359,078	\$ 38,056,230	\$ 3,302,848	8.7

The loan portfolio of BBVA Colombia maintains its focus toward the Retail segment which represents 55,9% of gross portfolio at year end 2017. This segment showed 6.9% increase versus previous year and \$24.4 trillion balance.

The consumer portfolio, made up by Payroll Deduction Loans, Vehicle, Free Investment, Revolving Credit Limit, Individual Credit Cards and Particular Overdrafts, showed 8.4% annual increase. Payroll deduction loans kept the higher participation in consumer portfolio with 57.5%, followed by Free Consumer and Vehicle loans with 25,9% and 12.1%, respectively.

The mortgage portfolio grew by 5.8% which represented \$555,9 billion variation, and at year end, 23.1% of gross portfolio.

The commercial portfolio showed an annual increase by 12.0%, with \$1.7 trillion variation. In turn, the leasing portfolio increased by 1.3% or \$21 billion variation.

Return ratios and indicators

The adequate risk management performed in BBVA Colombia allows the development of their commercial operation, keeping good quality indicators of the portfolio and the sound risk profile.

Delinquent portfolio and hedging

(Individual items – Million pesos)

Item	dec-17	dec-16	Var
Gross loan portfolio	\$ 43,649,649	\$ 39,618,528	10.2%
Total non-performing portfolio	1,799,090	1,052,494	70.94%
Non-performing loan portfolio	286,059	252,328	13.37%
Delinquent loan portfolio	\$ 1,513,031	\$ 800,166	89.09%
Portfolio indexes	%	%	%
Non-performing loan portfolio	0.66	0.64	0.02
Quality of delinquent portfolio	3.47	2.02	1.45
Provisions	\$ 2,290,570	\$ 1,562,298	46.62%
Hedging of delinquent portfolio	151.39	195.25	(43.86)

At year end, the portfolio quality indicator was 3.47%. On the other hand, the hedging indicator of delinquent portfolio was 151.39%.

Customer funds

At year end, customer funds were kept adjusted to the liquidity needs of the Bank and deposit takings behaved in line with the growth dynamics of the portfolio. Customer funds increased by 8.3% which represented \$3.6 trillion variation, closing the year with \$46,9 trillion. Term Deposit Certificates represented 42.9% from the total resources and recorded 10.8% variation, reaching \$20,1 trillion.

Customer funds

(Individual items – Million pesos)

Item	dec-17	dec-16	Var	TAM
Demand deposits	\$ 6,430,323	\$ 5,526,700	\$ 903,623	16.4
Savings deposits	17,463,534	16,579,931	883,603	5.3
Term Deposit Certificates	20,085,801	18,125,563	1,960,238	10.8
Other deposits	608,484	611,866	(3,382)	(0.6)
Total customer deposits	44,588,143	40,844,061	3,744,082	9.2
Outstanding investment securities	2,277,963	2,416,132	(138,169)	(5.7)
Total customer funds	\$ 46,866,106	\$ 43,260,193	\$ 3,605,913	8.3

Transactional deposits (Demand and Savings) increased by 8.1%, represented \$1.8 trillion variation. Such deposits represented 51.1% from the total customer funds.

Outstanding Investment Securities closed the year with \$2,3 trillion and showed a negative variation by 5,7% versus 2016. It is worth mentioning that unsecured bonds for \$134 mM issued in 2010 were due in September 2017.

Sufficient equity and solvency ratio

The Entity equity had a positive variation of 5.1% and closed with \$4 trillion. Such variation is explained by the increase of reserves in \$256,5 billion.

Technical capital closed at December, 2017 with \$5.3 trillion and 2.4% variation. Equity required pursuant to Colombian standards was \$3.9 trillion, which implies \$1.4 trillion surplus.

Sufficient equity and solvency ratio

(million pesos)

Item	dec-17	dec-16	dec-16 Adjusted	%
Book value of equity	\$ 4,023,992	\$ 4,010,702	\$ 3,828,557	5.1
Computable sufficient equity	5,339,204	5,231,846	5,216,292	2.4
Basic equity	2,964,083	2,800,804	2,785,250	6.4
Additional basic equity	2,994	2,994	2,994	-
Additional equity	2,372,127	2,428,049	2,428,049	(2.3)
Technical capital	5,339,204	5,231,846	5,216,292	2.4
Required sufficient equity	3,918,100	3,737,210	3,719,912	5.3
Equity surplus	1,421,103	1,494,637	1,496,381	(5.0)
Weighted assets and contingency per risk level	\$ 43,534,449	\$ 41,524,554	\$ 41,332,351	5.3
Value at Risk (VaR)	242,911	207,784	207,784	16.9
Solvency ratio without VaR	13.07	13.34	13.37	(29)
Solvency ratio with VaR (minimum 9%)	12.26	12.60	12.62	(36)
Tier 1 (%) ¹	6.81	6.74	6.74	7

Weighted assets per risk level closed in \$43,5 trillion and grew by 5.3% which evidenced the growth of activity. On the other hand, the Value at Market Risk (VeR) increased 16.9%.

The solvency ratio of the Bank closed by 12.26%, with 36 bp reduction versus 2016.

Income statement

Below the accrued results of BBVA Colombia at the closing of December, 2017 and 2016.

Item	dec-17	dec-16	Var TAM	
Loan portfolio	\$ 4,712,894	\$ 4,361,985	\$ 350,909	8.0
Interest expenses	(2,237,399)	(2,279,665)	42,266	(1.9)
Net income for interests	2,475,496	2,082,320	393,175	18.9
Net income for bank fees	154,743	125,091	29,652	23.7
Investment portfolio	488,268	399,168	89,100	22.3
Dividends	10,940	9,929	1,011	10.2
Remaining income	157,423	257,722	(100,299)	(38.9)
Other operating income	656,630	666,819	(10,189)	(1.5)
Gross margin	3,286,869	2,874,230	412,639	14.4
Net supply of assets	(1,186,035)	(647,577)	(538,458)	83.1
Overhead administration costs	(1,530,871)	(1,438,836)	(92,036)	6.4
Staff costs	(569,009)	(524,304)	(44,704)	8.5
Overhead costs	(362,100)	(306,844)	(55,256)	18.0
Contributions and taxes	(133,868)	(147,668)	13,800	(9.3)
Others	(460,929)	(452,164)	(8,765)	1.9
Operating risk	(4,965)	(7,855)	2,890	(36.8)
Operating expenses	(2,716,906)	(2,086,413)	(630,493)	30.2
Income before taxes	569,963	787,818	(217,854)	(27.7)
Income tax	(112,497)	(274,890)	162,393	(59.1)
Net profit	\$ 457,466	\$ 512,928	\$ (55,462)	(10.8)

The interest margin recorded an inter-annual increase of 18.9%. Income from loans portfolio recorded a growth of \$350.9 billion while expenses decreased by \$42.3 billion. The foregoing driven by the scenario of the reduction of interest rates which makes that deposits to be depreciated in a more accelerated form than the portfolio. For such purpose, net income for interests showed an increase of \$393 billion.

Net income for bank fees closed at December, 2017 with 23.7% variation. On the other hand, income from the investment portfolio showed \$89,1 billion growth or 22.3% and were driven by income in exchange difference and income from securities. Dividends recorded 10.2% increase and closed with \$10,9 billion balance.

Additionally, the other income entry line that includes operating income for financial services supplied and recoveries from Operating Risk and others, recorded a reduction by 38.9%, essentially due to the fact that two extraordinary income were recorded in 2016, namely: (i) the sale of the Bank interest in CIFIN, which generated extraordinary revenue for \$63,4 billion, and (ii) the valuation at market prices of the investment in Credibanco for \$78.8 mM. However, during 2017 extraordinary income was recorded, namely: Deceval

The net supply of assets showed 83.1% increase. Nevertheless, it is worth mentioning that at year end, the Bank had an extraordinary expense for the supply of Electricaribe for \$194.5 mM, which means 80% hedging of total exposure. The remaining increase in this entry line is aligned with the growth of the loan portfolio and the impairment of portfolio quality indicators.

Administrative expenses recorded 6.4% increase versus previous year. Staff costs increased by 8.5% versus 2016. In addition, overhead expenses grew by 18.0%. Expenses for contributions and taxes recorded 9.3% reduction.

Income tax was reduced by 59.1% which implied a reduction of the tax effective rate that went from 34.9% at year-end to 19,7% for 2017.

Finally, BBVA Colombia recorded net income for year 2017 for \$457,5 billion.

2.2. BBVA Colombia in figures

Relevant information of BBVA Colombia
(KPI)

GRI-102-7 • GRI-102-45

Item	2017	2016
Financial capital		
A) Balance (million pesos)		
Total assets	57,427,212	51,525,534
Net loan portfolio	41,359,078	38,056,230
Customer funds	44,588,143	40,844,061
Equity	4,023,992	4,010,702
B) Income statement (million pesos)		
Net income for interests	2,475,496	2,082,320
Income before taxes	569,963	787,818
Net profit	457,466	512,928
C) Capitalization (million pesos)		
Technical capital (computable)	5,339,204	5,231,846
Technical capital (required)	3,918,100	3,737,210
Technical capital surplus	1,421,103	1,494,637
Solvency ratio (legal minimum 9%)	12,26%	12,6%
D) Relevant information (%)		
ROE (net income/equity average)	11,4	12,8
ROA (Net income /total average assets)	0,8	1,00
Efficiency ratio	46,6	50,69
Risk cost	5,3	1,60
Default rate	3,47	2,02
Coverage ratio	151,39	195,30
Operating capital		
Commercial banking offices	354	391
Corporate banking offices	3	3

Item	2017	2016
Companies banking offices	14	14
Institutional banking offices	1	1
Premium banking offices	1	1
Operating capital		
Retail banking offices	11	11
Other service points (Agencies, In houses Kiosks)	126	106
ATMs	1350	1,339
Banking correspondents	5,980	5,826
Cities and municipalities in which the Bank operates	141	123
Customers	2,200,000	2,081,269
Mobile banking customers	426,000	323,854
BBVA Digital customers	519,000	451,233
Intellectual capital		
Followers in social networks	256,394	147,802
Profiles in social networks	6	5
Annual training hours per employee	62	46,3
Annual investment in employee training (million pesos)	4,300	4,100
Human capital		
Headcount	5,221	5,583
Directors	9	9
Gender diversity of employees (women/headcount; %)	58,50	58,30
Gender diversity of senior management (women/total; %)	11,10%	11%
Employees' global satisfaction index (%)*	4,29	4,33
Employees' average age(years)	37,8	37,4
Social and relational capital		
Investment in social programs (million pesos)	6,499	7,128
Attributed profit dedicated to social programs (%)	1	1
Beneficiaries of the Financial Literacy program	27,985	36,544
Students benefited by "Escuela para el Emprendimiento BBVA" program	120	82,269

Item	2017	2016
Entrepreneurs supported by Fundacion Microfinanzas (Bancamía)	913,977	828,499
Days for claim resolution	2,99	3,0
Natural capital		
CO2 emissions scope 1 (ton.)	36	40
CO2 emissions scope 2 (ton.)	5,535	5,122
CO2 emissions scope 3 (ton.)	1,581	1,212
Paper consumption per person (kg)	58	51
Diesel oil consumption per person (MJ)	373	356
Water consumption per person (m3)	32	30
Electricity consumption per person (MJ)	18,934	17,819
People working in certified buildings	2,129	2,255
Projects funded according to the Equator Principles	0	0

*With the new Gallup measure, the mean both in 2016/2017 for the question "Q00 Overall satisfaction" rate the employees' satisfaction within the range 1 to 5.



3. Strategy

3.1. Our Vision	P.27
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3.1. Our Vision



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During 2017, BBVA made significant progress in their Transformation Journey based on their Purpose and their six Strategic Priorities. The new strategy has been reinforced, in particular toward digitalization and customer's experience. The organizational structure was streamlined and the Bank new slogan was redefined: "Creating Opportunities"

BBVA is immersed in the transformation process required to adapt to the new financial setting and to keep its leadership. Said setting is characterized by:

- Economic slowdown, increase of regulatory pressure, negative impact on industry return, reduction of interest rates and higher competitiveness.
- Changes in customers' expectations that demand higher added value services to reach their goals. Customers look for advisory, transparency and a digital based relationship.
- Irruption of newcomers and large digital companies with attractive value proposals which arises the risk of potential and gradual loss of the relation with customers for traditional banking.

In order to succeed in such new climate, it is required to redefine the value proposal and adapt the universal banking business model, being more selective.

In this context, the purpose of BBVA transformation strategy, its aspiration, is to strengthen its relation with customers. Said strategy is shaped around the Purpose and Six Strategic Priorities, which are the essential pillars of strategic plans and the organization culture.

Finally, in 2017 BBVA continued strengthening the Banking Responsible model which has been developed around three pillars: Transparent, Clear and Responsible communication (TCR), Financial Literacy and high social impact products.

3.1.1. Macroeconomic Environment

The growth of global economy stabilized by mid-year at 1% quarter-on-quarter rate and remained in similar figures until year end, as advanced by the leading indicators published to date. This positive dynamics reflects an improved economic performance in all areas, with a clearer convergence between the growth rates of developed and emerging countries, which makes the current recovery the most synchronized since the financial crisis of 2008 and 2009.

The positive growth climate, more synchronized, was accompanied by moderate inflation levels and absence of inflationary pressures, also generalized by areas, despite the abundance of liquidity in markets. This way, central banks in emerging economies had more room for maneuver and were able to use the monetary policy as a support for growth. It also allowed monetary authorities in advanced economies to keep on being cautious when implementing the normalization and withdrawal of monetary incentives. Particularly, two increases of 25 basic points took place for the interest rate in the Federal Reserve, while in Europe the purchase of securities until 2018 was renewed to keep the support of liquidity.

In 2017 Colombian economy continued the slow and gradual deceleration process which started with the fall of oil prices in 2014. Said deceleration was intensified by negative effects of the tax reform on internal confidence and remaining sequels about consumption and investment of higher interest rates and inflation of 2016. As a result, the economic expansion was limited, mainly in the first half of the year.

During said period, the public spending and civil works were the leading sectors in the performance of internal demand. In fact, the GDP without said two components could have growth only 0.3% annual rather than the expansion of 1.3% annual that was materialized finally in the first semester of 2017. The investment other than civil works showed relevant falls since the construction sector had a deep and fast deceleration, despite the government incentives and subsidies to housing sector. Even the fall of the latter sector remained until year end. In turn, the real private consumption, restricted for the confidence of households, kept growth rates around the population increase rate.

Since mid-2017 the economy showed a greater dynamism thanks to the reduction of interest rates, the sharpest downturn of inflation rate, the improvement in prices of raw material, the higher activity in civil works and public expense, and the better behavior of exports in a recovery environment of global growth. However, GDP growth rates remained below their historic average and it is estimated that they were at 1.7% in second semester. Private consumption continued with similar rates to GDP while investment remained affected for the low dynamism of residential sector and was once again in negative despite an important upturn in investment in machinery and equipment. In total, growth for year 2017 was 1.5% annual.

On the other hand, the inflation trend throughout year was reduction. Supply shocks affecting the prices of different type of goods, such as the climatic phenomenon "El Niño", devaluation and

VAT increase at the beginning of the year, disappeared gradually. The dilution of said factors has allowed the inflation to return to the vicinity of the target range ceiling (reaching a minimum of 3.5% for year and 4.12% level at November). For year end, the record expected is 4.0%.

The good behavior of inflation, hand in hand with the weak behavior of economy, allowed the Central Bank reducing 300 basic points their reference rate, from 7.75% at the end of 2016 to 4.75 at present.

This year the exchange rate has shown a more steady behavior than in previous years. The currency was traded within a range from \$2,840 to \$3,100 per US dollar. This is, the volatility range was barely 9%. The causes thereof were, among other factors, the forces found throughout 2017: appreciation of crude that favors the currency and a

more marked normalization of the monetary policy in USA which weakens it. The final result is also fueled by the lower deficit in current account which allows the Colombian economy to be faced to a lower vulnerability in funding. Additionally, the capital inflows are still strong in Colombia, both in direct investment and portfolio. For the case of direct foreign investment, a reactivation of flows for oil sector has been observed.

The external flows of portfolio also determined a strong appreciation of the curve of local public debt in the first quarter and fluctuation around the levels of mid-year, pursuant to the global behavior and local risk factors. The most pronounced movements took place on the short end of the curve. They resulted from the movements in interest rates of the Central Bank, some of them unforeseen for the market.

3.1.2. Market and Competitive Position

BBVA Colombia maintained the fourth position with 9.41% market share in assets at October, 2017. In turn, Bancolombia, the main competitor, maintained the first place with 25.58% share.

With regard to the credit investment, BBVA kept the fourth position with 10.14% market share at October, 2017 which showed +28 bp variation versus 2016.

The retail portfolio recorded 14.85% share at October, 2017 and showed -8 bp reduction versus 2016. The companies' portfolio market share was placed at 6.87% at October, 2017 and reflected +30 bp increase versus 2016. BBVA was at the third and fifth position, respectively.

With regard to customer funds, BBVA held the fourth position in October with 11.58% market share, and -34 bp variation versus previous year. Funds on demand increased +61 bp in October versus 2016 and held the third position with 11.89% share. Savings recorded -135 bp reduction and held the fourth place with 10.03% share. On the other hand, Term Deposit Certificates (CDTs per its acronym in Spanish) recorded +48 bp increase versus October 2016. This variation showed 13.65% share and the third place.

3.1.3. Macroeconomic Perspectives for 2018

In 2018 the GDP growth will be higher than estimated for 2017. Several factors keep feeding said expectation. In the first place, the lower interest rates, not only for the lag effects of reductions of last year but also for additional falls of interest rates in current year. In the second place, the drop in inflation and increases in salaries tied to the minimum wage ensure a better behavior of households' real income for this year. The latter will be boosted also by the recovery of oil prices and its positive effect on national income through higher terms of exchange.

In the third place, the better global climate and in particular, of our commercial partners, will have a positive effect on exports which already showed at the end of 2017 a significantly higher demand versus previous months. Finally, but not less important, the investment will take again the good dynamics thanks to the continuity of fourth generation infrastructure works, and simultaneously, the investment will accelerate driven by the mining and industrial recovery and the execution of regional governments in their third year in office.

In 2018 the boost in public spending will not be as significant as in 2017. Despite departmental and municipal governments will have an increase in the expense execution as their mandates advance, and in line with the economic and political cycles of the country, the central government should keep an austere spending in compliance with the fiscal rule.

As a result, a 2.0% growth in GDP is expected for

2018. Due to internal demand components, the private consumption (65% of GDP) will accelerate from 1.6% rate in 2017 to 2.7% in 2018, while fixed investment will grow from 0.3% in 2017 to 3.4% this year.

Nevertheless, the economy expansion in 2018 will not be stable and homogeneous. It will take place at two different speeds. GDP for the first semester will grow quite similarly as reported in average in 2017. On the contrary, in the second semester, the acceleration will be higher, mainly at year end. Even GDP of last quarter will have a slight expansion below 3%. The completion of the electoral uncertainty by mid-year, will be definitive for a recovery more marked on internal confidence and private demand, in particular, through the investment component.

The growth in 2018 will be limited by the behavior of investment in housing and non-residential constructions, which we believe, will have a new contraction during the year, although with much lower magnitude than in 2017. This means that, part of the best forecast of consumption, investment and exports, due to lower interest rates and higher global growth, will be offset negatively for said negative figure.

With regard to sectors, almost all of them show a rebound. The mining sector is highlighted. Positive surprises in oil production and the better behavior in prices will make the sector go from 4.5% fall in 2017 to 2.3% grow in 2018. The recovery of consumption will have positive effects in several

sectors: industry, also helped by the greater external demand, commerce and restaurants and tourism services.

Finally, the agriculture will keep on contributing positively to GDP although rather timidly than in

2017. There will be a downward correction in the price of certain foods which will discourage the production of the year. Besides, the high growth of the sector in 2017 implies a statistical based effect which is hard to overcome this year.

3.1.4. Regulatory Framework

During 2017, Authorities issued the regulation related to the banking activity, below the most relevant:

Laws

Free withdrawal on deposit contracts: The Congress of the Republic, by means of Law 1836 of 2017, required financial entities to offer the free withdrawal of deposits to accountholders with deposit contracts. The Financial Superintendence will enforce the compliance thereof.

Law of financial conglomerates and conflict resolution mechanisms: Upon the issuance of Law 1870 of 2017, the regulation and supervision of financial conglomerates and conflict resolution mechanisms of financial entities is strengthened. The regulation provides general rules related to the sufficiency of capital by financial entities that form part of a conglomerate, gathering information to ensure the operations transparency and facilitate the consolidated supervision, and empowering the Financial Superintendence to perform said supervision.

Decrees

Decree 119 of January 26, 2017: Amending Decree 1068 of 2015 with regard to the general regime of foreign capital investment in Colombia and foreign Colombian investments and other provisions in connection to international exchange.

Decree 1333 of August 10, 2017: Amending Decree 2555 of 2010 with regard to the credit risk level weighing of rediscount operations of entities authorized to perform such operations.

Decree 2219 of December 27 of 2017: Amending Decree 2555 of 2010 with regard to some provisions applicable to repo, simultaneous operations and temporary transfer of securities that are cleared and liquidated through the central counterparty clearing house. Additionally, the protocol for crisis or contingency situations in the securities market was created.

Circular letters of the Financial Superintendence of Colombia

External Circular Letter 008 of March 31, 2017: Amending the Legal Basic Circular Letter (External Circular Letter 029 of 2014) with regard to the Assistance System to disabled Financial Customers, providing instructions to implement the financial literacy programs and mechanisms to deliver information to financial consumers using tools such as symbology, signaling, sign language, Braille, and subtitling of institutional videos.

External Circular Letter 026 of August 30, 2017: With the purpose to standardize the policies for the adequate management of credits with amendments in its conditions when showing potential or real impairment of the payment capacity of debtors, the Financial Superintendence of Colombia amended numerals of articles 1.3, 2.2 and 2.4 in connection to (i) Credit risk management policies, (ii) Special criteria to rate restructured credits, and (iii) Availability and requirements for information reporting about the CR evaluation, respectively.

External Circular Letter 028 of September 29, 2017: Amending numerals of Chapter I, Section III of Part I and Chapter III, Section I of Part II of the Legal Basic Circular Letter, regarding (i) basic services package, (ii) obligation to report the interest rate EA for credit cards, and (iii) abandoned balances of current and saving accounts and inactive accounts.

External Circular Letter 031 of October 27 of 2017: With the purpose to reinforce the risk management, in conformity with the best international practices, the Financial Superintendence provides the instructions to implement the Stress Testing Scheme (EPR per its acronym in Spanish) and the information reporting of results obtained by entities.

Banco de la Republica (Central Bank)

External Resolution No. 8 of 2017: Banco de la Republica issued amendments to External Resolution No. 8 of 2000 "Whereby the international exchange regime is summarized" providing that: a) External credits between residents and Foreign Exchange Market Intermediaries (FEMIs) and non-residents, may be stated, disbursed and paid in Colombian legal currency. The disbursement of said credits should be performed in exclusive accounts for external credit operations; b) Non-resident individuals cannot grant external credits to residents or to FEMIs for any reason.

3.1.5. Digitalization

Digitalization is having an impact on the financial industry since it allows meeting the new demands from customers in some respects.

On the one hand, the irruption of the mobile phone has brought changes in the distribution model. People are permanently connected in any place. It has become the primary contact channel. The number of global users of mobile banking has grown exponentially and clients increasingly interact through the mobile phone.

On the other side, new technological developments (big data, artificial intelligence, Blockchain, cloud, data processing, biometrics, etc.) involve a major breakthrough to improve the customer experience. Said technologies allow the automatic analysis of data and algorithms (risk profile, habits and preferences, financial needs and expectations, etc.), as well as the simple interaction and smooth transition through channels and suppliers. Similarly, they provide an easy access to best solutions available in the market and the most beneficial conditions by default. Technological innovations reduce unit costs thanks to the automation of processes and scalability.

New technologies encourage the democratization of financial services in the sense that everyone will be able to access better and more sophisticated services, only available, until now, to high value segments. In this context, having access to relevant information of customer, upon his consent, is critical in order to provide the automated and customized advisory and in order to achieve this, it is crucial to gain their confidence.



Customer as main beneficiary of the new climate of democratized financial services



Big Data



Blockchain



Cloud



Artificial intelligence



Prosecution of data



Biometrics



✓ Best experience

✓ Greater efficiency

Also, new specialized players are being incorporated into the financial industry, successfully undertaking the value chain components (payments, financing, assets management, insurance, etc.). Their disruptive proposals are based primarily on a better customer experience and higher specialization in certain products. Said players are both FinTech companies and large digital companies (Google, Amazon, etc.), competing already with banks in the new climate.

In conclusion, traditional banking must react in order to be more competitive and offer added value solutions, increasingly focused on the customer experience and the development of their digital offer.

3.1.6. Change in the Consumers' Behavior

Clients are requiring a new type of banking relationship and have started demanding new services based upon new needs. We are facing a new setting where consumers are permanently connected (they want to operate in any time and from any place), accustomed to digital experiences (they expect proactive and customized assistance to manage their finance), and use multiple devices and applications (they seek to operate from the channel that is more convenient). Similarly, they demand more transparency and confidence in their banking relationship, as well as more customization, accessibility and convenience in financial services to achieve their core goals.

Besides, social and demographic changes are taken place and should be considered. Millennials, with a clear digital profile, are becoming the new consumers. Digitalization is reaching adult population (larger number and with higher acquisition power in developed markets) and medium class in emerging countries is also increasing their digital potential.

All this leads to the fact that the financial industry should make a transformation to offer greater assistance and advisory to customers and a new value proposal based on the digital relationship towards the omni-channel model, customization and convenience.

3.1.7. Reputation and Materiality Analysis

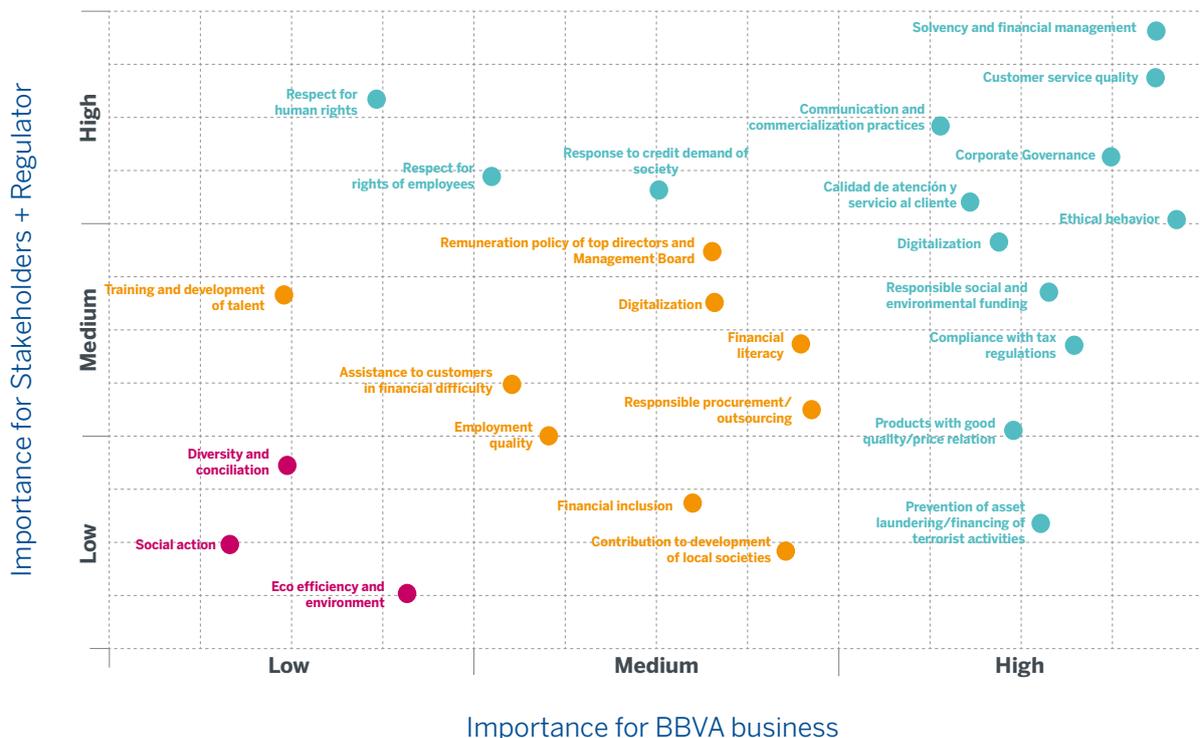
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Reputation and confidence have recovered in 2016 but they are still in low levels. Since 2007 the financial sector has been in a serious reputational and confidence crisis, accentuated especially in developed economies, from which it has not yet fully recovered. The banking reputation in developed economies, pursuant to Reputation Institute (RepTrak Pulse), has moved backwards from 61 to 53 points between 2007 and 2013.

Materiality Analysis

BBVA has available a broad collection of tools for consultation and dialogue with all stakeholders. Such tools ensure two things: that stakeholders have the adequate channels to be serviced and that BBVA has enough information sources to know their priorities and expectations in their relation with BBVA and thus, being able to deliver the appropriate answer.

The identification and prioritization of material matters in 2017 are synthesized in the following materiality matrix, where they are classified based on two variables: importance for stakeholders and importance for BBVA business. For performing them, the recommendations of the guideline to prepare the GRI G4 sustainability reports were followed.



Highest priority material matters are:

- Solvency and financial management.
- Good practices of communication and commercialization with security, privacy and customer protection.
- Good Corporate Governance and ethical behavior.
- Reply to the credit demand of the society and products with good quality/price relation.
- Customer service quality.
- Compliance with tax regulations and prevention of asset laundering and financing of terrorist activities.
- Responsible social and environmental funding.
- Respect for human rights and employees.

In the second level:

- Responsible procurement and outsourcing.
- Digitalization.
- Financial literacy.
- Contribution to development of society and financial inclusion.
- Employee quality with training and talent development.

BBVA addresses these matters through their six Strategic Priorities.

3.2. Our Aspiration



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In this context, the purpose of BBVA transformation strategy, its aspiration, is to strengthen its relation with customers.

The customer should be the main beneficiary of the new climate of democratized financial services. To achieve this, we are redefining our value proposal based on the key pillars of customer experience and confidence.

We intend to assist our customers to make the best financial decisions through the clear, simple and transparent product and services offer supported on fair conditions and prudence and integrity to earn their confidence.

Also, our value proposal should be easy and convenient; i.e., a proposal that offers the possibility to access our services at any time, from any place and through the means chosen by the customer; thus making easier the options to make it on an autonomous basis, through digital channels or interacting with our employees.

We must also provide the relevant support and advisory. We must help our customers making the best decisions (banking and non-banking), support them to manage their daily finances, provide products and services on a proactive, innovative and customized basis, as well as the best recommendations among all possible financial alternatives.

3.3. Transformation

“BBVA Colombia”: Transformation Journey

GRI-102-16

During 2017 BBVA Group has advanced in the pursuit of our Purpose: “Bring within reach of everyone the opportunities of this new era”. Our Purpose is our reason for being, aligned with our future vision and guideline for our strategy and decision-making process.

Our intention is to help our customers achieving their core goals; we want to become more than a bank, the driving force of opportunities and have a positive impact on people’s lives and companies’ businesses.

Also, important steps have been taken toward the development of the six Strategic Priorities of the Group, aligned with the Purpose, to advance in our transformation process.

Strategic Priorities

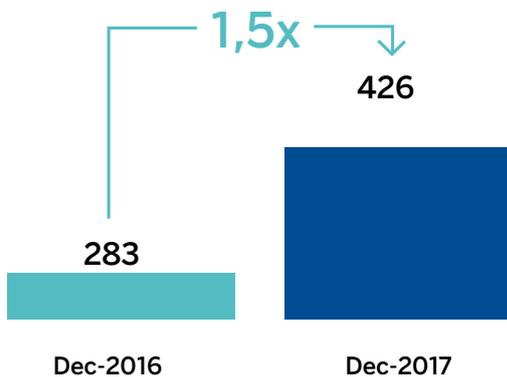


The best possible customer experience

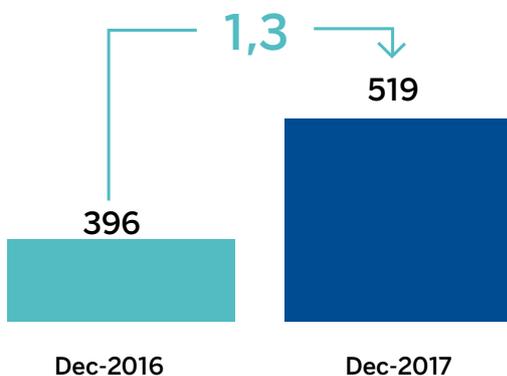
BBVA focuses on delivering the best possible customer experience that stands out for its simplicity, transparency and swiftness, further empowering its customers while offering them personalized advice.

Our customer-centric business model offers the differential service under a pretty ambitious purpose: become the leaders on customer satisfaction all over the geographies where we operate.

Evolution of the number of mobile customers
(in thousands people)



Evolution of the number of digital customers
(in thousands people)



Our relationship model is evolving to adapt to the omni-channel customer profile. The number of digital and mobile clients of BBVA Group has grown significantly during 2017 and the activity in the offices has decreased over last years.

In order to prioritize global and local projects, BBVA has implemented the “Single Development Agenda (SDA)” to develop solutions with a clear impact on the customer experience.

In addition, we seek to provide strategic coherence and significant impact to develop customer solutions, prioritize, and coordinate the allocation of resources, expense reduction, acceleration of time to market (or launching term) and build infrastructure and capacities properly.

Boost of digital sales

At BBVA it is essential to foster digitalization in order to transform and boost business on digital channels. In this regard, the Bank is developing a digital offering of products and services in such a way that customers are enabled to use the most convenient channel.

For such purpose, we are taking advantage of the new channels available since a relevant base of our customers is demanding new relationship schemes with the Bank, mainly through mobile devices (for retail segment) and specialized platforms (for companies).

New business models

Nowadays new business models are arising with innovative value proposals ruled by paradigms other than those of the traditional banking experience.

Thus, to adapt to the new climate it is vital to understand and get involved in the evolution. The foregoing will allow us choosing the model that better adjusts to each opportunity:

- In-house creation and development of new models. (Example: Nimble, Open Platform, etc.).
- Building alliances with new players.
- Interests in startups that allow learning new disruptive models. (Examples: Prosper, credit granting platform between individuals; Taulia; SumUp).
- In the corporate world, the entrance of FinTech (contraction from the English words finance and technology that refer to services or companies of the financial sector that take

advantage of the cutting-edge technologies to create innovative products) is taking place in isolated parts of the value chain and in specific products as in international payments and exchange of foreign currencies, contracting platforms, trading algorithms, etc. (Examples: Origin, Taulia)

At global level, BBVA has been actively involved in this industry and has a team for such purpose based in San Francisco, focused toward the establishment of relations with the most innovative companies which has also incorporated talent and key skills to the Group through the investments in Simple, Madiva, Spring Studio and Atom Bank, among others.

In this way, new income sources are being created worldwide for BBVA through the development of new digital business models with a diversified focus:

Developing internally	Alliances strategic	Investing in startups disruptive ⁽¹⁾	M&A Digital
<p>New independent businesses</p> <p>With 100% culture digital</p> <p>Leveraged in the assets of BBVA</p>	<p>With new technological players</p> <p>With digital skills and abilities</p>		

Enhancement of capital allocation

Such priority seeks to maximize the return on capital and business sustainability, as well as, simplify it and get focused on the most relevant activities.

During 2017 we have done our best to adapt our business model and make it more efficient, profitable and dynamic. Several initiatives were launched (optimization of business portfolio, committees for capital tracking, etc.) helping BBVA to reach sound capital ratios.

Efficiency leadership

In an environment with lower return for the financial industry, being efficient becomes a crucial priority for the BBVA transformation plan. Such priority is based on the construction of a new organization model, as much swift, simple and automated as possible.

In this regard, throughout 2017 the key levers were identified and the action plans required to make this change a reality were defined. This way, we are transforming our distribution model, systems architecture, operations model, organization structures, and processes. All this preserving the focus to offer the best possible customer experience.

The best team

The priority of BBVA is to attract, develop, motivate and retain the best team, deliver the best employee experience and evolve with the corporate culture to align it to the transformation process and Purpose.

In order to achieve our goals, we are transforming the Organization by implementing new ways of working -among other aspects- (project-based organization, expertise communities, Agile methodology, collaborative tools, etc.) and encouraging the collaboration and entrepreneurship culture, with more horizontal structures.

3.4. Making the BBVA Purpose a Reality

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During 2017 employees were informed about the new BBVA purpose “Make available the new era opportunities to everyone”; also, the message for year-end was to take said new era opportunities to the communities we serve. And we have done it by launching our new corporate slogan: “Creating Opportunities”

This logo has been the result of a joint work with the suggestions and contributions of the marketing teams from every country who submitted their local views. Ideas were tested with consumers in order to find the most compliant with the Purpose. At the same time, they were tested in comparison to the previous logo. The final election was the winning one in every survey conducted with consumers.

Years ago, “go forward” (Adelante in Spanish) was the invitation to progress. Now, we invite people and companies to explore opportunities existing in a world where the access to knowledge through technology is opening up all type of possibilities. We regard ourselves as facilitators; we help people make their best financial decisions in a way that they can take advantage of opportunities wherever they are. We are passionate about the idea of “creating”, a verb that captivates dreamers, trainers, entrepreneurs and people with daily ambitions.

The external expression of our Purpose also forms part of a large solutions initiative for the customer.

The new logo comes with a new strong and inspiring brand identity, designed to create a more sound emotional connection through the different contact points with our customers. Throughout this year, the new BBVA brand will be manifested in our online and mobile banking experience, by means of our advertising, social networking, and even on how it will look, what will make you feel and how will sound. We have committed on creating an even more powerful BBVA Brand. This means, we are making our Brand more attractive, not only visually, but more meaningful. Over the years we have worked hard to make our communication more transparent, clear and responsible (TCR communication) and it will keep on evolving to express other aspects of the services offered to the customer. Aspects such as proper advisory and assistance, ease and comfort, will be reinforced, thus anticipating to the people’s needs.

An inspiring Purpose and a new look & feel look to strengthen the principles of BBVA Brand and that will transmit how we help people to create opportunities in their lives. All this to keep developing BBVA as a powerful brand; a brand that people identify with; a brand admired and recommended.

During 2018, we will devote also to communicate internally those behaviors associated to our new Purpose. All of us play an important role to make real the promise of bringing within reach of everyone the opportunities of this new era. The way we do it is how we collaborate, communicate, share and innovate, and in particular, how we take care of our customers. "Creating Opportunities"

3.5. Model of Differential Banking

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In BBVA we have a differential banking model which we call Responsible Banking, based on the pursuit of return adjusted to principles, strict compliance with legality, good practices and creation of long-term value for stakeholders. This is reflected on the Corporate Social Responsibility Policy or Responsible Banking, approved by the Board of Administration. The policy mission is to manage the Bank responsibility of the impact on people and society which is key for the delivery of BBVA Purpose.

All business and support areas make up this policy in their operation models. The Responsible Business unit coordinates its implementation and operates mainly as the second supporting line.

In 2017, the BBVA Strategic Plan (2016 – 2018) was strengthened, integrating strategic initiatives related to the Responsible Banking model and its respective action plans.

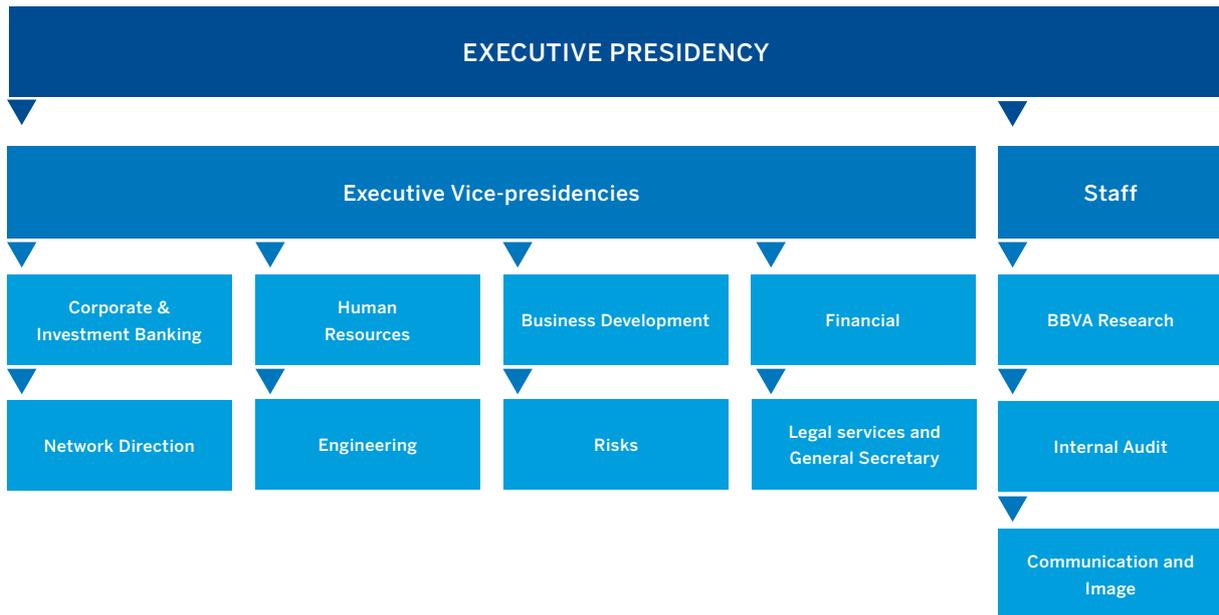
The key strategic initiatives of responsible banking are:

- Creation of lasting and more balanced relationships with our customers through a transparent, clear and responsible communication and financial literacy on our solutions.
- Full integration on how we make business through responsible business policies, a reputational risk model and people-centric culture in the Organization.
- Promotion of responsible and sustainable growth through financial inclusion, sustainable funding, support to SMEs and responsible investment.
- Investment in community with prioritization of financial literacy initiatives for society, entrepreneurship and knowledge and other social causes that are relevant locally.

3.6. Flowchart and Business Structure

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The organization structure of BBVA Colombia is divided into strategic units made up by eight Executive Vice-presidencies. “Network Management”, “Financial”, “Legal Services and General Secretariat”, “Risks”, “Engineering”, “Corporate & Investment Banking”, “Business Development”, “Human Resources” and a strategy and control area, named staff “Communication and Image”, “Internal Audit”, BBVA Research” reporting directly to the Bank CEO.



Network Management Unit. This unit encompasses the deployment of distribution strategies, taking into consideration and managing segment, product and channel variables to create a value offer for the customer, thus seeking to reinforce and generate value to structured business (capturing of customers, financial depth, retention, transactionality and return) to compete in the new environment. Their main responsibilities are::

- Guarantee the execution, business evolution, income statement and good operation of the network.
- Establish the priorities of the network performance and dependent areas, framing them within the guidelines defined by the business committee.

- Be accountable for the entire application of the direction schemes defined by BBVA Colombia for its offices.

Financial unit. It focuses to ensure the proper, timely and adequate control of the financial management and the continuous tracking of financial reporting systems, leveraging the strategic priorities to improve the business return and sustainability. Also, it coordinates the implementation of strategies to keep an adequate structure of the Bank balance sheet that allows achieving the goals proposed through the management of structural risk and liquidity.

Legal Services and General Secretariat. It focuses on delivering optimum legal advisory for BBVA Colombia to develop its activity pursuant to legal provisions. In the same way, defending on a timely and efficient manner BBVA Colombia interests and obtain the adequate legal risk coverage and coordinate activities of internal audit and regulatory compliance.

Risk Unit. Is framed to preserve the Bank solvency, support strategic lines and ensure business development, managing and controlling efficiently the credit, market, liquidity, structural and operational interest risk of BBVA Colombia by means of the appropriate implementation of processes, structure, circuits, methodologies, applications and tools. Also, developing the administrative management of risk recovery, aiming all efforts at the achievement of the greater recovery in the shortest time possible.

Engineering Unit. comprises aspects as relevant as

the definition, development and implementation of technological solutions that support business processes, ensuring their correct and efficient operation, thus contributing to the transformation of our customers' experience, both in digital and traditional channels. Key responsibilities comprise:

- Managing and controlling the operative and preventive processes that support the business units, as well as the continuous improvement to be able to deliver better services both to internal and external customer.
- Manage the infrastructure of technology installed in accordance with the business and Bank guidelines, marking state-of-the-art trends and solutions and the required needs.
- Ensure that the Organization has goods and services required for its management, as well as those required for external clients, thus supporting the income statement of the Bank, developing the optimal physical infrastructure and certifying that the supply of general services has a high quality and opportunity level.

Business Development Unit. Relevant at this time of transformation for the Bank, developing following principal aspects:

- Design and lead the execution of digital sales strategy in order to comply with strategic priorities with emphasis in global and local goals of digitalization and sales. Support is also given to marketing.

- Maximize the delivery of constant value to customers, making real the transformation of BBVA Group in Colombia through the proposal and prioritization of initiatives that impact favorably the strategic indicators of the Bank, the conceptualization and design of customer-centric solutions, and planning and execution of projects.
- Focus on strategy of products and customers, directing, administering and controlling activities toward the investigation, design, development, innovation, implementation and follow up of the bank strategy, products and services addressed to clients segment. This also contributes to the experience and satisfaction of customer needs.
- Definition of new management models for the network, ensuring that the customer experience is satisfactory and reaches the levels defined by the Organization.

Human Resources Unit. Focused toward talent development, as well as the definition and guidance of adequate staff policies that incorporate the legal labor framework and facilitate the comprehensive management of human talent, tending to attraction, development, retention and management of human talent. Also, ensuring that the Bank has the appropriate organization in terms of structure, dimensioning, roles, responsibilities and relationship model to meet the goals.

Corporate & Investment Banking Unit. It is responsible for directing, planning and executing commercial, financial and operational strategies

intended to corporate clients, thus generating added value in each of its business units through the execution of said strategies that allow the compliance with goals proposed, as well as the delivery of integral solutions to the needs of companies and industries.

Additionally, under the President's responsibility, the Organization strategy is set as well as the action and control frameworks in aspects as relevant as Compliance, Communication, Internal Audit, among others, as follows:

- **BBVA Research:** Unit responsible for economic studies and the promotion and development of institutional relations. Key variables of Colombian economy are forecasted thus allowing foreseeing opportunities and business risks and the balance of BBVA Colombia..
- **Internal Audit:** It is framed within the conduction of independent audits that contribute to meet the needs of the Entity and expectations of shareholders with added value services.
- **Communication and Image:** It is focused on planning and implementing the development of communication and institutional relations of BBVA Colombia with different stakeholders by planning and executing Corporate Responsibility programs and institutional sponsorships that contribute with the principles and strategic priorities of the Bank.



4. Corporate Governance

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4.1. Corporate Governance System

GRI-102-11 • GRI-102-12
GRI-102-18

The Corporate Governance System of BBVA Colombia is in line with the international, corporate and local recommendations and trends. Its principles, elements and practices are gathered in different instruments that lead the structure and functions of corporate bodies, such as Articles of Association, the Corporate Governance Code, the Rules of the Shareholders' General Meeting, the Rules of the Board of Directors and the Rules of the Board Supporting Committees. The System is made up also by the internal conduct standards contained in the Code of Conduct of BBVA, the Code of Conduct in the securities market context and the Code of Conduct for the Prevention of Money Laundering and Terrorism Financing embodied by the postulates that govern the actions of senior management, administrators and employees.

Additionally, the Corporate Governance System of BBVA Colombia is conceived as a dynamic process in permanent review with a focus on improvement and adaptability to new realities of the Bank and its affiliates, taking as reference the regulations and recommendations arisen with regard to the Corporate Governance best practices.

This Management Report is made up by the Corporate Governance Annual Report, attached as supplementary information, and the Implementation Report of Best Corporate Practices year 2017 which are available at the website of BBVA Colombia: https://www.bbva.com.co/fbin/mult/REPORTE_CODIGO_PA_S_EJERCICIO_2017_BBVA_Colombia_tcm1304-698668.pdf

4.2. Compliance System

The Compliance System constitutes one of the bases upon which BBVA consolidates its institutional commitment to conduct all operations and businesses in conformity with strict codes of ethical conduct. The Compliance Area continues articulating its activity around the development and implementation of policies and procedures, the dissemination and training in Compliance matters and the identification, evaluation and mitigation of potential compliance risks, understood as those that affect the following issues:

- Markets behavior.
- Dealing with conflicts of interests.
- Prevention of money laundering and terrorism financing.
- Consumer protection.
- Personal data protection.

During year 2017 the goals of the area were fully accomplished, under the adequate organization structure and clear assignment of roles and responsibilities, with regard to aspects such as managing and mitigating adequately the Compliance risk, active involvement in the New Products Committee, providing support and accompaniment to the commercial performance of the Bank and other BBVA companies in Colombia, strict compliance with internal and external reporting, timely compliance with the requirements of the State control and surveillance entities and continuous training to all employees with regard to the Compliance function matters.

Additionally, the training strategies were maintained to further strengthen the ethics culture in the entity, including virtual courses about: Conduct Policy in Securities Markets and Personal Data Protection, Internal Conduct Regulation of Securities Market and design and dissemination of the course "Legal Footprint", awarded with the second prize of the journeys for prevention of asset laundering of the United Nations. .

Finally, it is worth mentioning that in compliance with the BBVA corporate policies, the Compliance Area conducted in 2017 the Compliance Testing to 30 offices of the Network to validate the controls associated to the function of personal data protection and SARLAFT. In accordance with the results obtained thereof, improvement plans will be implemented for strengthening the application of corporate principles and legal

regulations. The Compliance Testing is a methodology focused toward the verification that the controls established to mitigate the risks are being properly executed.

Business integrity

The Code of Conduct of BBVA Colombia depicts its particular commitments in accordance with one of the principles of its Corporate Culture: "Integrity as a way of understanding and developing the business". Said Code also provides appropriate guidelines of behavior to be followed by BBVA associates to adjust their conduct to the Entity's values.

Year 2017 has been quite important to BBVA in its permanent commitment with business integrity; efforts continued to disseminate the Code of Conduct, designing training programs and updating their contents, taking into account the standards recognized internationally as good practices to prevent corruption and integrity.

Dissemination of the Code of Conduct has taken place through different media and channels with the support of tools fed with the global technological advance by means of virtual courses, illustrative videos and specific communication initiatives for each training group.

Additionally, during 2017 the Compliance Area has continued its advisory and queries response task both to entities of BBVA in Colombia and senior management with regard to the application of the Code of Conduct, fundamentally in regard to objectivity in recruiting, job employment, and promotion, development of other professional activities, acceptance of gifts or personal benefits, addressing and managing potential conflicts of interests and management of personal wealth.

Prevention of Money Laundering and Terrorism Financing

Prevention of money laundering and terrorism financing (hereinafter PML&TF) constitutes, above all, an ever-present objective that BBVA Colombia associates to its improvement commitment in different social contexts in which it operates.

For BBVA Colombia, ensuring that its products and services are not used for illegal purposes constitutes also an essential requirement for safeguarding the corporate integrity and thereby, one of its main assets: the trust of

people and institutions it deals with daily (customers, employees, shareholders, suppliers, etc.).

In order to achieve such purpose, BBVA Colombia as member of a worldwide financial group with branches and affiliates that operate in numerous countries, has a corporate risk management model which comprises all compliance issues (see description in the Compliance System section).

This model not only takes into account the Colombian regulation but also incorporates the best practices of the international finance industry in this regard, as well as the recommendations provided by international entities such as FATF (Financial Action Task Force).

It is also worth mentioning that the risk management model for prevention of money laundering and terrorism financing is constantly evolving and subject to independent review on a permanent basis.

In particular, the risk analysis performed allowed to reinforce the controls and establishing, in this case, additional mitigating measures to strengthening the model.

During 2017, BBVA Colombia has continued strengthening the referred model for which purpose performed important activities aimed at preventing that funds from illegal origin to have access to and use the financial system. For such purpose it kept reinforcing the policies of the Risk Management System for the prevention of Money Laundering and Terrorism Financing.

Following activities are highlighted:

- Active involvement at the working roundtables that prepared and met the visit of the International Monetary Fund to Colombia, held within the assessment framework to the System for the Prevention of Money Laundering and Terrorism Financing and Proliferation of Weapons of Mass Destruction.
- SARLAFT internal policies were adjusted; technological developments were applied to the Entity's platform and training actions took place in order to give compliance with the new provisions of External Circular Letter 055 of 2016 issued by the Financial Superintendence of Colombia.
- The risk matrix was strengthened, including new risks identified from the provisions contained in External Circular Letter 055 of 2016.
- Design of new monitoring scenarios to detect unusual operations by customers.
- The segmentation methodology of the customer risk factor was reviewed and adjusted in conformity with

the improvement opportunity of the Financial Superintendence of Colombia, within the framework of the in-situ inspection, conducted in the first semester of 2017.

- Updating of information of those customers whose economic activity is any of those under the definition of high risk policy.
- Compliance with those requirements from the Financial Superintendence of Colombia, External Circular Letter 032 of 2017, related to the management of resources for election campaigns.
- Timely attention to those requirements from the Financial Superintendence of Colombia, as well as the training requirements of investigation bodies.
- Execution of the training plan, applying virtual and face-to-face strategies, covering more than 90% employees. Both the schedule of attendants and the contents of courses gave special attention to the needs of such employees performing in higher risk areas.
- Action plans performed of control bodies within terms set.
- Compliance Testing conducted on the proper operation of SARLAFT.

Standards of conduct

The BBVA Code of Conduct provides the behavior guidelines in line with our principles of prudence, transparency and integrity and corporate values, ensuring that the customer is the first one to develop the functions of the team who thinks big and addresses their actions on a coordinated basis to achieve local and corporate goals under strict and high conduct standards.

This document contains the commitments that contribute to the prevention of corruption in BBVA, as well as in specific policies intended to transparency, inclusion and financial responsibility.

During 2017 the Compliance area participated in the advisory to prepare products appropriate to the clients within the responsibility framework with a society streamlined by the new technological trends and the boom of the financial offer, encouraging the promotion of financial literacy, and the supply of information enough to guarantee the informed contracting of products offered by BBVA in Colombia. The above with regard to the strategic priorities of the Entity, seeking the boost of digital sales to ensure the best customer experience to develop new business models with leadership in efficiency, and implementation of digital evolution based

methodologies, the needs of consumers and the optimization of resources and allocation of capital.

Additionally, BBVA Colombia has a Securities Market Conduct Policy which is based upon the guidelines provided in the Code of Conduct of the BBVA Group with regard to the securities markets and incorporates a series of principles and general criteria of actions commonly accepted worldwide and addressed to preserve the integrity thereof. Particularly, it gathers the minimum action guidelines that every member of BBVA must follow with regard to the treatment of the privileged information, prevention of manipulation of quotations, management of potential conflicts of interests that could arise and the operation of employees at their own account in the markets.

BBVA also has documents seeking the commitments of each area where applicable, namely:

- Internal conduct regulation in the securities markets sector

Complaint Channel

The main mechanism to ensure the effective application of the regulations and guidelines of the Code of Conduct to manage risk is the Complaint Channel. This allows associates, customers and suppliers to inform any violation observed or reported in compliance with the obligation of not tolerating behaviors deviating from the Code.

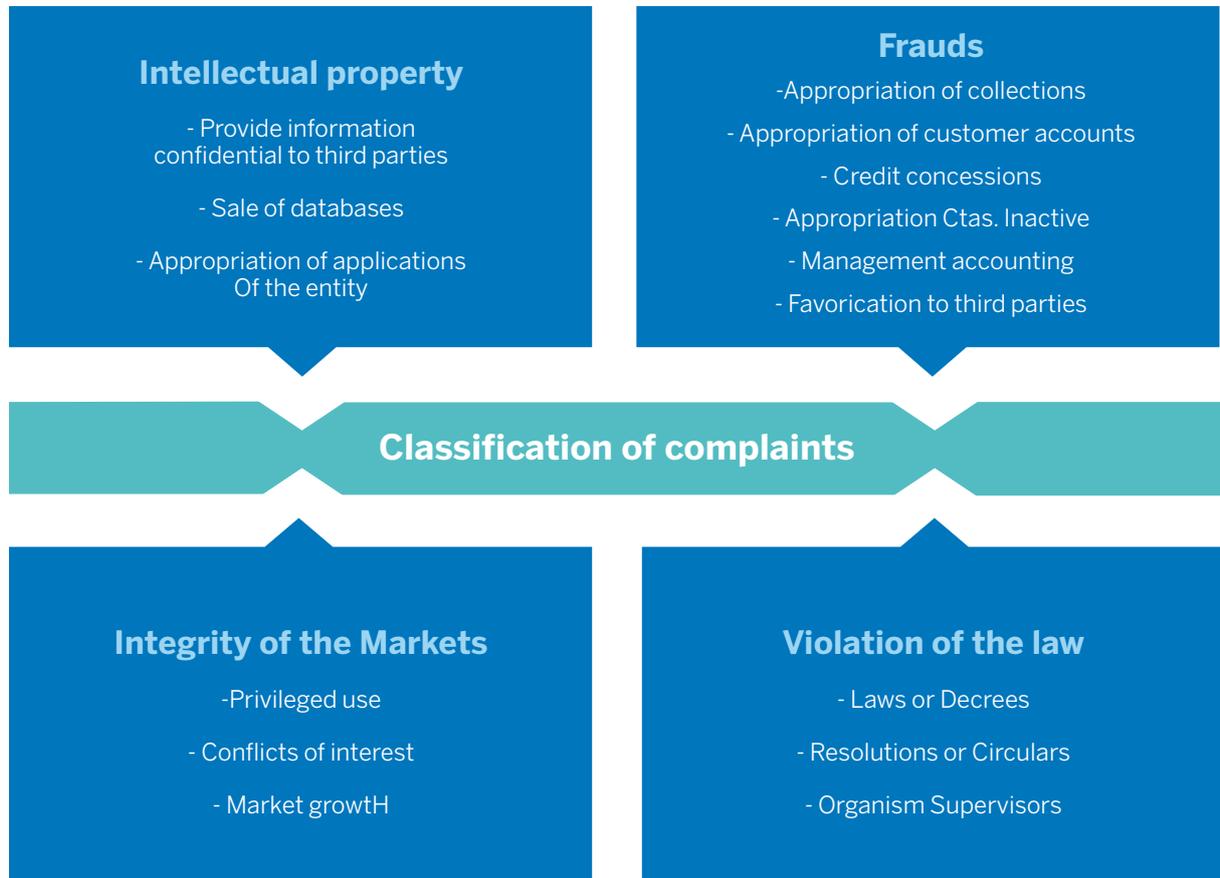
In conformity with the Code of Conduct, an associate could inform an action or situation contrary to the regulation, values or priorities of BBVA, as follows:

- Deal the case with their supervisor or contact person of Human Resources
- Notify the case through the Complaint Channel in the appropriate region or geography location.
- Use the Complaint Channel notifying the case to the Compliance area to the e-mail canaldedenuncia.co@bbva.com, or telephone: (57) (1) 3808171.

People reporting in good faith facts or actions to the Complaint Channel will not be subject to retaliation either any other adverse consequence for the supply of such information.

The main aspects that can be addressed in the channels are as follows:

The Compliance Area handles diligently and promptly the complaints received, thus encouraging the confirmation thereof and driving the measures for their resolution, in accordance with the management procedures of Complaint Channel and analyzing the information objectively, impartially and confidentially.



International Initiatives

GRI-102-12

BBVA is signatory of following international initiatives:

- United Nations Global Compact (www.globalcompact.org)
- United Nations Environment Programme Finance Initiative (UNEP)(www.unepfi.org)
- Equator Principles (www.equator-principles.com)
- Principios para la Inversión Responsable de Naciones Unidas.
- International Integrated Reporting Council.
- Carbon Disclosure Project.

- Thun Group sobre Bancos y Derechos Humanos.
- Natural Capital Declaration.
- Global Initiative for Sustainability Ratings.
- Green Bond Principles.

Furthermore, BBVA recognizes publicly its respect for the Declaration of Human Rights of the United Nations, the basic regulation of the International Labor Organization and the Guidelines of the OECD for Multinational Companies..

BBVA was working in 2017 to connect the Objectives of the Sustainable Development (OSD) approved in September 2015 by UN with the initiatives and their materiality.

Our contribution to the OSD is reflected on the following table:

	Objectives	Initiatives BBVA
Objective 1	Eradicate every way of poverty around the world.	Fundación Microfinanzas BBVA
Objective 2	Eradicate hunger, achieve food security and improve nutrition and promote the sustainable agriculture.	Integration scholarships program «Niños Adelante»
Objective 3	Ensure a healthy life and promote the wellbeing for everyone at all ages.	«Primera infancia» Project of the OEI
Objective 4	Ensure an inclusive, fair and quality education and promote learning opportunities throughout everyone's life.	BBVA "Escuela para el Emprendimiento" Program
Objective 5	Achieve gender equality and empower all women and girls.	Global Gender Diversity Plan
Objective 6	Ensure water supply and its sustainable management and sanitation to everyone.	There are no specific initiatives
Objective 7	Ensure the access to affordable, safe, sustainable and modern energy to everyone.	There are no specific initiatives
Objective 8	Promote the sustained, inclusive and sustainable economic growth, fulfilling and productive employment and decent work to everyone.	Fundación Microfinanzas BBVA
Objective 9	Construct resilient infrastructures, promote inclusive and sustainable industrialization and encourage innovation.	There are no specific initiatives

	Objectives	Initiatives BBVA
Objective 10	Reduce inequality in and among countries.	Fundacion BBVA Awards: "Fronteras del Conocimiento Cambio Climático y Ecología y Biología de la Conservación"
Objective 11	Make cities and human settlements inclusive, resilient and sustainable.	Investigation initiatives for health care from Fundación BBVA
Objective 12	Guarantee modalities of sustainable consumption and production.	Eco efficiency Global Plan
Objective 13	Adopt urgent measures to fight the climate change and its effects.	Fundacion BBVA Awards: "Fronteras del Conocimiento Cambio Climático y Ecología y Biología de la Conservación"
Objective 14	Preserve and use in a sustainable way oceans, seas and sea resources for the sustainable development.	Fundacion BBVA Award to the Conservation of Biodiversity
Objective 15	Protect, reestablish and promote the sustainable use of earth ecosystems, manage forests in a sustainable manner, fight against desertification, stop and invest the degradation of lands and hold back the loss of biological diversity.	Fundacion BBVA Award to the Conservation of Biodiversity
Objective 16	Promote pacific and inclusive societies for the sustainable development, facilitate the access to justice to everyone and create efficient, responsible and inclusive entities at all levels.	There are no specific initiatives
Objective 17	Strengthening the means for the execution and reinvigorate the Global Alliance for Sustainable Development.	Fundacion BBVA Awards "Fronteras del Conocimiento – Cooperación al desarrollo"

4.3. Internal Control Model

BBVA Group initiated the evolution of its control model since year 2013 with the creation of new governance. The model evolution was based upon the combination of two levers: (i) Internal control model built over the existence of three differentiated control levels (three line defense model), and (ii) Coordinated governance model of the internal control model, denominated Corporate Assurance (comprehensive vision and involvement from senior management).

After its consolidation, the implementation of governance and recognition of the model by the regulatory European bodies, the achievements accomplished were reviewed at the beginning of 2016 and adjustments to the model were made on the basis of the identification of several improvement opportunities.

in February 2016, BBVA Colombia formalized the New Internal Control model based on three defense lines:

1. Business and support areas are responsible for control in its environment and execution of measures set, in this case from higher instances. Such defense line has been reinforced with an ad hoc team that manages, coordinates and supervises the execution of control tasks performed therein.
2. The Operational and Internal Country Risk Management Direction, based on corporate

guidelines and local regulation, provides the methodology and common tools for management. In this new model, the second line is the local figure that leads and coordinates with cross vision the Internal Control System incorporated to the current function of operation risk mitigation. The control units specialized in this line (Internal Financial Control, Internal Risk Control, Internal Operations Risk, Internal Technology Control, Compliance and other in Human Resources, Legal Services areas) supervise the control of different units within their cross-sector specialty, focusing them towards the definition of Policies and Procedures thereof and the exercise of "challenge" to the control activity made by the first defense line.

3. The Internal Audit unit performs an independent review of the model, verifying the Compliance and effectiveness of corporate policies and providing independent information about the control model.

The Secretary of the Corporate Assurance Committee took office from February 2016 by the Operational and Internal Country Risk Management.

In turn, the Internal Audit performed the independent evaluation to the effectiveness of the Internal Control System of BBVA Colombia pursuant to the provisions of Section IV of Title I of Part I of the External Circular Letter 029 of 2014

(Legal Circular Letter) issued by the Financial Superintendence of Colombia. In such evaluation it was concluded that the Internal Control System implemented by the Bank complies reasonably with the criteria that the Financial Superintendence of Colombia has stated in the above mentioned Circular, as well as that improvement plans established by the Bank to mitigate risks identified in the evaluations made during 2016, have been implemented.

During 2017, this model was consolidated through the contribution of an integrating vision of risks and their management; anticipation activities by process analysis and new products as well as the execution of actions directed to all levels of the Organization to foster the control culture (self-management, self-control, and self-regulation).

Internal Audit Report

The Internal Audit plan for 2017 was built with regard to 11 risk typologies aligned with those set by BBVA Group. The plan also incorporated a triennial strategic vision (2017-2019) of said 11 risks. The focus for each risk typology was generated from the Risk Assessment process as well as from the function strategy and requirements of main stakeholders: supervision and control entities, government bodies and the own administration.

The planning process for each risk took into

consideration the alignment with purpose and strategic priorities set by BBVA Group, thus allowing the development of the assurance on the risk focus identified for each of them, in order to add value to the Organization purpose.

Below the works performed in 2017, pursuant to risk typologies, that supported directly the strategic priorities of BBVA Colombia:

- **Operating risk:** Key risk focuses were the transactional channels available to BBVA Colombia customers; BBVA Net Cash and BBVA Net Personas, taking into consideration that they should support “the best customer experience” as strategic priority. As a result of the work developed, improvements related to security, availability and the proper operation of channels were applied.

Besides, reviews on the fees process and activities performed by the office network were applied, and forensic activities took place which, given their importance, demanded the participation of the Internal Audit team.

- **Credit risk:** The Assessment of the Credit Risk Management System supported the “best customer experience” strategic priority, identifying improvements on peripheral applicatives and activities related

to customers' insured goods.

Portfolio risk focuses, as importers and promoters, were subject to individual assessments that allowed the Bank to adjust its provision levels pursuant to the risk levels of assessed customers.

The assessment of the pre-approved admission process allowed strengthening aspects such as the regulatory framework and the process government model, as well as technical and operating aspects thereof.

Other activities developed correspond to the risk assessment of concentration and asset allocation.

- **Technological risk:** Focuses associated to this risk regarded the strategic priorities that correspond to "best customer experience" and "boost of digital sales".

In the first place, the mechanisms implemented by the Bank for customers' biometric identification were assessed and this generated improvements on biometric registration and deregistration.

In the second place, processes and controls that ensure the adequate IT assets planning and management were assessed to prevent obsolescence. This is a key aspect for an organization facing the digital transformation goal. Also, the assessment on the changes management process was performed, thus providing a view of Internal Audit with regard

to the transition to new and smooth working ways for software development.

- **Capital risk:** As a result of the assessment on the regulatory capital (local basis), the Internal Audit function supported the strategic priority "optimize the capital allocation" by means of identifying improvements on information sources, processes and controls that generate the solvency ratio.

Also, assessments on credit risk capital consumption and market risk regulatory capital were made (consolidated basis).

Business model risk: Strategic priorities "best customer experience" and "boost of digital sales" were supported upon the assessment on the calculation process of strategic KPIs, which generated improvements to the governance of the calculation process and the information sources.

Legal risk: With regard to strategic priority "the best team", the first assessment on the Occupational Health and Safety Management System was conducted and it generated action plans focused to the harmonization of the management performed to date by the Administration and to fully comply with the requirements provided for the benefit of BBVA Colombia employees.

Extended company risk: Product of the

assessment on the management model of outsourcing services. The Entity has strengthened the control model on such activities throughout their life cycle. This aspect, at least indirectly, has an impact on different strategic priorities.

Other risks regarded: compliance risk, market risk, structural risk, and internal governance risk, although became focuses within the planning framework 2017-2019, did not generate the identification of relevant situations to be commented.

Finally, in 2017 best communication practices were set with supervision and control entities and bodies such as: Financial Superintendence of Colombia, Securities Market Regulator and the Statutory Auditor, among others, with the purpose to support the Management for delivering the best response to the most relevant inquiries of said entities and bodies. The support from Internal Audit was focused toward the knowledge of commitments, aspects identified and follow up on their adequate attention.

Audit and Compliance Committee Report 2017

In compliance with the provisions of the Financial Superintendence of Colombia (SFC) in the Legal Basic Circular Letter (6.1.2. of Section IV, Title I, Part I) the Board of Directors of Banco Bilbao Vizcaya Argentaria Colombia S.A. (hereinafter "BBVA Colombia", or the "Entity" or the "Bank") has the Audit Committee (hereinafter the "Committee"), study and support body that provides assistance to comply with its supervision function of the entity's Control

Architecture. It addresses the issues related to the control environment, risk management, internal control system, communication and monitoring.

The regulation of the Audit Committee is provided in Law 964 of 2005 and in the above mentioned Circular Letter of the SFC. Additionally, said Committee has an Internal Regulation in concordance with the aforementioned standards, their purpose, composition, functions and other aspects related to their operation, documents that are posted on the website of the Bank.

Composition

The Committee is made up by three Directors of the Board of Directors, from which two act as independent and one as the chairman. Each member has the experience and sufficient knowledge to fulfill their appropriate functions.

During 2017 the Audit Committee was made up as follows:



Operation

The Audit Committee, in conformity with the provisions of the Legal Basic Circular Letter of the SFC and Law 964 of 2005 (Article 45 Paragraph 4) sits quarterly and its decisions and actions are reflected on the minutes signed by the President and Secretary, in compliance with the requirements provided in Art. 189 of the Code of Commerce.

Additionally, the Committee is presented with reports from the Statutory Audit, Internal Audit, and Compliance Officer. It also receives the reports from the members of Top Management, when deemed necessary, to meet its functions.

In conformity with the provisions of the Internal Regulation, the Committee may call for external advisory services with regard to relevant matters whenever the specialization or independence issues cannot be provided by experts or technicians from the Bank.

Purpose

The purpose of the Audit Committee is to provide support for the supervision of the financial statements, compliance with annual plans of the Statutory Auditor, Internal Audit and Compliance area, as well as with the management of the Board of Directors with regard to the implementation and supervision of the Architecture of Control.

Also, the Committee is responsible for ensuring the compliance with the laws and pertinent regulations and the effective controls of business with regard to conflict of interests and fraud.

Through the Audit Committee it is ensured that the Entity submits the required information and that the functions of the Statutory Auditor, Internal Audit, and Compliance Officer, have the adequate means with regard to personnel, materials, technological tools, procedures and performance manuals.

The functions are detailed in numeral 4 of the respective internal regulation.

Operation of the Internal Control System (ICS)

Below there is the report about the ICS prepared by the Audit Committee in conformity with numeral 6.1.2.1, Section IV, Title I, Part I of the Legal Basic Circular Letter of the SFC:

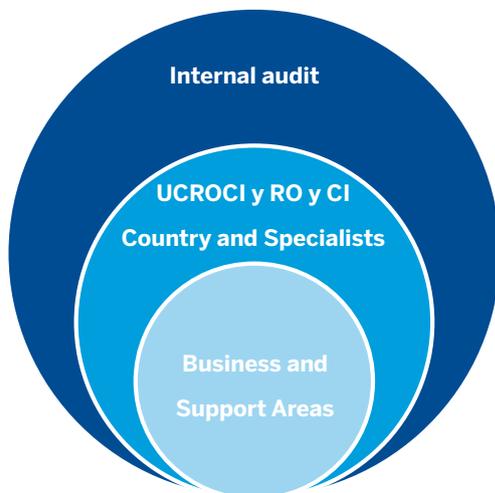
General policies established for the implementation of ICS

Our internal control model provides the maintenance of the risk inventory and common methodology that

allows the comprehensive reporting of business areas, in line with strategic priorities, through the risk identification, follow-up and mitigation, identification of weaknesses and potential reduction of operating losses. This model is based on self-control, self-regulation and self-management principles.

The application of the model is supported on the anticipatory management which allows the control and business decision-making process under the three lines of defense in line with international best practices.

Three defense lines:



1. Business and support areas: responsible for control in its competitiveness and execution of measures set, in this case from higher instances. Such defense line has been reinforced with an ad hoc team that manages, coordinates and supervises the execution of control tasks..

2. Country Operating Risk and Internal Control

Direction: provides the methodology and common tools for Internal Control System management. It leads and coordinates locally the ICS incorporated to the mitigation function of the Operating Risk.

3. Internal Audit: performs an independent review of the model, verifying the Compliance and effectiveness of corporate policies and providing independent information about the control model.

The internal control model is coordinated at corporate level, from the Corporate Operating Risk and Internal Control Unit that belongs to the Global Risk Management and locally, through the Country Direction of the Operating Risk and Internal Control in the risk area.

In turn, the business or support areas have Control Managers and Managers of Internal Control and Operating Risk who depend functionally from the Country Direction of Operating Risk and Internal Control and are in charge to implement the model on the routine of every area of the organization. In this way, the Bank has a closer vision of processes that encourages the identification and prioritization of risks and mitigation decisions.

Process to review the effectiveness of SCI

The risk and effectiveness controls assessment is made from the awareness and understanding of the business and analyzed operating processes by the Management. For such purpose, both the quantitative materiality criteria, probability of occurrence and economic impact, and the qualitative criteria associated to typology,

complexity, nature of risks or the own structure of business or process are taken into account.

The identification system and risk assessment of internal control of the financial information is dynamic, evolves over time on a permanent basis thus reflecting in each moment the business reality, the modification in operating processes, the risks affecting them and the mitigation controls. All this, documented in a corporate management tool (Storm) that contains risks and controls associated to processes, recorded by different control specialists, among them, the internal control of Financial Information.

Additionally, Internal Audit issues annually its opinion about the ISC effectiveness. The Internal Audit reported during year 2016 that the ISC implemented by the Bank complies reasonably with the criteria provided by the Financial Superintendence of Colombia in Section IV, Title I, Part I of the Legal Basic Circular Letter and that improvement plans provided by the Bank for mitigating risks identified in the assessments conducted in 2016 have been implemented.

Most relevant activities developed by the Audit Committee

During year 2017, the Committee performed its functions with autonomy of operation, the schedule of meetings and agenda were coordinated by its Chairman and Secretary to the Board of Directors.

In the period evaluated, the Committee held five meetings (January, February, May, August and November) with 100% attendance from its members and the participation of the Statutory

Auditor, the Compliance Officer and the Internal Auditor, among others, thus ensuring and maintaining the permanent communication line with the Board of Directors and Bank Administration

The Committee performed all activities required to comply with functions assigned by the regulation in force, bylaws and Internal Rules.

Following were the main activities developed by the Committee during year 2017:

Financial information presentation and reporting:

The Committee became aware of and agreed with the accounting principles, policies and practices and the evaluation criteria followed by BBVA Colombia in the process of preparation and presentation of the financial information.

The Committee has verified that the preparation, presentation and disclosure of financial information is adjusted to the provision of the regulation in force (national and international), reviewing also the adequate delimitation of the consolidation perimeter.

The Committee studied and issued its opinion about the individual and consolidated financial statements for the year 2017, in the sense that they comply, as to contents and presentation, with all the requirements provided thereof by the regulation and that have been prepared pursuant to the national and international best practices and recommendations, and the legislation in force.

Internal Control System: The Audit Committee

supervised and learned about the different reports prepared, both internally and by the Statutory Auditor about the Internal Control System of BBVA Colombia and its affiliates, establishing that the ISC provides reasonable security pursuing following objectives:

- Effectiveness and efficiency of operations; i.e., compliance with the basic objectives of the entity, safeguarding its resources;
- Sufficiency and dependability of the financial information as well as of the preparation of all the Financial Statements.
- Compliance with applicable regulation.
- Having a documented organizational structure, with divisions of responsibility, policies and procedures.

Furthermore, during year 2017, the Committee made the follow up to the Compliance under the instructions given by the Board of Directors in connection to the ISC.

Statutory Audit: The Committee established appropriate relations with the Statutory Auditor, KPMG S.A.S., appointed for year 2017 by the Shareholders' General Meeting held on February 28, 2017, which has supplied also direct information to the Committee in all the meetings.

The Committee has been aware of and given its conformity to the Work Plan 2017 of the Statutory Auditor, has followed the advance and evolution of the works in course, recommendations formulated and plans adopted by the Entity for implementation.

The Committee also supervised the Statutory Audit services throughout the year, verifying that they were executed with quality, independence, fulfillment and effectiveness. Said verification was materialized by an evaluation completed by the members of the Audit Committee, whose unanimous result was the highest satisfaction score, highlighting the professionalism of teams, quality of reports and being a great ally for the governance and direction bodies with regard to the supervision and evaluation of the efficacy of the Internal Control and Risk and Compliance Management Systems.

Internal Audit: The Committee analyzed and approved the Work Plan for year 2017 of Internal Audit, which was focused toward the risk identification and management of the main processes of the Bank. The Committee made a regular follow up of its execution and was reported directly about any incidence during the performance.

Furthermore, it learned about the recommendations formulated by the Internal Audit arisen from their review works, as well as of the specific action plans defined and put into effect for its resolution, making a regular follow up of those more significant to the entity.

Compliance: The Committee knew and approved the Work Plan for year 2017 prepared by the Compliance Area and made the regular follow up of the most relevant matters, thus verifying its adequate execution.

The Committee reviewed the SARLAFT reports on management, evaluation and control; additionally, it

followed up on the efficacy of claims channels and actions of the members of the Board of Directors with regard to their Regulation in the Securities Market and the compliance with the Code of Conduct.

Supervisory authorities: The Committee learned about the communications sent to the Bank by Supervisory Authorities, following up the matters that gave rise to such communications, answers to the Authorities and action plans to perform the requirements received.

Finally, the Committee made the quarterly follow up to the levels of risk exposure; verified that the operations with related parties would have been made in market conditions for similar transactions with third parties, in compliance with the standards about the limits to grant credits and maximum debt quota or risk concentration, effective on the approval date of operations.

Material deficiencies detected, recommendations formulated and measures adopted:

No material deficiencies were observed.

Observations formulated by supervisory bodies

Financial Superintendence of Colombia (SFC per its acronym in Spanish)

In situ inspection to the Bank: Within the framework of risk-based supervision model, the SFC conducted the in situ inspection visit to the Bank from April 24 to May 19, 2017, which purpose was to evaluate aspects related to the management of major risks, including credit, liquidity, information security, operation management of origination process and recovery of credit card products and free investment. Besides of the evaluation of the operation management of the portfolio restructuring process, the calculation of provisions, interest rates and LA/FT risk vulnerabilities was also verified.

In situ inspection to BBVA Asset Management: This visit was conducted by the Authority with the purpose to evaluate the operation management of the Collective Investment Funds (FIC per its acronym in Spanish) process, the liquidity management and the supporting technological platform, the estimation of LAFT risk rating and the overall knowledge of activities and operations performed by the trust.

Self regulator of the Securities Market of Colombia (AMV per its acronym in Spanish)

In situ inspection to BBVA Asset Management: In compliance with the Annual Supervision Plan provided by AMV for 2017, and with a preventive focus, AMV conducted the in situ inspection visit to BBVA Asset Management- Sociedad Fiduciaria from February 27 to March 8, 2017, in order to determine the sufficiency of management controls of conflicts of interest, verify the compliance with professional advisory and special

advisory with regard to FICs investors and verify the compliance with documenting in the over the counter market, among others.

In situ risk prevention and supervision visit of the exchange market: Within the Annual Supervision Program for the exchange market, AMV conducted the visit to the Bank from September 11 to 22, 2017, in order to contribute to raise the operation standards and implement good practices in the exchange market.

Evaluation of the task performed by Internal Audit

The Committee supervised the functions and activities of Internal Audit, determining their independence and objectivity in connection to the activities audited. There were no limitations that prevented their adequate performance and the scope of their task met the Entity's needs.

Such monitoring was materialized on the annual assessment to Internal Audit completed by the Committee members and which unanimous result was the highest satisfaction score.



5. Areas Management

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5.1. Risks

General Risk Management and Control Model

As member of BBVA Group, BBVA Colombia has a general risk management and control model, tailored to the local business, its organization and geographies where operates. Said Model allows developing its activity within the framework of the risk management and control strategy and policy defined by the Board of Directors, adapted to a changing economic and regulatory climate, facing the risk management on a global basis and adjusted to the circumstances at any given moment.

Basic elements are detailed below:

- Governance and organization.
- Risk appetite framework.
- Decisions and processes.
- Evaluation, follow up and reporting.
- Infrastructure.

Governance and organization.

The governance risk model in BBVA Colombia is characterized for a special coordination of its corporate bodies, both the establishment of the risk strategy and the follow up and continuous supervision of its implementation.

The Board of Directors approves the risk strategy and supervises the internal control and management systems. In particular, with regard to the risk strategy, the Board of Directors approves the Risk Management and Control General Model, the declaration of risk appetite of BBVA Colombia and subordinates, the fundamental metrics (and declarations) and the basic structure per types of risks (and declarations). The Board of Directors also ensures the approval and follow up of the strategic and business plan, annual budgets and management goals, as well as the investments and financing policy. All this, on a consistent basis and aligned with the approved risk appetite framework.

Pursuant to the basis established by the Board of Directors, the Risk Management Committee (“RMC”) performs the follow up on the risk limits, being informed both of the surpluses produced over the limits and, in this case, of timely correcting measures that could be set. It also performs, as a special relevant task, the control and detailed follow up of the risks that affect the risk area as a whole that allows the supervision of the effective integration in the risk management strategy and the application of the policies approved by corporate bodies.

The Risk Vice-presidency, for the best compliance of its functions, is supported on a structure made up by specific units pursuant to risk types: Market and Structural Market Risk, Operating Risk, Risk Strategic Management and Credit Risk, which in turn, are classified per customer type (Wholesale Risks and Retail Risks). Within its competence scope, risk management and control functions, it is responsible for applying the corporate policies and standards approved by the Board of Directors and reporting as appropriate to the corporate bodies.

The decision-making process of the Risk Area is supported by the structure of the committees; the Risk Management Committee (RMC) is the highest committee of the risks function and, among others, it proposes and contrasts the risk internal regulatory framework, the procedures and infrastructures necessary to identify, evaluate, measure and manage the risks faced by the Bank when performing their businesses, as well as the admission of risk operations.

The Risk Management Committee (RMC)

articulates the development of its functions in different supplementary committees:

- [Operations Technical Committee and Central Risk Committee](#) which purpose is the decision making with regard to the admission of wholesale credit risks of certain customers’ segments.
- [Wholesale Segment Follow-up Committee and Retail and SMEs Segments Follow-up Committee](#) which purpose is to determine the action measures to manage the recovery of non-performing loan portfolio and local and consolidated delinquent loan portfolio.
- [New Businesses, Products and Services Committee](#) which purpose is to identify, evaluate and analyze operating risks of new businesses, products and services to ensure the knowledge of all its inherent operating risks and the establishment of the required controls and mitigations.
- [Operating Risk Committee](#) determines the relevant operating risks of each risk area.

Risk appetite framework

The Risk Appetite Framework approved by the Board of Directors determines the risks and level thereof that BBVA Colombia is willing to assume in order to accomplish its business goals. They are expressed in terms of solvency, return, liquidity and financing or other metrics, which are reviewed as in the case of substantial modifications of the business or of relevant corporate operations. The definition of

Risk Appetite has the following goals:

- Develop the Bank strategy and highest risk levels that is willing to undertake.
- Establish the action guidelines and a medium-long term management framework that prevent actions with which the future viability of the Bank may be compromised.
- Ensure the consistency in the decision-making process, thus preventing contrasting behaviors with other geographies of the Group.
- Ensure the alignment with the new regulatory requirements facilitating the communication with regulators, investors and other stakeholders thanks to a comprehensive and stable framework of the risk management.
- The Risk Appetite defined by BBVA expresses the risk levels and types that the Bank is ready to take in order to carry out its strategic plan without relevant diversions, even in stress situations. The Risk Appetite is embodied in management and determines the basic activity lines of the Bank since it provides the framework of the Budget.

Decisions and processes

The transfer of the Risk Appetite to ordinary management is supported on three basic aspects:

- [A homogeneous regulatory body](#)

The Risk area follows and adapts the regulatory

body, defined by the organization, to local demands and for the purpose to having the decision-making process adequate to the local level and aligned with the BBVA Grupo policies.

- [Risk planning](#)

The risk planning allows ensuring the integration in the Risk Appetite framework management through the cascade process of setting limits, where the function of the Risks Area of Colombia is to guarantee the alignment of said process with the Risk Appetite Framework authorized, in terms of solvency, return, liquidity and financing.

- [Daily risk management](#)

All risks should be managed comprehensively during their life cycle based upon a differentiated treatment pursuant to their typology.

Evaluation, tracking and reporting

The evaluation, tracking and reporting is a cross element intended to allow the risk control and management model having a dynamic and anticipated vision that enables the compliance with the Risk Appetite Framework approved by the Board of Directors, even in face of unfavorable scenarios. This process covers all the categories of material risks and its objectives are as follows:

- Evaluate the compliance with the Risk Appetite at present time through tracking fundamental metrics and limits.

- Evaluate the compliance with the further Risk Appetite through the projection of Appetite variables, both in a Budget-based scenario and a stress-test risk scenario.
- Identify and value the risk factors and scenarios that could compromise the compliance with the Risk Appetite through the development of risks reposition and the analysis of their impact.
- Act to mitigate the impact in Colombia of the risk factors and scenarios identified, keeping them within the goal risk profile.
- Supervise the key variables that do not form part directly of the Risk Appetite but that condition their compliance; they are both external and internal.

Infrastructure

The infrastructure constitutes an element that must ensure that BBVA Colombia has the sufficient human and technological resources for an effective risk management and supervision, the performance of functions comprised in the Model and the goals achievement.

Risk culture

BBVA Colombia regards the risk culture as an essential element for the consolidation and integration of other components of the Model. The culture transfers, to all levels of the Organization the implications that, from the risk perspective, involved in activities and businesses of BBVA Colombia. The risk culture is articulated based upon the following levers:

- **Communication:** promotes the dissemination of the Model and, in particular, of the principles that should rule the risk management in BBVA Colombia, consistently and comprehensively through the most suitable channels for such purpose.
- **Training:** its main objective is to disseminate and settle the risk management model of the Bank, ensuring the standards in capacities and knowledge of the different parties in the risk management processes.
- **Motivation:** area that pursues the incentives of the risk function teams that support the strategy management, values and culture of the function at all levels. It includes the compensation and every such element related to motivation -working environment, etc.,- that contribute to the achievement of the Model objectives.

Risk events

As described above, BBVA Colombia has processes to identify risk and analyze scenarios that allow the Bank to perform a dynamic and advanced risk management.

Risk identification processes are “forward-looking” to ensure the identification of emerging risks, and gather the concerns arisen from both the business areas, closer to Colombian reality, and from the Board of Directors.

Risks are captured and measured on a consistent basis and with adequate methodologies for each case. Measurement includes the design and application of analysis of scenarios and “stress testing”, and takes into consideration controls under which the risks are submitted.

As part of this process, a future projection of Risk Appetite variables is made in stress scenarios in order to identify possible deviations with regard to the thresholds established, in which case, the appropriate action measures are taken in order to keep said variables within the target risk profile.

Credit risk

The credit risk management in BBVA Colombia is framed within the general model that comprises guidelines and policies for each one of the stages of the risk management.

This set of internal standards provide the action framework to direct the credit risk control and management of BBVA Colombia, upon the determination of respective standards and limits.

Principles that support the credit risk management are the following:

- Risks assumed should be adjusted to the general risk strategy set by the Management Board of BBVA Colombia and approved by the Board of Directors.
- Risks assumed should maintain the proportionality with the level of own and third-party resources and generation of recurring income, giving priority to risks diversification, and preventing relevant concentrations.
- Risks assumed have to be identified, measured and valued, with the mandatory existence of procedures for tracking and management, besides of sound control and mitigation mechanisms.

- Risks should be managed with soundness and integration during their life cycle with a differentiated treatment pursuant to their typology and an active portfolio management based on a common measure (economic capital).
- The payment capacity of the lender to meet in full, timely and in due form, the financial obligations undertaken from business income or income source, usual, not dependent from guarantor, bondsmen, or assets as collateral, is the key criteria to grant credit risks.

During 2017 and in the course of prudent supervision activities from the Financial Superintendence of Colombia, the following issues became relevant:

- In-situ inspection: conducted from April 24 to May 19, 2017; focused on the review of policies of restructured loans. The regulator sent the visit report in August; aimed at the extension and/or review of following matters:
 - Free-Investment Product Origin Methodology - Policies
 - Recovery Process
 - Information Quality – Data Base
 - Valuation of Portfolio and Reconciliation of Securities
 - Evaluation of LA/FT Risk Management
- Participation of BBVA Colombia, together with the guild and the regulatory entities, in the work team that originated the External Circular Letter 026, amending Chapter II of the Accounting and Financial Circular Letter. In the first part of the year, the policy related to restructured loans was proposed to the Superintendence. In the second part, after their authorization and by means of the publication of the above mentioned Circular Letter, progress was made for the automatic implementation.
- From August, the Superintendence requested to financial entities corrective plans to reduce the growth trend of non-performing loans from different portfolios. Due to the foregoing, the Bank established a series of action plans, materialized in amendments to policies (both of admission and recovery) and the follow up of their evolution, through percentage indicators of gross and net income which are presented on a monthly basis to the Board of Directors and the regulator.

- In compliance with corporate guidelines, the IFRS 9 methodology calculation method was concluded. For such purpose, parameters required to calculate the Expected Loss were updated; i.e., the Probability of Default (PD), loss given default (LGD), CCFs and macro factors. The portfolio has been segmented, in accordance to the standard, per stage with regard to the evolution of portfolios. Despite this standard applies from January, 2018, there are evolving data of impact since September 2017.

Credit risk exposure

With last sector figures, at the cut-off date October 2017, BBVA has 10.2% share, ranked as the fourth largest competitor in the Colombian market. Investment growth at said cut-off date was 9.2%, despite the economic deceleration and other factors that hit the financial sector over the year; the growth has been more significant in consumer portfolio (5%). In turn, the commercial portfolio shows 8.0% variation.

At the end of October, 2017, BBVA credit investment shows +\$3,6Bn (9.2%) inter-annual growth; at the cut-off both Retail segment portfolio with (+\$2,3Bn, 10.0%) and the commercial portfolio with (+\$1,3Bn, 8.0%) have shown growth in investment, the latter improving the result of previous year.

With regard to the complex macro-economic environment, the Retail segment has implemented several measures to improve the loan portfolio quality, focused in particular to the free investment. Also, the scoring models are being adjusted in order to redirect the higher risk customers to the evaluation from an expert criterion, thus motivating and favoring customers with funds in the Bank.

With regard to the work of digital development for admission, the Risk area has performed the accompaniment to Business areas, having more efficient processes and strengthening new penetration opportunities to digital banking as Standing Offer, digital loan, among others. All for the purpose of "Bring within reach of everyone the opportunities of this new era".

For SMEs Segment, several initiatives have been implemented for the common purpose of the Group focus toward customer, return and capital management as well as the anticipation with macroeconomic and social and political events faced by Colombia as a whole. With regard to admission, new policies have been set for operations that allowed facing challenges arisen from current economic conditions. Also, for obligations with outstanding risk, the Early Warning System (EWS) was implemented, thus allowing a higher contention of those customers that, being in good standing, show the possibility to be in default.

In 2017 for the Wholesale Risk Segment, the action guidelines were driven to the activity of credit admission of corporations and companies under the principles set in the Corporate Policy of Wholesale Credit Risk, defining

sectorial patterns based on criteria of healthy practices and within the context and constraints of own markets.

With regard to tracking, the anticipation dynamic was intensified through the analysis of clients showing defaults for the last twelve months, with the purpose to prevent the impairment from actions defined in the individual analysis.

Additionally, control procedures were implemented for Treasury operations (excess of balancing entry, Wrong Way, default derivatives and settlement) and understanding the complexity in the analysis of some sector companies such as, construction and infrastructure, oil & gas and mining, credit risk delegations were restricted since August 2017 in different decision levels.

Classification and qualification per loans portfolio at December 31, 2017:

Portfolio	Capital	Intereses	Other
Commercial			
Category "A" Normal	\$ 16,774,341	\$ 141,615	\$ 4,603
Category "B" Acceptable	452,911	8,345	1,447
Category "C" Appreciable	273,222	6,886	489
Category "D" Significant	51,997	1,884	532
Category "E" Uncollectible	551,744	19,612	7,877
Total commercial	18,104,215	178,342	14,951
Consumer			
Category "A" Normal	13,705,163	130,293	2,152
Category "B" Acceptable	270,967	5,711	267
Category "C" Appreciable	203,180	4,330	246
Category "D" Significant	347,764	8,680	724
Category "E" Uncollectible	529,176	14,970	2,292
Total consumer	15,056,250	163,984	5,681
Microloans			
Category "A" Normal	-	-	-
Category "B" Acceptable	-	-	-
Category "C" Appreciable	-	-	-
Category "D" Significant	-	-	-
Category "E" Uncollectible	2	-	-
Total microloan	\$ 2	\$ -	\$ -

Portfolio	Capital	Intereses	Other
Housing			
Category "A" Normal	\$ 9,476,698	\$ 54,232	\$ 3,903
Category "B" Acceptable	293,560	3,285	651
Category "C" Appreciable	155,464	1,960	797
Category "D" Significant	40,700	598	294
Category "E" Uncollectible	131,219	2,458	2,113
Total housing	10,097,641	62,533	7,758
Employee housing			
Category "A" Normal	284,382	600	-
Category "B" Acceptable	707	7	-
Category "C" Appreciable	604	12	-
Category "D" Significant	242	5	-
Category "E" Uncollectible	132	2	-
Total employee housing	286,067	626	-
Employee consumer			
Category "A" Normal	104,679	233	-
Category "B" Acceptable	73	-	-
Category "C" Appreciable	296	1	-
Category "D" Significant	78	1	-
Category "E" Uncollectible	348	3	-
Total employee consumer	105,474	238	-
Housing general impairment (provision)	-	-	-
Employee general impairment (provision)	-	-	-
Individual commercial impairment counter-cyclical component	-	-	-
Individual consumer impairment counter-cyclical component	-	-	-
Others	-	4,247	-
Total loan portfolio	\$ 43,649,649	\$ 409,970	\$ 28,390

Credit risk mitigation, security interests and other credit improvements

The highest exposure to credit risk in most cases has been reduced by the existence of security interests, credit improvements and other actions that mitigate the exposure of the Bank. The hedging policy and risk credit mitigation in BBVA Colombia comes from its conception of bank business, focused toward the relational banking. In this connection, the demand of collaterals may be an instrument necessary but not enough to the

risk granting since the assumption of risks requires the previous verification of the debtor's capacity of payment or to generate enough resources that allows them the risk amortization under the conditions agreed.

Consequently, the policy of the credit risk assumption in BBVA Colombia is instrumented in three levels:

- **Analysis of the operation financial risk** based upon the capacity of reimbursement or generation of resources of the credit receiver.
- **Where appropriate, provision of guarantees appropriate to the risk assumed** in any of the forms generally accepted: monetary, collateral, personal or coverages, and finally
- **Risk valuation of recovery** (liquidity of asset) of guarantees received.

The focus of BBVA Colombia for the risks assessment is based upon the resource generation instead of the guarantees provided; in this spirit, the Bank does not grant credit operations based only on the guarantee.

At corporate level, the management tools to regularly monitor the portfolios showed in 2017 following advances:

- **Capital map**: tracking is maintained without significant changes in structure.
- **Asset Allocation**: through the circuit established, the modification of the limits provided for 2017 was requested which were approved by the Board of Directors in September, October and December.

Bearing in mind the macroeconomic environment of Colombia which goes through indicators with some degree of detriment in specific sectors, processes of tracking and analysis of the individual portfolios have been oriented to detect possible focuses of impairment, mainly in consumption lines where the reaction was to adjust the policies and admission tools toward the restriction of profiles with greater likelihood of non-compliance.

The team work and cross strategy along the value chain since the customer's requirement until the recovery of the loan, has allowed the more efficient visualization toward the efforts direction in order to reach the balance of the risk as critical axis to the income statement.

Risk concentration

With regard to the mitigation of the credit risk concentration, BBVA Colombia keeps updated the maximum concentration indexes authorized, both individual and sectorial, with regard to the different variables observable, related to the credit risk.

On the other hand, the presence or finance quota of the Bank in a particular client is conditioned by its credit quality, the nature of the risks kept and the presence of the Bank in the market pursuant to following guidelines:

- The finance needs of the Customer (commercial/financial, short-term/long-term, etc..) are intended to be reconciled with the Bank interests to the extent possible.
- The legal limits that may exist about risk concentration (relation between risks maintained with a client and the funds own of the entity assuming them) are taken into consideration as well as the situation of markets, macro-economic situation, etc.

The Bank credit portfolio at December 31, 2017, was distributed into debtors dedicated to the following economic activities:

Activity	2017	2016
Association - education - health activities	\$ 1,410,637	\$ 1,393,741
Recreation activities - cultural activity	182,504	195,867
Real estate – companies – lease activity	1,167,418	1,209,420
Water collection – depuration – distribution	25,178	32,659
Wholesale commerce – fees – contracting	1,638,931	1,611,561
Retail commerce – non-specialized establishments	2,354,567	2,272,621
Construction – conditioning – finishing	2,123,775	2,219,391
Mail and telecommunication	396,410	434,580
Preparation food products and beverages	1,180,404	1,274,326
Exploitation public administration and defense	1,548,020	1,009,066
Non-metallic minerals exploitation	14,884	34,793
Coal extraction	29,489	31,681
Ore minerals extraction	2,236	2,974
Oil gas – natural gas extraction	365,241	455,723
Paper manufacture– cardboard and its products	48,525	37,951
Fabrication – refining – oil – chemical products	578,876	559,277
Non-metallic minerals fabrication	100,418	54,607
Fabrication other manufacturing industries	91,411	66,392
Metallic products fabrication– machinery	252,367	263,315
Textile products fabrication	233,082	199,338
Insurance plans finance	\$ 31,409	\$ 34,825

Activity	2017	2016
Generation – fabrication electricity– gas – water	\$ 1,992,324	\$ 1,674,476
Hotels and restaurants	262,228	267,765
Industry – manufacture – metals	48,350	52,039
Finance intermediation	1,472,730	1,078,489
Employees	18,904,250	16,977,280
Capital renters	560,562	408,384
Printing activities	38,322	18,072
Not differentiated activities of individual households	370	296
Extra-territorial organizations and bodies	10,123	10,417
Other community service activities	4,711,147	3,802,195
Production fishing farms	14,570	12,057
Agriculture and livestock production	894,039	906,492
Sanitation services and similar	67,596	62,149
Forestry, extraction woods and services	36,242	7,159
Transformation – factory – basketry wood	18,855	20,498
Transportation	842,159	926,653
Total	\$ 43,649,649	\$ 39,618,529

Credit quality of financial assets that are neither past-due nor impaired

BBVA Colombia has qualification tools that enable to order the credit quality of its operations or customers as from the valuation and correspondence with the probabilities of default (“PD”). In order to study how such probability varies, tracking and historic data base are available to gather the information generated internally that permits to group it in scoring and rating models.

Scoring

The scoring is a decision model that helps granting and managing retail credits: consumption, mortgages, individual credit cards, small business, etc. Scoring is the basic tool to decide granting a credit, the amount to be granted and the strategies that may contribute to set the price thereof since it is based on the algorithm that orders the operations with regard to its credit quality. Such algorithm allows the assignment of a score to each operation requested by a client on the basis of a series of objective characteristics that statistically have demonstrated the risk quality of such type of operations. The scoring advantage resides in the simplicity and homogeneity: for each client only requires a series of objective data and its analysis is automatic through an algorithm.

There are three types of scoring pursuant to the function of the information used and purpose:

- **Reactive scoring:** it measures the risk of an operation requested by an individual using relative variable to the operation requested as well as of social economic data of the client available at the time of request. The decision to grant or turn down the new operation is made on the basis of the qualification given by the scoring.
- **Conduct scoring:** it scores the operations of a certain product of the active risk portfolio in the entity, enabling the follow up of the credit quality and being proactive with regard to the customer's need. For such purpose, the operation and client variables available internally are used. Specifically, variables that refer to the behavior both of the product and the client.
- **Proactive scoring:** it grants the score at client level using variables of general conduct of the individual with the entity, as well as their behavior of payment in all products contracted. Its purpose is to follow up the credit quality of the customer, using it to give a previous granting of new operations.

Rating

Unlike scorings (that qualify operations), rating is a tool focused toward the customers' qualification: companies, corporations, SMEs, and public administrations, etc. The rating is an instrument that allows, on the basis of a detailed financial analysis, determining the capacity of the customer to meet their financial obligation. Usually, the final rating is a combination of different factors in nature. On one side quantitative factors and on the other, qualitative factors. It is a middle path between individual analysis and statistical analysis.

The fundamental difference with the scoring is that the latter is used to evaluate retail products while the ratings use the whole sale banking approach. Besides, the scoring only includes objective variables while ratings incorporate qualitative information. Although both are based upon statistical studies, incorporating a business vision, for developing the rating tools a greater weight is granted to the business criterion than in scoring.

In such portfolios where the number of defaults is quite small (sovereign, corporate, with financial entities risks, etc.), the internal information is supplemented with the benchmarking from the independent rating agencies (Moody's, Standard & Poor's and Fitch). For such purpose, every year the estimated PDs are compared by the rating agencies for each risk level and the result is the equivalence between the levels of the different agencies and the levels of the Master Scale of BBVA. Once estimated the probability of default of operations or customers, the so-called "cycle adjustment" is made since it is required to establish the measure of the risk quality beyond the context estimate, seeking to gather information that represents the behavior of portfolios during an entire economic cycle. Such likelihood is linked to the Master Scale prepared by BBVA in order to facilitate the classification in homogeneous terms of their different risk portfolios.

Below the reduced scale used to classify the active risks of BBVA Colombia:

External ratings Standard & Poor's Scale	Internal ratings Reduced scale (22 groups)	Probability of default		
		(in basic points)	Minimum from 0	Maximum
AAA	AAA	1	0	2
AA+	AA+	2	2	3
AA	AA	3	3	4
AA-	AA-	4	4	5
A+	A+	5	5	6
A	A	8	6	9
A-	A-	10	9	11
BBB+	BBB+	14	11	17
BBB	BBB	20	17	24
BBB-	BBB-	31	24	39
BB+	BB+	51	39	67
BB	BB	88	67	116
BB-	BB-	150	116	194
B+	B+	255	194	335
B	B	441	335	581
B-	B-	785	581	1.061
CCC+	CCC+	1.191	1.061	1.336
CCC	CCC	1.500	1.336	1.684
CCC-	CCC-	1.890	1.684	2.121
CC+	CC+	2.381	2.121	2.673
CC	CC	3.000	2.673	3.367
CC-	CC-	3.708	3.367	4.243

The determination of said different levels and their limits of Probability of Default (PD) was performed taking as reference the rating scales and default rates of independent agencies Standard & Poor's and Moody's. In this way, the levels of Probability of Default of the BBVA Master Scale are set. Calibrations (score mapping of PD tranches / levels of the Master Scale) are made as a tool for BBVA Colombia.

The update of customers financial information continued from Companies Risk in different tools available to capture the quantitative and qualitative information (sectorial rating, risk analysis) of vital importance to safeguard the quality of the wholesale portfolio, therefore, permanent campaigns were carried out to allow the reduction of updating and validation percentages of ratings which by year end reached 85%.

Non-performing and not impaired risks

Although the existence of the non-performance segment is understood as any credit operation exceeding 30 days of non-payment but not in default yet, in BBVA Colombia tracking is focused on the non-performing portfolio.

Doubtful or impaired risks

For the classification of a doubtful credit operation it should be taken into account the portfolio to which it belongs and the non-payment days incurred, as follows:

	Defaulted days
Consumer	>60 days
TDC	>60 days
Mortgages	>120 days
Commercial	>90 days

With regard to this sector, the doubtful portfolio has been impacted by the economic climate and at the closing of October increased by 105.5% versus the sector that presented 51.3% increase. Said variation was impacted by the higher entry into write-offs made by the Colombian financial sector against BBVA, which in many cases, exceeds by three times the Bank write-offs.

Local provision is made as set forth by the Financial Superintendence in annexes 3 and 5 of Section II of the Accounting and Fiscal Basic Circular Letter with regard to the Commercial and Consumer Reference Model keeping a wiser management of the Consumer Portfolio severity.

The breakdown of the provisions recorded in balances to cover losses for impairment estimated at December

31, 2017 is shown below:

Portfolio	Capital impairment	Interest impairment	Impairment others	Guarantee
Commercial				
• Category "A" Normal	\$ 151,393	\$ 1,651	\$ 69	\$ 11,062,896
• Category "B" Acceptable	16,253	1,206	97	797,970
• Category "C" Appreciable	34,324	1,991	340	195,426
• Category "D" Significant	22,043	1,744	625	46,782
• Category "E" Uncollectible	414,548	19,088	8,074	1,325,596
Total commercial	638,561	25,680	9,205	13,428,670
Consumer				
• Category "A" Normal	240,180	3,279	62	1,387,559
• Category "B" Acceptable	20,472	935	38	35,568
• Category "C" Appreciable	25,805	3,075	161	46,098
• Category "D" Significant	261,806	9,450	664	51,308
• Category "E" Uncollectible	475,202	13,784	2,486	110,457
Total consumer	1,023,465	30,523	3,411	1,630,990
Microloans				
• Category "E" Uncollectible	2	-	-	-
Total microloan	2	-	-	-
Housing				
• Category "A" Normal	99,039	3,540	\$ 442	\$ 22,108,177
• Category "B" Acceptable	9,587	3,273	601	899,529
• Category "C" Appreciable	15,642	1,960	835	416,274
• Category "D" Significant	8,216	598	303	115,214
• Category "E" Uncollectible	47,039	2,445	2,131	330,472
Total housing	179,523	11,816	4,312	23,869,666
Employee housing:				
• Category "A" Normal	2,981	12	-	646,430
• Category "B" Acceptable	23	7	-	1,741
• Category "C" Appreciable	60	11	-	1,498
• Category "D" Significant	49	5	-	402
• Category "E" Uncollectible	42	2	-	254
Total employee housing	\$ 3,155	\$ 37	\$ -	\$ 650,325

Portfolio	Capital impairment	Interest impairment	Impairment others	Guarantee
Employee consumer:				
• Category "A" Normal	\$ 1,673	\$ 4	\$ -	2,786
• Category "B" Acceptable	3	-	-	114
• Category "C" Appreciable	59	1	-	-
• Category "D" Significant	39	-	-	-
• Category "E" Uncollectible	294	4	-	-
Total employee consumer	2,068	9	-	2,900
Housing general impairment (provision)	100,976	-	-	-
Employee general impairment (provision)	3,915	-	-	-
Individual commercial impairment counter-cyclical component	103,462	1,272	-	-
Individual consumer impairment counter-cyclical component	235,443	2,413	-	-
Others	-	-	-	-
Total loan portfolio	\$ 2,290,570	\$ 71,750	\$ 16,928	\$ 39,582,551

Based upon the international standards IAS39 (International Accounting Standards) the statistical model of incurred loss was developed for the calculation of consolidated provisions which was approved by the Technology Analysis Committee (TAC) in June 2016. In compliance with local standards, results are updated quarterly in this model.

On the other hand, and in line with the implementation of International Standards, the implementation of the corporate model of expected loss (IFRS9, International Financial Reporting Standards) was completed; it will replace the incurred loss model as from January 2018.

Recoveries

Year 2017 was a special challenge due to the deceleration of Colombian economy, which was higher than expected. The above had significant implications in the payment behavior of debtors, leading to an increase on default entries during first five months of the year.

Seeking to implement an immediate solution, the Bank Vice-presidency created the recovery area in May. It integrates proceedings from individual clients, SMEs and company segments under one single direction and reporting directly to the Vice-presidency.

This new area was aimed at stabilizing the entries in default and increasing stock recoveries. The foregoing, leveraged on strategies well defined, starting with free-investment portfolios and credit cards, followed by mortgages and credits to SMEs.

The new recovery area boosts the efficiency of recoveries (recoveries/entries) through campaigns for external channels and generates specific spaces for national standardization brigades.

At the end of October, the Financial Superintendence issued the External Circular Letter 026 of 2017, allowing the redefinition of credit conditions between supervised entities and debtors with their payment capacity affected and the normal compliance of their obligation as a result of the economic cycle adjustment.

Two stages for renegotiation of loans have been defined:

- **Modified** when the illiquidity of debtor is not structural (formerly re-profiling in BBVA).
- **Restructured** in opposing cases.

The foregoing is presented as a milestone in the Colombian financial sector; where there was not a particular regulation to date that would encourage debtors to renegotiate their obligations with banks.

BBVA Colombia, who was the forerunner of the regulation, was offering already this type of alternatives to its clients affected from second semester of 2016 with steady cure and good performance rates. Upon the effectiveness of this standard, the factory of standardizations was at full potential, thus evacuating the activity that belonged to Bank offices. This allowed answering, on an optimal way, the demand of monthly requests to BBVA. Response times to customers improved and by November there were 1,415 standardizations.

- The concurrence of campaigns, brigades and an efficient factory of recoveries allowed:
- Reduction by 8% of average default entries in 4Q (versus 3Q/17%).
- Default recoveries increased by 10% (versus 3Q/17%).

Refinancing and restructuring operations

In general, any loan operation should be reimbursed in full by the holders, within the term provided and under the payment modality agreed. Notwithstanding, this objective is not always possible, with which in the event of potential or real default situations following alternatives arise, understood in a wider sense, which can also be combined:

- Change the initial terms of the operation in common agreement with the borrower (term, amortization timetable, guarantors and sureties) to adapt them to the new financial capacity of customer.
- Find new recovery alternatives (purchase of assets, accord and satisfaction, establishment of payment arrangements, etc.).
- Settlement of the operation by court proceeding, execution of existing sureties and recovery of the maximum amount possible, both of principal and interests.
- Sale of portfolio.

We understand the restructuring as a modification of financial conditions of a previous operation in order to facilitate the payment of debt (principal and interests), arisen due to the fact that the holder is unable or foresees that will not be able to meet in time and due form, their payment obligations, even when said modification was provided in the contract.

In the first instance, the amended credit is understood as a new operation that allows debtor to have the proper fulfillment of their obligation in the event of potential or real impairment of their payment capacity, provided that for the last 6 months, the credit has not reached a consecutive default higher than 60 days for microloan and consumer and 90 days for commercial and housing. Such modifications could be made by request of debtor or initiative of the Entity, prior agreement with debtor.

Said loans will have following characteristics:

- a. The new conditions should meet criteria of financial viability, keeping in mind the risk analysis and debtor's capacity of payment, as well as the efficacy of sureties and characteristics of the operation, without implying the excessive use of grace periods.
- b. The rating will correspond to the one assigned at the amendment in accordance with the risk analysis.

- c. They will be subject to special monitoring by the Bank. However, once the debtor makes regular and effective payments to capital and interests for 9 continuous months for microloan, 1 year continuous for consumer and 2 years continuous for commercial and housing loans. The loan could leave the monitoring.
- d. If debtor fails to pay the loan payment under new conditions, recording 30 days delinquent at the end of the month, the operation will be restructured.

Amended operations will be fully identified to allow the follow up, recording the risk rate granted and date of origin.

Additionally, the loan restructuring is understood as any exceptional mechanism, through entering into and/or executing any legal business, which purpose is to modify the conditions agreed initially in order to allow the debtor to have the proper fulfillment of their obligation in the event of real impairment of their payment capacity.

Additionally, restructurings are regarded as the agreements entered into within the framework of Laws 550 of 1999, 617 of 2000, 1116 of 2006 and 1564 of 2012 or amending or superseding standards, as well as extraordinary restructurings.

For the adequate loan restructuring, the Bank should have, at least, any of the following procedures:

- a. Perform the proper analysis of debtor conditions to verify that there is a real impairment in his payment capacity, pursuant to the loan conditions.
- b. Establish the financial viability of the restructuring, based on the analysis of the debtor payment capacity.
- c. Rate the restructured loans in conformity with the regulation in force.
- d. Having the information systems that allow identifying and tracking the restructured operations, including their risk rating.

The Bank could eliminate the restructured condition when the debtor makes regular and effective payments to capital and interests for a continuous period of 18 months for microloans, 2 years for consumer loans and 4 years for commercial and housing loans.

Neither credit reliefs ordered by laws nor novations arisen from events other than those above described will be

regarded as restructurings; neither those provided in Article 20 of Law 546 of 1999, nor the amendments for debtors who, for the last six months, have not reached a default greater than 60 days for microloans and consumer and 90 days for commercial and housing loans.

Standardizations cannot become a general practice to regulate the behavior of loan portfolios and could not be based either on the excessive use of grace periods.

Only two standardization operations (amended/restructured loans) could be granted over two (2) years.

Market Risk

Portfolio market risk

The market risk is generated from the movements in market variables that impact on the valuation of financial products and assets with which the trading activity is carried out. Major risks arising may be classified in following aggregations:

- **Riesgo de tipos de interés:** this arises as a consequence of the exposure to the movement in different operating curves of interest rates. Although the typical awareness generating products of movements in interest rates are the products from the monetary market and derivatives of traditional interest rates, in practice, the totality of financial products are exposed to movements in interest rates for the effect in their financial discount valuation.
- **Exchange rate risk:** this is caused by the movement in the exchange rates of foreign currencies of the position held. As in variable income, this risk arises in the spot positions and in any derivative product whose underlying asset is an exchange rate.

Metrics developed to control and monitor the market risk in BBVA Colombia are aligned with the best international practices, ranking the Bank as the landmark in local market.

Metric procedures are established in terms of the possible impact of negative market conditions of the markets under both ordinary circumstances and stressful circumstances of the trading portfolio of BBVA Colombia.

Standard metrics used to measure the market risk is Value at Risk ("VaR"), which indicates the maximum loss that may occur in the portfolios at a given confidence level (99%) and temporary horizon (one day). This statistical value is widely used in the market and has the advantage of summing up in a single metric the risks inherent to the trading activity, bearing in mind the relations among them and providing a prediction of loss that

the trading book could sustain as a result of the fluctuations in prices of the interest rate and exchange rate markets. The analysis of market risk includes the consideration of following risks: basis among different instruments and correlation risk.

Most entries of the consolidated balance sheet of BBVA Colombia, subject to market risk, are positions measured with VaR.

The current management structure includes monitoring the risk market limits that consists of a scheme of limits based on VaR (Value at Risk), economic capital (based on VaR metrics) and VaR sublimit, as well as stop-loss orders for each Treasury business units.

The VaR metric model used by the Bank is based on historic simulation. It collects negative impacts in the income statement of the trading portfolio and negative impacts from historic risk factors over the current position of the Bank. When using historic data, it includes naturally the correlation between them and their occurrence distribution.

Figures of VaR are estimated following 2 methodologies:

- **VaR without smoothing**, out of a sample of two years of simulated results, the fifth worst data is taken. At present, this is the official metric methodology of market risks with regard to the monitoring and control of risk limits.
- **VaR with smoothing**, based on the same period of analysis and same confidence profile, more weight is given to the latest negative results. This is a measuring that supplements the aforementioned one

Also, and following the guidelines set by European Authorities, BBVA Colombia incorporates additional metrics to VaR in order to meet the regulatory requirements of Banco de España for the purpose to calculate own resources for the trading book. In particular, metrics incorporated in BBVA Colombia since February 2015 (pursuant to the guidelines of Basel 2.5) are:

- **Target Average Economic Capital (CEMO per its acronym in Spanish)**: Target Average Economic Capital, VaR calculation is added with Stressed VaR, the final metric is the highest of both (VaR and Stressed VaR) for 3 month period average. In this way, a higher weight is assigned to stress events of current or past market. This metric is re-scaled by the multiplier set by Basel ($3 \times \text{the root of } 10$) to calculate the burden of economic capital. CEMO is consolidated with IRC as management metric.

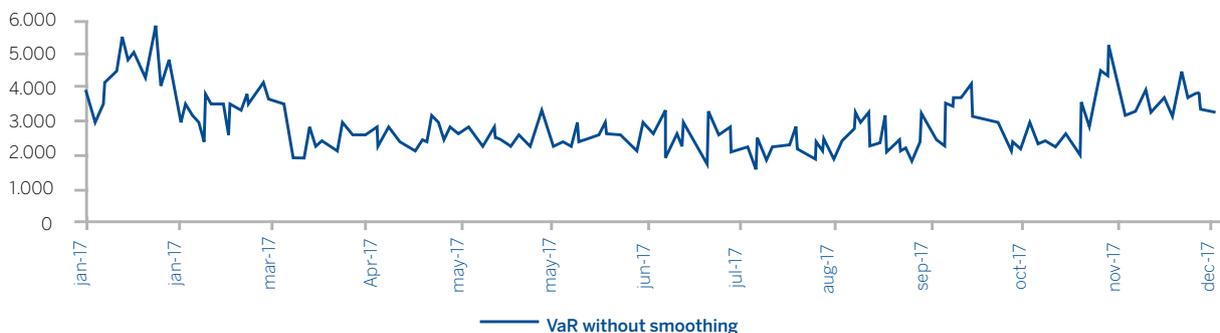
- **Specific Risk:** Incremental Risk Capital (“IRC”). Quantification of default risks and downgrade of the credit rating of securitization positions.

The burden of capital is determined on the basis of losses associated (at 99.9% in 1 year-horizon under the constant risk hypothesis) as a consequence of the migration of rating and/or default status or default by the issuer of the asset. Additionally, the price risk is included in the positions of sovereigns for the stated items.

The validity tests of the risk measuring models used by BBVA Colombia are conducted regularly in order to estimate the maximum loss that could have been produced in those positions with a certain level of probability (Backtesting), as well as impact metrics of extreme market moves in the risk positions held (Stress Testing).

Market risk in 2017

Market risk of BBVA Colombia remains in low levels when compared against the credit risk levels of the activity of Global Markets. This is the consequence of performing the activity as franchise operation, which generates the assumption of low risk of the own position leverage. During 2017, the average VaR was \$2,795 billion, higher than 2016, mainly due to the change from parametric VaR to historic simulation, with the peak level on January 23 when it reached \$5,652 billion. The evolution of the market risk of BBVA Colombia during 2017, measured in terms of VaR (without smoothing), with 99% confidence level and 1 day horizon expressed in million pesos as follows:



During the year, the fixed income trading portfolio was characterized for the concentration of the short-term position, holding TCO, TES with maturity less than 1 year and CDTs. Additionally, the derivatives portfolio kept the composition per type of product. Major products were forwards US dollar Colombian peso and IRS in IBR. In an unified way with the portfolio composition, the sensitivity was focused per type in Colombian pesos and US dollar. The aforementioned characteristics of portfolio made the average VaR to remain low since short-term positions produce the relatively low sensitivity and interest rate delta had conservative consumer risk over the period.

At December 31, 2017 and 2016 the VaR balance was \$3,307 billion and \$4,614 billion, respectively. The breakdown is as follows:

VaR per risk factor	Interest risk	Exchange risk	Total
Year 2017			
Average VaR	2.710	769	2.795
Maximum VaR	5.633	3.403	5.652
Minimum VaR	1.511	22	1.505
VaR at year end	3.316	33	3.307
Year 2016			
Average VaR	1.702	741	1.768
Maximum VaR	4.851	2.067	4.775
Minimum VaR	846	35	880
VaR at year end	4.712	253	4.614

Model validation

The internal model of the market risk is validated regularly through Backtesting. The purpose of said backtesting is to validate the quality and accuracy of the internal model used by BBVA Colombia to estimate the maximum daily loss of a portfolio for 99% confidence and 250 days temporary horizon by means of comparing the Bank results to the risk measures generated by the model. These tests evidenced that the internal models of the market risk of BBVA Colombia are adequate and accurate.

In backtesting the daily VaR is compared against the clean results once both results and positions of portfolio generated in the day have been subtracted. In this way, the suitability of the market risk metrics is validated, in such a way that the VaR model used was collecting adequately the changes in trading portfolio results.

At year-end 2017, the contrast showed the proper operation, remaining within the allowed zone (not greater than 4 exceptions) which allows the acceptance of the model, as it has taken place every year since the internal model of market risk was approved in BBVA Grupo.

Analysis of stress test

Different exercises of stress test were carried out in the trading books of BBVA Colombia. On one side, historic scenarios were used, both globally and locally, replicating the behavior of some past extreme event, for instance the Lehman Brothers' bankruptcy. Such stress exercises were supplemented with simulated scenarios where

the intention was seeking the generation of scenarios with significant impact on different portfolios but without anchoring in any concrete historic scenario.

- **Historic scenarios**

The benchmark historic stress scenario in the Bank is Lehman Brothers' which sudden bankruptcy in September 2008 derived in a significant impact on the behavior of the global financial markets. The most relevant effects of such historic scenario are the following:

- Increase in the volatility of most financial markets giving place to a large variation in the prices of different assets (foreign currencies, equity, and debt).
- Liquidity shock in financial systems which reflected into a strong move of interbank curves, especially in shorter tranches of euro and US dollar.

- **Simulated scenarios**

Unlike the historic scenarios that are fixed and, therefore, do not get adapted to the composition of the portfolio risks every time, the scenario used to make economic stress exercises is supported under the Resampling methodology

It is based upon the use of dynamic scenarios, recalculated regularly pursuant to which are the main risks kept in the trading books. Over the data windows, large enough to collect different stress periods (data is taken since January 1, 2008), the simulation exercise is carried out through the resampling of historic observations, thus generating the distribution of profits and losses that enable the analysis of the most extreme events from those that have taken place in the selected historic window. The advantage of this methodology is that the stress period has not been set previously but depends on the portfolio held at each time, and that by making a high number of simulations (10,000 simulations) the analysis of the expected shortfall can be performed with greater richness of information than the one available in those scenarios included in the calculation of VaR.

Main characteristics of this methodology are the following: a) simulations generated respect the structure of data correlation, b) flexibility in the inclusion of new risk factors, and c) enable the introduction of a greater variability in simulations (desirable to consider extreme events).

Structural risks

The Assets and Liabilities Committee (ALCO) is the key body for the structural risks management with regard to liquidity, finance, interest rate and foreign currency. On a monthly basis and with the representation of the ALCO

Finance Management, Research, Market and Structural Risks, and Business Areas, the Committee monitors the aforementioned risks and presents for approval the management proposals. Such management proposals are performed by the Finance Management Area on a prospective basis, bearing in mind the framework of the risk appetite, with the purpose to ensure the recurrence of results and preserve the entity's solvency.

In turn, Market and Structural Risks are responsible for identifying, measuring, monitoring and controlling structural risks and present them to the appropriate bodies and management committees.

Interest rate structural risk

The Interest Rate Structural Risk ("IRSR") collects the potential impact generated by the fluctuations of market interest rates in the interest margin and the equity value of the entity. In order to measure adequately the IRSR, BBVA Colombia regards as major risk generation sources: repricing risk, yield curve risk, optionality risk and basis risk, which are analyzed from two supplementary perspectives: interest margin (short term) and economic value (long term).

ALCO monitors the risk metrics of the interest rate and the ALCO Finance Management Area presents the management proposals for the structural balance. The management objective is to promote the stability of interest margin and equity value with regard to the fluctuation of market types, respecting the solvency and internal limits in the balance sheet of BBVA Colombia and in compliance with requirements to maintain the interest rate risk within the approved limits, meeting current and future regulatory requirements.

Control and monitoring of risk management of the structural interest of BBVA Colombia is based upon a set of metrics and tools that enable the appropriate monitoring of the entity's risk profile. In this way, a broad range of scenarios is measured regularly, including the sensitivity to parallel moves in face of different shocks, changes in slope and curvature. Also, other probability metrics based on statistical methods of simulated scenarios are assessed such as Earnings at Risk ("EaR") and Economic Capital ("EC"), defined as the maximum adverse deviations in the interest margin and economic value, respectively, for determined confidence level and time horizon. Over such management metrics, impact thresholds have been established both in terms of fluctuations of the interest margin and the impact on the economic value. All this conducted on a differentiated way for each of the foreign currencies to which the BBVA balance sheet is exposed, thus considering the diversification effect among foreign currencies.

In order to guarantee the model efficacy, it is submitted periodically to internal validation. Additionally, interest risk exposures of banking portfolio are subject to different stress scenarios in order to observe the balance sheet vulnerabilities under extreme circumstances.

Those exercises take into account both the analysis of unfavorable macro-economic scenarios designed specifically by BBVA Research, and a large spectrum of potential scenarios seeking those environments with

interest rates particularly detrimental to the entity. For such purpose, extreme rupture scenarios of interest rate levels and historic correlations have been generated, giving rise to sudden changes in slopes and even to inverse curvatures.

The model is supported, necessarily, on an elaborated set of hypothesis intended to reproduce the behavior of the balance sheet as real as possible. Within such assumptions, particular relevance is given to those related to the behavior of the “accounts without explicit expiration” for which stability and remuneration assumptions have been set in accordance to an adequate segmentation per typology of product and customer and prepayment estimates (implicit optionally).

Hypothesis undergoes regular reviews and adaptations pursuant to the evidence of the evolution of behaviors and is kept properly documented, being reviewed periodically in the internal validation processes. Impacts on metrics are evaluated both from the economic value perspective (gone concern) and from the financial margin perspective, for which purpose the dynamic model (going concern) is applied, in consistency with corporate assumptions of the results preview. Medium interest risk levels are shown below in terms of sensitivity for the BBVA Colombia balance sheet during year 2017:

Analysis of sensitivity to interest rate	Impact of interest margin(*)		Impact of economic value (**)	
	Increase by 100% bp	Decrease by 100% bp	Increase by 100% bp	Decrease by 100% bp
dec-16	41.77%	44.15%	21.71%	28.25%
dec-17	23.27%	23.37%	28.77%	34.11%

(*) Percentage regarding “1 year” interest margin projected of each unit.

(**) Percentage regarding Core Capital of each unit.

Year 2017 was characterized by the deceleration of economic growth with reconduction of downward inflation and stability of exchange rate. This resulted in a downcycle of interest rates of Banco de la Republica. Under such scenario, BBVA Colombia focused its balance structure to take advantage of current economic circumstances and make a profit within set limits. The balance structure for 2017 showed slight changes, increasing the term fundraising, more than 3 years, in order to reduce the exposure to rate increases.

Exchange rate structural risk

In BBVA Colombia the structural exchange rate risk arises from the exposure of the structural balance sheet to foreign currency positions and their impact on the solvency of BBVA Colombia.

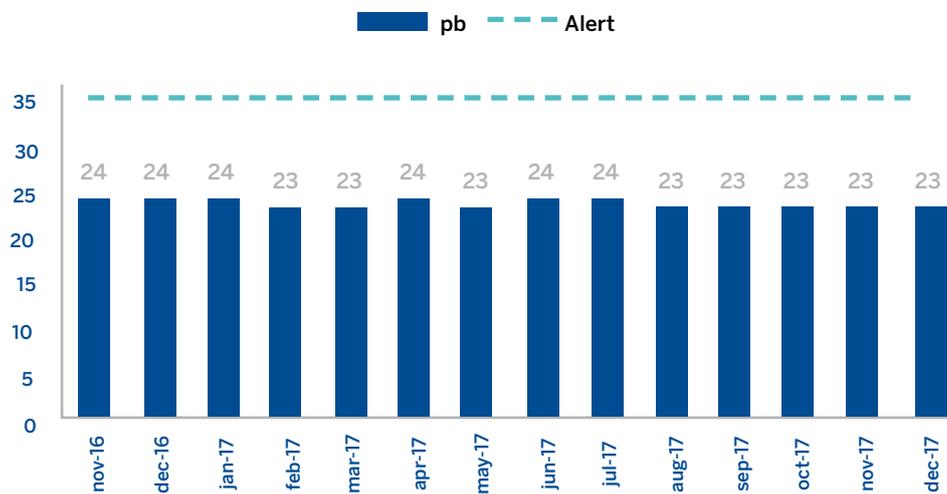
ALCO Finance Management designs and executes the strategies in order to control the potential negative impacts for fluctuations of the exchange types in capital ratios. Additionally, Market and Structural Risks

implements and develops tracking and of structural exchange risk controls. It also controls and monitors, on a regular basis, the open exposures of the structural balance sheet.

The monitoring risk metrics are reported in the Assets and Liabilities Committee. ALCO, and supplemented with additional evaluation indicators of the operating position in foreign currencies of the Bank in order to ensure the regulatory compliance with the limits to the foreign currency position and the adequate management risk. The exposure level to the exchange rate structural risk of BBVA Colombia is around 25 bp solvency and 10% revaluation of the Colombian peso.

Exchange rate behavior in 2017 was stable. Country risk and confidence levels on the economy remained as well as oil prices which contributed to the indicator stability. All these factors generated stability which is reflected on indicators.

Solvency sensitivity to exchange rate fluctuations



Liquidity risk

The finance and liquidity management in BBVA Colombia is grounded on the principle of financial autonomy of the Entity, approach that contributes to preventing and mitigating the liquidity risk of the Entity by limiting the vulnerability to events that affect the BBVA Group in periods of high risk for their affiliates in other geographies. For such reason, the Entity acts on an independent basis in order to cover its liquidity needs in the respective market.

ALCO Finance Management performs the liquidity and finance management of BBVA Colombia, planning and executing the funding of the long-term structural gap and proposing to ALCO the actions to adopt in such matter pursuant to the policies and limits provided by the CDP and the Board of Directors.

The Market and Structural Risks area is responsible for implementing and adapting corporate liquidity and

financing policies to local requirements, as well as executing the control scheme for compliance purposes.

The target behavior of the Entity, in terms of liquidity and finance risk, is measured through the Loan to Stable Customer Deposits (LtSCD) ratio, which is the relationship between the net credit investment and stable funds from customers. The goal is to preserve the stable finance structure in the medium-term, bearing in mind that maintaining an adequate volume of steady resources of customers is critical to reach a solid liquidity profile. Such steady resources are computed through the analysis of the behavior of balances of different customer segments, identified as susceptible to provide stability to the financial structure; giving priority to the connection and applying higher haircuts to the credit facilities of less stable customers.

In order to establish the target levels (maximum) of LtSCD and provide a reference for the optimum financial structure in terms of risk appetite, Market and Structural Risk identifies and consolidates some economic and financial variables that may be deemed as conditioning to the financial structure of the geography. The behavior of the indicators reflects that the solidity of the financial structure is maintained during 2017, in the sense that self-funding levels are maintained with steady resources from customers that exceed the requirements.

Loan to Stable Customer Deposits (LtSCD)	
December 2017 %	December 2016 %
107.42	111.21

The second axis in liquidity and funding risk management is to achieve the proper diversification of the funding structure thus preventing a high

dependency of the short-term funding through the maximum level of the short-term fund raising that comprises both the wholesale funding and the less stable resources from non-retail customers.

As the third main axis, the resistance to the short-term liquidity risk profile is promoted, ensuring that BBVA Colombia has sufficient collateral to face the risk of closing wholesale markets. The basic capacity is the metric of the risk management and control of short-term liquidity that is defined as the relation between explicit assets available and maturities of wholesale liabilities and volatile resources, at different temporary terms, with 30 day special relevance.

The Entity has an individual liquidity fund. The following chart shows the liquidity available per instruments at December 28, 2017 for BBVA Colombia:

December 2017	BBVA Colombia
Cash	\$ 2,812,960
Fixed income	7,193,251
TES (Public debt securities)	2,986,807
Corporate bonds	949,340
Collateral received as guarantee	\$ 569,180

Above metrics are completed with a series of indicators on which the thresholds are established which purpose is to prevent the concentration on the wholesale financial per product, counterparty, markets and term. Additionally, reference thresholds are established about a series of indicators that allow anticipating stress situations in markets and adopt, where appropriate, preventive actions. Within the analysis of liquidity and financing risk management, the stress analysis is a key element of the follow up scheme since they allow anticipating deviations with regard to the liquidity targets and limits established

in the appetite and establish tolerance ranges in different management axes. Also, they perform a leading role in the design of the Liquidity Contingency Plan and the definition of specific performance measures to redirect the risk profile.

For each scenario, it is contrasted whether the Bank has enough stock of net assets that ensures the capacity to meet commitments/liquidity outflows in different periods analyzed. The analysis regards four scenarios: one central and three of crisis (systemic crisis, own crisis that impacts the capacity to issue in wholesale markets and to the risk perception of business by bank intermediaries and Entity customers; and mixed scenario, the combination of both). Each scenario considers following factors: market liquidity, behavior of customers and financing sources, the impact of rating downwards, market values of net assets and collaterals, and the interaction between liquidity requirements and evolution of credit quality of the Bank.

From the stress exercises performed periodically it is concluded that BBVA Colombia keeps a liquid asset buffer (stress buffer) sufficient to face the outflows of the estimated liquidity in an scenario resulting from the combination of a systemic crisis and own crisis, during a period exceeding 5 months.

In addition to the behavior of indicators above mentioned, BBVA Colombia calculates the IRL, a weekly and monthly regulatory report, which contains short-term contractual and non-contractual flows. The IRL should meet for each band (7 and 30 days) that the relation between the liquid assets adjusted by market liquidity and exchange risk and the requirement of the total net

liquidity exceeds 100%. Throughout year 2017, the IRL level for BBVA Colombia has maintained above 100%, comfortable levels, indicating their strong position in terms of liquidity.

Taking into consideration, BBVA Colombia participation in BBVA Group, established a demand level of compliance with LCR ratio set by Basel, based upon the highest standards in connection to liquidity risk. Internal levels required are oriented to comply with enough anticipation and efficiency the implementation of 2018 regulatory requirement, above 100%. During year 2017 the LCR level was maintained sufficiently above said level.

In summary, in 2017 the Entity held a strong liquidity position, comfortably fulfilling local and corporate indicators. The strategy for this year maintained the increase of steady resources by taking deposits with more than 3 year term, thus reaching higher diversification from their funding sources.

Operational risk

The Operational Risk ("OR") may generate losses due to human errors, inadequate or faulty internal processes, and systems failures as a result of external events. This definition includes legal and reputational risk and excludes the strategic and/or business risk.

The Operational Risk is inherent to all activities, products, systems and processes, and its origin is diverse (processes, internal and external frauds, technological fraud, human resources, commercial practices, disasters, suppliers).

The operational risk management is integrated into the structure of Global Risk Management of BBVA Group, thus ensuring at all time the enough capital to face the expected or unexpected losses that may arise thereof.

Operational risk management framework

The management of the Operational Risk in BBVA Colombia is built based upon following levers:

- The active management of the Operational Risk and its integration into the daily decision-making process, which supposes:
- The knowledge of real losses associated to said risk.
- Identification, prioritization and management of potential and real risks.
- The existence of indicators that allow analyzing over time the evolution of the Operational Risk, define the alert signals and verify the effectiveness of risk associated controls.
- Improvement of control environment and reinforcement of corporate culture.
- Generation of positive reputational impact.
- Three-line defense model, aligned with best international practices.

All the foregoing contributes to an anticipatory model that enables the decision-making process for

monitoring and business, as well as prioritizing the efforts of relevant risk mitigation to reduce the exposure of BBVA Colombia to operational risk events.

Operational risk management principles

Operational risk management principles reflect the vision of BBVA Colombia, based upon the fact that events resulting as a consequence thereof, have an ultimate cause that should be identified and managed to reduce its impact.

Regardless of the adoption of all possible measures and controls for preventing or reducing both the frequency and severity of Operational Risk events, BBVA ensures at all times that sufficient capital is available to cover any expected or unexpected losses that may occur.

Three defense lines in Operational Risk Management

The Operational Risk Management in BBVA Colombia is designed and coordinated by the Corporate Operational Risk and Internal Control Unit and by the Country Operational and Internal Control Direction in the Risks Area. Business or support areas have, in turn, Control Managers and/or Internal Control and Operational Risk Administrators that depend functionally from Country Operational Risk and Internal Control and are in charge to implement the daily based model of areas. In this way, the Bank has a view of risks at process level, where risks are identified and prioritized and mitigation decisions are made.

The control of the Operational Risk Management is reinforced by an internal audit process that verifies, on an independent basis, the compliance and tests the Group's controls, processes and systems.

The operational risk management in BBVA Colombia should:

- Align with the Risk Appetite declaration, formulated both at corporate and local levels.
- Foresee the potential operational risks BBVA Colombia would be exposed to as a result of the appearance or modification of new products, activities, processes or systems and outsourcing decisions, and establish procedures that enable their reasonable evaluation and mitigation before their implantation.
- Establish methodologies and procedures that allow the regular reevaluation of the relevant operational risks to which BBVA Colombia is exposed to adopt the mitigation measures that are more suitable in each case, once the identified risk and the mitigation cost (cost/benefit analysis) have been considered, and preserving always the BBVA Colombia solvency.
- Identify the causes of operational losses of BBVA Colombia and establish the measures for their reduction. For such purpose, there should be procedures that allow the capture and analysis of the operational events generating them.
- Analyze the events that have produced losses for operational risk in other entities of the financial sector and boost, where appropriate, the implementation of the measures required to prevent their occurrence in BBVA Colombia.
- Identify, analyze and quantify events unlikely to take place but with high impact, which for their exceptional nature, it is very possible that they are not gathered in the data base of losses or otherwise, they have low impact. The final purpose is to ensure their mitigation.
- Have an effective governance where the functions and responsibilities of areas and bodies that participate in the RO management are clearly defined.
- Estos principios reflejan la visión que BBVA tiene a nivel corporativo y local sobre el riesgo operacional, basándose en que los eventos que se producen como consecuencia del mismo tienen una causa última que siempre debe identificarse y que mediante su control reduce significativamente el impacto de los eventos.

Such principles reflect the view of BBVA at corporate and local levels about the operational risk on the basis that the events produced as a consequence thereof have an ultimate cause that should be identified always and that

through their control the impact of the events is reduced significantly.

Regardless of the adoption of all possible measures and controls to prevent or reduce both the frequency and the severity of the RO events, BBVA Colombia ensures at all time that such risks are evaluated and managed consistently with the Declaration of Risk Appetite formulated by the Board of Directors, with the purpose to preserve the entity's solvency.

Each business or support area provides one or more Internal Control and Operational Risk Committees meeting quarterly. In said committees the operational risk is analyzed and the timely mitigation decisions are made.

Apart from that, there the Corporate Assurance Committee, that constitutes one of the components of the internal control model of the Group. It conducts the overall follow up on main control weaknesses presented to the local Executive Committee of Corporate Assurance and the Global Committee of Corporate Assurance (CGCA).

5.2. Innovation and Technology: Digital Transformation

Engineering

In 2017 the strategic plan for the BBVA Colombia 3-year technological and operation transformation “Strategic Cycle 2017-2019”, which ensures the compliance with strategic priorities under a robust but scalable technology focused toward cloud-computing and next-gen technology, which will allow a better process performance, with better response times, lower processing costs and higher data security, under lighter and newest programming languages. The above with the purpose to build the capacities required to generate new products, services and digital systems that will make available to customers the opportunities of this new era. Also, the best effort for process automation has continued through the use of robots that not only reduce the execution times but provide better quality and security to tasks.

In 2017 the digital transformation continued developing new projects and implementing new phases and versions of our applications, namely: payments of loans and credit cards of third parties through PSE. More than 10,000 monthly transactions at year end. New versions of Mobile Banking and Wallet, improving both their security and user’s experience; implementation of pre-approved loans and credit cards functionalities in different digital channels, and also, revolving loans and migration of office transactions such as Pin assignation, among others.

Also, regulatory initiatives were developed and implemented, both for local compliance and international regulations, required by the European Central Bank, such as IFRS9 (International Financial Reporting Standard) and RDA (Risk Data Aggregation). This allowed the improvement of controlling the calculation of provisions for Group countries and the enhancement of traceability of information generated for regulatory entities.

Infrastructure and communications

In full compliance with corporate transformation values, the service migration to the Corporate CPD in the City of Mexico was successfully completed in February, 2017. This will bring the advantages of a certified TIER IV CPD. Additionally, during 2017 the infrastructure required to support major channels was supplied. At year end the service level exceeded 99.7% in Mobile Banking, the Individuals Net and Legal Entities Net (NetCash).

In order to keep transforming how things are done and obtain even better results, the applicative certification

process has been strengthened with the purpose to improve the customer experience when using the applications.

Also, the Wi-Fi service was implemented at the office network, thus leveraging significantly the availability and use of digital channels by our customers and users with a friendlier and appropriate experience of services.

Process transformation

In 2017 the Business Process Engineering (BPE), in line with the purpose to contribute to BBVA transformation, created the Process Plan 2.0 which incorporates 18 major projects, covering 37 improvement lines. With a cross view of the Organization and the use of collaborative methodologies, the efforts have been focused toward the development of Group strategic priorities, integrating projects such as: operative improvements in offices, mobile manager, new contracting model, enhancement of manufacturing processes, universal assistance and robotics.

The change in customer experience through the biometric authentication at the office network, allowed the validation of customer with the National Civil Registry, and assurance of fingerprint transactionality. In addition, operative improvements were implemented at the offices in order to diminish operation times, reducing queues and improving digital operation, preserving at all times the security and transparency pillars.

Furthermore, the new contracting model project was initiated for asset products (loans and credit cards) at the offices network and external sale force. At first instance, it incorporated the mobility issues in order to be able to make the contracting process at the customer facilities. By leveraging cost efficiencies, the contracting process re-engineering was applied going from single-product process to multi-product process, under the customer comprehensive perspective.

On the other hand, the assembly of SMEs factory was performed, which allowed the systematic download to the office through the centralization of operations. Sales representatives could release time and, consequently, a greater capacity was offered with the standardized process and the response times to customers were improved. In addition, the digital disbursement was implemented in Consumer Finance, reducing by 87% the documentation traffic for approval in ANS.

The Process Architecture construction moved forward, thus ensuring process catalogues and attributes, as well as the definition of design principles to guarantee the quality standard. It identified 704 processes of the business, support and control value chain, and 105 were modeled, which correspond to Core and Process Plan 2.0.

It is worth mentioning that the Channel Services function was created to support the digital channels strategy. Improvement plans and services stability are proposed and facilitated, as well as leading the implementation of the quality corporate model which purpose is to improve our customers and users experience.

Strategy and Agile Culture

By transforming the ways of working towards an agile organization, the cultural transformation process of the Bank accelerated to a more dynamic, swift, flexible and collaborative culture, encouraging new ways of working in line with our purpose and values.

Throughout the year, the work dynamic was consolidated on agile teams. There are 34 teams using such practices, working on a self-organized basis, in short, iterative and incremental deliverable cycles with a common purpose, the timely delivery of value to customers.

The agile training plan initiated across the Organization, with the attendance of more than 400 employees.

Additionally, the swift culture center was launched. Its purpose is to motivate the cultural transformation, supporting the fast adoption in BBVA with services such as training, mentoring, coaching and advisory for all Bank areas.

CoP practice communities were also fostered; the three first ones (Manager, Scrum Master, Product Owner applications), thus encouraging the knowledge development, and experience sharing with other teams, and strengthening the expertise for continuous improvement.

In November 2017, the first edition of the Agile Day took place, becoming one of the pioneer countries of BBVA Group, event designed to share experiences from BBVA people to BBVA. In total, 14 conferences, 7 workshops were held with more than 600 participants.

Finally, in December, the eighth edition of the quarterly planning was held, with more than 400 employees from all units, working around strategic projects of the Bank, identifying divisions and closing commitments of what is going to take place in the first semester of 2018.

Operations

The New Operative Model was implemented with 100% initiatives, and from the definition of factories per products, the Bank operation was reinforced in services, credit products, logistics, and cash handling, among others. Under such definition, with an Operation structure reinforced and the incorporation of specialized teams, the proposed goals of quality, timeliness and efficiency were achieved.

Digital Sales

In year 2016, BBVA Colombia ventured into digital sales with products such as Electronic Deposit and Payroll Advance, available through ATMs and pre-approved Consumer Credit and Credit Cards, as well as Online CDTs available through BBVA net and BBVA Mobile.

New Digital Businesses

In order to explore and take advantage of new digital business models, the Bank is creating reciprocity communities with entrepreneurs, intra-entrepreneurs and Fintech ecosystem, to make available the new era opportunities to everyone.

- In association with startups, the joint work is being developed to construct new business models. In year 2016, 5 pilot tests were conducted with startups which continued after being contracted by the Bank. Such 5 new solutions include: (i) an app-robot that monitors the performance of the Bank application; (ii) a collaborative economy platform that rectifies the real geolocalization of offices, ATMs and correspondent offices; a platform to improve search, selection and contracting of commercial profiles; (iii) Two benefit platforms for SMEs, Bank cardholders and employees.
- We continue encouraging Open Talent, the contest to support entrepreneurs specialized in the finance technology sector (Fintech), increasing by 27% the interest of Colombian startups, reaching 78 and becoming the third country worldwide with the larger number of participants and the first one in Latin America. From those registered, 6 accomplished the regional final and one was the global winner.

With the foregoing, and together with high impact organizational projects and within the Colombian financial system, BBVA Colombia is positioned as an innovative Entity that has included 5 initiatives in Colciencias calls to develop Science, Technology and Innovation Activities (ACTel per its acronym in Spanish) and the Innovation Center of BBVA Colombia has been awarded with the Accenture prize from the financial services public, award that recognizes the innovative concept in different economic and social sectors: Communication, consumer, energy, social responsibility and financial services.

5.3. Business Segment

5.3.1. Retail Customer Segment

For 2017 the Retail Customer Segment has integrated the strategy aimed at the growth of value customers, seeking to establish a long-lasting relationship and reducing the exit of customers through integral management strategies and supplementing the offer, both financially and non-financially, on a permanent basis to customers from different segments.

This is how the value customer profile was redefined in order to make the segment grow. Several minimum variables were set out for target customers, seeking to increase the return, additional to strengthening the value offer for customers through digital products and services, and additional to the positioning and improvement on our clients perception.

The foregoing, framed within the Bank strategic priorities, detailed below:

Strategic Priority 1: Provide the best possible experience to customers, setting a new standard

In 2017, we focused mainly on three fundamental pillars such as return, digitality and IReNe. Furthermore, the first step was given toward transactional transformation of our customers, pursuing a higher productivity, greater use of digital channels and increase in electronic transactions on a daily activity basis. As a consequence, following actions were developed:

- In order to take customers toward the new transactionality, the “Bank in your Mobile” was launched, intended to lead the customer to, both digitalization and more transactions from the Mobile Banking application. Additionally, the use of Debit and Credit Cards was encouraged in order to reduce the use of cash. The above was supplemented with an offer for customers where, for each e-transaction, they could win one of the 1,300 Samsung cell phones. The foregoing enabled us going from average monthly activations in the mobile phone from 27,600 to 62,000 from September to December.
- On the other hand, payrolls and pensioners are still a crucial source of customers for Retail segment. For the purpose to grow in value customers, the strategy was focused toward the growth of strategic collectives, within which the strategy named Business Management Plan 500 was implemented for the largest

companies of the country, taking advantage of their employment stability, customer profile and commercial relationship with specialized banking. The 500 most representative companies of the country were selected. The offer was differentiated and attractive to increase the payroll stock.

- Furthermore, with the purpose to perform an integral management process with payroll customers, pursuing the reduction of customer churn, the Formula 4 integral management model was implemented. This consisted of the management of customers with at least their payroll/pension account (transactionality), plus a fund product (recurring savings and term), plus an investment products such as Payroll Advance, Revolving Credit, or Credit Card (Return) and the active channel such as Mobile, Net, or Wallet (Digitalization). The above, allowed greater crossed sale, transactionality and lower likelihood of payroll customer churn.
- Also, and in order to manage resources, two relevant actions were developed: The first one (Saving and Winning) intended to increase the recurring savings from customers through for which purpose, up to 5,000 payroll or pension customers who met their 5-consecutive month savings commitment were awarded with the sixth installment. Also, it was supplemented by offering customers to block their funds in accounts for 45 days and participate in a cash winning plan. It was launched as “The opportunity to save and win”.
- Furthermore, the management model for highest value customers was reinforced, thus consolidating the Premium banking as a sound scheme. The non-financial offer has supplemented it with solutions such as Premium Health, Premium Life for sports and art, Next Generation for children education, Global Network for banking needs in countries where BBVA and Unilco are operating as an alliance focused to family companies. The main purpose of the non-financial offer is to accompany customers in the major aspects of their lives and build long-lasting and profitable relationships.

Strategic Priority 2: boost digital sales

Taking into account the transactional transformation plan, and with the purpose to provide our customers more tools for self-management, and thus, formalizing the operation in a simpler and more agile way, the pre-approved offers were held throughout the year. Customers, through their Mobile Banking or BBVA Net could view the offers, simulate and even contract or schedule to close the operation with an expert advisor. Also, customers could take this last option through ATMs, and he was contacted later to close the operation.

This is how, upon the growth in digitalization of both customers contracting new products and current customers without digital channel, we closed the year with more than 520 thousand customers with channel. This allows offers to reach more clients every day and improve their experience with contracting of asset products such as Consumer, Payroll loans, Revolving Quotas, and Credit Cards.

The above always bearing in mind the option to contract investment products such as Online CDTs, 7 x 24, without going to the office and without the security in paper. This becomes a unique experience to customer. Added to this, the theft insurance, one of the most relevant insurance novelties, was launched. It operates at the time customers withdraw money from the ATM and they can take it for a specific period of time. This allowed placing 1,5 million insurance since launched. Colombia became the pioneer in such line and represented a landmark in digital sales.

5.3.2. Legal Entities Segment

In 2017 the Legal Entities Segment was transformed in alignment with strategic priorities. Also, 5 new management units were restructured, distributing the strategy and product development as follows:

- **Private Sectors** It generates the strategy for SMEs, Business and Private Institution segments. Expert professionals and segment managers from different sectors make up the team to create tailor-made opportunities.
- **Public Sector** Based upon the professional structure, it seeks the generation of the public sector strategy, which includes the Health sector.
- **Asset Products** This management includes Leasing, Factoring, Commercial Loans and Rediscount Portfolio products. It is intended to develop them and create financing opportunities to provide solutions to the needs of Colombian companies.
- **Liability Products and Treasury Solutions:** A single unit integrates both transactional strategy and liability products management and channels directed to the Legal Entities Segment with the purpose to make transactional solutions available to customers, meeting actually their needs.
- **Comex:** it manages the strategy and product development of Foreign Trade Portfolio thus creating opportunities for the Colombian export and import markets.

Strategic priority 1: Provide the best possible experience to our customers.s

In 2017, a new SME management model was developed and implemented, supported on three pillars that allow the growth of offices with special management of the Segment. The operative burden of the commercial team was reduced, and the response times improved, with less returns in the admission process. Said pillars are the following:

- More relationship management: the number of SME customer service reps was increased largely, going from 153 to 278 specialized management offices, representing 89% of the segment business volume.
- Commercial Support Model: Support is given to customer service reps about the sale, formalization and implementation of customized transactional products and services through Specialized and Structured Managers.

- Admission Factory: the entire admission process of the SME segment risk was centralized into a factory, seeking to reduce the response times. The decision making process was specialized in economic sector cells and the customer service reps were released from their operative burden.

The accompaniment and advisory to Public Sector customers had very positive results in the initiatives launched. The Education SGP master accounts reached 39% registration of total master accounts of certified territorial entities, estimating average balances around \$110 billion for the management of said resources; in addition, fund raising from Fonpet dissavings for \$210 billion, transfer of royalties funds for more than \$200 billion and in portfolio placement of Institutional Segment, \$660 billion were achieved.

In the Foreign Trade Portfolio, forms required for portfolio operation were redesigned. Two forms became one, and the information to be completed by customer was reduced. Agility was earned and the likelihood of exchange infringement was mitigated. The approach of the process in all operations was changed in such a way that it is not required that the customer has a specific knowledge in exchange regime. Finally, the process to manage any inconsistency in foreign currency purchase and sale operations was redesigned. The help desk was created to contact the customer and perform any appropriate adjustment, thus reducing the number of reprocesses by 50%.

With Version 7.0 of BBVA net cash Platform, which comes with a change of look and feel and usability, improves the customer experience at the time of making operations, and transactions steps are reduced and enhanced. Having a more user-friendly platform, in 2017 the Transactional Transformation action was initiated, intended for segment customers to change their transactional habits and to make their operations in an easier, more economic and comfortable manner through our channels, thus achieving the reduction of the use of cash and congestion in offices.

BBVA maintained its rank in the Construction sector market, with 27% annual growth in average credit balances. Such growth is largely supported by the new management model in main cities thus getting closer to Construction sector and launching the new credit facility in Colombian pesos. It completed the products and services portfolio.

Strategic priority 2: Boost to digital sales

allowed 24% increase of agreements and 9% growth of annual invoice versus previous year. Customer may run the invoice process in full through our digital platform.

The foreign trade service was created to allow customers receiving transfers automatically in foreign currencies into their accounts by just delivering a power to the Bank with no need of more documentation every time foreign transfers are received. The amount equivalent in Colombian pesos of foreign currencies via Swift is deposited automatically.

Strategic priority 3: New business models

In 2017 the Bank synergies model was reinforced, focusing toward the management of customer referencing of Legal Entities segment among different banking. Therefore, more than 9,900 referred customers to the Commercial Banking were generated from specialized banking through the SMEs referencing circuit.

Strategic priority 4: Optimization of capital allocation

For readiness of preferential price approvals, and having the price policy in accordance with the risk level of each customer, the new version of the pricing tool was launched focused toward legal clients, both from specialized banking and commercial network. Nearly half of loans from the Business Segment are quoted currently through such mechanism.

The Business Banking continued during the first semester focused toward customer's management with sales from \$12 to \$40 billion for its greater contribution in terms of margin. This period shows 58% inter-annual growth in terms of return.

With regard to agro-livestock and agro-industrial sector, more return and drive have been the goals, with a record figure \$2.3 trillion billing reflected on 30% growth 30% versus previous year, which has been supported on the understanding of different farming businesses and activities developed across the country where the specialized agribusiness team provided advisory to more than 4,000 projects of the productive chain, thus delivering the best financing options together with benefits from government entities.

5.3.3. Corporate & Investment Banking

CIB BBVA is the area in charge of providing their customers added value products and advisory services. Their market target is the multinational business with presence in CIB Global. A wide geographical coverage and diversified products catalogue will be provided, embracing from the simplest solutions to the more structured, including investment banking services. The strong presences of CIB and BBVA Group in Latin American markets, supplemented with their focus on innovation and digitality, have allowed being a reference in financial solutions to customers.

The purpose of CIB Colombia is:

1. Emerge as leaders in Investment Banking matters
2. Optimization in capital allocation
3. Becoming the customer strategic partner
4. Increase cross-selling margins
5. Potentiate financial indicators

Compliance with strategic purposes has been preponderant since their achievement generates a greater consolidation of business, efficiency in processes and long-term relationships.

Strategic priority 1: Provide the best possible experience to our customers.

Taking into account the current market dynamic, a changing business environment and the constant business transformation, the use of technology and management of information for decision making based on the Business Intelligence are becoming increasingly relevant. For this reason, CIB Colombia initiated in 2017 a commercial positioning process, including such new tools with the purpose to have new technologies that allow identifying possible alliances, new businesses and/or opportunities to consolidate the relationship with customers and, simultaneously, to innovate the information management processes for anticipating the companies' needs.

Year 2017 was a challenging one, with a complex macroeconomic environment and business opportunities not very visible in Colombia; however, the commercial team has carried out a great deal of work, generating presence and accompaniment to customers through talks, advisory, trainings on regulatory issues, commercial events and visits.

Transactional services provide corporate, business and institutional customers with a range of technological solutions such as BBVA Net Cash, BBVA Global Net Cash, H2H, Swift and Mobile Banking, that allow the compliance with daily and short-term requirements, thus improving the experience and positioning as the main bank. In turn, the transactional commercial team generates integral solutions for the complete management of customers' liquidity.

Strategic priority 2: Boost digital sales

The transformation of companies and new technologies, require easier and efficient solutions, adjusted to customer needs. Consequently, the fact of being able to operate at any time and from any place, having a customized advisory both for the use of technological tools and financial management, has placed CIB as the team that provides the best solutions and digital experience. Therefore, in 2017 digital sales were materialized with the increase of companies using the mobile channel to perform different types of transactions such as: payments to suppliers, minor monetization, management of their liquidity, moves of accounts, all this, through the Net Cash platform, originated from Corporate Banking.

Strategic priority 3: New business models

In line with the above, this implementation has resulted in new business models aligned with the customers' digital transformation and adjusted to their organization structures. Thus, the task of the specialized commercial team (Industry Bankers) of CIB is to identify new contacts and have a strategic holistic dialogue, intended to know the customer value chain and identify opportunities in the different Bank business lines.

Strategic priority 4: Optimization of capital allocation

This area is committed with the follow-up and improvement of financial indicators. This is why the return of business is evaluated comprehensively to ensure that asset operations entered to the balance generate the value required by the area and Group. Also, one of the central axes of the financial strategy of corporate banking is the follow up of the Group indicators such as EVA, RORC, ROE, RAR, Ratio of Efficiency, Margins and Balances.

Strategic priority 5: Adapt the model, processes and structures to get a better efficiency level.

Along the line with the CIB digital transformation, the working models and banking processes continued adapting to the digital era, in order to make more efficient activities and provide consensual and discussed solutions, generated within the commercial and financial circuits that evaluate which will be the best alternative in terms of business and convenience to the final customer. Within said teams, there are industry and

transactional bankers and Cash Management bank reps and product specialists; also, the investment plan in information technology is still in course.

Strategic priority 6: The best team

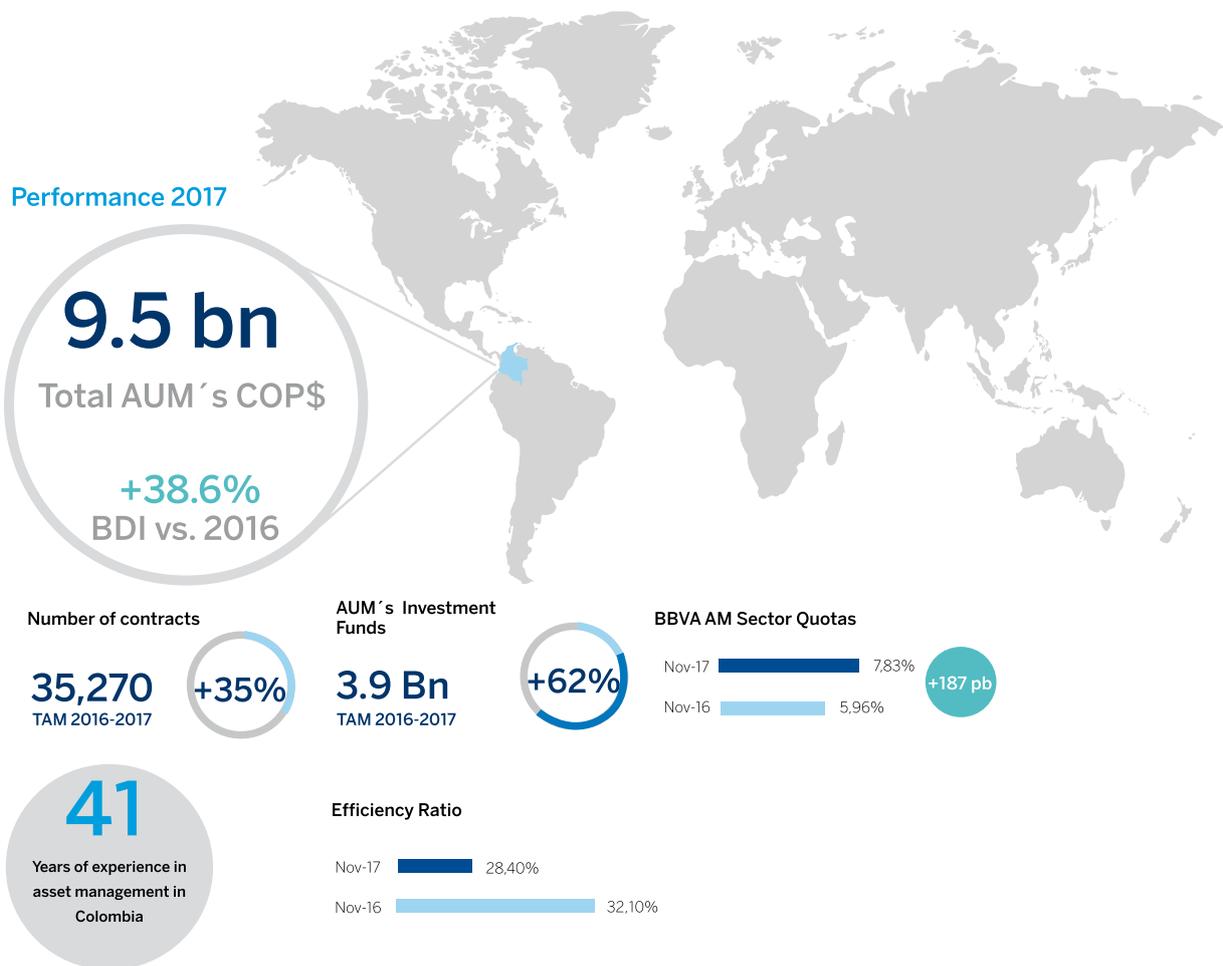
The CIB Colombia Vice-presidency drives constantly the retention, development and promotion of the entire team, in line with new market trends, reason why personnel with knowledge on Data Analytics and technological innovation was incorporated to the work team. Also, teams with specific experience and expertise were trained on services, industry and market, in order to have a high-performing interdisciplinary team focused toward attaining the goals set.

5.3.4. BBVA Asset Management S.A. Sociedad Fiduciaria

BBVA Asset Management is the BBVA Group unit that embraces global Investment Funds and pension management companies. It represents a global reference in the asset management world with leading positions both in Spain and Latin America.

BBVA Asset Management S.A. Sociedad Fiduciaria ("BBVA AM"), BBVA Colombia subordinate, is responsible for administering for over 40 years the resources in the Investment Fund and Structured Trust.

BBVA AM is ranked as one of the first 5 collective Investment Fund management trust companies (without private equity funds) with a differentiated product and a strategic ally for our clients with needs of trust structures. The success of BBVA AM lies on their people, investment processes and control of global risks applicable, and thus, the pursuit of consistent performance over time for its customers.



In line with the Group strategic priorities and with the purpose to drive the business return, BBVA AM has set a plan with priority focuses that include: digital sales, improvement of the customer' experience, launch of new products according to the needs from segments, and technological optimization.

Provide the best possible experience to customer

In 2017, BBVA AM became the industry reference, positioning the brand among recommended entities by individual and legal entities customers from collective investment funds and structured trust. This is the result of the business transformation, thanks to the strategy developed by the Entity which main axis is to offer the best customer experience with regard to assistance, service quality and transparency.

Boost digital sales

The new market reality and needs from our customers require us to lead the way of the sector where the boost of new distribution channels is one of the strategic priorities that we have developed throughout the year. This achievement is fundamental to advance in the future digital contracting processes.

New business models

The distribution commercial model split into two business lines (Fics and Structured Trust) has been crucial to achieve and exceed objectives set. In terms of efficiency, the transformation process of the technological core will allow a substantial improvement in procedures, thus helping the Entity to comply with the targets set and become a reference in the industry.

Efficiency leadership

BBVA AM has consolidated within the Top 3 of more efficient trust entities thanks to the work performed by all areas where priority has been given to the continuous monitoring and the proper allocation of funds, plus a leading sales dynamic in the market.

First class workforce

Professional development and projection of our team is one of the strategic pillars of BBVA AM. In 2017 we developed activities and initiatives to reinforce their personal and professional growth, thus helping us become a flagship and leading player entity.

5.3.5. BBVA Valores Colombia S.A. Comisionista de Bolsa

BBVA Valores Comisionista de Bolsa S.A., subsidiary of BBVA Colombia, offers investment products as equity and fixed income in Colombian stock market, intended to premium and individual customers, as well as direct customers. It also provides financial and investment advisories through investment banking.

Strategic priorities of BBVA Valores for 2017 will be performed as follows:

Provide the best possible experience to customer

In year 2016, it was decided to transfer democratized customers of ISA, ISAGEN, ETB and Ecopetrol issues to Global Securities S.A., a broker firm, in order to concentrate all efforts to provide the best assistance to BBVA Valores direct customers. With such purpose, the mentioned transfer of democratized customers was carried out successfully this year, and the generation of new strategies is being developed to improve our customers' experience.

Boost to digital sales

With the support from BBVA Colombia, BBVA Valores is undergoing the acquisition process of new technologies and tools, as well as the structuring of new products in order to encourage modern and friendly products in the securities market, in accordance with the new and changing needs of customers.

New business models

Management is working on the definition of the new business plan that includes structuring new products for current and potential customers with the purpose to offer a wider investment portfolio pursuant new circumstances and market trends. In said context, the start-up of private equity funds is intended to facilitate individuals and legal entities the optimization of processes for administering their assets.

Optimization of capital allocation

During 2017, BBVA Valores was subject to capitalization by their shareholders in order to meet the legal capital requirements.

In 2017, BBVA Valores consolidated as one of the stockbrokers with lowest administration expenses of the sector, which shows that the enhancement of processes and procedures form part of the strategy: higher

return, lower costs. Additionally, the Entity has made synergies with other supporting areas of BBVA Colombia, thus having highly trained staff for those procedures requiring assistance, thus saving time and costs.

Efficiency leadership

In 2017 the search of customers was intensified in BBVA Colombia network, meeting their needs in portfolio investment with the purchase and sale of bonds, CDTs and Tidis.

Currently, BBVA Valores has price agreements with the same suppliers of BBVA Colombia. This ensures that the services rendered have the same quality with lower prices than those offered by the same supplier to the market.

First class workforce

BBVA Valores has integral personnel, committed to the purposes of the stockbroker and BBVA Group, working as a single team and offering an excellent service to both internal and external customers. Internal areas of the stockbroker work together and cooperate on a permanent basis with the support areas of BBVA Colombia, as well as with BBVA Seguros and BBVA Asset Management areas with regard to the compliance of goals and objectives of BBVA Group in Colombia.

Together with BBVA Colombia, they are encouraging the cooperation and entrepreneurship culture on the basis of collaborative tools. Also, the new variable incentive model was initiated, aligned with the strategic objectives of BBVA Group, in order to be positioned as one of the best places to work.

5.3.6. Insurance Banking

Insurance Banking maintains the drive to six strategic axes, providing experience and innovative ideas to each of them, thus strengthening the synergies in the Group. Following goals have been achieved:

Strategic priority 1: Best customer experience

Upon the outsourcing of processes initiated in 2016, the response times in Casualties have been reduced, from 25 to 5 days. Also the effectiveness in PQR's reached 95%. The specialized insurance attention line was made available for the direct communication of customers through the Bank line; thus, they are enabled to know first-hand the status of their claim.

On the other hand, given the change in selling protocols and retention strategies, claims for possible mistaken sales have been reduced, thus generating a lower level of cancellations by the ensured person.

Strategic priority 2: Boost to digital sales

Year 2017 marks a turning point in digital sales for Colombia with the ATM's Theft Insurance. At the end of November, 1,544,130 insurance policies had been issued, with 108 losses and only 215 claims. Said figures leave the country as the one with highest digital placement of the Group.

In addition, Insurance Banking keeps supporting any other digital initiative, both in assets and in means of payment.

Strategic priority 3: New business models

The synergy with Bank Products is still growing; an alliance with means of payment was made in order to offer the theft insurance to cards, giving away the first two months. From the 2Q, 2017 campaign, following results were obtained: For all new cards placed: 28,617 insurance policies issued and \$3,697 trillion for premium of new businesses. Furthermore, differential assistance was designed and granted to specific customer segments, expanding the portfolio, reinforcing the offer of banking product and improving the customer experience.

Strategic priority 4: Optimization of capital allocation

At November, 2017 the Insurance Company return was 69% (BAI Efan Total Insurance Company \$191,709 trillion + Bank fees \$82,727 trillion). This indicator showed 3% growth versus 2016, and with regard to budget, 9% increase. The result was driven by net claims and fees paid by BBVA (in line with the activity behavior), which allowed higher efficiency in capital.

Strategic priority 5: Adapt the model, processes and structures to achieve an unrivaled efficiency

Service and operation supporting processes were adapted to meet customer needs and the Bank network on an efficient way. Endorsement cells were implemented with results at December, 2017: 3,171 customers managed, 1,337 credits covered and 856 policies issued. Also, claims assistance have improved and the service models reinforced in order to enhance the response times and customer assistance and control entities.

Strategic priority 6: First class workforce

In 2017 the generation of specialized teams on product development was initiated under the Scrum and Squad model in order to reach in a faster way the Entity's goals. The strategy team is being created for both Individuals and Companies, in such a way that Insurance Banking becomes more efficient with regard to new products, channels or commercial actions for other activities of the Bank.



6. Stakeholders

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6.1. Materiality Analysis

GRI-102-40 • GRI-102-42
GRI-102-43 • GRI-102-44

GRI-102-46 • GRI-102-47
GRI-103-1

Since 2016, BBVA has taken a major step forward with regard to materiality analysis to have more soundness and ensure that the focus is placed on the most important aspects, both for stakeholders and for BBVA business. This is translated into the review of material issues in light of the data from several sources, thus allowing a wide, auditable and objective information basis. Therefore, the analysis has been stronger than in previous years.

In this process, current and emerging issues have been analyzed from the perspective of different stakeholders and the BBVA strategy.

Process to define material issues

a) Identification of material issues:

To draw up the final list of material issues, we have used those issues that have been defined as reputational risks for BBVA and identified other material issues that do not represent a risk.

In both cases, the sources consulted have been the following:

1. Research and contacts that provide information on the stakeholders' perceptions through the consultation tools described in the above section.
2. Analysis of information from expert observers (NGO's, sustainability analysts, labor unions and other civil associations) that assess the companies' behavior.
3. Regulatory trends of the sector.
4. Analysis of competitors, which are the most relevant issues or controversial subjects that affect them and that may also affect us.
5. Analysis of media and social networks: negative news, trending topics, social concerns, etc.

b) Prioritization of material issues:

We have analyzed two aspects for prioritizing material issues: relevance for stakeholders and relevance for the BBVA business.

- Relevance for interest groups: in order to measure the relevance of these matters to interest groups, we have taken into account the importance of matters for these groups, as well as whether there are legal requirements or related commitments subscribed by BBVA. In this way, an issue is more relevant when:
 - Greater number of interest groups are affected and the importance of these interest groups for BBVA is greater.
 - Greater the impact of the issues for the affected stakeholders.
 - There are legal requirements or commitments by BBVA related to this matter.
- Relevance for the business: The relevance for the business is to determine the impact that the matter has on BBVA's current and future business. The Responsible Business Global department identified who is responsible for the management of each issue globally and they identified their local counterparts. These counterparts are those who have valued the impact on the business of the matters in their area of management.

Each source has been included in the analysis with different relevance degree. Based upon said results, the hierarchical list of relevant issues was prepared for stakeholders. It was completed with the analysis of contribution of each issue to BBVA strategy and business.

Said issues have been represented in following materiality matrix:

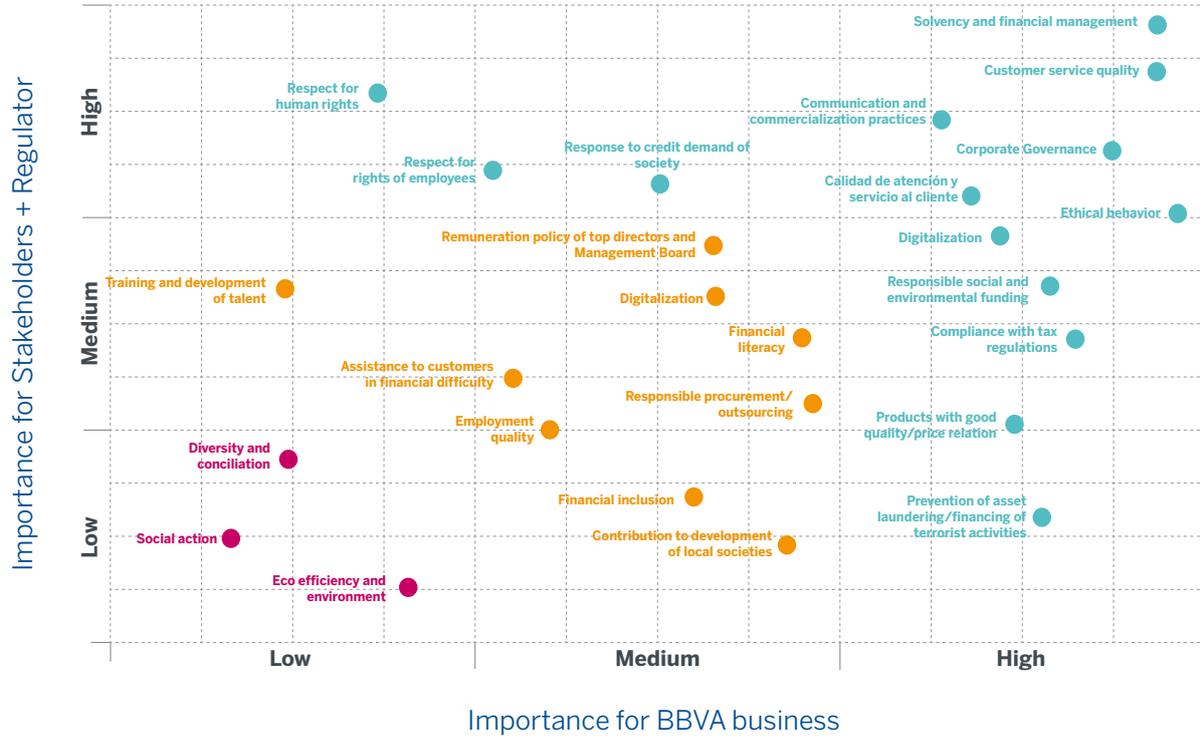
No.	BBVA Group Issue	Relevance for stakeholders							Materiality connection
		Society	Customers	Shareholders	Regulatory	Employees	Suppliers	Relevance	
16	Solvency y financial management	X	X	X	X	X	X	High	TCR communication, Financial literacy, Customer responsible management

No.	BBVA Group Issue	Relevance for stakeholders							Materiality connection
		Society	Customers	Shareholders	Regulatory	Employees	Suppliers	Relevance	
5	Security , privacy and customer protection (including big data)	X	X	X	X	X	-	High	Governance systems
2	Communication and commercialization practices	X	X	X	X	X	-	High	Compliance system- Customer protection
15	Good corporate governance	X	-	X	X	X	-	High	Governance systems
4	Response to credit demand form society	X	X	-	X	X	-	High	Business integrity- Risk management
3	Customer service/care quality	X	X	X	-	X	-	High	TCR communication Financial literacy Customer responsible management
13	Ethical conduct	X	-	X	X	X	-	High	Governance systems
12	Compliance with legal regulations	X	-	X	X	X	-	High	Compliance system- Internal audit- Loan responsible process - Prevention of asset laundering and terrorism financing
11	Prevention of asset laundering / financing of terrorism activities	X	-	X	X	X	-	High	Risk management
10	Social & environmental responsible funding	X	-	X	X	X	-	High	Business integrity - subscribed international commitments
8	Respect for employees rights	X	-	X	X	X	-	High	The team
18	Respect for human rights	X	X	X	X	X	X	High	Financial literacy, Financial inclusion
1	Products with good quality/ price relation (without abusive clauses...)	X	X	X	X	X	-	High	Corporate principles - Governance systems - Business integrity
6	Assistance to customers in difficult situation	X	X	-	X	X	-	Medium	Fundación Microfinanzas - Financial literacy

No.	BBVA Group Issue	Relevance for stakeholders							Materiality connection
		Society	Customers	Shareholders	Regulatory	Employees	Suppliers	Relevance	
14	Responsible procurement / outsourcing	X	-	X	X	X	X	Medium	Suppliers
9	Remuneration policy of top senior management and administration board	X	-	X	X	X	-	Medium	The team
24	Digitalization	X	X	X	X	X	X	Medium	Innovation and technology: the digital transformation
25	Financial literacy	X	X	-	X	-	-	High	Human resources – Impact on community - Financial literacy
19	Contribution to development of local communities (job creation, support to SMEs...)	X	-	-	X	X	X	High	Omni-channel – Financial inclusion
20	Financial inclusion	X	-	-	-	-	-	Medium	Governance systems – Human resources
7	Job quality (seasonality, outsourcing, relocations...)	X	-	-	X	X	-	Medium	The team
17	Talent training and development	X	X	X	-	X	-	Medium	The team
22	Diversity and reconciliation	X	-	-	X	X	-	Low	The team
23	Eco efficiency and environment	X	-	X	X	-	-	Low	Environment
21	Social action	X	-	-	-	-	-	Low	Impact on community

The final result of the process is the materiality matrix where each relevant issue identified is classified based upon two variables: relevance for stakeholders and relevance for BBVA business.

The vertical axis reflects the relevance of issues for stakeholders and the horizontal axis the relevance for BBVA strategy and business. Green-colored issues have first level relevance and orange-colored issues of second level.



6.2. Customer

6.2.1. Customer experience

Keeping in mind BBVA purpose: “Make available to everyone the opportunities of this new era”, the Bank reinforced the actions toward offering the best experience, which resulted in customers’ recognition as the best recommended Bank.

The strategies developed comprise the following:

- Deploy functionalities that enable more operations in digital channels.
- Drive to the use of digital channels, offering customized information and assistance to teach customer how to use the Bank technology.
- Permanent listening and monitoring of customer voice, both in traditional and digital channels; keeping the recommendation levels reached and working to develop new improvement options.
- Attention to social networking and App Store, regarding the customer inquiries or consultations about digital channels.

During 2017, the office supporting model to obtain fast and quality answers to any inquiries or consultations was reinforced through “Pregúntale a DG” tool. Also, more assistance areas were included, and the use of the tool was increased with excellent comments.

As a strategy for customer experience, the Customer Care was added with the Financial Consumer Assistance System (SAC per its acronym in Spanish), which is required by the regulatory entity to all financial institutions and which purpose is: (i) to consolidate the assistance, respect and service culture to financial consumers; (ii) to adopt systems to provide them adequate information; (iii) to strengthen the procedures for customers claims, requests and complaints; and (iv) to encourage the protection of the financial consumer rights as well as their financial literacy. Such incorporation will leverage the achievement of goals set about customer care.

As a contribution to SAC goals, the procedure for assistance to disabled customers was initiated, thus allowing BBVA become a more inclusive bank. This matter will be developed also during 2018.

Also, progress is being done about the delivery of Transparent, Clear and Responsible information, driving the use of commercial offers for all customers to be able to know the exact conditions of products and services contracted.

6.2.2. Customer protection

With regard to fraud prevention, in 2017 fraud on Mobile Banking and BBVA Net was reduced by 50% and 6% in cards. BBVA Colombia still ranks, both at local and Group level, as one of the reference entities in regards to protection, prevention, recovery of stolen monies and mitigation of related events. Throughout the year, the Bank has developed rules of business that allow reducing the impact generated by scammers through improving the detection and increasing the service levels of credit and debit cards.

Following processes were initiated within the security strategic plan:

- Assessment or assurance process of Checker tool to validate and ensure the updating product of operative systems and applicative of ATMs. Current policies and protection configurations were defined and implemented correctly in said network to prevent that in such updating product any security leak arises.
- The capacity planning of the Bank Perimeter Security infrastructure was conducted in order to define the update plan for technological obsolescence, which increases the information system reliability.
- Implementation of the Web service consumer system to have one single service point to managing users and profiles by the applicative developed in BBVA. Therefore, the high, low and profile assignment to users in the Bank applicative becomes automated, thus eliminating manual processes which will result in the improvement of service levels and employees' productivity.
- With regard to protection and prevention, the Empresa Extendida project was initiated with which the "in situ" review of suppliers has been strengthened, in particular for those deemed as critical. Based upon the methodology model, the inherent risk is assessed and once the controls have been applied, the residual risk is established, designing further action plans to reduce any gap found.
- With regard to new challenges on Cibersecurity and Technological Risks, the Bank initiated in 2017 the plan to prevent, prepare, recover and respond to any cybernetic incident, which is named PPRR, with investments above US\$1 million. In this way, BBVA Colombia becomes a pioneer in the Group in this matter. Also, technological fraud prevention systems were implemented to reduce the fraud in digital channels and support the Bank strategic plan in the sense of reinforcing the customer confidence in said channels. Likewise, the technological risk control framework was implemented during the year with the purpose to reduce the materialization of operational risks and economic losses.

Security 2017

In 2017, the Security Department reduced the robberies to bank offices by 63.43% versus 2016, thanks to the training given to cash tellers and their good performance in compliance with Security Policies with regard to handling and safeguarding of cash.

Robberies to BBVA Colombia offices in 2017

Modality	2016		2017		TAM		
	Quantity	Amount	Quantity	Amount			
Robbery	22	\$389	15	\$143	-\$246	-63%	
Total	22	\$389	15	\$143	-\$246	-63%	
Absolute Variation						(\$ 248,85)	
Relative Variation						-63.46	

Additionally to the Security Director Plan, 161 motorized chests were purchased and installed in 59 offices, updating the Passive Security to safeguard cash in cash teller desks.

Cameras systems of ATMs, branches and assistance points are being updated and renewed.

6.2.3. Transparent, Clear and Responsible Communication (TCR)

BBVA Colombia has been working since 2015 to implement the policy and initiatives to make more Transparent, Clear and Responsible the relationship Bank-Customers, contributing on a daily basis to make informed decisions before, during and after contracting products and services with BBVA.

Transparent, Clear and Responsible Communication(TCR) is one of the business strategic priorities and in 2017 it was continued by conducting trainings on clear language and TCR principles in digital, sale and UX areas, and segments; it is worth mentioning, that it also included training to suppliers contracted for transforming the public web site in 2018.

TCR product offer to Legal Segments

In 2017 we implemented 22 commercial offers for legal segments, which will be used as commercial tool. Also, in 2018 they will be used to prepare modular offers for our customers. This is intended to improve the customer experience by allowing the informed decision making throughout their relations with the Bank.

TCR Contracts

This initiative consists of reworking current customer contracts and structuring them more intuitively in 2017. In compliance with the plans defined, the deliverables of financial leasing and factoring contracts were available to us. It should be taken into account that since 2016, all mass

contracts available for customers have been implemented.

In 2018 following contracts will be adjusted:

- Savings account contract (upon regulatory approval, required)
- Payroll agreement
- Acquisition agreement
- Term-deposit certificate

Digital TCR

In 2017, abtesting was conducted to enhance campaigns, making testing about:

- BBVA net
- BBVA mobile
- Digital products: CDT, ADN and pre-approved

Where 78% of tests were positive and 22% were not concluding and did not allow managing some improvement in face of tested experiences.

Call center



GRI-417-1

Transparent, Clear and Responsible communication (TCR) is one of BBVA priorities for communication and therefore, in 2017 all sales script were made in

TCR (selling of insurance, selling of covered, selling of portfolio, redeferred) which were implemented in product selling cells to make clear and transparent sales where customers can make informed decisions and contract products on a conviction basis.

Metrics

Metrics that allowed the review of the use of offers in each sale and not sale of products were maintained and also, the back log was created to identify what was offered to the customer and who was the bank rep in charge for the event of claims or complaints. In 2018 metrics were included in selling systems.

TCR external sales force

The training was held in 2017 through the national tour by CSF for all products from individuals, delivering the processes of each product in order to render full service and advisory to customers, with emphasis on the importance of providing and submitting clear and complete information about the product that they are contracting with the Bank. .

Management of claims and complaints

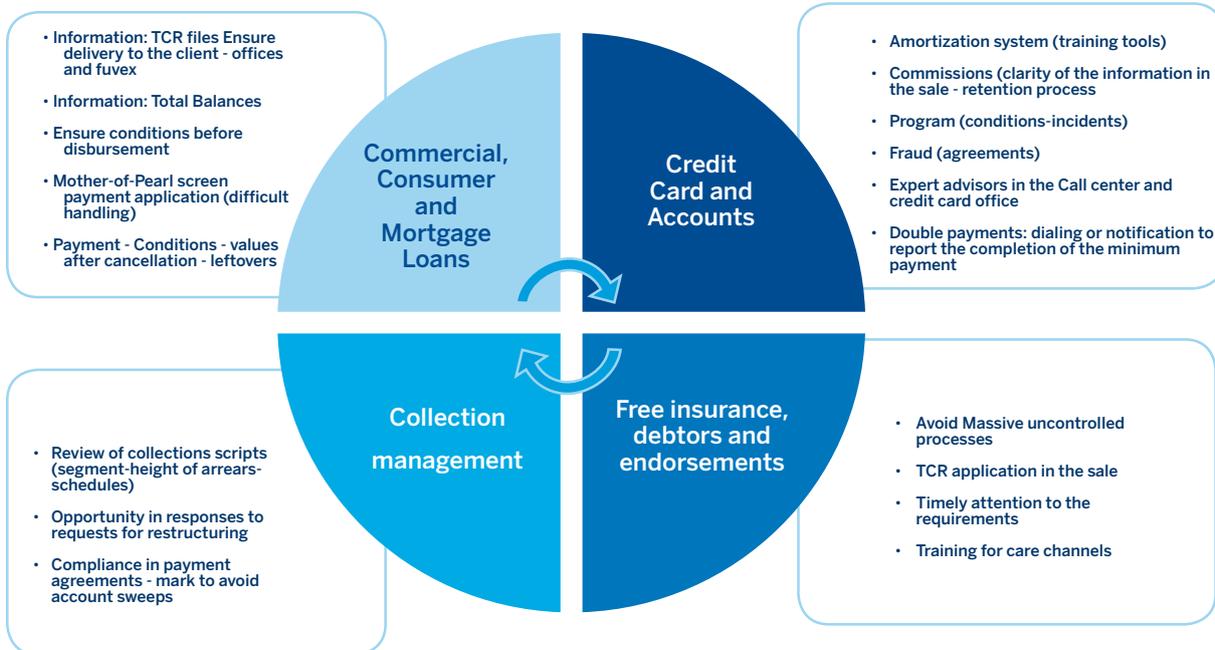
Upon the understanding that complaints are improvement opportunities stated by the customer, the response letter forms and applied protocols were enhanced to allow a thorough and clear attention to customer's non-conformity. Also, the initiative to encourage the use of commercial offers from different channels is being developed, thus providing the customer with the full knowledge of product conditions and contracted service.

Having analyzed the root cause of claims, one of the highest non-conformity percentages is the lack of information or incomplete information, reason why, the use of commercial offers by different channels will mitigate them.

Additionally, special emphasis has been given to the incidence warning circuit as well as permanent training to employees and Bank suppliers, with the purpose to homogenize the information delivered to the customer in different channels (Offices, Call Center, External sales force, Collection agencies, etc.).

Being aware of the importance of claims assistance as part of the customer experience, and working on the strategic priority "First-class workforce", initiatives were established to be developed with the responsible ones from different areas that are involved in the value chain, which enable to address the root cause of major claims.

In the same line of mitigating the claim generating causes, the Undue Assistance and External Sale Force



Committees continued to determine specific improvement actions. Additionally, special emphasis has been given to the incidence warning circuit as well as permanent training to employees and Bank suppliers, with the purpose to homogenize the information delivered to the customer in different channels (Offices, Call Center, External sales force, Collection agencies, etc.).

Service Level Agreements were entered into with supporting areas of complaints management, which are measured monthly, thus giving celerity to concepts and keeping the stability in assistance times, as shown in following charts:

Number of complaints in connection to the respect for privacy and leak of customers' personal information **GRI-418-1**

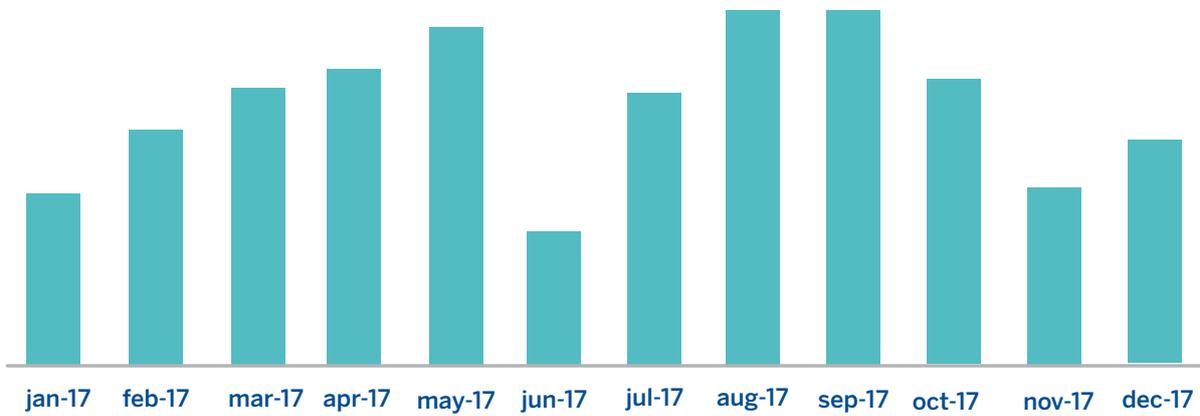
Months	jan-17	feb-17	mar-17	apr-17	may-17	jun-17	jul-17	aug-17	sep-17	oct-17	nov-17	dec-17
Claims	3	4	8	5	16	8	18	6	12	2	13	13

Cases completed 106 and under analysis 2 (at December 31, 2017)
Cases in favor of the Bank 102 and in favor of customer 4

Time for complaint resolution

BBVA-6

	jan-17	feb-17	mar-17	apr-17	may-17	jun-17	jul-17	aug-17	sep-17	oct-17	nov-17	dec-17	Total
Total	2.79	2.94	3.04	3.09	3.17	2.71	3.02	3.23	3.11	3.05	2.81	2.92	2.99



Percentage of claims resolved on time

BBVA-7

	jan-17	feb-17	mar-17	apr-17	may-17	jun-17	jul-17	aug-17	sep-17	oct-17	nov-17	dec-17
Total managed	9,433	9,406	10,694	8,703	10,249	9,527	9,214	9,955	10,081	9,549	10,043	10,267
Total managed on time	8,973	8,912	10,096	8,288	9,734	9,164	8,683	9,251	9,352	9,062	9,471	9,788
Opportunity	95.1%	94.7%	94.4%	95.2%	95.0%	96.2%	94.2%	92.9%	92.8%	94.9%	94.3%	95.3%

PQR's Timeliness



BBVA-8

Percentage of complaints and claims managed by SPC

	jan-17	feb-17	mar-17	apr-17	may-17	jun-17	jul-17	aug-17	sep-17	oct-17	nov-17	dec-17	Total
Claims filed SPC	6,116	6,053	6,986	6,141	6,876	5,989	4,736	5,197	4,714	5,385	6,019	6,362	70,574
Managed Claims SPC	3,420	3,425	4,015	3,456	3,842	3,830	3,790	3,774	3,691	3,597	3,879	4,134	44,853
SPC participation	55.9%	56.6%	57.5%	56.3%	55.9%	64.0%	80.0%	72.6%	78.3%	66.8%	64.4%	65.0%	63.6%

SPC Share



In accordance with the omni-channel model, the office channel was designated for the filing of complaints through the light form.

Since the permanent monitoring of customers' complaints is an important factor to improve the experience, the information about their entrance and mitigation plans for originating causes, are permanently informed to top management for knowledge and control, as well as customers recommendation about this process, which improved in last year.

6.2.4. Omni-channel model

A blue arrow-shaped graphic pointing to the right, containing the text "BBVA-9" in white.

In 2017 the omni-channel strategy maintained the focus on three pillars:

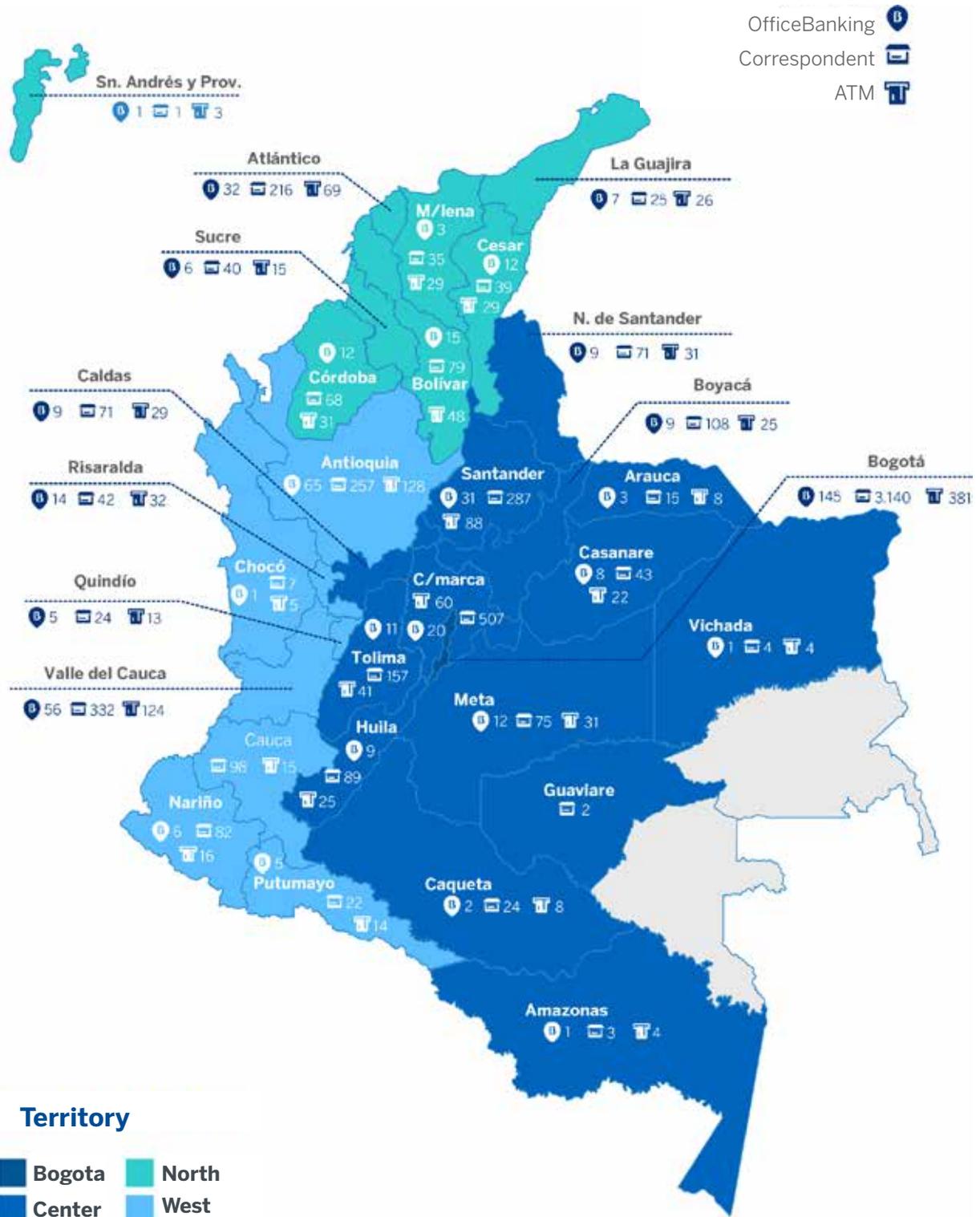
- Offer the best customer experience in alternate channels to discourage the traveling to offices as well as the use of cash
- Homologate the customer transactional experience in any of the channels available, promoting the increase of active customers in digital channels.
- Develop new transactions or functionalities in digital channels that add value to customer and differentiate positively the Bank from competitiveness.

Within the framework of this strategy, over 2017 customers had following improvements or new utilities available, among others:

- New app BBVA mobile for individuals. The new app provides a better and more optimal use, adapted to the transactional behavior of customers; also, a new look and feel aligned to the new corporate image.
- Assignment to the debit card password (first time) in BBVA mobile. The purpose is for customer to become digitalized from the very first contact with the Bank, and also, allow those customers without an ATM nearby, to be able to activate debit cards for immediate use in other channels (POS, CB, etc.).
- Download of statements of account and certificates in BBVA mobile.
- Sale of insurance to cover the theft risk of cash withdrawal through ATM.
- Update of cell phone number in ATM, preventing the customer to travel to the office, until now, the only authorized channel for such updating process.
- Interbank debit through BBVA net. At present, customers may schedule the payment of their obligations in BBVA with funds available in accounts in other banks.

Distribution of BBVA Colombia, by territorial

GRI-FS-13



Operations per channels %	2017	2016
Offices	10.11%	10.56%
CB	1.25%	1.24%
Own ATMs	29.38%	32.09%
NetCash	10.90%	10.67%
BBVA Line	0.05%	0.05%
BBVA Net	1.85%	1.86%
Mobile Banking	3.11%	1.93%
POS (Purchases in establishments)	17.63%	16.41%
H2H (Automatic)	25.73%	25.20%
Customers per channel	2017	2016
BBVA Net	200,118	171,056
Mobile Banking	520,571	335,567

Customers information at December of each year, according to corporate criteria with regard to those mobile customers (entrance to the applicative at least once during each of last three months).

6.2.5. People-centric solutions

As the third strategic priority of the responsible banking model, high social impact products are developed as financial products and services that integrate differential social attributes.

The purpose is to integrate differential social attributes within the products and initiatives of the Bank daily activity. In this way, besides the social impact generated by the ordinary activity, products and services can be designed with a higher social impact.

Said products are grouped in four large blocks: those useful to favor the financial inclusion, those for SMEs, for individuals with special needs, and finally, the socially responsible investment.

Banking correspondents

This is the channel through which BBVA extends its coverage to assist customers and users that require access to financial services.

Banking correspondents are located strategically, in places with no presence of offices network or ATMs, or where a support channel is required for monetary transactions, such as payment of utilities, payment of obligations, deposits, and cash withdrawals which are made in allied establishments like supermarkets, payment centers and gas stations.

Banking correspondent is an increasing relevant channel as the Bank commercial strategy. For said reason, we keep on making alliances with companies offering good service to our customers; with 5,864 points, in 2017 1,791,547 transactions were made per year, exceeding by 20%

transactions of previous year.

In 2018 we expect to have allies, country Baloto network, among them, which will allow expanding the options for customers service

Fundación Microfinanzas BBVA

Within the framework of BBVA commitment with financial inclusion, Fundación Microfinanzas BBVA (hereinafter Fundación or FMBBVA), was created in 2007, as a non-profit entity which mission is to promote the economic and social, sustainable and inclusive development for underprivileged people, through Productive Finance. This model pursues the client's development and offers a customized service to vulnerable entrepreneurs, getting closer to their home or company a thorough range of financial and services products, as well as the advisory and training on financial administration and management for their small businesses.

With the name "Midiendo lo que realmente importa" (Measuring what really matters), the Fundación releases annually its Social Performance report that summarizes the impact of their activity in customers' life. This social measurement system has been highlighted by the UN and is a benchmark for the sector.

From its incorporation, the Fundación has disbursed an aggregate volume for more than USD10 billion to develop productive activities of their entrepreneurs and has become one of the greatest private philanthropic initiatives in Latin America, the Region where it operates.

During 2017, the Fundación, with more than 8,000 employees, continued working to deepening in the neediest areas, servicing almost 2 million customers. More than half the entrepreneurs serviced were women which contribute directly to reduce gender inequality.

In Colombia, Fundación Microfinanzas is present through its entity, Banco de las Microfinanzas Bancamía. With the purpose to improve the life quality of low-income families in urban and rural areas of the country with difficulties to access the formal banking, Bancamía offers customized financial and non-financial products and services, covering microcredits for productive activities, savings accounts, term deposits, insurance or international transfers, channels and services such as Mobile Banking and Financial Literacy. At the closing of December 2017, Bancamía was serving 913,977 people, 55.3% women.

The mission and methodology of the Fundación have been recognized in several times by the UN for its contribution to the Sustainable Development Goals Fund (SDG) of the Agenda 2030 for the eradication of poverty, gender equality, support to inclusive and sustainable economic growth and dignified work, among others. During 2016 the Economic and Social Council of the United Nations (ECOSOC) granted FMBBVA the consultative status, recognition to the work in its field of action: microfinance for development. The Fundación could be consulted by United Nations to guide and recommend actions to contribute the sustainable development. This year, the Fundación has been involved actively in the Commission on the Status of Women (CSW61) at the United Nations in New York.

In the face of 2018, the Fundación will keep on working to deepen their scale and scope with an extended value proposal that ensures the development and progress of their entrepreneurs through technological innovation, thus improving efficiency and processes.

Support to SMEs



BBVA-2 • BBVA-3

BBVA understands that SMEs are the drive that boosts the social development of the country, and as such, they require support in their growth projects and for such reason, we focus our actions and management model to be able to assist their needs efficiently.

In 2017 the synergy model was reinforced to focus on the customer reference management of Legal Entities Segment among different banking. This is how during the year and through SMEs referencing circuit, more than 9,900 referred to Commercial Banking were generated from specialized banking, and in turn, more than 5,000 SMEs were admitted.

Through different credit facilities offered by the Bank and strategies designed for admission, billing \$2.9 trillion in

[1] Fundación Microfinanzas BBVA: was born out of the Corporate Responsibility of the BBVA Group, but as a non-profit entity it is independent of the same, both in its governance and in its management. Therefore, it is the BBVA Group's intention to reflect that the BBVA Microfinance Foundation is not part of the BBVA Financial Group. As a result of the foregoing, the BBVA Group neither manages nor is responsible for the activity carried out by the Foundation or by the financial entities that the Foundation acquires for the fulfillment of its purposes.

2017 was recorded for the acquisition of productive assets, providing more competitiveness in the market and helping our customers to grow on a steady basis.

We developed a new SME management model which is supported on three pillars that allowed extending the number of offices with specialized segment management, thus reducing the operative burden in the commercial team, improving times of response and diminishing returns in the admission process. Such pillars are identified as:

- **More relationship management:** the number of integral executives for SMEs management was largely increased from 153 to 278 offices with specialized management, representing 89% of the segment business volume.
- **Commercial support management:** support is provided to sales reps through Specialized and Structured Managers teams for selling, formalization and implementation of transactional products and services tailored for customers.
- **Admission factory:** all the admission process of the SMEs segment risk was centralized in a factory, seeking the reduction of response times, focusing the decision on cells for economic sectors and releasing the operative burden of commercial executives.

With the new Version 7.0 of BBVA net cash platform, which comes with the change of look and feel and usability, the customer experience improved at the time of operating and the steps to make the transaction were reduced and enhanced. Having a friendlier platform for customers, in 2017 we initiated our Transactional Transformation with the purpose that segment customers change their transactional habits and make their operations in a simpler, more economic and comfortable way through our channels; thus, reducing the use of cash and the office congestion.

Support to individuals with special needs

“Héroes” Affinity Card

BBVA continues strengthening the commercial relation with active members and administrative officials of the National Police and the Armed Forces of Colombia by making them easier to reach their goals through preferential products and services in payroll, payroll deduction loans, credit cards and other asset and liability products. In 2017 more than 20,000 new customers became members of the “Héroes” portfolio, and at year end there were 52,000 cardholders and purchases exceeding \$31 billion.

Besides of strengthening the new “Héroes” credit card, exclusive for such group, is focused to boost products such as saving, payroll and leveraged credits, and it also drives the use of transactional channels such as BBVA Mobile and BBVA Net, among others.

At the closing of 2017, the “Héroes” BBVA Program, in agreement with the Ministry of Defense, has contributed with more than \$135 million through the “Héroes” card for wellbeing projects.

Finally, the Corporate Responsibility Program was enhanced, reaching more than 4,447 military and policemen who received training through 4,447 workshops in Financial Literacy with “Adelante con tu futuro” program. More than 800 school kits were delivered as support and incentive to childhood education in the wellbeing project to the community led by the Armed Forces of Colombia.

“Visión Mundial” shared brand credit card

GRI-FS-14

Visión Mundial is an international humanitarian NGO devoted to the assistance, development and defense of girls, boys and families and communities in poverty and unfair condition.

BBVA Colombia and Visión Mundial have developed an alliance to provide a better future to the Colombian childhood through a credit card that for each purchase generates a 0.5% donation from interests received by BBVA Colombia to support the Visión Mundial program.

During 2017 more than 2,500 new customers chose the Visión Mundial card in order to support the Colombian childhood. Currently, there are more than 35,000 cardholders, billing at year end \$44 billion.

Tarjeta de crédito de afinidad “Mujer BBVA”

GRI-FS-14

Several years ago, the Bank decided that women needed a special card for the products and services offer of BBVA Colombia. They are the basis of the household economy, they generate wellbeing in every surrounding since their participation is vital in major decisions that pursue the family development such as choosing the school of children, location of residence, the quality of meals and expense control, among others. In summary, the Bank knows its role in Colombian society and its huge influence capacity and therefore, it was defined the necessity to have special products with promotions and services exclusively dedicated to them.

To support them in their daily life, BBVA offers the “Tarjeta Mujer” in alliance with Visa. The “Tarjeta Mujer” credit card provides home assistance, having at hand specialized services for domestic incidents: plumbing, locksmith, electrical damages services, among others,

Respite center

GRI-FS-14

From November 1, 2017, the External Circular Letter 008/17 was issued through which the Financial Superintendence mandates to all its supervised entities to transform the Inclusive Banking concept, thus allowing a positive interaction of financial consumers with any disability (physical, visual, hearing and mild cognitive) through the existing customer service channels.

Under such structure, BBVA Colombia designed the service strategy that materializes the principles, working in 4 lines:

- (I) **Training to the commercial network:** to date, in person, at the cities of Bogota, Medellin, Cali, Barranquilla, Bucaramanga, Cartagena and Pereira. Remaining cities on a virtual basis during October.
- (II) **Physical access and signaling:** the preparation for installing is ongoing.
- (III) **Adaptation of channels:** At the beginning of implementing the assistance at offices will be personally to disabled customers – Alliance with the Min TIC Respite Center. The implementation in digital channels is in exploratory stage.
- (VI) **Strengthening of service culture and training to Group employees:** The “Cultura Incluyente en el Sector Bancario” primer, delivered by Asobancaria, was disseminated and socialized with the due accompaniment and support.

The progress percentage at December 31, 2017, was 83%.

“Dinero móvil” (Mobile money)

“Dinero móvil” is the BBVA Colombia initiative to encourage the financial inclusion through electronic deposit, product from banking usage addressed to the more vulnerable collectives and ruled under the provisions in Decree 4687 of year 2011.

Dinero móvil enables handling cash up to 3 Minimum Monthly Wage (SMMLV per its acronym in Spanish) monthly: in balance, debit and credit transactions, exempt from the charge of lien to financial movements (GMF) up to 65 monthly units of tax value (UTV). Its contracting is fully virtual through a mobile device and the account number is the telephone line. It allows transfer transactions, cash withdrawals, deposits, payments of utilities and cell phone recharges. Free of management fees.

At year-end 2017, the contracts in force amounted to 27,449 and average balances to \$415,077,193.

Agribusiness credit facilities

A blue arrow-shaped graphic pointing to the right, containing the text "BBVA-5" in white.

BBVA Colombia maintains its support to the farming and agribusiness sector of the country: In 2017 it reached more than \$2.3 trillion financing, representing 35% increase versus previous year; such growth is based on the understanding of different agribusiness and activities developed in each country region with the advisory from the Bank agribusiness team to more than 4,000 projects of the productive chain, delivering the best financing options together with the benefits from national government.

We are moving toward the integration of the different links of the chain (unions, suppliers, and producers), working with the companies to achieve the industrialization of agro-livestock and drive them to export.

Financing of development and infrastructure sustainable projects

BBVA-4

In 2016 BBVA Colombia financed development and infrastructure sustainable projects and energetic efficiency projects for \$24,351 billion for priority sectors (green energies, urban development, SMEs, export sector).

6.3. Workforce

As important as it is to offer the best experience to customers, Human Resources developed the best “employee’s experience”; thus, and based on the commitment to attract and retain a first class workforce, Recruiting acquired the appropriate tools to attract differentiated profiles that contribute to the construction of new business models, the best user experience, boost digital sales and ensure the digital transformation under agile project methodologies, and in addition, honoring one of the BBVA values: “customer first”, Recruiting worked to improve the internal customer experience ¿How? the new global platform to execute smoother recruiting processes was implemented; priority was given to internal talent, promoting 444 people, 67% vacancies and 217 new hires, 33%, with new profiles in accordance to BBVA strategies, for areas such as UX, digital marketing, Agile and data, among others. Also, 336 young people had the opportunity to be trained in BBVA in association with SENA, and 110 interns could learn from the business accompanied by the best professionals.

Internal promotion tools were strengthened based upon the objectivity to select and promote the in-house talent, ensuring the quality of promotions and gender diversity. State programs as “El primer empleo” (The first job) and in-house programs of professionals in training were supported.

Collective headcount breakdown

GRI-102-7

Total headcount Banco BBVA Colombia 2017	5,221
Men	2,167
Women	3,054
Men (%)	41.5
Women (%)	58.5

Percentage employees under collective agreement

GRI-102-41

Item	Total 2017
Number employees under collective agreement	1,218
Number employees collective bargain	4,003
Total employees	5,221
CC (%)	23.3
PC (%)	76.7

Breakdown by age

GRI-405-1

Positions 2017	Under 25	Between 25 to 45	Older than 45	Total
Directors		39	40	79
Specialist	72	1,222	532	1,826
Sales force	27	1,062	328	1,417
Middle-level	1	121	97	219
Base jobs	235	979	466	1,680
Total general	335	3423	1,463	5,221

Team by age group

Item	Years Old
Average age	37.8
Average seniority	12.4

Breakdown by categories

GRI-405-1

Positions 2017	F	M	% F	% M
Directors	20	59	0.7	2.7
Specialists	963	863	31.5	39.8
Sales force	941	476	30.8	22
Middle-level	88	131	2.9	6
Base jobs	1,042	638	34.1	29.4
Total general	3,054	2,167	58.5	41.5

Gender ratio broken-down by professional category - average

GRI-405-2

Positions 2017	F	M	Average annual fixed income	Salary ratio man woman
Directors	\$282,705,279	\$344,248,982	\$ 328,668,298	0.82
Specialists	60,786,038	68,429,660	64,398,549	0.89
Sales force	72,446,331	81,638,221	75,534,079	0.89
Middle-level	121,952,949	131,682,809	127,773,093	0.93
Base jobs	34,246,042	36,809,749	35,219,640	0.93
Total general	\$58,539,389	\$73,355,029	\$ 64,688,688	0.80

Range of gender ratio between standard salary and MMLW

GRI-202-1

Minimum salary BBVA Colombia 2017	MMLW	Salary ratio
\$ 1,749,553	\$ 737,717	2.37

Employee benefits

GRI-401-2

Benefit 2017	No. Employees	Paid
Incentive Cash tellers	869	\$ 218,907,214
Vacation bonus	4,547	7,414,861,879
Optical allowance	1,932	1,307,649,657
Meal allowance	567	783,864,448
Education allowance	1,797	543,431,137
Seniority premium	671	6,094,836,749
Compensatory allowance	491	321,997,500
Maternity allowance	208	135,873,000
Funeral allowance Parents and siblings	106	61,323,000
Funeral allowance Spouse and children	3	\$ 1,719,000

Average hour annual training

GRI-404-1

Training hours	Total Hours
BBVA Colombia	198,483
Average per person	38.0

Training hours per gender

GRI-404-1

Gender	Hours	%
Female	125,342	63%
Male	71,789	36%
Not specified	1,351	1%
Total Hours	198,483	100%

Training hours per employee category

GRI-404-1

Employee category	Hours	%
Base job	106,356	54%
Sales force	48,378	24%
Specialists	37,760	19%
Middle-level	3,347	2%
Directors	1,290	1%
Not specified	1,351	1%
Total Hours	198,483	100%

Employees by type of employment contract (short-term) per gender

TMP	Female	Male	Total EE	%
SENA Apprentice	198	88	286	24.57
U intern	34	27	61	5.25
Actives	318	96	414	35.56
Adecco	296	107	403	34.62
Total			1,164	100

Employees by type of contract (part or full time) per gender

GRI-102-8

Gender	Part-time	Full-time	Total
Female	174	2,880	3,054
Male	70	2,097	2,167
Total	244	4,977	5,221

The Human Resources Management worked in synergy with the new Business Partner role, assisting BBVA Colombia Vice-presidencies to give even more sense to strategic priorities and promoting, together with Human Management area, the purpose that drives us to render the best service to our customers “Make available to everyone the opportunities of this new era”, and assist employees, thus generating closeness, accompaniment spaces and creating career plans that encourage the professional development in BBVA.

Upon the inspiration of the Bank purpose and vision: Training, Culture, and Development, the work has been made in order to have each person of BBVA Colombia understanding and incorporating such vision and that both collective and individual behaviors and attitudes demonstrate it. Different educational and recreational actions for our leaders and employees have been used to support this initiative.

From this particular standpoint and committed with the favorable impact in three key indicators:

1. NPS (Net Promoter Score)
2. Engagement
3. Attraction
4. Training and development

The following three work fronts were developed:

1. For 2017 a differentiating program was created “Camino del Líder” (the Leader Path) which represents the evolution of leadership program supplied to BBVA Colombia leaders and which had more than 4 sessions over the year, for more than 90 leaders in different areas.

2. Design action plans to impact the commitment and labor environment of BBVA which was accomplished in 3 stages:
 - a. Stage 1: Dissemination of the national results of Q12 Gallup engagement survey applied to more than 1,000 leaders.
 - b. Stage 2: Design of action plans for each Vice-presidency. With a synergy work with Gallup, action plans were created focused toward the internal customer commitment.
 - c. Stage 3: Act and maintain the accompaniment to action plans provided by each Vice-presidency. In 2017 there were more than 1,500 Gallup action plans for the country which helped to raise markedly the commitment index and the Q12 global mean during the second local Gallup Q12 survey.
3. Strengthening of the Wellbeing program: A set of actions and benefits that impacted positively the working environment were developed, among others: Preliminary rounds and closing ceremony of the National Sport Games, celebration of special dates, "En Bici al trabajo", "Café de las letras", "Travesía Guasca", ceremony of five-year term awards, kids party and gifts, and year end celebration for employees.

Volunteering and Social Engagement

BBVA-11

As contribution to the Responsible Banking model, and in particular, to support the education, sports and culture, the BBVA Volunteers Team participated in two-planting trees days: one at Colsubsidio, (northern Bogota) with 150 trees planted and another one at the municipality of Guasca, Cundinamarca, where the participation included several activities, including planting trees, bike cross and the outdoor family afternoon with BBVA employees.

Other activities include the Christmas celebration with the Seguros BBVA and Strategy and Control Volunteers at the municipalities of Sibate and Alban, Cundinamarca, where time was spent with kids from schools. Games and snacks were shared and at the end of the day the kids received the bags with school kits.

For the X National Sport Games, 150 BBVA officials participated at the IE Técnica Sumapaz, Enero 14 of Melgar, Tolima. They performed infrastructure, maintenance, painting works as well as decoration of fields, classrooms and children's playground. Kids also received bags with school kits.

Additionally, a group of lawyers from BBVA Volunteers, and as part of the alliance with Fundacion ProBono, which purpose is to facilitate the access to justice and quality legal advisory for vulnerable population, participated in trainings, advisory and solution of cases.

6.4. Shareholders

Brief Analysis of Behavior of the Major Stock Indexes for 2017

At year-end 2017, and for the second consecutive year, the Colombian Stock Exchange showed a significant valuation versus 2016. Actually, COLCAP, the main stock market index of the Colombia Stock Exchange, increased by 12% inter-annual. Its behavior was determined by global trends with a strong beginning after President Trump took office with appetite for emerging and appreciation of regional exchange rates. Such behavior was cut short by mid-year when the US Federal Reserve began the liquidity removing program. At year end, it was again accompanied by the purchasing appetite supported on the recovery of the crude price. Despite the good behavior for two consecutive years of the main stock index in Colombia, its progress was lower than reported in other regional and emerging markets. This was partly due to a less robust macroeconomic performance and the delay in expected recovery for the weak behavior of consumer confidence.

Other indexes of the Colombia Stock Exchange showed behaviors quite similar to COLCAP, although slightly different in their inter-annual variation rates. The COLEQTY, that collects 40 shares, grew 12.5% during the year. The COLIR, that groups the institutions with best practices in their relations with investors, included BBVA Colombia S.A., increased by 13.6%. Finally, the COLSC, that contains the 15 lower capitalizations of companies listed on the Stock Market, contracted by 3.5%, being the sole index with impairment in 2017.

Evolution of the BBVA Colombia share price

Common share price closed at \$285 in 2017, representing an increase of 5.55% versus \$270 stock exchange at December 31, 2016.

The share of BBVA Colombia is characterized by low liquidity in the Colombian Securities Exchange and, therefore, few transactions may move its value.

This same dynamic is present for the price of the non-voting preferred dividend share. It dropped by 3.58% versus 2016 when the share price closed at \$260 and at \$251 for 2017.

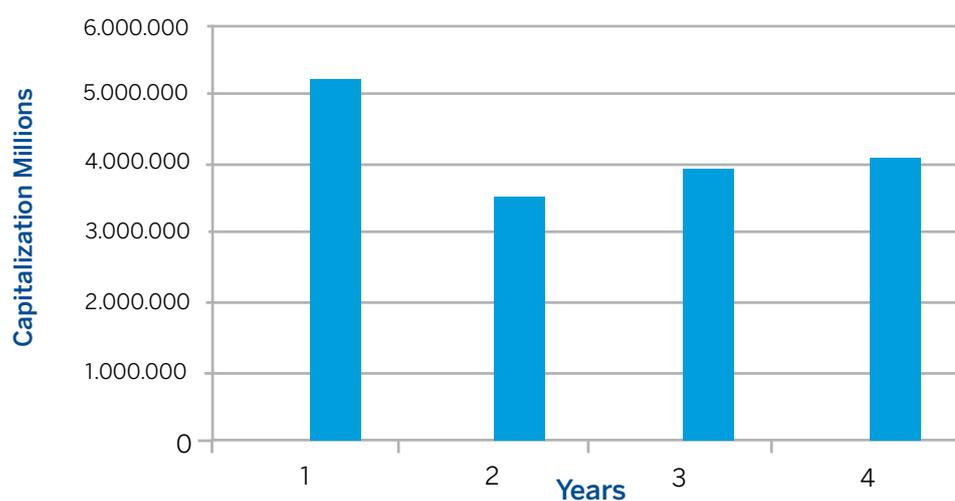
The floating capital of the Bank is 4.57% and is detailed below:

Type of share	Amount
Common	630,705,101
Non-voting preferred dividend	26,752,348

Market capitalization of BBVA Colombia

(in million pesos)

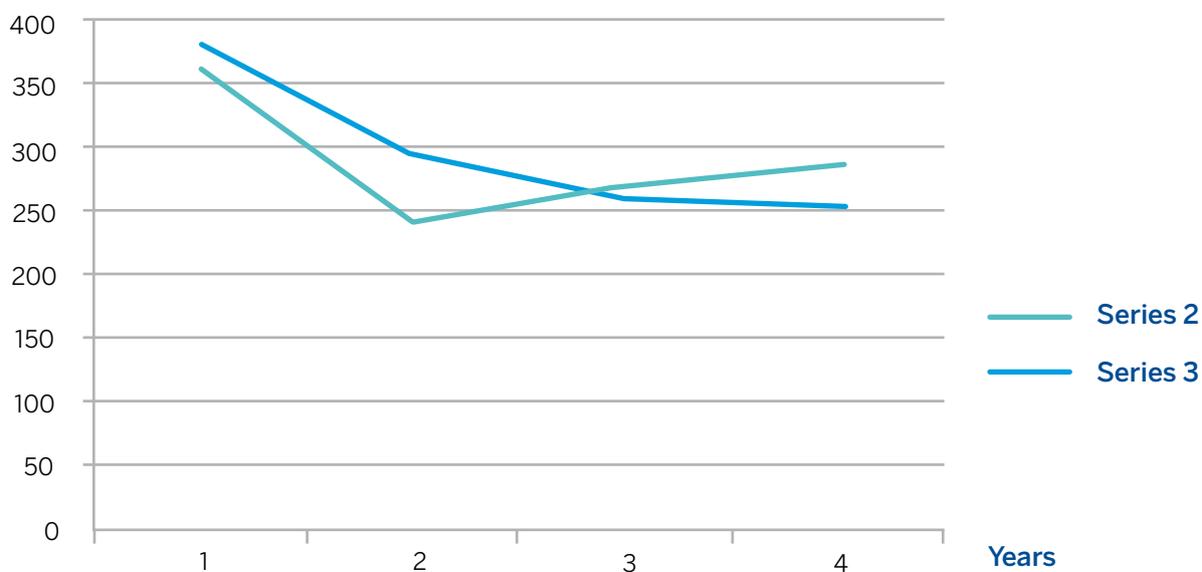
2014	2015	2016	2017
5,189,163,27	3,479,432.18	3,879,878.45	4,084,179.55



Evolution of the market capitalization of BBVA Colombia

Years	2014	2015	2016	2017
Final stock price (common share)	360	240	270	285
Final stock price (non-voting preferred share)	380	295	260	251

Evolution stock price



BBVA Colombia share and share performance ratios

Item	december 2016	december 2017
Number of shareholders	65,318	65,304
Number of outstanding shares	14,387,689,071,00	14,387,689,071,00
Maximum price (Common share)	300	299
Closing price (Common share)	270	285
Minimum price (Common share)	240	250
Maximum price (Non-voting preferred share)	295	265
Closing price (Non-voting preferred share)	260	251
Minimum price (Non-voting preferred share)	260	251
Book value per share	278,75	279,68
Market capitalization (Million pesos)	3,879,878,45	4,084,179,55
Price / Book value- Common share	0.97	1.02
Price / Book value- Preferred dividend share	0.93	0.90
Per (Price/benefit) - Common share	12.87	15.99
Per (Price/benefit) - Preferred dividend share	12.39	14.09
Dividend yield (Dividend/ Price) Common share	0.0777	0.0625
Dividend yield (Dividend/ Price) Preferred dividend share	0.0807	0.0710
Declared dividends	20.98	17.82

Since year 2007 and consecutively, the Shareholders' General Meeting has approved the payment of dividends in cash for the two types of shares, both common and non-voting preferred shares and the payout has been 50%.

The declared dividends during 2017 were \$17.82 COP per share payable in two installments, June and October, 2017.

Shareholding structure

at December 31, 2017

Equity tranches	Shareholders		Shares	
	Number	%	Number	%
Up to 1,000	28,208	43.19	9,386,408	0.07
from 1,001 to 10,000	27,268	41.76	98,642,397	0.69
from 10,001 to 50,000	8,246	12.63	176,390,502	1.23
from 50,001 to 100,000	1,047	1.60	71,378,130	0.50
from 100,001 to 1,000,000	485	0.74	94,227,878	0.65
More than 1,000,000	50	0.08	13,937,663,756	96.87

BBVA Colombia share is listed in the Colombian Securities Exchange with the mnemonic BBVACOL for the common share and PFBBVACOL for the non-voting preferred dividend share, specifying that they are low liquidity shares.

BBVA Colombia share is included in the COLEQTY index that includes the 40 largest and performing shares traded in the Colombian Securities Exchange where the weight of each share is determined by the floating weight (adjusted cap) of each of the constituents.

In this basket released by the Colombian Securities Exchange, that contains the 40 largest shares listed on the Stock Exchange, BBVA Colombia appears with 0.063% interest.

Furthermore, it is part of COLIR, an index that includes the shares of the companies with the IR Issuer designation which in turn, forms part of COLEQTY, where the weight of each share is determined by the floating weight of each of the constituents. This basket includes the 30 companies with IR recognition, BBVA Colombia among them.

6.5. Society

GRI-102-48

Social, Environmental and Reputational Risks

As a financial entity, BBVA Colombia has a direct impact on the environment and society through the use of natural resources and the relation with their stakeholders, and indirectly, through our credit activity and the projects funded by us.

Such extra-financial risks may affect the credit profile of customers or of projects funded; therefore, they also affect the risk quality assumed and the payment of obligations.

For the management of said risks, BBVA Colombia takes into consideration environmental, social and reputational aspects together with the traditional financial variables. Their integration into the risk management is coherent with the principle of prudence that rules the activity of BBVA Colombia and is materialized in different action lines.

Social and environmental risk management

Equator Principles

FS-10

Equator Principles (EP) are the benchmark of the financial sector to determine, evaluate and manage the environmental and social risks of the projects. They are based upon the Performance Policy and Standards about Environmental and Social Sustainability of the International Finance Corporation (IFC) and the general guidelines about Environment, Health and Safety of the World Bank.

The EP is applicable to fund the new projects and significant expansions through four financial products: advisory for funding projects, projects funding, corporate loans to related parties for projects and bridge loans.

The last version of the Equator principles was published in 2013; it extends its scope, addresses new environmental and social concerns and represents a significant advance in the transparency and consistency of its implementation.

Since its accession to the EP, BBVA Colombia applies it with the higher standard, extending it to projects in the operation stage and to those funded with other financial products: project bond, assignment of credit rights and guarantees attached. BBVA Colombia does not apply the minimum threshold for 10 million US dollars reviewing all the operations under the EP regardless their amount.

In BBVA Colombia we have a team dedicated to the management of the EP integrated in the Corporate & Investment Banking (CIB) Area that analyzes the projects, represents the Bank with stakeholders, is accountable with the senior management and designs the management system, proposing the adoption of best practices and getting involved in the training and communication of all the aspects related with the EP.

The analysis of the projects is incorporated in the internal processes of structuring, admission and monitoring. Each transaction is submitted to an environmental and social due diligence process that is initiated with the assignation of a category (A, B or C) in conformity with the categorization process of the IFC that reflects the risk level and environmental and social impact of the project.

In 2017, there was no project funded under the EP methodology.



GRI-FS-10

Reputational management risk

Since year 2006, in BBVA Colombia we have a methodology to identify, assess and manage the reputational risk. Through said methodology, the Bank defines and reviews regularly the map that prioritizes the reputational risks faced and the set of action plans for their mitigation.

Said prioritization is made in connection to two variables: the impact on the stakeholders' perceptions and the strength of BBVA Colombia to the risk. This reputational exercise is conducted annually and the results provide the consolidated vision of the Bank.

During 2016 the methodology was strengthened

and an IT tool was used for its management. In accordance to this new model of governance, two groups have been defined for the design and implementation of the methodology to identify and promote the management of reputational risks: one at global level and the other at local level and, that in both cases are made up by the directors of Internal Risk Control & Operational Risk, Compliance, Communications and Responsible Business.

For the implementation of the methodology two key types of functions are involved:

- The Responsible Business and Communications teams are responsible for the identification of the risks and their impact valuation.
- The so-called assurance providers, responsible for assessing and mitigating the risks identified come from diverse areas since the origin of the reputational risks is quite diverse.

Each of these functions should report the reputational risk management of its action field through the reporting channels used usually. The aggregated vision of the reputational risks is reported according to local regulatory demands.

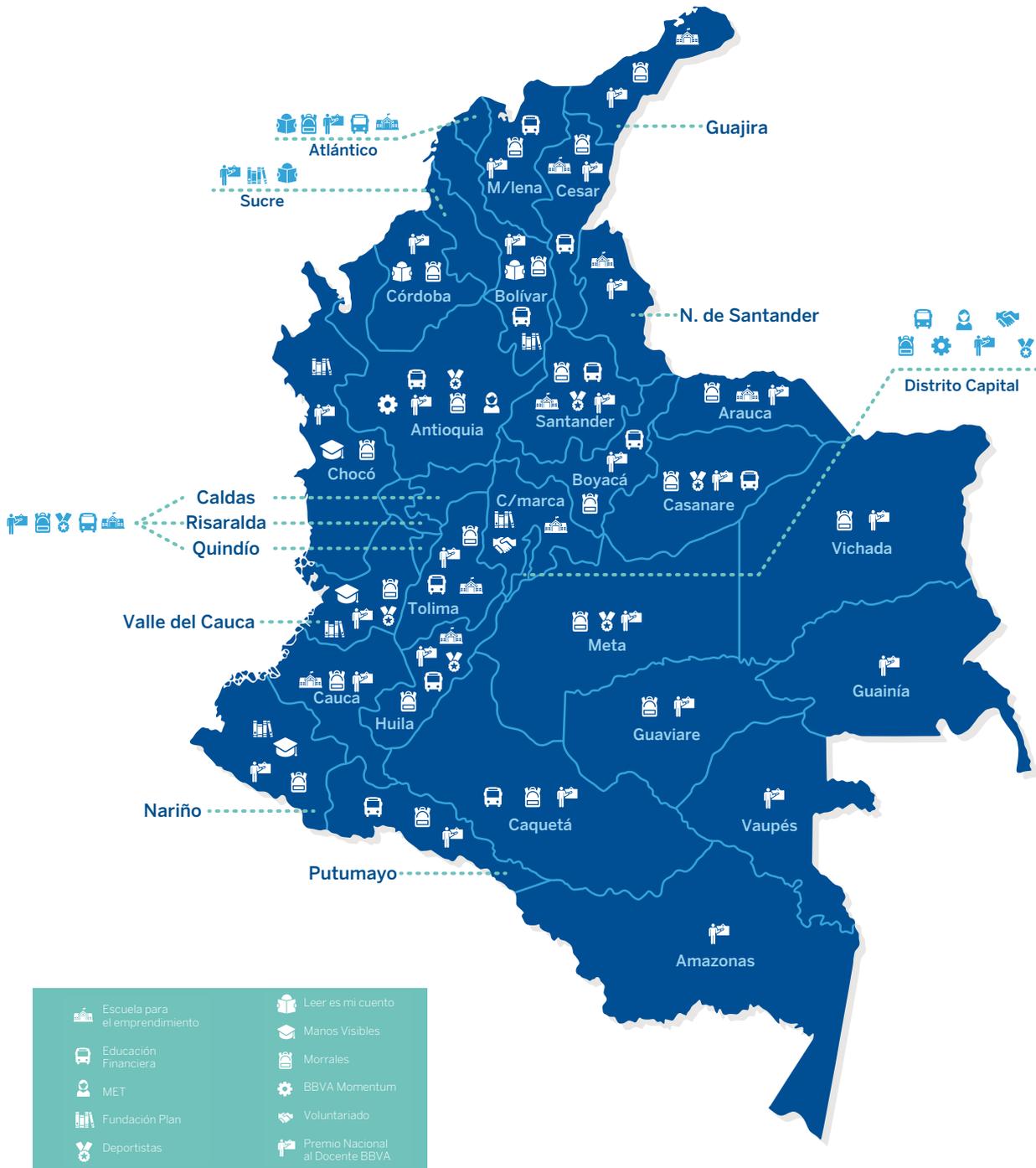
Responsible lending

BBVA Colombia has incorporated the best practices of responsible lending to consumers and has policies and procedures described in the section of credit risk report.

Investment in social programs

With \$6.5 billion investment, BBVA Colombia developed the Corporate Responsibility program

throughout 2017, when it consolidated as the literacy Bank in Colombia, benefiting more than 180,000 families and structuring around the support to sports new innovating ways as the commitment with social and economic development of the country.



Distribución de la inversión

Strategic priorities	Investment	%
Education		
Financial literacy "Adelante con tu futuro"	\$ 668	64
Financial literacy "Escuela para el emprendimiento BBVA"	1,794	
Education and training for business	274	
Education for society	1,448	
High social impact products		
Support to SMEs for growth	395	6
Other strategic lines		
Culture and sports	334	30
Support to social entities	460	
Others	1,126	
Total	\$ 6,499	100

Economic value and tax contribution

BBVA undertakes the commitment to maximize the creation of sustainable and shared value for its shareholders and for any other stakeholders and the society where it operates through its Corporate Social Responsibility policy.

A sustainable and shared value that, together and pursuant to the methodology provided by GRI for 201-1 contents, can be measured and detailed as economic value generated, distributed and withheld by the Group.

Economic value generated and distributed

(million pesos) Homogeneous

GRI-201-1

Indicator value	2017	2016	Var. %
Economic Value Generated (EVG)	\$ 3,286,869	\$ 2,874,230	14.4
Net interest income	2,475,496	2,082,320	18.9
Net income for bank fees	154,743	125,091	23.7
Result valuation investment portfolio	488,268	399,168	22.3
Other operating income (1)	168,362	267,651	(37.1)
Economic Value Distributed (EVD)	\$ 1,785,370	\$ 1,901,328	(6.1)
Indicator sent to Dividends	\$ 218,280	\$ 244,744	(10.8)

Indicator value	2017	2016	Var. %
Results attributed to minority	10,453	11,720	(10.8)
Suppliers and other administration expenses (wages and salaries excluded)	745,252	701,532	6.2
Taxes (2)	235,877	412,988	(42.9)
Staff cost	569,009	524,304	8.5
Investment in communities	6,499	6,040	7.6
Economic Value Retained (EVR=EVG-EVD)	1,501,499	972,902	54.3
Reserves	228,733	256,464	(10.8)
Net provision of assets and amortizations	1,279,265	722,478	77.1
Contributions, taxes on benefits and others	\$ 235,877	\$ 412,988	(42.9)

1 It includes Disposals, Leases, Company's dividends and Operative risk

2 It includes Income tax and Other taxes

Note: Data from the Bank Statement of Income pursuant IFRS and SFC methodology

Economic value generated and distributed

(million pesos)

GRI-201-1

Value Indicator	2017	2016	Var. %
Economic Value Generated (EVG)	\$ 3,026,334	\$ 2,632,934	14.9
Interest margin	2,485,648	2,025,988	22.7
Net Bank fees	337,641	308,824	9.3
ROF	308,739	401,443	(23.1)
Other net gains or losses (1)	(105,694)	(103,321)	2.3
Economic Value Distributed (EVD)	1,785,370	1,901,328	(6.1)
Dividends	218,280	244,744	(10.8)
Results attributed to minority	10,453	11,720	(10.8)
Suppliers and other administration expenses (salaries and wages excluded))	745,252	701,532	6.2
Taxes	235,877	412,988	(42.9)
Staff cost	569,009	524,304	8.5
Economic Value Retained (EVR=VEG-VED)	1,240,964	731,606	69.6
Reserves	228,733	256,464	(10.8)
Provisions and Amortizations (2)	\$ (1,344,328)	\$ (763,429)	76.1

1 It includes Disposals, Leases, Corporation Dividends and Operative Risk.

2 It includes Income Tax and Other Taxes.

Note: Data from Bank Statement of Income pursuant to IFRS and SFC methodology.

Creation of direct tangible value: detail per stakeholders
(million pesos)

GRI-201-1

Group	Value Indicator	2017	2016	Var. %
Shareholders	Dividends 1	228,733	256,464	(10.8)
Employees	Staff cost	569,009	524,304	8.5
Customers	Interests and Assimilated Burdens	2,237,399	2,279,665	(1.9)
Suppliers	Other Administration costs (2)	745,252	701,532	6.2
Societies	Contributions, Taxes on Benefits and other Taxes	235,877	412,988	(42.9)

Financial literacy

Financial literacy is another initiative of BBVA that, in line with TCR communication is intended to help customers making informed financial decisions. In this regard, BBVA has gone beyond and, in particular, besides of training Bank customers and non-customers on personal finance, it has consolidated the “Escuela para el Emprendimiento BBVA” program with which it has reached the country education institutions. Through the school curriculum, students from eighth to eleventh courses receive education on financial and entrepreneurial competencies.

In this regard, also work has been developed with collectives of entrepreneur women to implement different programs through workshops and courses to educate them in matters about the business world aimed at their own companies.

“Aula móvil” and “Maleta viajera” (Mobile classroom and travelling suitcase) across the country

BBVA-1

In 2017 our Financial literacy program trained 27,985 people and celebrated the closing of a five-year cycle presenting the new design of the

mobile classroom equipped with state-of-the-art technology that provides the possibility to run workshops simultaneously to 30 people. Besides, through the “Maleta Viajera” (Travelling Suitcase) (which stores 30 tablets) people may develop their experiences toward personal finance and the trainer may conduct the workshop in a place other than the mobile classroom.

Trainings are intended to improve or increase the financial literacy in adults to enable them to make informed decisions. The most relevant is the one made through financial literacy workshops for both customers and non-customers.

The program is made up by five workshops that provide a global vision of Financial Literacy.

Savings: enables the preparation of a savings plan and the recognition of main bank instruments to implement it; therefore, trained people are able to discover the investor within them.

Credit card: this workshop helps to understand how the credit, besides of being a fundamental ally in our personal finance, can be a relevant lever to reach our goals and objectives. The workshop also teaches to identify, among others, the parts and elements of a credit card and interpret adequately

the statement of account, as well as managing efficiently the economic obligations and planning the future.

Credit health: the workshop teaches good practices to use the credit and better organizing debts, to detect financial issues through the adequate interpretation of the credit record and the identification of their most important elements. It teaches which are the credit habits and provides guidance to use the credit health calculator that allows knowing everyone status with regard to debts and credits.

Transactional Channels and Banking Security: In this workshop, people learn how to manage the basic standards of security to be taken into account when using the means through which they access to their accounts and financial products, whether face-to-face or virtually.

Support to SMEs

BBVA Momentum

Twenty social entrepreneurs of Bogota and Medellin, beneficiaries of the first BBVA Momentum in Colombia, received the training course made up of five classroom sessions and 24 weeks of virtual learning conducted through trainers of Endeavor Colombia, Corporate Learning Alliance (CLA) of the Financial Times and IE Business School and a group of coaches of different areas of BBVA. Entrepreneurs could acquire new competitive and business innovation tools.

Throughout the training period, entrepreneurs had access to networked events with different purposes (training, visibility, relevant connections, market access, financing access, etc.). Also, they had platform networking to contact coaches and other participating entrepreneurs.

High school entrepreneurship

“Escuela para el emprendimiento BBVA” is a classroom project aimed at training students to be enabled to formulate viable and sustainable alternatives that generate economic growth in the region and in turn, that leads to the possibility to train citizens with entrepreneurial, finance competencies and other series of skills that allow the construction of a better society.

In 2017, this BBVA initiative was extended to new country regions, reaching to departments such as La Guajira, Cesar, Norte de Santander, Huila and Cauca thus completing coverage of 12 departments and more than 120,000 students and 1,000 teachers.

Besides of aforementioned departments, Escuela para el Emprendimiento BBVA is also present in: Caldas, Risaralda, Quindío, and Tolima where projects focused toward social, environmental and technological fields are being developed with high performance and scope.

It should be mentioned that this program, which is developed together with local Secretaries of Education, was applied already in Santander, Cundinamarca and Atlantico with more than 50,000 students benefited with life-focused businesses.

Escuela para el emprendimiento BBVA is a training center in personal finance and entrepreneurship for young people in school age and for their teachers who have the opportunity to receive a diploma in finance and which primary purpose is to educate them to have a proper management of money, thus, impacting their life project and encouraging them to create productive businesses in the school, generating innovative ideas and allowing that, at the completion of high school, they have an option to find a self-sustainable project.

Liderazgo y finanzas para emprender, (Entrepreneurial leadership and finance), is a program of BBVA and Fundacion MET that seeks the development and training for innovative entrepreneurs women with growth potential who are capable to learn, transmit and promote a different action way which makes in turn their business sustainable. It lasts 45 sessions distributed in three months and a half that include the following modules, among others: Entrepreneurial qualities: Talent, Commitment and Passion, Entrepreneurial Leadership Skills; Finance and Management Knowledge and Mentoring and Coaching. In 2017 more than 60 business women of Medellin and Cali benefited from this program.

As a supplement of said trainings, BBVA developed two female entrepreneurial forums with special guests such as the top leaders of industry, commerce, academy and finance of the country. Said forums, with more than 600 people attending, held two business fairs where a group of 20 business women were selected to present their goods and services portfolios.

Education for society

For BBVA education is the most important development lever and this is the reason why their Corporate Responsibility policies are aimed at the support of the education for girls, boys and young people.

Technological education

BBVA and Fundación Plan resumed in 2017 their program “Plan de Becas BBVA” (BBVA Scholarship Plan) that benefits more than 170 young people in vulnerability conditions of Sincelejo, Cartagena and Tumaco in Nariño; they will be able to study technological careers in areas such as Cooking and Bar, Computer Maintenance, Childcare and Secretarial Program, among other. Thus, their working competencies will be reinforced to be able to access better jobs and salaries. es para acceder a mejores empleos y mejores salarios.

Higher education

In 2017, a group of social leaders of Cali and Medellin completed their professional education in Law, Business Administration, Accounting, Sociology, Social Communication and Psychology, among others, in two of the best

universities of the country: Icesi and EAFIT.

They belonged to the “Fondo de educación y construcción de paz” program (Peace education and construction fund) carried out for five years by BBVA and Corporación Manos Visibles with the support of the mentioned universities. These young people had the chance to access to professional education in such academic entities and are ready to develop their careers in different spaces of the cultural, political and academic lives of their cities.

“Niños Adelante” Scholarship program (Kids forward)


 BBVA-12

This scholarship program favored in 2017 more than 6,000 girls and boys from vulnerable populations with allowances for school fees, uniforms and shoes and it also delivered more than 40,000 back-packs with school kits.

Educational enhancement

In alliance with Corporación Manos Visibles, the Bank developed in 2017, for second consecutive year, “Educapazcífico” a project that pursues the academic enhancement of students of 10th and 11th grades who live in the Colombian Pacific region (Buenaventura, Tumaco and Quibdó) with the purpose to improve their basic competencies and thus, give the chance to more students of the region to be able to access to programs such as “Ser pilo Paga” or any other scholarship program of country universities directed to vulnerable populations.

At the closing of the program, a group of students of Buenaventura passed the admission tests of Universidad Nacional, where they will be enrolled in Engineering related careers. In total, 840 students and 140 teachers of 14 Education students were

impacted positively by improving their competencies in mathematics and language areas under the active learning approach and more than 300 students of 11th grade who prepared their life project.

National Teacher Award BBVA 2017

For this version, 700 teachers from all over the country participated. The winning project was presented by a teacher of the municipality of Fredonia, Antioquia; the second place was for a teacher of Bogota; the third place was for a project based on chemistry teaching to generate new forms of telling stories, it was developed in the municipality of Arjona, Bolívar; and the fourth place was for a teacher of Buga, Valle del Cauca.

.This is the fourth version of the contest that rewards the effort made on a daily basis by thousands of teachers around the country to promote reading and writing. This year more than 4,100 Colombian teachers presented their proposals to the contest.

Support to young athletes

In 2017 BBVA extended its support to young Colombian athletes, structuring a group of 25 athletes who from different sport disciplines raised high the name of Colombia and BBVA in both national and international arenas.

The most visible case was Sofía Gomez Uribe, diver, who in 2017 and in one single week, smashed twice the world record of immersion with bi-fin, 84 mts record, which added to two medals at the World Championship held in Honduras, in August of same year.

Henry Ospina, taekwondo athlete, sponsored by

BBVA, won the golden medal at the Ireland Championship in the modality of figures, surpassing 12 international competitors.

Francisco Sanclemente, a Paralympic athlete, in his wheelchair won the top position in podiums at marathons of Miami, Madrid, Buenos Aires and Cali, among others, demonstrating that with support and dedication any goal is reachable.

Another noticeable sport achievement was featured by Andres Felipe Muñoz, skater of Valle del Cauca, who has been sponsored by BBVA for the last six years and in 2017 won several medals at the China World Championship, thus confirming that he is the first one in the country skating history, with 27 golden medals achieved along his sport career.

Environment

BBVA keeps on strengthening its mission to become an environment responsible company reducing the consumption of resources on their daily operations.

For such purpose, the works is focused on three strategic action lines intended to the environmental preservation and sustainable use of renewable natural resources, as well as the continuous improvement of the society wellbeing and that in turn, with the actions to be developed from its operations could minimize its exposure to different types of risks, improve its efficiency reducing its ecologic fingerprint and support sustainable environmental projects.

1. Make available to customers the guidelines and products to grant the credits and/or investment in sustainable and environment responsible projects, investment in social programs that promote the care of the natural resources thus contributing to the improvement of the life quality of the population.
2. Inside the organization, develop initiatives that promote the reduction in the consumption of paper, energy, water and toner in the processes necessary to perform the daily working actions.
3. During the credit process study and investment in projects to be financed it is taken into account the environment and social fingerprint, all this together with the environmental standards and laws in force in the country.

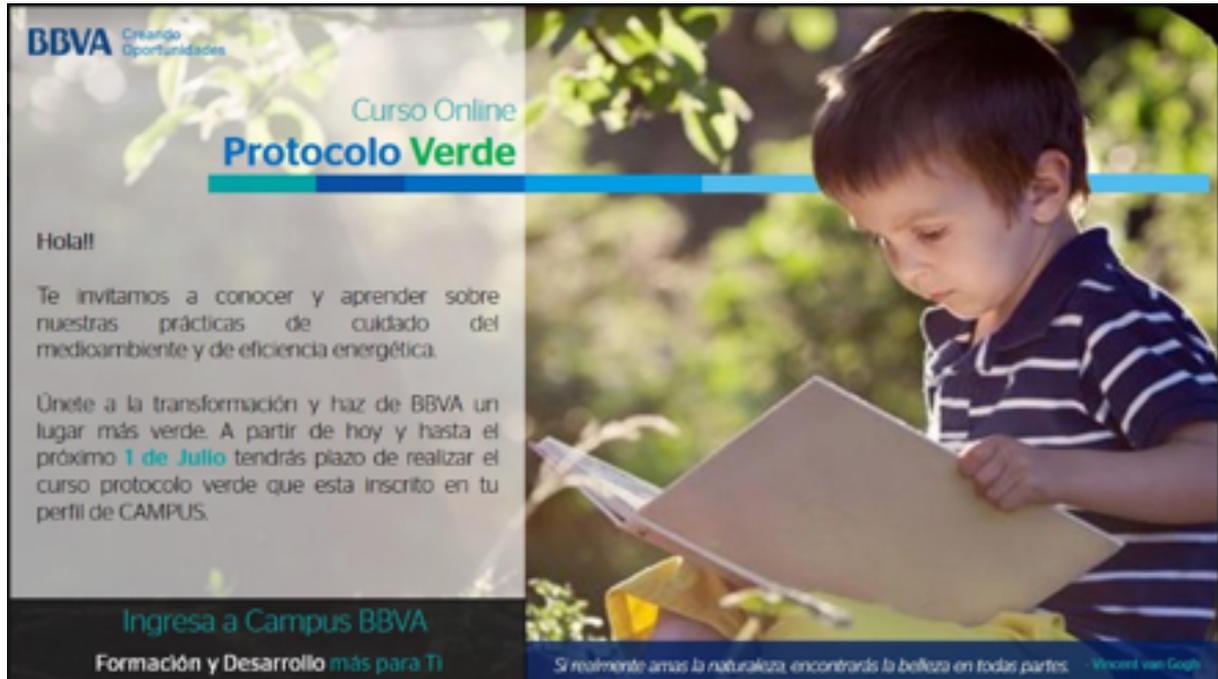
Environmental Management System (EMS)



FS-11 • BBVA-10

Renewal process for ISO 14001 certification

BBVA Colombia commitment in environmental matters is maintained as part of the Eco efficiency Plan defined



by Corporate policies; BBVA Colombia has maintained during 2017 the ISO 14001 certification awarded by Bureau Veritas in year 2015 for General Management, Media, Mortgage Center and Teusaquillo buildings; i.e., 31% of BBVA officials in Colombia work in certified buildings under ISO 14001.

Auditors' recommendations about the certification process were implemented and the action plan was prepared in order to be adjusted to the update 2015 of the standard.

Environmental awareness training and initiatives

Processes to improve the staff skills when implementing policies and social and environmental procedures applicable to business lines.

- Allocation of workforce (in-house staff): a full-time person at the General Management facilities. This person is responsible for reviewing the material submitted at the collection center of the building in order to separate recyclable waste and put it in bags according to the type of waste.
- Collection of recyclable waste: each week the recyclable waste collection route passes by all Bank administrative premises.
- Implementation of waste compacting pilot plan at General Management building to reduce the environmental impact from non-recoverable waste retirement.
- Reports management: the Management Report is sent monthly, it summarizes the results in terms of recyclable waste of the Bank.

Waste managed according to type, Kg.

GRI-306-2

Material	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Records	705	648	1,683	2,661	1,523	915	1,544	1,994	364	903	868	1,414	15,222
Cardboard	153	165	248	416	284	351	328	362	308	158	270	582	3,625
Junk	-	32	-	15	-	-	8	15	-	-	12	-	82
Newspaper	-	13	21	15	61	44	93	43	12	-	10	-	312
Pet	114	114	43	33	98	111	126	98	88	12	78	98	1,013
Plastic	-	16	8	12	17	23	35	14	36	-	3	13	177
Folding	73	62	62	48	33	107	127	118	66	4	89	256	1,045
Glass	284	265	281	232	433	528	350	199	423	115	224	276	3,610
Technology	-	-	-	-	-	-	-	6,582	-	-	-	-	6,582
Total general	1,329	1,315	2,346	3,432	2,449	2,079	2,611	9,425	1,297	1,192	1,554	2,639	31,668

- During 2017 different awareness activities were conducted with the staff of Bogota buildings in order to improve the separation of recyclable waste in the source; also, training was given about sustainable use of resources and services required for daily activities at home and office.

As part of its environment commitment and as response to ISO 14001 certification, BBVA Colombia invites you to make conscious and rational use of each of the ecologic points available to everyone in BBVA buildings, depositing the materials only as indicated therein.

In 2017, as part of the training and awareness process of Bank staff, the "Green Protocol" course was delivered through the e-campus platform in conformity with Asobancaria initiative with regard to Environmental Responsibility. Said didactic course covered four major points of this agreement: Green products and services, Environmental and social risk analysis, Eco efficiency and Dissemination. The course was taken by 1,323 employees from 5,437 registered.

Every Bank official received through the internal mail graphic pieces of environmental training aimed at the smart use of water, paper, power and toner. Additionally, we sponsored the largest environmental race of Colombia NatGeo Run 2017 with the participation of 20 members of the BBVA athletes team.

As every year, BBVA joined the world event Earth Hour. General Management, Media, Mortgage center, Teusaquillo and Cali Management buildings were turned off completely as the symbol of the commitment with environment. Additionally, Procurement leaders were certified in Sustainable Procurement in Financial Sector by Pontificia Universidad Javeriana.

In December 60 people, officials and relatives, attended the workshop "Antarctic for brave people" which consists of becoming aware of the care of environment, in particular water sources.

Electronic waste

As the new supplier of the recyclable waste management program, Cartones, Papeles y Metales de Colombia S.A.S. carried out the logistics process to make use of 6.582 kgs recovered.

“Reto Siembra BBVA” (BBVA Plantation challenge)

During 2017 two tree plantations took place under the environmental awareness program “Reto Siembra” which challenges employees and their relatives to improve their natural resources consumption spheres and contribute with tree plantations in order to reduce their environmental impact. Óscar Cabrera was the first one to accept the challenge, and in turn, invited other Bank associates to join the initiative.



In May the first massive activity of “Reto Siembra BBVA” was carried out at Bellavista Club of Colsubsidio, outside Bogotá. At this time, more than 300 people, between officials and relatives, gathered to accept the challenge and plant 100 native tree species.

September was the month selected to perform the second encounter of “Reto Siembra BBVA”; the rural area of the municipality of Guasca, Cundinamarca, was the place to gather more than 200 employees of BBVA and their families to become aware of the effects that generate daily actions that impact the environment. This time, 210 trees were planted.



The planting of these 310 trees represents for the environment the capture of 86.8 tons CO2 equivalent to next 20 years. Also, it helps to generate habitats for animal and insect species, favoring pollination and dispersion of plant species.

Main consumption indicators in BBVA

Item	2017	2016	
Paper consumption (Kg)			GRI-301-1
Total paper consumption	301,927	285,714	
Employee consumption	45	40	
Energy consumption of Organization (MJ)			GRI-302-1
Diesel consumption	1,947,659	1,986,148	
Power consumption	98,852,436	99,482,778	
Total consumption	100,800,095	101,468,966	
Water consumption (m3)			GRI-303-1
Total consumption	169,069	165,946	
Consumption per employee	25	23	
Managed waste (Kg)			GRI-306-2
Paper waste	15,222	19,731	
Other waste**	16,446	33,530	
Managed waste (unit)			
Toner waste*	1,047		GRI-305-1
Emissions scope 1 (Equivalent CO2 tons)			GRI-305-1
Emissions per diesel oil consumption	36	40	
Total	36	40	
Emissions scope 2 (Equivalent CO2 tons)			GRI-305-2
Emissions per electricity consumption	5,535	5,122	
Emissions scope 3 (Equivalent CO2 tons)			GRI-305-3
Emissions per airplane flights	1,581	1,212	
Certification ISO 14001			FS-11 • BBVA-10
Number of people working in certified buildings	2,129	2,255	
Percentage regarding total headcount (%)	31	40,3	

* Delivery is recorded in units since toner is classified and dispatched for export and reuse.

** This waste refers to the detail in table of page 172.

6.6. Compliance with Legal Requirements

Banking is one of the key sectors of a country economy largely due to savings, investment and financing made through it. For this reason, banks are subject to special surveillance, and supervising authorities are an important stakeholder of the financial industry in general and of BBVA, both at corporate and local levels.

The constant dialogue with supervising authorities is a fundamental task to adapt to new regulations. Below the report on compliance with legal requirements by BBVA Colombia.

Legal Situation of BBVA Colombia:

During 2017, BBVA Colombia complied with legal requirements ruling the banking activity. It also performed its operations in accordance with appropriate instructions provided by authorities, within the framework and adjustment to new legal guidelines.

Additionally, all relevant matters were duly and timely reported to shareholders, investors and public in general through the tool that the Financial Superintendence (Relevant Information) has provided on its web page.

In turn, the legal processes resulting in contingencies have been disclosed in the appropriate note to the Financial Statements.

With regard to actions from the Financial Superintendence of Colombia, during year 2017, and within the Integral Oversight Framework - IOF, the Bank attended the meetings scheduled by the

control entity which addressed the review of the risk management, operating management of the origination and recovery process of Credit card and Free investment products, restructurings and recovery process, portfolio, own assessment of asset laundering and terrorism finance risk with regard to the origination and recovery process of referred products and Information security.

Disclosure and control of the financial information (Art.47 Law 964 of 2005):

In 2017 BBVA Colombia Management maintained adequate disclosure, monitoring and control systems of the financial information, supporting on the control and monitoring systems and processes implemented by the Bank and specialized areas in risk management, all which is oriented to ensure that the financial and accounting information is presented adequately and in conformity with legal requirements.

Specifically, the financial information prepared by BBVA Colombia is subject to an Internal Control System (ICS) with the purpose to provide a reasonable assurance of its reliability and integrity, as well as that the operations are carried out and processed in accordance with the criteria provided by local regulation applicable, by the corporate policies and by BBVA Colombia Management. The ICS was developed by the Group Management in conformity with the international standards of the "Committee of Sponsoring Organizations of the Treadway Commission" ("COSO") that sets forth five components on which the efficacy and efficiency of the Internal Control systems should be supported:

1. Establish an adequate control environment to monitor all such activities.
2. Assess all risks in which the Entity could incur when preparing its financial information.
3. Design the controls required to mitigate the most critical risks.
4. Establish the proper information circuits to detect and communicate the system weaknesses or inefficiencies.
5. Monitor said controls to ensure their functionality and the validity of their efficacy over time.

In compliance with the aforementioned policies, the analysis and control mechanisms of the accounting information systems were defined, among which it is worth highlighting the following:

- The Accounting Events Committee purpose is to review, analyze and evaluate the impacts on the accounting circuits derived from failures in computer processes and identify solutions that mitigate the operational and legal risks.
- The Strategy, Governance and Culture Area functions consists of, among others, controlling, monitoring and alerting on subjects related to the management of accounting and financial information on which there is also an exclusive position for the inspection of information reports to control entities in order to improve the interface mechanisms and extraction of accounting information in a more agile and safe way.
- Internal Audit evaluates constantly the effectiveness of procedures and controls provided for the operation of the information systems of BBVA Colombia, concluding that the information system is adequate and safe, and that the plans to implement the improvement recommendations identified have been performed without evidencing a relevant risk to the entity.

Finally, bearing in mind the evaluations and controls conducted on accounting and financial information systems, the Board of Directors and Management of BBVA Colombia have verified that the disclosure and

information control systems fulfill reasonably the quality, sufficiency and timeliness of the financial information of BBVA Colombia Group.

Operations with Related Parties, Partners and Administrators

The operations of BBVA Colombia with its related parties, partners and administrators comply with the legal standards in force and the general policies of the Bank. The detail is disclosed in the Note to the Financial Statements "Transactions with related parties" of year 2017.

Intellectual property and copyrights

In conformity with the provisions in Article 47 of Law 222 of 1995, amended by Law 603 of 2000, BBVA Colombia informs that it complied strictly with the legal provisions related to the intellectual property and copyrights for different services, products and operations. With regard to the brands and other intellectual property used by the Entity, the appropriate ownership or the licenses and authorization for exploitation have been obtained.

In connection to the software installed, in use or in possession of BBVA Colombia, the appropriate licenses have been obtained and controls have been implemented for the purchase, development, installation, fitting and maintenance processes thereof to be in compliance with the legal requirements about copyrights, privacy and e-commerce.

The Internal Control and Operational Risk as well as Media, Business and Audit Areas, have evaluated and monitored the status of compliance with the standards about intellectual property and copyrights in accordance with the methodology established for such purpose to mitigate the materialization of the respective risks

In turn, in compliance with the provisions in Circular Letter 016 of 2011 of the Financial Superintendence, it is stated for the record that the evidence of such evaluations has been left in the tools and work sheets used by the Internal Control and Operational Risk unit for developing its function; such activity reported regularly to the Board of Directors

Finally, at December 31, 2017, we do not have any knowledge about outstanding claims by authorities or third parties with regard to intellectual property or copyright issues.

Evaluation from other reports

BBVA Colombia declares that in conformity with the provisions in Article 57 of Decree 2649 of 1993, the information and statements contained in the Financial Statements, both individual and consolidated, have been duly verified and obtained from the accounting records of the Bank, are free from material defects or misstatements and have been prepared in conformity with the accounting standards and principles applicable.

Likewise, it states that any other reports required by virtue of article 446 of the Code of Commerce have been disclosed in the Financial Statements and their Notes

6.7. Suppliers

GRI-102-9

During 2017, BBVA Colombia continued strengthening the relation with its suppliers in order to ensure an adequate procurement circuit. For such purpose, bids are based on the homologation process in which eleven aspects are evaluated on the productive, technical, finance, legal and commercial capacity, thus guaranteeing the compliance with the commitments contracted, as well as validating that the suppliers follow not only the Responsible Procurement Policy and the Corporate Standard for Acquisition of Goods and Contracting of Services, but also by the same Code of Conduct of the Organization in general. Such three documents provide the criteria applicable to both the homologation process and the contract specifications.

The transfer of the principles of the Code of Conduct to the procurement function is made through the Application Principles to the Participants in the Procurement Process (IPA per its acronym in Spanish), applicable to all units involved in said process, in any entity of BBVA Group and bind any person performing his job in any of the functions that forms part of said procurement process.

Simultaneously, supplier portals were launched to allow BBVA establishing electronic relations with its suppliers. They are made up of following collaborative surroundings:

Public surrounding: This is a web through which BBVA facilitates general information about the Procurement Process and other relevant aspects of its Procurement Model, thus enabling the companies and self-employed willing to offer their products and services to self-register and keep their information updated.

Private surrounding: It allows those suppliers registered in Adqira to operate electronically with the Bank, having a comprehensive management of the procurement cycle, covering the processes of negotiation, release, issuance, reception of orders and issuance of electronic pre-invoices.

Benefits:

- Control, traceability and visibility of the status of the pre-homologation and negotiation processes.
- Automatic update of the companies' information.
- Online management of orders and acceptance of delivered goods and/or services.
- Reduction of mistakes as a result of the integration and automation of processes.

- Generation and issuance of electronic invoices.
- Training and integral support to operation in the portal.

In addition to the foregoing, the GPS platform has been supplemented with the Relation Center with Latam Suppliers: peripheral global service to attract and support level 1 to Latin America suppliers incorporated to the Adquira Marketplace Suppliers Portal (it enables the online interaction between companies of the Group and its suppliers through a collaborative climate; it covers the main scenarios of the Procurement Process from the issuance of orders to the registry of invoices, and allows the electronic exchange of documents, eliminating the documents in paper form).

As a supplement, we have an Invoice Reception Center for the suppliers of goods and supplies, operating in working days from 9 a.m. to 1 p.m.

BBVA meets the commitments of payment set forth contractually with the suppliers of goods and services, as well as with the obligations with Public Treasury and Withholding Agents pursuant to the tax quality of each supplier at the time of payment.

On the other hand, we attended the course on Sustainable Procurement by the Superintendence of Finance with the purpose to incorporate shared responsibility to the area processes and in this way, ensure a sustainable circuit from beginning to end.

Suppliers Information	2017	2016
On-line negotiations through ADQUIRA (1)	515	575
Requests recorded in Neon	306	308
Requests recorded through GPS (2)	895	773
Suppliers homologated at year end	342	672
Increase of suppliers % (3)	13	6

(1) On-line negotiations through ADQUIRA. HUB and Colombia processes reported for 2017. Also, corporate process reported at the cut-off September.

(2) Requests recorded through GPS. Effective requests reported. Rejected requests dismissed and in creation by user areas.

(3) Increase of suppliers %. Variation for 2017 reported on the basis of registered suppliers.

Social and relational capital	2017	2016
Volume invoiced by suppliers (million pesos)	748,045	728,968
Volume invoiced by suppliers (million USD)	547	676
Volume invoiced by suppliers (million Euro)	4.7	9.2
Average payment time to suppliers (Days)	11	9



7. Supplementary Information

7.1. Annual Report of Corporate Governance	P.185
7.2. Guidelines for reporting	P.203
7.3. GRI Indicators	P.205
7.4. Independent Review Report	P.216

7.1. Annual Report of Corporate Governance

GRI-102-18 • GRI-102-12

Corporate Governance System of BBVA Colombia

The Corporate Governance System of BBVA Colombia (hereinafter the “System”) is aligned with the international, corporate and local recommendations and trends. Its principles, elements and practices are set out in different instruments that guide the structure and functions of the corporate bodies, such as the Articles of Association, the Corporate Governance Code, the Rules of the Shareholders’ General Meeting, the Rules of the Board of Directors and the Rules of the Board Supporting Committees.

The System is also made up by the standards of internal conduct contained in the Code of Conduct of BBVA, the Code of Conduct in the Securities Market and Code of Conduct for the prevention of

money laundering and terrorist financing set out in the postulates that govern the actions of their senior management, members of the Board of Directors, administrators and employees

Additionally, the Corporate Governance System of BBVA Colombia is conceived as a dynamic process in permanent review, with a focus toward improvement and adaptability to the new realities of the Bank and its affiliates, taking as reference the regulations and recommendations produced with regard to the best practices of Corporate Governance.

The Governance system of BBVA Colombia, has the following organization structure:



Implementation report of the New Country Code for 2016

BBVA Colombia completed and transmitted on January 27, 2017, to the Financial Superintendence of Colombia (SFC) the Report of Implementation of Best Corporate Practices-New Country Code for year 2016, available at the Website of the Bank, link: https://www.bbva.com.co/fbin/mult/REPORTE_C_DIGO_PA_S_2016_tcm1304-634792.pdf

This report shows the same structure of the New Country Code; i.e., five areas: 1) Equal treatment of shareholders and protection of their rights; 2) Shareholders' General Meeting; 3) Board of Directors; 4) Control architecture; 5) Transparency and Financial and non-financial information. It has 33 measures, developed in 148 recommendations that may be adopted by the issuers of securities.

The report methodology was based upon the principle "complies x explain". Accordingly, the Bank replied "Yes" when the recommendation was adopted, indicating the supports of the respective recommendation. It replied "No" when for the period 2016, the recommendation was not implemented; however, it was explained when appropriate, that the Shareholders' General Assembly and the Board of Directors had approved their implementation.

Once the Bank answers were validated and reviewed in the Country Code survey, the Financial Superintendence of Colombia highlighted the adoption of the Bank of those recommendations through the modification of its internal regulations, thus strengthening the best practices of Corporate Governance.

Recognition to IR Issuers (Investor Relations)

For the fifth consecutive time BBVA Colombia has received the Issuers Recognition IR (Investor Relations) granted by the Colombia Stock Exchange to issuers that certify the compliance with best practices in terms of: i) Relation with investors, ii) Disclosure of information to investors and to the market in general, and iii) Corporate Governance.

This recognition indicates that BBVA Colombia has the direct communication channel with investors as stakeholders that positions the Bank as the major foreign bank of the country and reiterates its commitment with the implementation of good practices with regard to the disclosure of information and Corporate Governance, strengthening the security, confidence and credibility among the national and international investing community.

Structure of the Ownership of BBVA Colombia

Capital and structure of the ownership of BBVA Colombia

BBVA Colombia has an authorized capital of COP \$645,000'000,000.00 divided into 103,365,384,615 shares, from which 88,977,695,544 are in reserve and 14,387,689,071 outstanding.

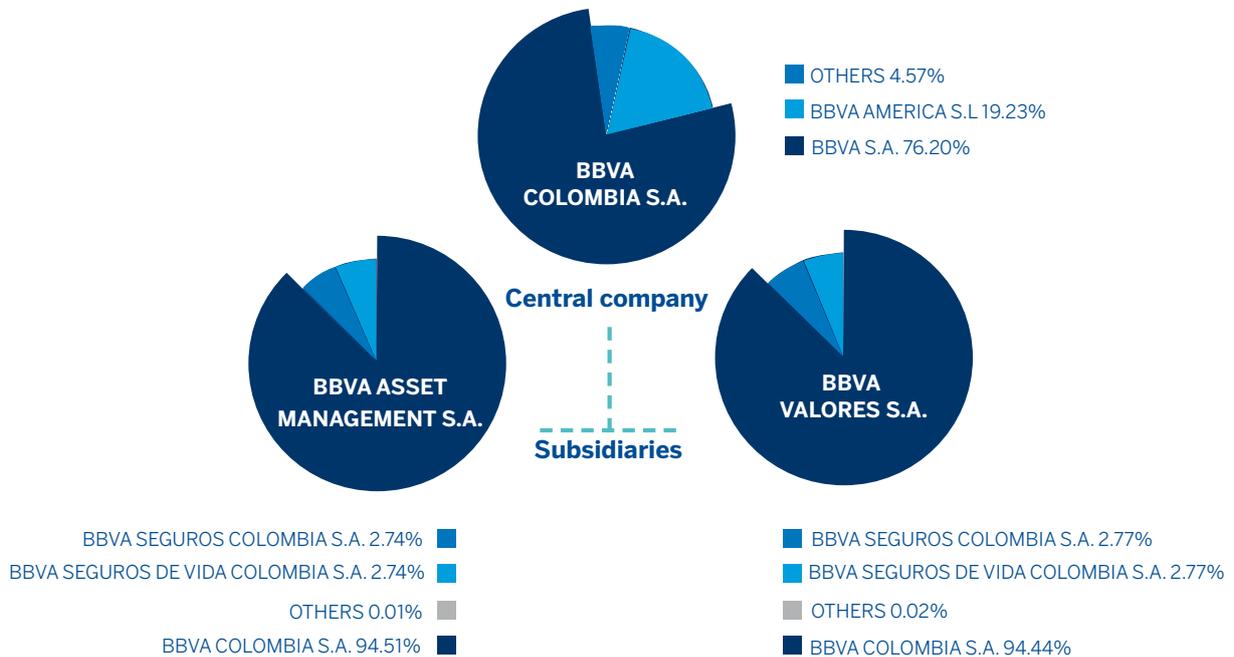
From those outstanding shares, 13,907,929,071 are common shares and 479,760,000 are preferred

dividend shares.

At the cut-off date December 31, 2017, BBVA Colombia registered 65.304 shareholders.

BBVA Colombia Shareholder structure			
Name	No. common shares	No. preferred shares	% interest
Banco Bilbao Vizcaya Argentaria S.A.	10,766,099,008	196,857,652	76.20%
BBV América SL.	2,511,124,962	256,150,000	19.23%
Otros	630,705,101	26,752,348	4.57%
Total	13.907.929.071	479.760.000	100,00%

BBVA Colombia has registered the control and group position with regard to its affiliates BBVA Asset Management S.A. Sociedad Fiduciaria and BBVA Valores Colombia S.A. Comisionista de Bolsa, with following structure:



Information of shares owned by members of the Board of Directors

The members of the Board of Directors are not shareholders of BBVA Colombia.

Family, commercial, contractual or corporate relations between the holders of major interests and BBVA Colombia

Main shareholders of BBVA Colombia are Banco Bilbao Vizcaya Argentaria, S.A. and BBV América, SL. The detail of the commercial and/or contractual relations of said shareholders with the Bank is in Note to the Financial Statements denominated "Transactions with related parties".

Negotiation of shares owned by members of the Board of Directors and Senior Management

In year 2017 there were no negotiations of shares issued by the Senior management of BBVA Colombia. With regard to the members of the Board of Directors of the Bank, it is indicated that they are not holders of shares of BBVA Colombia.

Own shares in possession of BBVA Colombia

BBVA Colombia does not have own shares.

Structure of the administration of BBVA Colombia

Composition of the Board of Directors (Directory)

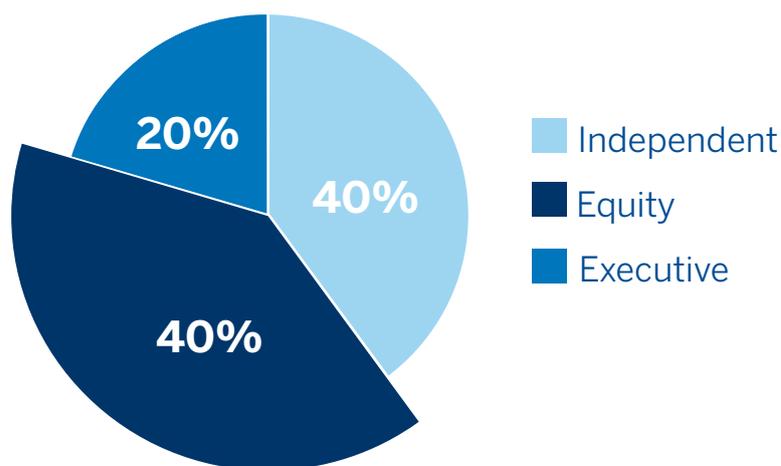
The composition of the Board of Directors of BBVA Colombia is one of the key elements of their Corporate Governance system. In accordance with the Recruiting, Appointment and Succession of the Board of Directors Policy, it is sought the adequate balance in its composition among the different origins of the members of the Board of Directors (hereinafter "members of the Board of Directors" or "Directors"), being majority those executives with equity and independent origin. Additionally, in compliance with Law 964 of 2005, minimum 25% of the Directors should have independent origin, meaning the people defined in paragraph 2, article 44 of the aforementioned law.

Similarly, the Board of Directors and its Supporting Committees should have an adequate and diverse composition, including people with experience and knowledge of BBVA Group, its businesses and the financial sector in general, training, competencies, expertise and experience in fields and sectors that allow the adequate balance in the composition for the best performance of their functions.

Additionally, the convenience to perform an ordered renewal of the Board of Directors on the basis of the adequate rotation of their members, will be considered in order to achieve the objectives provided in the mentioned Policy and supplement and increase the gender diversity, knowledge and experiences, all which may contribute to the best exercise of their functions.

In year 2017 the Board of Directors was made up by 5 Directors, 2 independent, 2 equity and 1 executive, namely:

Director	Origin	Position
Carlos Eduardo Caballero Argaez	Independent	Chairman of the Board of Directors
Juan Rafael Escudero Gómez	Equity	First Vice-president of the Board of Directors
Juan Eugenio Rogero González	Equity	Second Vice-president of the Board of Directors
Ana María Ibáñez Londoño	Independent	Member of the Board of Directors
Oscar Cabrera Izquierdo	Executive	CEO



Carlos Eduardo Caballero Argaez - Chairman of the Board of Directors

Independent – Member of the Board of Directors since March 17, 2005

Civil Engineer from Universidad de los Andes, Master in Science from California University in Berkeley, in Public Affairs from Princeton University and in History from Universidad de los Andes.

More than 40 years' experience working in the public sector, he has served as Ministry of Mines and Energy, Executive Director of Fedesarrollo, Technical Executive Director and Chairman of the Asociación Bancaria de Colombia, Chairman and Member of the Board of Directors of Banco de la República, Director of the Fund for the Export Promotion (Proexpo), CEO of Bancoldex and President of Bolsa de Valores de Bogotá. In June, 2006 he was appointed first Director of Escuela de Gobierno Alberto Lleras Camargo of Universidad de los Andes, position that holds currently.

Mr. Caballero is also member of the Boards of Directors of Promigas S.A., Pedro Gómez y Cía, Centro Colombo Americano, Mineros S.A., and Interconexión Eléctrica S.A. E.S.P. - ISA.

Juan Rafael Escudero Gómez - First Vice-president of the Board of Directors

Equity - *Member of the Board of Directors since March 27, 2012*

Graduate in Law, specialized in Corporate Law from Universidad de Sevilla.

He began his professional career in BBVA Group as Office Director in Torre del Mar, Linares and Sevilla, Spain; additionally, he was Corporate Development Director in Individual Segments in the Regional Direction of Eastern Andalucía in Malaga and led the Management Unit of Cadiz and Commercial Banking of BBVA Portugal.

In year 1994 he was Director of the Management Units of BBVA in Sevilla, later he joined the Direction of BBVA Banca America where he acted as responsible for Business Development of BBVA Chile and BBVA Brazil. He was Director of Commercial Banking in BBVA Chile, Responsible for the Business Development Unit in Individual Segments of Commercial Banking and the Recoveries Unit in the Risks Division of BBVA Spain and Portugal.

Juan Eugenio Rogero González - Second Vice-president of the Board of Directors

Equity - *Member of the Board of Directors since March 17, 2016*

Graduate in Business Administration from Universidad del País Vasco, Bilbao, IT Engineer from Universidad de Deusto Bilbao.

He performed as Executive Director of Corporate Banking and Risk Officer in BBVA Puerto Rico, Corporate Director of Wholesale Risks for Mexico and South America, Corporate Director of Wholesale Policies and Portfolios, Commercial Director for America of Bancaseguros, Risks Director and member of the Direction Committee of BBVA France.

Ana María Ibáñez Londoño - Member of the Board of Directors

Independent - *Member of the Board of Directors since February 28, 2017*

Graduate in Economy from Universidad de los Andes, Master in Agricultural and Natural Resources Economics from the same university, and PhD in Agricultural Natural Resources Economics from Maryland University in College Park, USA.

She has performed as investigator of Banco de la República, Advisor to the Ministry of Environment, Consultant to the Research and Social Protection Departments for Latin America of the World Bank in Washington D.C., Associate Investigator of Fedesarrollo, Dean of the School of Economy and Director of CEDE (Center for the Studies about Economic Development) of Universidad de Los Andes.

Currently, she performs as Full Professor of the School of Economics of Universidad de Los Andes, as Visiting Professor of MacMillan Center at Yale University, Member of the Advisor Team of the Commission on Global Poverty of the World Bank and main and independent member of the Board of Directors of Exito Group, position held since March 2014.

Oscar Cabrera Izquierdo - CEO

Executive - *Member of the Board of Directors since March 26, 2008*

Graduate in Economics and Business Administration from Universidad Complutense de Madrid.

The current Executive Chairman of BBVA Colombia began his career in 1989 in the firm Arthur Andersen as Financial Auditor and subsequently acted as General Controller in Caja Postal S.A. He was General Deputy Director of Accounting and Consolidation in Argentaria until 1998 when he joined the BBVA Group as Corporate Director of Strategic Planning. In 2003 he was appointed Chief Financial Officer in BBVA Bancomer (Mexico D.F.) acting as member of the Boards of Directors of Afore Bancomer and Seguros Bancomer.

Diversity of the Board of Directors

Another distinctive element of the composition of the Board of Directors de BBVA Colombia is its diversity. In this regard, the Board of Directors has a diverse composition that combines profiles with experience and knowledge of the Bank and its affiliates, business and the financial sector, in general.

In 2017, and due to the resignation of one of the members of the Board of Directors and in conformity with the Selection, Appointment and Succession Policy of the Board of Directors, the Good Governance Committee analyzed its composition, as well as the need that its members have diversity in knowledge, competencies, experience and gender that allow development of their functions and the reelection of other Directors and nominations to cover the vacancies. For such purpose, the Committee evaluated the balance between knowledge, competencies, and experience, as well as any other condition to be met by the candidates and the time dedication for the adequate performance of their functions, pursuant to the needs of the Board of Directors.

The Committee valued Dr. Ana Maria Ibañez' CV, profile, academic and professional background, in accordance with the structure, size and composition of the Board of Directors, as well as with the Selection, Appointment and Succession and Gender Diversity Policy. The Board regarded her nomination appropriate and presented it to the Shareholders' General Assembly. Dr. Ibañez has a wide education and experience, both national and international, in economics and finance fields, and also has the time required, meeting the suitability and independence requirements.

Director	Gender	Nationality	Profession
Carlos Eduardo Caballero Argaez	Male	Colombian	Civil engineer
Juan Rafael Escudero Gómez	Male	Spanish	Lawyer
Juan Eugenio Rogero González	Male	Spanish	Economist
Ana María Ibañez Londoño	Female	Colombian	Economist
Oscar Cabrera Izquierdo	Male	Colombian	Economist

Composition of the Supporting Committees of the Board of Directors:

	Oscar Cabrera Executive	Carlos Caballero Independent	Ana María Ibáñez Independent	Juan Rafael Escudero Equity	Juan Eugenio Rogero Equity
Audit		PTE	√		√
Risks		PTE		√	√
Good Governance		PTE	√	√	
Appointments and Compensation			PTE	√	√

Changes in the Board of Directors during 2017

In 2017 the composition of the Board of Directors was reduced from 6 to 5 Directors, due to the bylaws reform approved at the Shareholders' General Meeting held on February 28, 2017.

In conformity with the provisions of article 32 of the Articles of Association, on March 27, 2017 the Board of Directors elected at the Shareholders' General Meeting, appointment Dr. Ana María Ibáñez Londoño replacing Mr. Felipe Cifuentes as Member Independent, which possession was authorized by the Financial Superintendence of Colombia on March 16, 2017.

Members of the Board of Directors of BBVA Colombia that are members of the Board of Directors of affiliates and hold positions in the Organization.

Directors of BBVA Colombia do not form part of Board of Directors or executive positions in affiliates.

Appointment process of Directors

BBVA Colombia has the Selection, Appointment and Succession and Gender Diversity Policy, approved by the Shareholders' General Meeting held on the ordinary meeting on March 17, 2016.

This Policy foresees that the Board of Directors is made up by the number of Directors that, within the framework set by the Law and Articles of Association, determined by the Shareholders' General Meeting. The appointment shall correspond to the highest body of administration and should meet the suitable requirements to perform the position, have the proper knowledge and experience, prevent the situations of conflict of interests, and fulfill the non-compatibility and limitations regime.

BBVA Colombia seeks for the participation of the shareholders in the proposal of the lists presented for the consideration of the General Meeting of Shareholders and ensures that the process for the selection of the members of the Board of Directors is adjusted to the law, the policies and strategies of BBVA Colombia.

The proposals for appointment or reelection of Directors and the nominations to fill the vacancies are presented for the consideration of the Good Governance Committee that supports the Board of Directors to perform their decision-making functions associated to the appointment of the members of the Board of Directors.

This Committee evaluates the balance of knowledge, competencies and experience in the Board of Directors, as well as the conditions that the candidates to the vacancies should meet, evaluating the time devoted deemed necessary for the adequate performance of their function as member of Board of Directors.

To perform its functions, the aforementioned Committee may refer to contracting outsourcing services for recruiting potential candidates whenever deemed convenient.

Similarly, the Good Governance Committee may take into consideration the requests formulated by the members of the Board of Directors and shareholders about the potential candidates to fill the vacancies that could have arisen.

The information related to the candidates, as well as the report that for such purpose is made by the Good Governance Committee, which will include the evaluation of legal incompatibilities and incapacities and the compliance with the requirements to become a member of the Board should be available to the shareholders previous to holding the Shareholders' General Assembly together with all material necessary to facilitate an informed decision making process at the time of voting.

Finally, for the election of Directors the electoral quotient will be applied in conformity with law and Articles of Association and will be made by the Shareholders' General Meeting in a single voting round provided that the lists presented have the minimum number of independent Directors required by law. Otherwise, there should be two voting rounds, one of them for independent Directors required legally and the other for the remaining Directors.

Remuneration policy of the Board of Directors

BBVA Colombia has a Remuneration Policy for the Board of Directors approved by the Shareholders' General Meeting on March 17, 2016.

This Policy differentiates between the remuneration system of the executive and non-executive Directors, as follows:

The remuneration of an Executive Director, i.e. the legal representative involved in the ordinary course of the Bank businesses and in turn, member of the Board of Directors, is ruled by the same principles applicable to the collective of employees of senior management which professional activities have a significant impact on the risk profile of the Group or exercise control functions, as explained below:

For the remuneration of senior management, BBVA follows these criteria: i) the level of responsibility of their functions, and ii) that the remuneration is competitive with regard to the functions equivalent to peer financial institutions in the local market; therefore, the executive origin Director is not recognized with an additional remuneration to their income as employee of BBVA Colombia for their performance as member of the Board of Directors.

With regard to non-Executive Directors (independent and equity) the remuneration system is based upon responsibility, dedication, and incapacities and incompatibilities criteria inherent to their position. This system comprises: i) Fixed monthly remuneration in cash for membership and attendance to the Board of Directors and the different supporting committees to the Board; ii) Remuneration in kind which is made up by the life and accident insurance policies for directors and administrators.

In addition to the foregoing, the equity Directors domiciled abroad receive a remuneration in kind as allowances and emoluments necessary for the attendance to the meetings that require being present.

As to the remuneration of the Chairman of the Board of Directors, based upon the scope of their specific functions and the greater time devoted, could have a higher fixed remuneration within the margins managed by peer financial institutions of the local market.

Finally, in conformity with the Articles of Association, the Shareholders' General Meeting is in charge to set the annual remuneration for the Bank Directors.

Remuneration of the Board of Directors and Senior Management

The Shareholders' General Meeting held on February 28, 2017, approved fees for non-Executive Directors for the amount of eight million Colombian pesos (\$8,000,000) monthly for membership and attendance to the meetings of the Board of Directors and Committees, and to the Chairman of the Board of Directors, Carlos Eduardo Caballero Argaez, approved the amount of ten million pesos (\$10,000,000) monthly.

Consequently, the General Meeting of Shareholders agreed to set for the payment of fees approved as well as for any other expenses required by it for its operation the annual allocation of five hundred seventy five million Colombian pesos (\$575,000,000).

Based upon the aforementioned, the Good Governance Committee verified the compliance with the Remuneration Policy of the Board of Directors as well as with the allocations approved for the year, determining that the Bank paid five hundred eighteen million five hundred sixty six thousand eighty and ten Colombian pesos (\$518,566,810) broken down as follows:

Item	COP\$ Total
Fixed compensation	\$ 405,900,000
Compensation in kind (insurance)	508,800
Compensation in kind (allowances)	112,666,301
Total	\$ 518,566,810

The detail of compensation to Directors, as well as to Senior Management, has been disclosed in the Note "Transactions with related parties" to the

Financial Statements (In Spanish: BBVA, Informe Anual Colombia, 2017).

Attendance and quorum of the Board of Directors

During 2016 the Board of Directors held meetings once a month, fulfilling the timetable set, and notified previously with the appropriate agenda.

The meetings of the Board of Directors and Committees had 100% attendance, except for the sessions of June and July where one of the Directors could not attend for duly justified causes.

Meetings held in 2017 and Directors attendance.⁹

Meeting	Meetings	Attendance
Board of Directors	13	100%
Audit Committee	5	100%
Risk Committee	5	100%
Good Governance Committee	5	100%
Appointments and Compensation Committee	5	100%

Additionally, in conformity with the Regulation, the Board of Directors deliberates and decides lawfully with the presence and votes of the majority of members.

During 2017 all meetings had deliberation and decisive quorum.

Chairman of the Board of Directors (functions and key issues)

At the meeting held on March 27, 2017 the Board of Directors performed the installation of the Directory and the election of dignitaries, appointing Mr. Carlos Caballero Argáez as Chairman.

The functions of the Chairman of the Board of Directors and their responsibilities are incorporated into the Articles of Association (article 43) and the Internal Rules of the Board of Directors (numeral 11A), documents that can be consulted on the Bank web page at:

<https://www.bbva.com.co/meta/atencion-al-inversionista/estatutos-sociales/>

https://www.bbva.com.co/fbin/mult/REGLAMENTO_JUNTA_DIRECTIVA_tcm1304-577300.pdf

Secretary of the Board of Directors (functions and key issues)

In conformity with the Articles of Association (article 43 Bis), the Bank has an official acting as Legal Services Vice-president - General Secretary, appointed by the Board of Directors and who is also its Secretary.

In this regard, the Board of Directors at the meeting held on March 27, 2017 re-elected Mr. Ulises Canosa Suárez, Legal Services Vice-president - General Secretary, as the General Secretary of the Board of Directors of BBVA Colombia

Their functions are incorporated into the Internal Rules of the Board of Directors, document that can be consulted on the Bank web page at:

https://www.bbva.com.co/fbin/mult/REGLAMENTO_JUNTA_DIRECTIVA_tcm1304-577300.pdf

Relations of the Board of Directors with the Statutory Auditor

During 2017, the Board of Directors and the Audit Committee provided an interaction space with the Statutory Auditor, KPMG S.A.S., which delivered direct information to them at the meetings.

The Audit Committee has known and given conformity with the Work Plan 2017 of the Statutory Audit, following up the evolution of the works in course, recommendations formulated and plans adopted by the Entity for their implementation.

Additionally, the Committee has supervised the Statutory Audit services throughout the year, verifying that they have been delivered with quality, independence and effectiveness. Such verification was materialized by the completion of the evaluation by the members of the Audit Committee, which unanimously result was the highest score of satisfaction, highlighting the professionalism of the teams and being a great ally for the governance and direction bodies with regard to the oversight function of the efficacy of internal control and risk management and compliance systems.

Management of information of the Board of Directors

For the proper exercise of their functions, the members of the Board of Directors have access to the information related to the meetings with a minimum of five (5) calendar days in advance to the respective meeting.

The information is available to the Directors through a restricted access net resource hosted in the Bank servers for a safe and adequate management of the confidential information and to which the Directors have access

from any place and device by using the assigned user and password. The foregoing allows the Directors to make informed decisions by having safe, permanent and timely accessibility to the reports.

Activities of the Committees of the Board of Directors

For the best performance of their management and control functions and to have a proper decision making process, the Board of Directors has made up four Committees with functions assigned in their Regulation and that provide assistance to the Board as appropriate.

The four Committees (Audit, Risks, Good Governance and Appointments and Compensation) are headed by independent Directors, made up exclusively by non-executive Directors. The Audit Committee and Good Governance Committee are made up mostly by independent Directors.

The Committees have wide powers and full autonomy in their management, being able to call meetings as required, participate to prepare the agenda and have the attendance of external experts when deemed appropriate, and in addition, direct access to the Bank Executives who report on a recurring basis both to the Committees and the Board of Directors.

In this way, the Corporate Governance System of BBVA Colombia allows the Directors to control the proposals, implement and develop those issues approved by the Board, supporting for such purpose fundamentally on the work done in the Committees.

In compliance with their respective Rules, the Committees prepare their annual Management Report which includes the activities made during the period. These reports are available on the web site at:

<https://www.bbva.com.co/meta/atencion-al-inversionista/asamblea-accionistas/>

Information about the evaluation processes by the Board of Directors and Senior Management.

Self-evaluation of the Board of Directors

In conformity with article 38 numeral 7 of the Articles of Association of BBVA Colombia, the Board of Directors is responsible for the organization of the annual evaluation process of the Directory pursuant to the methodologies generally accepted about self-evaluation or evaluation that may consider the involvement of independent advisors.

For 2017 the Board of Directors approved to implement the self-evaluation methodology that consists of a questionnaire to know the Directors' perception about the operation of the Board of Directors and of the

Supporting Committees as a collegiate body and the Directors regarded on an individual basis, among others.

Self-evaluations were completed by each Director and based upon them, the Good Governance Committee, within the framework of their functions, prepared the respective report to review the results of the process and formulate suggestions to improve the operation of the Board of Directors.

The questionnaire was structured with a five-point scale, where “5” means fully agree and “1” fully disagree. Four axes were evaluated, namely:



The result of the evaluation was positive and evidenced that the Board of Directors has fulfilled satisfactorily with their functions. It is worth mentioning that the Committees supported the decision making process of the Board of Directors and that the meetings addressed all matters as appropriate, devoting the time necessary for discussion of the agenda of each session or of those that were presented out of the agenda.

Senior Management Evaluation

The Appointment and Remuneration Committee is in charge to making the periodic tracking to the competencies, knowledge and experiences required for the positions of the Senior Management. For such purpose, this Committee is supported on the corporate model “Talent Profiling”, which consists of redesigning, streamlining and unifying the evaluation processes to Employees, including Senior Management. Within such project there are the Classification valuations (global performance) and the Skills Management Model, which consists of implementing a 360° evaluation of skills and leadership style; i.e., the Senior Management is evaluated by their respective superiors, peers and collaborators

Current objectives and overall valuation models are the following:

1. Classification: This is an annual process and is conducted in the last months of the year to evaluate the overall performance of employees over the year. The global evaluation is carried out by the superior of each employee on the current performance and the results are used to apply appropriate HHRR policies.

2. The Skills evaluation reviews:

a) **Seven skills:** i) Customer Service; ii) Team working; iii) Digital attitude; iv) Result-orientation; v) Entrepreneurship; vi) Leadership; vii) Analysis and synthesis. The evaluation of such skills is made on a 1 to 5 scale in such a way that the score up to “3” inclusive, reflects improvement opportunities, and above “3” reflects a positive evaluation.

b) **Leadership styles:** Six leadership styles valued: i) Trainer; ii) Orientative; iii) Coercive; iv) Participative; v) Affiliative; vi) Imitative. The results indicate the positioning of the evaluated comparing against the data base of results of more than 60,000 professionals around the world.

At the end of 2017, the classification based evaluation model was applied and the Skills evaluation is expected to be conducted in the second semester of 2018 upon the implementation of the Talent Profiling project.

Operations with related parties:

With regard to the operations with related parties, the Board of Directors made a monthly follow up directly and also with the support of the Audit Committee, determining that in all cases and for all effects and in any type of operations, whether derivatives or any other active operation with the Parent company, affiliates or related parties, the compliance with the standards about the limits to the delivery of the credit or the maximum debt limit or risk concentration, in force on the date of approval of the operations would have been verified.

Additionally, it was confirmed that the operations would have been made in general market conditions in force for similar transactions with third parties, except for those cases of loans for education, housing, transportation and health to Bank officials, which were made in accordance to the entity policies in conformity with the permitted expressly by the legal provisions that govern the matter.

The detail of operations with related parties is stated in the Note “Transactions with related parties” to the Financial Statements.

On the other hand, the Compliance area performed the tracking through direct verification and taking into consideration the information received from the members of the Board of Directors about the actions and operations made on their own in the Securities Market and similar, without events as to privileged information or other aspects. Furthermore, the Compliance Area was attentive on any situation of the conflict of interest in

which could be eventually immersed members of the Board of Directors and legal representatives.

Risk Management Systems

The general model of risk management and control that includes the risk policy, their application and materialization of risk, as well as the response and oversight plans of the main risks are detailed in this Management Report, subheading Risk Report. With regard to the Internal Control System, their model and any other aspects related are detailed also in this Management Report, subheading Internal Control Model which have been adopted by the Board of Directors, posted on the website of the Bank.

Shareholders' General Meeting

Partial Reform of Articles of association, Corporate Governance Code, Shareholders' General Meeting Rules and Board of Directors Partial Rules

During 2017, and adopting the best practices of Corporate Governance recommended in the New Country Code of the Financial Superintendence of Colombia, BBVA Colombia reformed partially the Articles of Association as follows:

- Article 13: the Supporting Committees of the Directors have an Internal Regulation to govern their operation.
- Paragraph 1, Article 17: provisions in article 182 of the Commerce Code are followed in order to indicate expressly that at the ordinary meetings of the Shareholders those matters not contained in the agenda can be addressed freely without the approval by the majority.
- Articles 26 and 27: the number of Directors is reduced from 6 to 5, maintaining 2 independent members.
- Article 59: paragraph is included, stating that any dividend declared by the Shareholders' General Meeting as payable in cash that was not redeemed by the shareholder within three years from the date of enforceability, shall become automatically and without any additional approval, payable in shares at intrinsic value pursuant to the Financial Statements of the immediately previous year.

Also, the reform to the Code of Corporate Governance, Rules of the Shareholders' General Meeting and of the Board of Directors, were presented at the Shareholders' General Meeting held on February 28, 2017, in order to document some measures being applied but required to be incorporated in the rules to evidence their adoption:

- **Code of the Corporate Governance:** BBVA Colombia and will have the same Statutory Auditor and the

change of the partner of the Audit Firm will be encouraged as well as the change of the firm once the maximum term of contracting has been terminated.

The new Parent Company-Affiliates relation model is incorporated to define as the "Make available to everyone the opportunities of this new era" a corporate purpose. As guideline principles, the use of synergies, formulation of corporate bodies through regular reporting and cohesion of control architecture were defined.

- **Rules of the Shareholders' General Meeting:** Installation of the Presiding Panel upon the confirmation of the deliberation quorum, made up by the Chairman of the Board, the President of the Bank, Members of the Board and the Secretary to the Meeting. They are responsible for safeguarding the application of the Rules and construe it in accordance with the Articles of Association and law.
- **Rules of the Board of Directors:** Minutes of the Board of Directors and Committees are made available to Directors through the restricted access resource in the Bank network.

Also, it provides that Committees of the Board of Directors may provide support to the matters own of their competence, extending their scope to affiliates without meaning that this is a transfer of the Board of Directors responsibilities to the affiliates.

Information and communication to shareholders.

The Bank has an exclusive office to its shareholders that is in turn, the link with the governance bodies and which purpose is to deliver clear and objective information related to the Bank and other issues for informed decision making purposes.

Additionally, in Compliance with Annex 49 of the Single Circular Letter of the Colombian Securities Exchange, denominated "Accreditation of the adoption of best practices of the issuers recognition IR", an agenda is prepared to schedule the delivery of quarterly and annual results and inform the business performance.

Also, the shareholders and investors have a space with thorough and sufficient information on the Bank web page through the link "Atención al inversionista" (Investor assistance). In this same section the shareholders receive all the information related to: i) Novelties of Corporate Governance; ii) Relevant information reported to SFC; iii) Information about programs to issue bonds in force; iv) Financial information; v) Information on shares; vi) Agenda of corporate events and related documents; vii) FAQs; viii) Ratings.

Attendance to the Shareholders' General Meeting 2017

On March 1, the Shareholders' General Meeting was held in conformity with the provisions of the current standards,

Articles of Association and Rules of the Shareholders' General Meeting of BBVA Colombia.

Below the aspects related to the Shareholders' General Meeting held on February 28, 2017:

Issue	Date
Post of the notice	January 27, 2017 on La República newspaper and web page of BBVA Colombia.
Right of inspection	As from February 6, 2017
Post of information related to the General Meeting agenda:	BBVA Colombia Web page with 15 days in advance of the meeting.
Deliberation and decision making Quorum	95,739%
Post of the General Meeting	Live transmission via streaming and post of decisions on web page and in RNVE.
Sending copy of the Minutes to SFC	
Sending the Minutes to the SFC by the Statutory Auditor	Within 15 business days after the General Meeting of Shareholders.
Post of Financial Statements:	Within following month to the General Meeting of Shareholders the general purpose financial statements, compared versus previous year, their notes and the Statutory Audit report were posted on the web page.

Main agreements from the Shareholders' General Meeting 2017:

order to strengthen the solvency since in this way they are added in the additional equity.

The following documents and proposals were presented and approved at the Meeting:

- Annual report of the Executive Chairman and Board of Directors
- Individual and consolidated financial statements and unqualified Statutory Auditor report
- Distribution of Earnings Project of 2016 that amounted to \$512,928,078,332.66, as follows: 50.02% to increase the Legal Reserve and 49.98% in cash dividends. Also, it was approved the compromise to allocate 47.5% of earnings of the year in course to increase the legal reserve at the year-end in
- Allocation of 1% of the earnings of year 2016 for Corporate Responsibility activities.
- Election of the Board of Directors, Statutory Audit and Ombudsman of the Financial Consumer and approve their respective remuneration.
- Partial reform of the Bank bylaws to improve the Corporate Governance standards and adopt the New Country Code recommendations.
- Reform to the Rules of the Shareholders' General Meeting and the Board of Directors, and the Corporate Governance Code following the corporate models.

7.2. Guidelines for Reporting

GRI-102-54 · GRI-102-55
GRI-102-56

Information criteria and standards

- Profile, Scope, Relevance, Materiality and Coverage of the report
- Basic references and international standards
- Rigor and verification
- Independent Review Criteria
- GRI Indicators

Profile, Scope, Relevance, Materiality and Coverage of the report

This report has been prepared in conformity with GRI standards: basic option for presentation to the Shareholders' General Assembly.

The use of such methodologies allows the Bank to consolidate in a single document the Management Report and the Corporate Responsibility, improve the quality of information, promote a more coherent and efficient approach to communicate the factors that affect the creation of value of the Bank, improve accountability and inform stakeholders about the effect of the Bank activity in environment, social and economic fields, among others.

This information corresponds to Banco BBVA Colombia as defined in the Annual Report 2017 that contains comparison data with regard to 2016 stating their perimeter. To facilitate the comparability of the information, if said data have undergone any modification with regard to previous year it is due to an improvement in quantification and measurement methods of those affected variables or used criteria.

For determining the relevance and materiality of the contents to be included, special attention has been given to

the major stakeholders with continuity in the consultation processes pursuant to the recommendations established in the guideline to prepare the sustainability reports and in Global Reporting Initiative (GRI).

In this connection, a specific analysis has been conducted with the public and available information in BBVA Colombia to assess the validity and relevance of such matters within the current context. This report is completed with the Annual Report 2016 and other information available on the web page (www.bbva.com.co).

Basic references and international standards

As indicated, this report has been prepared in accordance with the best practices and most recognized international standards and complies with the GRI standards.

Similarly, it reports about those actions related to the United Nations Millennium Development Goals and responds to the Progress Report with regard to the compliance with the principles of the UN Global Compact following the GRI and Global Compact guideline Making the Connection.

Rigor and verification

BBVA Colombia has several instruments to ensure quality. During such process several areas are involved that supply information and that are subject also to the oversight, verification and audit methods in the Bank. In the second term, the reports about Corporate Responsibility are sent to the Group through the information management system that assures their quality and scope. The responsibility to collect the information falls in the Communication and Image Division of the Bank. The verification of this report is performed by KPMG Advisory, Tax & Legal S.A.S.

7.3. GRI Indicators

General basic contents

Indicator	Response	Page	Audit external
Strategy and analysis			
GRI-102-14 Declaration of the head of decision-making of the organization about the relevance of sustainability to the organization.	Letter from the president	7-9	√
GRI-102-15 Description of key impacts, risks and opportunities.	Strategy	27-49	
Organization Profile			
GRI-102-1 Report the name of the organization.	Profile BBVA Colombia	13-24	√
GRI-102-2 Report major brands, products and services.	Profile BBVA Colombia		√
GRI-102-3 The location of the parent report.	Cra. 9 No. 72 - 21 Bogotá, Colombia		√
GRI-102-4 Report the number of countries where the company operates and the name of the countries where the company has significant operations or which are relevant to the sustainability issues covered in the report.	BBVA Group currently operates in 32 countries, including Colombia		√
GRI-102-5 Nature of ownership and legal form.	Profile BBVA Colombia	13	√
GRI-102-6 Markets served (including geographic breakdown, sectors served, and types of customers).	Organization chart and business structure	47-49	√
GRI-102-7 Report the scale of the Organization, including: -Number of employees. -Total number of operations. -Net sales or income.	Profile BBVA Colombia	13,22,152	√
GRI-102-8 Report the following job information: -Report the total number of employees by contract type and gender.	The report of the number of employees by region, and the classification report by type of contract is omitted. The data is reported and collected through the PeopleSoft BBVA Colombia platform.	152-156	√
GRI-102-41 Report the percentage of employees covered by a collective agreement.	The workforce		√
GRI-102-9 Describe the chain of suppliers from the organization.	Suppliers	180-181	√

Indicator	Response	Page	Audit external
Organization Profile			
GRI-102-10 Significant changes during the period covered by the memory size, structure, ownership or the chain of suppliers from the organization.	During 2017 there were no significant changes in the size, structure, ownership or chain of suppliers of the organization.		√
GRI-102-11 Description of how the Organization has adopted an approach or precautionary principle.	There is no precautionary approach that refers to principle 15 of the Rio Declaration.		√
GRI-102-12 Principles or social, environmental and economic programs developed externally, as well as other initiatives to which the Organization subscribes or supports.	Government Systems - International commitments subscribed.	53-71	√
GRI-102-13 Major associations to which they belong (such as industry associations) and/or national and international entities to which the organization supports.	Asobancaria Asobolsa Asofiduciaria		√
Identification of aspects and limitations			
GRI-102-45 List the entities included in the consolidated financial statements and report any of these entities that have not been included in the sustainability report.	Profile BBVA Colombia The information that is consolidated is: * Social investment. * Number of employees (key indicators table of responsible Bank). * BBVA Group Colombia results account. * The scope of the financial data reported corresponds to BBVA Colombia.	13-202	√
GRI-102-46 Explain the process to define the contents of the report and the issues to report.	Materiality and dialogue with stakeholders.	37,38, 129-133	√
GRI-102-47 List all the material aspects identified in the process to define the contents of the report.			√
GRI-103-1 For each material issue report if it is for the entire organization. If not, indicate what aspect is not material to any of the entities that are part of the organization.			√
GRI-103-1 For each material issue, report if it is outside of the organization.			√
GRI-102-48 Description of the effect that can have the restatement of earlier reports information, along with the reasons that such re-statement.	Society - Environment (emissions).	161-175	√
GRI-102-49 Significant changes relating to earlier periods in the scope, coverage or valuation methods applied in the report.	During 2017, there were changes in valuation methods applied to CO2 emissions reported by the Bank. The method used was that sent by BBVA Corporate.		

Indicator	Response	Page	Audit external
Stakeholders			
GRI-102-40 List stakeholders with which the organization is associated.	Materiality and dialogue with stakeholders.	37, 129-133	√
GRI-102-42 Basis for identifying and selecting stakeholders with whom to engage.			√
GRI-102-43 Approach of relationship with stakeholders			√
GRI-102-44 Major concerns and issues that have emerged through the dialogues with stakeholders and the way in which the Organization has responded to these issues in the drafting of the report. Report the interest groups and the topics identified as relevant.			√
GRI-102-46 Approaches adopted for the dialogue with interest groups, including the frequency of your participation by type of interest groups, indicate if any of the dialogues was conducted as part of the process of preparation of the report.			√
Report profile			
GRI-102-50 Period covered by the information included in the report.	2017	203	√
GRI-102-51 Most recent date of the previous report.	2016		√
GRI-102-52 Report cycle (Annual-Biannual).	Annual		√
GRI-102-53 Point of contact for issues related to the report or its content.	Cra. 9 No. 72 - 21, 10th floor Bogotá, Colombia		√
GRI-102-54 • GRI-102-55 • GRI-102-56 Report the option according to the GRI methodology selected by the organization (Core-Comprehensive). Report the GRI table of contents.		203	√
GRI-102-54 • GRI-102-55 • GRI-102-56 Report the policy or approach of the company to seek external audit of the report.			√
Government			
GRI-102-18 The governance structure of the Organization, including committees of the governing body. Identify whether there is any Committee responsible for monitoring economic, social and environmental issues.	Government Systems	53-71 185-202	√
Ethics and integrity			
GRI-102-16 Describe values, principles, standards and rules of conduct of the organization such as codes of conduct and codes of ethics.	Differential Banking Model	39-46	√
Economic value			
GRI-201-1 Direct economic value generated and distributed.	the income is presented in a net manner, and therefore the direct value distributed as interest is being reported net and not separately in interest income (in the direct value generated) and expenses (in the value direct distributed)	164-166	√

Specific basic contents

Stakeholders	Relevant topic	GRI appearance related	Management approach	
Customers	Communication and marketing practices	No related GRI aspect	Transparent, Clear and Responsible Communication	
	Quality of attention and customer service	No related GRI aspect	Management of complaints and claims	
	Digitalization	No related GRI aspect	Omni-channel	
	Products with good quality / price ratio	Labeling of products and services		
	Compliance system / Security and privacy and client protection	Health and safety of the client / Client's privacy	Customer protection	

	Indicator	Page in response of indicator	Omission	External verification
	GRI-417-3 Total number of incidents resulting from non-compliance with the regulations relating to marketing communications, including advertising, promotion and sponsorship, distributed depending on the result of these incidents.	During 2017 Bank there were incidents resulting from non-compliance with the regulations relating to marketing communications, including advertising, promotion and sponsorship.		√
	Own BBVA-6. Percentage of complaints resolved in time.	139-145	Does not apply	√
	Own BBVA-7 Percentage of complaints resolved in time.			√
	Own BBVA-8 Percentage of complaints and claims by the SPC.			√
	Own BBVA-9 Operations by channels.			
	GRI-416-1 Phases of the life cycle of products and services that are evaluated, for in their case be improved, the impacts on the health and safety of the customers, and percentage of categories of products and services significant subject to such procedures of evaluation.	0% and we are working to implement this type of evaluations in the coming years.		√
	GRI-417-1 Types of information about the products and services that are required by the procedures in force and with the rules, and percentage of goods and services subject to such requirements.	138		√
	GRI-418-1 Total number of complaints in relation to the respect for privacy and the leakage of personal data of customers.	140		√
	GRI-419-1 Cost of those significant fines as a result of non-compliance with the regulations in relation to the provision and use of products and services of the organization.	During 2017 significant fines for non-compliance were not recorded by the law		√

Stakeholders	Relevant topic	GRI appearance related	Management approach	
<p>Customers</p>	<p>Attention to clients in difficulty situation / Contribution to the development of local companies / Financial inclusion</p>	<p>Products and services</p>	<p>Soluciones centradas en personas</p>	
		<p>Products and services</p>		
		<p>Portfolio of products</p>		
		<p>Portfolio of products</p>		
		<p>Portfolio of products</p>		
		<p>Local communities</p>		
		<p>Local communities</p>		
		<p>No related GRI aspect</p>		
		<p>No related GRI aspect</p>		
		<p>No related GRI aspect</p>		

	Indicator	Page in response of indicator	Omission	External verification
	FS1 Policies with specific environmental and social components applied to business lines.	BBVA has a policy of specialized financing, which has specific components in environmental and social issues. These policies are corporate guidelines, by which this policy lets you know how projects should be evaluated who might finance the Bank and how you can mitigate social and environmental risks. Similarly, the procedure of principles of Ecuador, whose objective is the bank undertakes to implement them in their environmental and social policies for the financing of projects.		
	FS2 Procedures to assess and protect the lines of business in terms of environmental and social risks.	The Bank has three documents that establish procedures to identify environmental and social risks in their projects in any area of business of the BBVA Group.		
	FS4 Processes to improve the competence of the template when it comes to implementing policies and social and environmental procedures applicable to lines of business.	In 2017, there were 50 employees who had training in TCR.		
	FS7 Monetary value of products and services designed to provide a specific social benefit for each line of business broken down according to your purpose.		The reported information does not mention the monetary value of products that provide a social benefit.	
	FS8 Monetary value of products and services designed to provide an environmental benefit specific, by product line and broken down by purpose.		Currently not available the amount reported is not broken down by product line or purpose. He is expected to report this breakdown in later years.	
	FS13 Accessibility in areas of low density of population or disadvantaged places.	144	Not report number or percentage of points in areas at a disadvantage, it was not possible to carry out the classification for the construction of this report, but in later years it is expected to have this classification.	√
	FS14 Initiatives to improve access to financial services to disadvantaged people.	149-150		√
	Own BBVA-2. Number of clients SMEs.		Does not apply	
	Own BBVA-3. Number of financing to SMEs customers.	147-148		
	Own BBVA-4 Value corresponding to the 2017 outlays to finance sustainable development and infrastructure projects and energy efficiency.	151		
	Own BBVA-5 Value of the loans granted for funding agro-industrial projects.	150		

Stakeholders	Relevant topic	GRI appearance related	Management approach	
<p>Workforce</p>	<p>Respect for Human Rights / Remuneration policy for senior executives and board of directors / Quality of employment / Diversity and conciliation / Training and development of talent</p>	<p>Diversity and equal opportunities</p>	<p>Workforce</p>	
		<p>Training and education</p>		
		<p>Presence in the market / employment / equal pay between women and men</p>		
		<p>Human rights</p>		
		<p>No related GRI aspect</p>		

	Indicator	Page in response of indicator	Omission	External verification
	GRI-401-2 Social benefits for employees with full-time, which are not offered temporary employees or part-time, broken down by activity significant locations.	154		√
	GRI-405-1 Composition of the governing bodies and breakdown of the workforce by professional category and sex, age, minority membership, and other indicators of diversity.	80% of the structure of administration of BBVA is older than 50.	Reports the percentage of employees by job category and age with the scale of BBVA Colombia.	√
	GRI-202-1 Rango de las relaciones por género entre el salario inicial estándar y el salario mínimo local en lugares donde se desarrollen operaciones significativas.	153		√
	GRI-205-3 Incidents of corruption confirmed and measures taken.	In the year 2017, corruption cases there were in the Bank, or public legal cases of corruption against the organization or its employees.		√
	Own BBVA-10 Percentage of employees in buildings certified according to ISO 14001 and LEED.	170		
	GRI-404-1 Average hours of training per year per employee, by genre and by category of employee.	154		√
	GRI-405-2 Relationship between wages of men with respect to the women's, broken down by professional category.	153		√
	GRI-406-1 Total number of incidents of discrimination and actions taken.	Did not exist in the year 2017 complaints to the interior of the Bank by issues of discrimination.		√
	GRI-103-2 The number of human rights-related complaints filed, presented and resolved through formal mechanisms to communicate complaints.	Did not exist in the year 2017 complaints to the interior of the Bank by archived human rights, neither presented nor resolved through our care of complaints mechanism		√
	GRI-419-1 Monetary value of sanctions and significant fines and total number of nonmonetary sanctions resulting from non-compliance with laws and regulations.	During 2017 BBVA don't pay any significant fine		√
	Own BBVA-11 Number volunteers BBVA.	156		

Stakeholders	Relevant topic	GRI appearance related	Management approach	
Society	Financial Education	Etiqueteado de productos y servicios	Financial Education	
	Social action	No related GRI aspect	Education for society	
	Eco-efficiency and the environment	Material (energy, water, waste, Emisiones)	Environment	
	Ethical behavior / Compliance with tax regulations / Response to the credit demand of the company	Shareholder involvement of the asset portfolio	Social, environmental and reputational risk management	

	Indicator	Page in response of indicator	Omission	External verification
	Own BBVA-1 Number of beneficiaries of the financial education program "Adelante con tu Futuro"	166		√
	Own BBVA-12 Number of people benefit from programmes of support to education (backpacks with school supplies and educational scholarships).	169		
	GRI-301-1 Measurement of the consumption of paper and toner	170-175 Calculation methodology		√
	GRI-302-1 Domestic energy consumption	Power: Estimated an average value of Kw of energy for major cities businesses and divides the value paid between the average rate, in order to obtain the monthly consumption in Kw consolidated all offices and buildings Diesel: We average the rates for the GAL to major cities published by the Ministry of mines and energy, then divides the value paid with the average rate, in order to obtain consolidated monthly consumption of the organization.		√
	GRI-303-1 Measurement of water consumption	175 It totals the value of the aqueduct's main companies m3 and then divides the value paid with the average rate, in order to obtain the monthly consumption in the organization consolidated m3		√
	GRI-305-1 Direct GHG emissions greenhouse (scope 1)	175		√
	GRI-305-2 Direct GHG emissions greenhouse (scope 2)			√
	GRI-305-3 Direct GHG emissions greenhouse (scope 3)		Reported information not detailed the methodology of calculation of emissions, is expected to report in later years.	√
	GRI-306-2 Total weight of waste managed, depending on type and method of treatment	172, 175	An action plan will be generated in the coming years to report the method of disposal or waste treatment.	√
	GRI-307-1 Cost of significant fines and number of non-monetary sanctions for non-compliance with environmental regulations.	During 2017, BBVA Colombia had no significant fines for non-compliance to environmental regulations.		√
	FS-10 Percentage and number of companies in the portfolio that has interacted in social or environmental affairs	161		√
	FS-11 Percentage of assets subject to positive or negative social or environmental analysis	170		√

7.4. Independent Review Report



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Report of the Independent Auditor of Limited Assurance for the Banco Bilbao Vizcaya Argentaria Colombia S.A.

We were engaged by the Board of Directors of **Banco Bilbao Vizcaya Argentaria Colombia S.A.** to provide limited assurance on the **Annual Report** for the year ended Dec 31, 2017 of **Banco Bilbao Vizcaya Argentaria Colombia S.A.** ("the Report").

The Limited Assurance Sustainability Parameters covered by our limited assurance engagement are:

Sustainability Parameters Insured	Standard Insured
Direct economic value generated and distributed	201-1
Ratios of standard entry level wage by gender compared to local minimum wage	202-1
Confirmed incidents of corruption and actions taken	205-3
Materials used by weight or volume	301-1
Energy consumption within the organization	302-1
Water withdrawal by source	303-1
Direct (Scope 1) GHG emissions	305-1
Energy indirect (Scope 2) GHG emissions	305-2
Other indirect (Scope 3) GHG emissions	305-3
Waste by type and disposal method	306-2
Non-compliance with environmental laws and regulations	307-1
Benefits provided to full-time employees that are not provided to temporary or part-time employees	401-2
Average hours of training per year per employee	404-1

Diversity of governance bodies and employees	405-1
Ratio of basic salary and remuneration of women to men	405-2
Incidents of discrimination and corrective actions taken	406-1
Assessment of the health and safety impacts of product and service categories	416-1
Requirements for product and service information and labeling	417-1
Incidents of non-compliance concerning marketing communications	417-3
Substantiated complaints concerning breaches of customer privacy and losses of customer data	418-1
Non-compliance with laws and regulations in the social and economic area	419-1
Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	FS10
Percentage of assets subject to positive and negative environmental or social screening.	FS11
Access points in low populated or economically disadvantaged areas by type	FS13
Initiatives to improve to financial services for disadvantaged people	FS14
Number of beneficiaries of the financial education program " <i>Adelante con tu futuro</i> "	BBVA1
Claim resolution time	BBVA6
Percentage of claims solved on time	BBVA7
Percentage of Q&R managed by the SPC	BBVA8

Management's responsibility

Management are responsible for the preparation and presentation of the Limited Assurance Sustainability Parameters in accordance with the Global Reporting Initiative (GRI) standards Guideline, the Financial services sector supplement Guidelines of the G4 version, and **Banco Bilbao Vizcaya Argentaria Colombia S.A.** own indicators described in the subchapter "About this Report". In said subchapter, the self-declared compliance option is detailed.

This responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Limited Assurance Sustainability Parameters that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that **Banco Bilbao Vizcaya Argentaria Colombia S.A.** complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Sustainability Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a limited assurance conclusion on **Banco Bilbao Vizcaya Argentaria Colombia S.A.** preparation and presentation of the assurance of the Limited Sustainability Parameters included in the Report.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. We confirm that we have executed this assignment for the **Banco Bilbao Vizcaya Argentaria Colombia S.A.** independently and free of conflicts of interest.

ISAE 3000 requires that we plan and perform the engagement to obtain limited assurance about whether the limited Assurance Sustainability parameters are free from material misstatement.

Limited assurance on the Assured Sustainability Parameters

Our limited assurance engagement on the Limited Assurance Sustainability Parameters consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Parameters, and applying analytical and other procedures, as appropriate. These procedures included:

- Interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Enquiries of management to gain an understanding of **Banco Bilbao Vizcaya Argentaria Colombia S.A.** processes for determining material issues for **Banco Bilbao Vizcaya Argentaria Colombia S.A.** key stakeholder groups.
- Enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Parameters.
- Enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Parameters, including the aggregation of the reported information.
- Comparing the Limited Assurance Sustainability Parameters to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report.
- Visits to the headquarters in Bogotá D.C., selected on the basis of a risk analysis including the consideration of both quantitative and qualitative criteria.
- Reading the Limited Assurance Sustainability Parameters presented in the Sustainability Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of **Banco Bilbao Vizcaya Argentaria Colombia S.A.** .
- Reading the remainder of the Sustainability Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Parameters.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for **Banco Bilbao Vizcaya Argentaria Colombia S.A.** for the purpose of assisting the Directors in determining whether **Banco Bilbao Vizcaya Argentaria Colombia S.A.** Limited Assurance Sustainability Parameters are prepared and presented in accordance with the GRI standards and the Global Reporting Initiative (GRI) Financial services sector supplement Guidelines of the G4 version, and **Banco Bilbao Vizcaya Argentaria Colombia S.A.** own indicators and for no other purpose or in any other context.

Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than **Banco Bilbao Vizcaya Argentaria Colombia S.A.** for any purpose or in any other context. Any party other than **Banco Bilbao Vizcaya Argentaria Colombia S.A.** who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than **Banco Bilbao Vizcaya Argentaria Colombia S.A.** for our work, for this independent assurance report, or for the conclusions we have reached.

Our report is released to **Banco Bilbao Vizcaya Argentaria Colombia S.A.** on the basis that it shall not be copied, referred to or disclosed, in whole (save for than **Banco Bilbao Vizcaya Argentaria Colombia S.A.** own internal purposes) or in part, without our prior written consent.

Our conclusions

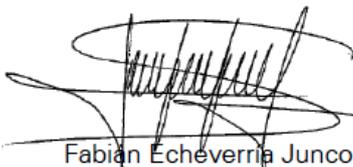
Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Based on the limited assurance procedures performed and the evidence obtained, as described above, nothing has come to our attention that causes us to believe that the limited assurance sustainability parameters defined above of the Annual Report of **Banco Bilbao Vizcaya Argentaria Colombia S.A.** for the year ended December 31, 2017 is not prepared, and presented, in accordance with the GRI standards for the preparation of Sustainability Reports, the supplement of the Financial services sector corresponding to the guides of the G4 version, and **Banco Bilbao Vizcaya Argentaria Colombia S.A.** own indicators.

In another document, we will provide the Management of the **Banco Bilbao Vizcaya Argentaria Colombia S.A.** an internal report that contains our findings and areas for improvement.

KPMG Advisory, Tax & Legal S.A.S.



Fabian Echeverria Junco
Partner
June 25 2018



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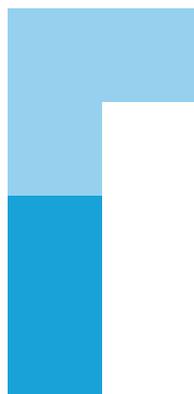
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Creando Oportunidades

