



Management Report

The management report is submitted for approval to the General Assembly of Shareholders, previously approved by the Board of Directors as record in Act No. 1602 of January 26, 2015, contains the economic and financial analysis of the balance sheet and the income statement of the Banco Bilbao Vizcaya Argentaria Colombia S.A. "BBVA Colombia", a banking institution constituted as a corporation by public deed 1160 on April 17, 1956 and that expires on December 31, 2099.

According to the rules of the Superintendencia Financiera de Colombia SFC (Colombian Financial Authority) and the Code of Commerce, the audited financial statements of BBVA Colombia are annexed to this document.

In accordance with the article 57 of Decree 2649/1993, information and claims related to the financial statements have been properly verified and obtained from the Bank's accounting records, and prepared in agreement with the rules and accounting principles in Colombia.

The financial statements include descriptive notes on rules and ledger accounts required for its production. Specifically, note number 34 reveals balances and transactions with related economic parties (subsidiaries, partners and administrators) to December 31st, 2014.

Taking into account that BBVA Colombia consolidates its financial statements with its parent BBVA Spain, the income statement figures included in this Management Report, taken from the audited financial statements, are classified and grouped according to the corporate methodology defined worldwide for all BBVA subsidiaries.

As a complement to this analysis, the annual report contains a description of the economic environment, main areas and business of the Bank, as well as the major activities carried out during 2014.

Evolution of the macro-economic and financial environment

The Colombian economy reached its potential growth in 2014 as a result of the good performance of investment and the sustained dynamic of consumption. It reached (unseen) levels of unemployment unseen during the last decade, and a controlled inflation between the target ranges established by the Central Bank. The public and private construction was one of the relevant sectors during the year by cause of the exceptional performance of public constructions and the growth of non residential investment. The economy showed its strength by facing internal and external conflicts that were corrected satisfactorily.

The consolidation of the growth of United States of America during the year, allowed the gradual dismantling of the exceptional liquidity measures implemented by the Federal Reserve and an expectative of initiation in the standardization of the monetary conditions by the end of the year. Meanwhile, China continued with the transformation of its economy towards a less dependent on investment and on global demand model, to one based on domestic consumption. Consequently, the market was surprised with a lower growth than expected and a lesser demand of necessity goods. The Euro zone continues with disappointing growth and the risk of persistent deflation.

As a consequence, emerging economies lost attractiveness and their currency was devalued, some countries facing a decrease in capital flows. Financial risks persist due to uncertainty



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about the global impact of the standardization of the monetary conditions in United States and the geopolitical complications that may occur in Russia and Middle East.

The internal dynamic was supported by the domestic consumption as well as the private and public investment. During the first semester of the year, Colombian exports were affected by supply conflicts in the load of coal, because of breach of environmental licenses and complications in the repair of the pipelines' attacks.

During the second semester of the year, the strong fall in oil prices decreased export value. Sectorally, the industry contributed to the economy's growth and the agriculture maintained a good dynamic, as a result of the coffee crop performance and the favorable prices. Inflation ended the year in the upper range of the Central Bank's target and with well anchored expectations to the long-term target. The consolidation of the economic activity allowed the issuer to approximate expansive monetary conditions to a neutral one, discouraging the household and corporate indebtedness.

Credit granted by the banking industry continued growing in a moderate and sufficient pace which enabled a healthy banking growth in the medium term. Portfolio quality indicators had minor decreases, yet are still below historical averages. The increases of the Central Bank interest rates haven't been completely transmitted, therefore, it is expected a deterioration in portfolio quality. Nonetheless, the levels of provisioning and solvency were placed comfortably above the regulatory minimum, reflecting the ability of the financial system to face a year of economic deceleration.

On regulatory matters, the effects of the changes in the regulation that had impacts in the sector concerning to the mandatory deposit insurance by Fogafin, were present.

The bank structure continued its expansion in financial linkage, maintaining the predominant composition of national capital, with the entrance of international participants that are looking for its consolidation as strong competition.

To summarize, 2014 was a year of good results for the banking sector, with a satisfactory behavior of quality indicators and a positive transformation that will take to more competitive stages.

Bank's Financial Behavior

Balance Sheet

BBVA Colombia total assets recorded a 19.0% growth over the previous year, reaching COP \$41.5 billion with a COP \$6.6 billion variation.

BALANCE SHEET

(Individual Items - Million COP)

	2012	2013	2014	(%)
Cash, Central Bank and other Banks accounts	3,356,468	2,420,985	2,596,873	7.3
Financial Intermediaries	649,599	99,500	469,842	NC
Securities Portfolio	4,194,977	5,372,509	5,775,454	7.5
Net Loan Portfolio	20,361,307	24,998,685	29,911,206	19.7
Properties and equipment, Net	267,347	308,571	302,471	(2.0)
Other Active Accounts	1,711,188	1,683,034	2,472,010	46.9
Total Assets	30,540,886	34,883,283	41,527,856	19.0
Financial Intermediaries	921,973	1,156,002	2,339,464	102.4
Clients Resources	24,281,660	28,196,892	32,303,185	14.6
Trading Investment Securities	1,262,890	1,094,760	1,301,650	18.9
Others	1,217,123	1,195,138	2,087,912	74.7
Equity	2,857,240	3,240,492	3,495,646	7.9
Paid in Capital	89,779	89,779	89,779	-
Reserves	1,901,166	2,123,293	2,386,123	12.4
Surplus	422,023	501,584	533,928	6.4
Profit for the last period	-	-	-	NC
Profit for the period	444,272	525,837	485,815	(7.6)
Total Liabilities + Equity	30,540,886	34,883,283	41,527,856	19.0
Memo Item				
Assets m/e	(2,444,918)	(649,713)	6,431,445	NC
Liabilities m/e	(2,429,701)	(92,777)	6,728,187	NC

In relation to *Cash, Central Bank and other Banks accounts*, by the end of the period the account increased 7.3% y/y as a result of deposits in the Central Bank and other financial institutions (COP \$176 mM) tied to the performance of the resources.

Active financial agents had a relevant year increase, as a result of the treasury positions taking, especially in simultaneous operations. With the given market conditions of the second semester of the year, the Securities Portfolio exceeded previous year levels increasing by 7.5% y/y and recording a balance of COP \$5.8 Billion, with high participation in debt securities.

The Loan Portfolio maintains its growth path similar to the previous years, giving continuity to the established strategic initiatives, which is reflected in an ending net portfolio balance of COP \$29.9 billion, COP \$4.9 billion (19.7% y/y) more than in 2013.

The Properties and Net equipment account decreased by 2.0%, reflecting the effort in efficiency as a result of lease the major part of the new subsidiaries. In relation to Other Active Accounts, the dynamic in Derivatives, especially in Forward products and Swaps, implied a notable increase (46.9%).

Likewise, liabilities of financial intermediaries record an important growth (102.4%) reflecting the increment in simultaneous and interbank repos catchment.

Customer resources grew 14.6% y/y reaching up to COP \$32.3 billion, with a relevant input of term product where an increase by 40.2% is record, reaching the COP \$10.7 billion with a Customer Deposits' share of 33%.

The circulating investment securities line of business, with balance of COP \$1.3 billion increased by 18.9% compared to 2013. In December, 2014 a successful Subordinated Bonds

issuance of COP \$250 mM was made up to 10 and 15 years, indexed to the IPC (consumer prices index), that was demanded 2.5 times.

The Bank's Equity increased by 7.9%, reporting a balance of COP \$3.5 billion at the end of the fiscal year.

Loan Portfolio

The loans dynamic maintained its growing recording excellent growing in BBVA Colombia, once again overcoming the objectives and in accordance with the established strategic plans.

The year closed with a balance of COP \$31.0 billion in gross loan portfolio and COP \$30.0 billion in Net Portfolio Provisions, with growth of 19.7% y/y for both lines.

LOAN PORTFOLIO

(Individual Items - Millon COP)

	2012	2013	2014	(%)
Gross Loan Portfolio	21,165,647	25,856,524	30,953,508	19.7
Consumer Loan	7,118,886	8,485,158	9,820,212	15.7
Commercial Loan	6,570,855	8,381,798	10,343,087	23.4
Micro-credits	44	34	17	(50.7)
Mortgage	4,788,041	5,685,456	6,559,352	15.4
Leasing	1,116,131	1,513,833	2,224,460	46.9
Loan Portfolio expressed in foreign currency	1,174,080	1,299,942	1,360,772	4.7
Non-performing loans	150,896	165,667	200,569	21.1
Overdue loans	246,716	324,637	445,039	37.1
Loan - Loss Provisions	(804,340)	(857,839)	(1,042,302)	(21.5)
Net Loan Portfolio	20,361,307	24,998,685	29,911,206	19.7

BBVA Colombia maintains its strong activity in Personal Portfolio, involved in 55.9% of the total loan portfolio, increasing up to 15.6% y/y.

Consumer business line composed by "Libranza" (Payroll Loan), Vehicle and free investment loans, individual Credit Cards and overdraft, presented a growth of 15.7% y/y as a result of the segments oriented strategy and the high value collectives. The "Libranzas" remain the leader product in the business line, accompanied by the significant rise in Vehicles portfolio which also presented a relevant growth this period (27.0%).

BBVA Colombia remains a Benchmark of mortgage credit allocation, with an increasing amount of \$6.6 billion with a variation of 15.4%, which means an annual increase of COP \$874 mM.

For companies' business line (Commercial, Leasing, Micro-credits and Foreign Currency Portfolio) 2014 was an excellent year, with an annual growth of 24.4%, which means an increase of COP \$2.7 billion that allowed a closing balance of COP \$13.9 billion. Leasing portfolio remains the most prominent with a growth of 46.9%, followed by the commercial portfolio with a 23.4% y/y.

BBVA Colombia recorded notable increments in loan product placement for Personal and Companies business lines, ratifying the dynamic and expansive profile of the franchise.

Quality of the Portfolio

Once again BBVA Colombia's risk management maintains the success of Credit Quality indicators, allowing a prudent and competitive risk profile activity expansion. Taking into account the annual growth of Gross Loan Portfolio of COP \$5.1 billion, the excellent performance in admission and recovering is notable, allowing an ending of the period with competitive index of Non-performing and Overdue loans.

Non - Performing Loans and Coverage (Million COP)

	2012	2013	2014
Gross Loan Portfolio	21,165,647	25,856,524	30,953,508
Total Non-Performing	397,611	490,304	645,608
Non-Performing Loans	150,896	165,667	200,569
Overdue Loans	246,716	324,637	445,039
Non - Performing loans	%	%	%
Non-Performing Loans	0.71	0.64	0.65
Overdue Loans	1.17	1.26	1.44
Coverage Ratio	%	%	%
Non-Performing Loans	533.04	517.81	519.67
Overdue Loans	326.02	264.25	234.20

The Non-Performing loans portfolio developed in order with the growth in loan activity and with the environmental conditions, maintaining its good quality. As for the indicators, the non-performing loan portfolio ended the year in 0.65% and the overdue loans portfolio in 1.44%. The non – performing loans portfolio coverage indicator closed at 519.67% and the overdue one at 234.20%, continuing at high levels.

Clients' Resources

2014 ratified BBVA Colombia as a large fundraiser of resources, as a result of the clients' confidence. Consequently, a relevant increase is record in the Total Customer Funds, including issued bonds, increased to COP \$33.6 billion.

Clients' Deposits

(Million COP)

	2012	2013	2014	(%)
Checking Accounts	3,614,875	4,687,283	4,918,351	4.9
Savings Deposit	13,876,027	15,513,882	16,230,757	4.6
Term Deposits	6,470,785	7,629,691	10,698,926	40.2
CDAT's	-	-	-	-
Other Deposits	319,973	366,036	455,150	24.3
Total Clients' Deposits	24,281,660	28,196,892	32,303,184	14.6
Senior and Subordinated Debt	1,262,890	1,094,760	1,301,650	18.9
Total Clients' Resources	25,544,550	29,291,652	33,604,834	14.7

Customers' deposits closed the year with a balance of COP \$28.2 billion. Transactional deposits (Demand and Savings deposits) increased 4.7%, ascending to COP \$21.1 billion, and term deposits increased 40.2% y/y recording a COP \$11.0 billion closing balance.

Eligible Capital and Solvency Ratio

BBVA Colombia closes 2014 period with excellent indicators in the capital management. As a result, Equity increases in COP \$255 mM, 7.9% y/y, reaching COP \$3.5 billion.

In August 2013, decree 1771/2012 entered into force modifying regulations regarding solvency, Technical, Basic and Additional Equity. Therefore, 2013 and 2014 data are not comparable with data reported at 2012 closing.

Regarding to 2014's performance, the Bank's Technical Equity reflected comfortable levels amounting up to COP \$3.6 billion, and an Equity Surplus of COP \$540 m.M exceeding the minimum required by the Colombian Banking Authority.



Eligible Capital and Solvency Ratio
(Million COP)

	2012	2013*	2014*	%
Shareholder's Equity	2,857,240	3,240,493	3,495,645	7.9
Eligible Capital	2,646,265	3,081,638	3,637,062	18.0
Required Eligible Capital	2,114,059	2,438,904	3,097,415	27.0
Eligible Capital in Excess	532,206	642,734	539,647	(16.0)
Risk Weighted Assets	23,489,541	27,098,933	34,415,721	27.0
Value at Risk (VaR)	158,757	63,408	139,861	120.6
Solvency Ratio without VaR	12.18	11.68	11.07	(61)
Solvency Ratio with VaR (minimum 9%)	11.27	11.37	10.57	(80)
Tier 1 (%)	8.48	6.37	6.95	58

* 2013 and 2014 Data with methodology - Decree 1771 of 2012

¹ Capital Tier 1 against risk-weighted Assets

Risk level weighted assets show an activity growth and increased a 27.0%, reaching COP \$34.4 billion. Meanwhile, the Market's Risk Value (VaR) increased significantly due to the adequacy of the modification of market risk compensation in the derivatives portfolio, and to the Treasury's strategic rearrangement focused on portfolio and fixed income deadlines.

The BBVA Colombia's solvency level is appropriate and exceeds 157 bps, which is required by the Colombian Banking Authority.

Income Statement

The relevant growth in activity and market operations were reflected in the results during 2014. As a result of the business dynamic, income generation increased by 11.0% from the accumulate Net Interest Margin, that reached COP \$1.9 billion.

INCOME STATEMENT
(Million COP)

	2012	2013	2014	%
Financial Income	2,440,514	2,780,590	3,103,176	11.6
Financial Costs	(952,811)	(1,031,793)	(1,162,226)	12.6
Net Interest Income	1,487,703	1,748,796	1,940,950	11.0
Net Fees and Commissions	266,902	272,268	287,415	5.6
Trading Income	155,007	131,168	144,205	9.9
Other Operating Income and Expenses	(61,593)	(48,469)	(79,833)	64.7
Gross Income	1,848,019	2,103,764	2,292,737	9.0
Operating Costs	(751,515)	(834,829)	(910,653)	9.1
- Employee Expenses	(377,941)	(424,280)	(458,578)	8.1
- General Expenses	(306,920)	(335,627)	(379,102)	13.0
- Contributions and taxes	(66,653)	(74,922)	(72,974)	(2.6)
Amortization	(62,452)	(64,730)	(75,511)	16.7
Net Margin	1,034,052	1,204,205	1,306,572	8.5
Impairment on financial assets (net)	(269,570)	(325,948)	(419,424)	28.7
Provisions credit losses of othe assets	(264,818)	(323,180)	(423,452)	31.0
Provisions	(4,752)	(2,768)	4,027	(245.5)
Operating Income	(124)	(2,241)	(4,084)	82.3
Other Gains (losses)	764,358	876,016	883,064	0.8
Income Before Taxes	(119,276)	(118,589)	(119,126)	0.5
Income Tax	645,082	757,427	763,938	0.9
Impuesto Sociedades ⁽¹⁾	(200,809)	(231,590)	(278,123)	20.1
Bº NET	444,272	525,837	485,815	(7.6)

Note: This Income Statement responds to the corporate structure of BBVA Group.

(1) The Income Tax Includes equity tax.

Net fees and commissions presented a high performance increasing 5.6% y/y. Trading Income reflected the correct politics to draw market situations that occurred during the year, increasing to 9.9%. Other operating Income and Expenses presented an important increase, given that they absorb the impact of the change in regulation of deposit insurance that modified the corresponding devolution to banking establishments. As a result, gross income reached COP \$2.3 billion increasing 9.0% y/y.

Administrative expenses increased by 9.1% y/y, working with the ambitious expansion plan in offices, ATMs, banking correspondents that impact in facilities expansion and in service points, as in adjustments and in technology investments, which are reflected in General Expenses ascending to COP \$379 mM. Employee expenses increased by 8.1% according to the employment increased due to the offices expansion. Amortization increased, taking into account that they collect the effects of infrastructure expansion that started in 2012. As a result, Net Margin reached COP \$1,3 billion increasing by 8.5% y/y.



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Loss on Impairment on Assets increased by 28.7% y/y, due to the performance of the bank's portfolio during the year, specially the relevant growing in Consumption and Credit Card, with special impact of the general provisions. As a result, BBVA Colombia maintains its risk premium as one of the lowest of the sector.

The outstanding margins growth permitted the absorption of the expansion's cost and the impacts of higher provisions, allowing the Profit before Tax to increase to COP \$764 mM, which corresponding to a growth of 1.0% y/y. The corporate tax segment increased by 20.1%, reflecting the effect of the tax burden's growing. Profit after Tax closed in COP \$486 mM, with a slight decrease over the same period in 2013.

En conclusión, el 2014 fue un año de retos para el BBVA Colombia en el que se sortearon de forma satisfactoria las condiciones del mercado, que derivaron en crecimiento de la Actividad y la generación de márgenes que superan los periodos anteriores.

In conclusion, 2014 was a challenging year for BBVA Colombia, where market conditions were raffled satisfactorily, which resulted in the activity's growth and in margins generation that exceed the previous periods.