

## Board of Directors

### Principals

Carlos Guillermo Arango Uribe  
Javier Suárez Esparragoza  
Alvaro Peláez Arango  
Gabriel Humberto Zárate Sánchez  
Mark Alloway

### Alternates

Alvaro Carvajal Bonnet  
David Peña Rey  
Federico Salazar Mejía  
Enrique Flórez Camacho  
Lakshmi Shyam Sunder

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## General information

June 2010

<b>Value and Risk Rating</b>	<b>AAA</b>
<b>BRC Rating</b>	<b>AAA</b>
Customers	4,16 million
Offices	523
ATMs	1.376g
Employees	10.028
Credit cards	1.376 million
Debit cards	2.615 million
Assets	\$25,7 trillion
Borrowings from the public	\$17,0 trillion
Solvency ratio	13,25 %
<b>Net profit as of June 2010</b>	<b>\$246.832 million</b>

**Report of the Board of Directors and the President  
to the General Stockholders' Meeting  
January - June 2010**

**Messrs Stockholders:**

It is a pleasure for us to present the report of the Bank's activities as of June 2010.

The first half of the year was characterized by the recovery of the main sectors of the economy, a reduction in interest rates and an inflation that remains low.

Growth forecasts of the Colombian economy for the second half of the year exceed 5%. This generates a proper environment for the growth of the financial sector and, therefore, a higher volume of portfolio disbursements.

On the other hand, the economic policies of the new government are focused on encouraging sectors such as agriculture, infrastructure, innovation and technology, home construction and mining, which were essential within the Bank's strategy.

Favored by these economic and market conditions, during this six month period, the Stockholders' Meeting and the Board of Directors jointly defined and approved the Regulations for the issuance of preferential shares that will be offered to the market by the second half of 2010.

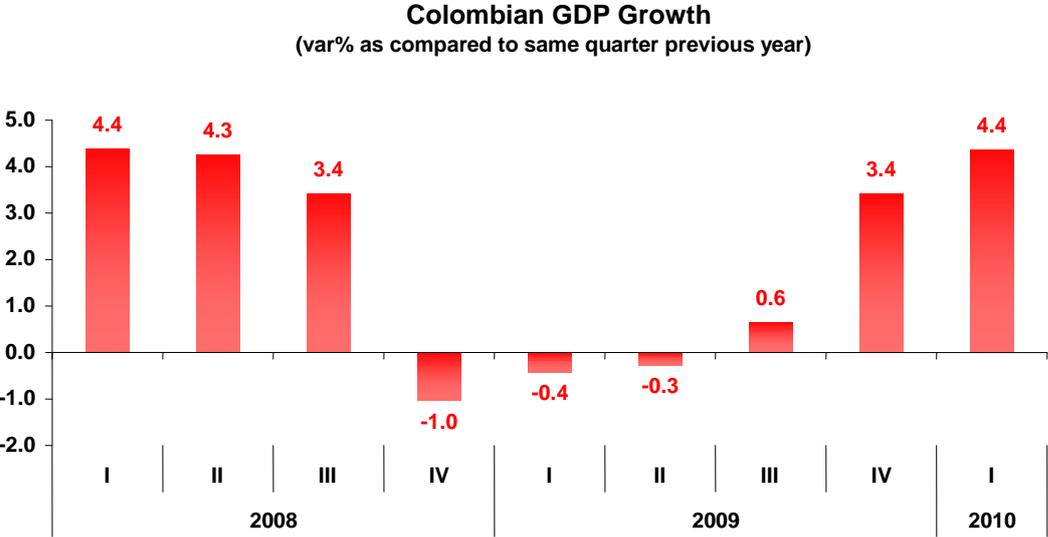
**1.1. Economic Environment.**

As a result of the world’s economic recovery, of the anti-cyclic program undertaken by the national government, of the low domestic interest rates and of the expansion of the mining sector, the Colombian economy expands at a good rhythm in the year to date 2010. According to the Central Bank, the Colombian economy will grow in a range from 3.5% to 5.5% with a more likely growth scenario of 4.5%.

As far as inflation is concerned, as a consequence of an El Niño event a lot more moderate than initially anticipated, food prices are increased at moderate rates.

**1.2 Gross Domestic Product.**

The Dane informed that during the first quarter of 2010 the Colombian economy grew 4.4% in real terms in respect to the same quarter of 2009. The GDP figures were subject to important methodological changes and thus, the data of the past few quarters had significant changes. For example, in the consolidated of 2009 the economy that had grown 0.4% in real terms under the previous methodology, grew 0.8% in real terms under the new one.



Source: Dane.

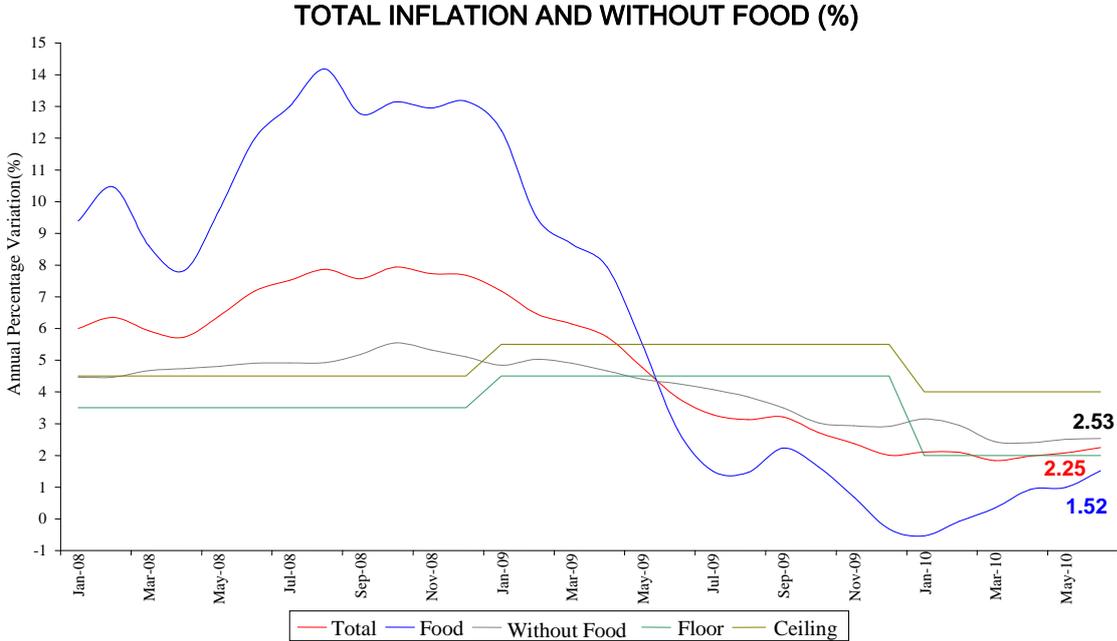
The economic activities that experienced the highest growth in the first three months of 2010 were: the construction and exploitation of mines and quarries. The first activity grew 15.9% in real terms as compared to the first quarter of 2009. This behavior was driven by the expansion of civil works, which increase was 37.9% annual. The GDP of the mining and quarry sector grew 13.2%, this dynamic was supported on the expansion of the oil and gas subsector (18.6%).

The analysis of the added demand for the first quarter of this year indicates a significant recovery of internal consumption. The final consumption grew 4% annually in real terms, which was the result of an increase of 6.1% of government expense and of 3.2% in consumption by homes; investments grew 8% real annually, due mainly to the variation of

the gross formation of fixed capital in the civil works sector. Exports continued maintaining a contractive dynamic, their GDP decreased 7.4%.

In conclusion, the Colombian economy will be more dynamic in respect to the estimates made at the end of 2009. The estimates of the Central Bank suggest that the economy will grow in 2010 from 3.5% to 5.5% with a more likely scenario of 4.5%.

**1.3 Inflation.**



The first half of 2010, the annual inflation experienced a slight acceleration passing from 2% at the closing of 2009 to 2.25% in June. Analysts' expectations coincide almost unanimously in that inflation will close 2010 very close to the median of the target range of the Central Bank (3%). The expected increase of inflation is related to an increase in food inflation in the rest of 2010.

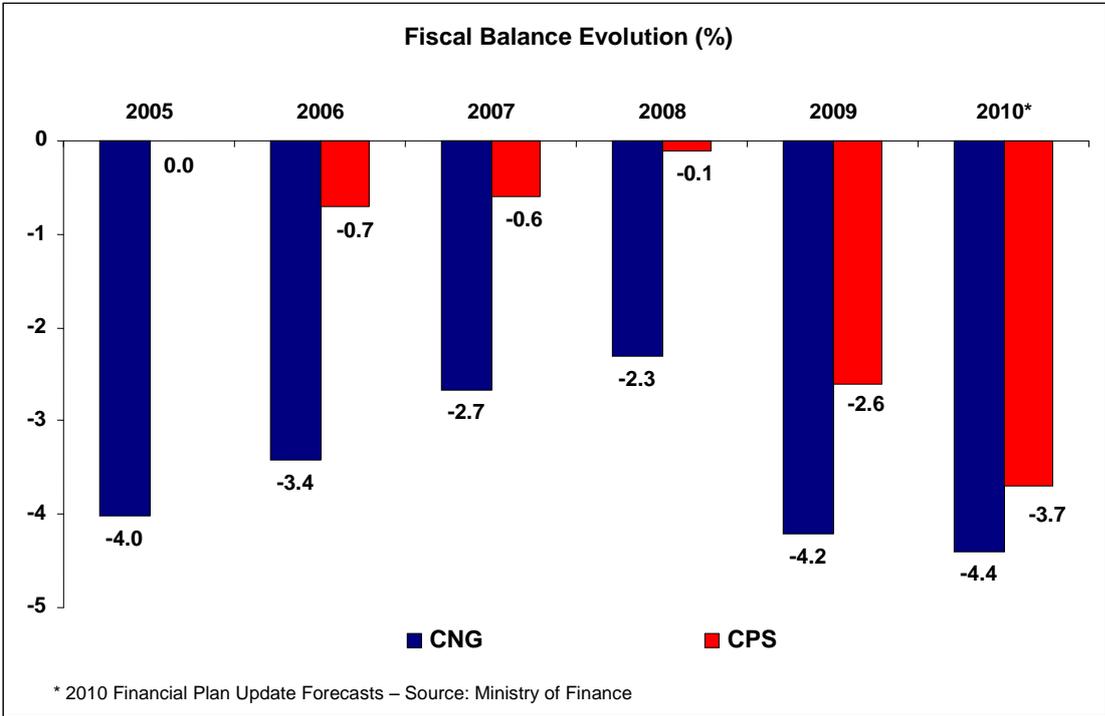
Price stability is the consequence not only of a stabilization of prices of the basket of non-food goods, which as of June was growing 2.53% annually, but also moderate increases in food prices, which inflation amounts to just 1.52% annually in June. Notwithstanding the recovery of the domestic demand, the still low levels of utilization of the installed capacity and the downward trend of the exchange rate have permitted to avoid a significant increase in inflationary pressures.

**1.4. Monetary and fiscal policy.**

During 2009 the Central Bank adopted a strongly expansive monetary policy that was reflected in a significant reduction of the intervention rate (1 day Repo) that went from 9.5% in December 2008 to 3.5% at the closing of last year. In the month of March of this year, and as a consequence of the better results of inflation as compared to the initially anticipated, the Central Bank adjusted again downwards its intervention rate to leave it at 3%. This rate

reduction has been transferred quickly to the set of active and passive rates in the economy contributing to the fast economic reactivation process.

On fiscal matters, after experiencing in 2009 a deficit of 4.2% as a proportion of the GDP for the Central National Government (CNG) and of 2.6% for the Consolidated Public Sector), a gradual removal has been initiated of tax incentives that were implemented to face the effects of the international crisis. The most important effect of this change is the political posture is observed in the reduction of the investment of the CNG. Fiscal goals for year 2010 are a deficit of 4.4% GDP for the CNG and of 3.6% for the CPS.



**1.5 Foreign Trade.**

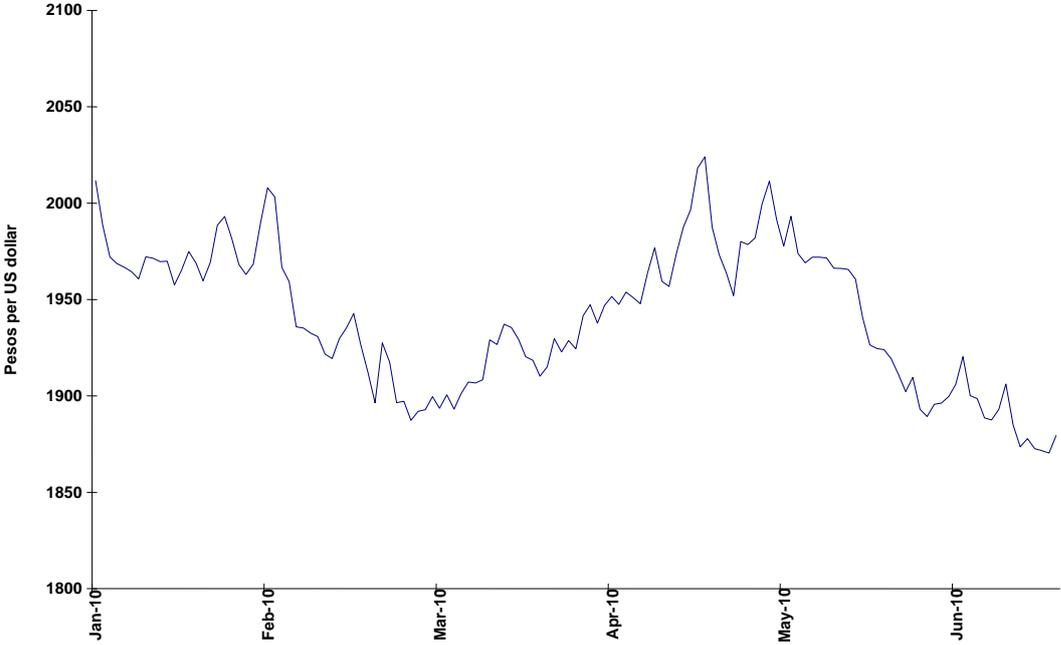
Foreign trade activities were strongly affected in 2009, recording drops of 17.7% in exports and 17.1% in imports. In the 2010 year to date, and notwithstanding the sharp drop in exports to Venezuela, important recovery signs of these activities have been observed and at the closing of May, Colombian exports amounted to USD \$16,136 million, growing 26.6% as compared to the same period of year 2009. On the other hand, imports reached USD \$15,176 million CIF, showing an increase of 16% in respect to the same period the previous year.

**1.6 Exchange rate.**

Notwithstanding the efforts by the Central Bank, which started last March a program of daily purchases of U.S. dollars that permitted to accumulate US\$1,600 million in international reserves up to last June 30<sup>th</sup>, the U.S. dollar quotation has shown a revaluating trend during the year. In fact, the exchange rate started the year at \$2,011 per US\$1 and at the closing of the first quarter was \$1,900 per US\$1. During the six month period the rate reached a peak in the first week of May of \$2,024 at the time in which the aversion to international risk increased because of the events occurred in Greece and other European countries that have seen their sovereign risk ratings reduce. However, as a result of the adjustment plans and of

a better perception on the status of the European financial system, the U.S. dollar has lost ground in respect to the rest of the currencies, including the Colombian peso. To the peso revaluation have also contributed the receipt of capital resources both public, to finance the fiscal deficit, and private, in the form of direct foreign and portfolio investment.

**U.S. dollar quotation in pesos**



Source:: Bloomberg

## 2. Financial sector first half of 2010

### 2.1. Balance sheet

As of June 2010, the amount of assets of the financial sector as a whole showed a variation of 8.7% in respect to the same period of the previous year, reaching a balance of \$244.2 trillion. The investment portfolio totaled \$54.1 trillion, higher by \$8.8 trillion as compared to the same period of last year. Liabilities were \$210.2 trillion, reaching a growth of 7.31% in the past 12 months.

### 2.2. Loan portfolio

During 2010 the net loan portfolio experienced a growth in excess of 6%. This was due to the growth that occurred mainly in home mortgage, consumer and in the improvement of provisions.

#### Loan Portfolio – Credit Institutions

(Figures in trillion pesos)

Loan Portfolio	June 2009		June 2010		Growth
	Value	Value	Value	Value	Variation
Commercial	84	85.5	1.5		1.7%
Consumer	37.7	41.0	3.3		8.6%
Microcredit	3.5	3.9	0.4		10.9%
Home Mortgage	9.7	11.9	2.2		22.9%
Provisions	7.1	6.5	(0.6)		-8.9%
<b>Net Loan Portfolio</b>	<b>127.8</b>	<b>135.8</b>	<b>8.0</b>		<b>6.2%</b>
Home Mortgage + Securitized	14.4	16.7	2.3		16.0%
<b>Net Loan Portfolio + Securitized</b>	<b>132.5</b>	<b>140.6</b>	<b>8.0</b>		<b>6.1%</b>

Source: Financial Superintendence of Colombia

As of June 2010, the quality of the system's total loan portfolio shows a significant improvement, passing from 4.70% to 3.95% in the past year. This is due mainly to the improvement in the quality of both the Consumer and the Home Mortgage loan portfolio.

#### Deterioration of Loan Portfolio Quality

	June 2009		June 2010	
	Davivienda	System	Davivienda	System
Consumer	8,08%	8,13%	6,35%	6,02%
Commercial	3,54%	3,26%	2,33%	3,02%
Home Mortgage	3,49%	4,61%	2,51%	3,86%
<b>Total</b>	<b>5,08%</b>	<b>4,70%</b>	<b>3,77%</b>	<b>3,95%</b>
<b>Coverage</b>	<b>126,03%</b>	<b>111,30%</b>	<b>154,98%</b>	<b>135,56%</b>

Total Portfolio Quality: Past Due Portfolio / Total Portfolio

Coverage: Provisions / Past Due Portfolio

Source: Financial Superintendence of Colombia

### 2.3. Borrowings from the public

The growth in the financial system borrowings was intensified in savings accounts, instrument that now represents 45.3% of deposits.

**Financial system borrowings**  
(Figures in trillion pesos)

	<b>Jun 2009</b>	<b>Jun 2010</b>	<b>Variation</b>
Savings Accounts	57,9	71,2	23%
Checking Accounts	23,6	26,4	12,1%
Time Deposits	60,7	54,5	-10,2%
<b>Total</b>	<b>149,4</b>	<b>157</b>	<b>5,0%</b>

Source: Financial Superintendence of Colombia

## 2.4. Equity

As of June 2010, the equity of the financial system amounted to \$34 trillion, higher by \$5.2 trillion to that of the previous year.

The solvency ratio increased from 13.69% in June 2009 to 14.17% in the same period of 2010.

## 2.5. Results for the period

The financial sector reports accumulated profits as of June 2010 for \$3 trillion, higher by 13.5% to those reported in the same period last year.

## 3. Mortgage Loans

### 3.1. Loans to individuals

Originations of mortgage loans to individuals accumulated as of June 2010 showed a growth of 62.1% as compared to the same period of 2009.

**Originations of accumulated mortgage loans**  
(Figures in billion pesos)

	<b>Jan - Jun 2009</b>	<b>Jan - Jun 2010</b>	<b>Growth</b>
Individual	1,445.6	2,344.0	62.1%
Subrogations	354.7	473.9	33.6%
Leasing	241.8	365.4	51.1%
<b>Total</b>	<b>2,042.2</b>	<b>3,183.3</b>	<b>55.9%</b>

Source: Bankers' Association

### **3.2. Construction licenses**

In June 2010 construction licenses approved increased 12.1% and the new or initiated area obtained as of the Building Census showed an increase of 15.2% as compared to the same period of the previous year.

### **3.3. Constructor loan portfolio**

Constructor loan disbursements as of June 2010 decreased 10.9%, passing from \$1.37 trillion to \$1.22 trillion in respect to the same period of the previous year. Gross constructor loan portfolio decreased 13.8% from \$2.8 trillion in June 2009 to \$2.4 trillion as of June 2010.

### **3.4. Low income housing performance**

The value of individual credits disbursed for the purchase of low income homes increased 27.2%, a result that is explained mainly by the growth of new home loans. In turn, we can say that the percentage of low income housing units financed increased in the first half of 2010 while the percentage of these units completed decreased.

**4. Banco Davivienda**

**4.1. Issue of Capital in Preferred Shares**

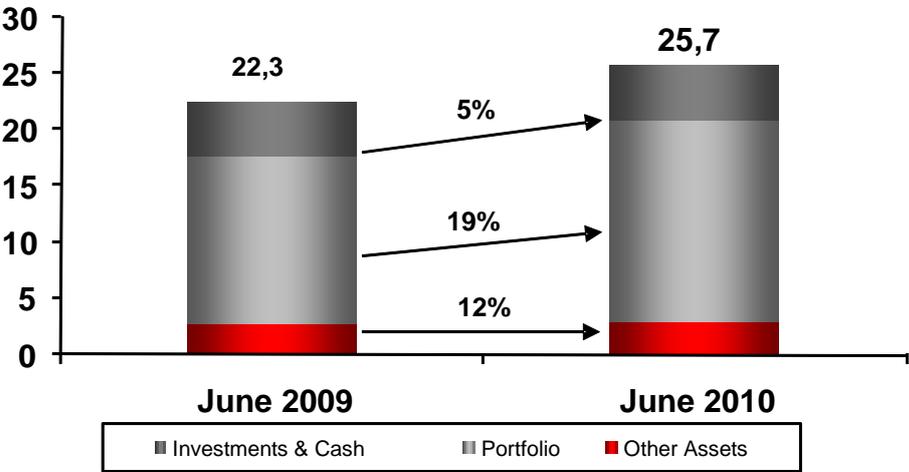
The Bank carried out the process of authorization with the General Stockholders' Meeting and submitted to the Financial Superintendence the request for approval of the issue of 50 million preferred shares with a first issue of 26 million shares.

This will be the first primary issue in the Colombian capital market of Banco Davivienda, whereby it will seek access to funds to consolidate its growth and sustainability.

**4.2. Assets analysis and structure**

As of June 2010 the Bank's assets showed a growth of \$3.43 trillion as compared to the same month of 2009, reaching \$25.7 trillion. This growth is driven by the increase of the loan portfolio which now represents 74% of assets.

**Davivienda's assets performance**  
(Figures in trillion pesos)



**4.2.1. Loan portfolio**

As of June 2010 there was a significant increase in the evolution of the loan portfolio, as a result, mainly of the increase in the commercial and home mortgage portfolio.

**Banco Davivienda – Total loan portfolio**  
(figures in billion pesos)

	June 2009	% Part	June 2010	% Part	Growth
Home mortgage & leasing	2.750	17%	3.646	19%	33%
Commercial	7.853	49%	8.709	46%	11%
Credit cards	1.453	9%	1.679	9%	16%
Vehicles	649	4%	744	4%	15%
Other personal loans	3.312	21%	4.201	22%	27%
<b>Total</b>	<b>16.016</b>	<b>100%</b>	<b>18.979</b>	<b>100%</b>	<b>18%</b>

The good performance of the economy added to the preventive measures taken by the Bank since 2008 and some write-down processes supported on the goods results of the Bank, yield quality indicators that are below the system and coverage continues to be above the sector's average.

**Banco Davivienda – Past due receivables indicator**  
**June 2010**

	Quality Indicators		Coverage Indicator	
	Davivienda	System	Davivienda	System
Commercial	2,3%	3,0%	205,1%	156,7%
Consumer	6,3%	6,0%	129,9%	119,0%
Home Mortgage	2,5%	3,9%	97,0%	78,4%
<b>Total</b>	<b>3,8%</b>	<b>3,9%</b>	<b>155,0%</b>	<b>135,6%</b>

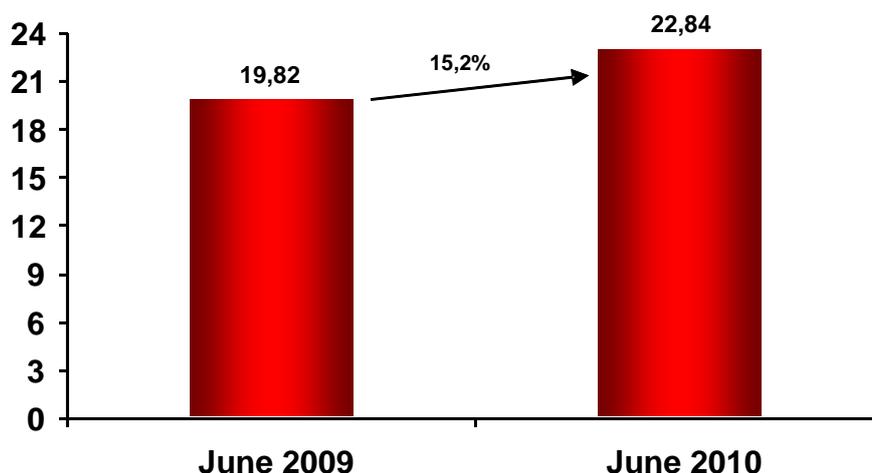
Quality indicator: Past due receivables (over 31 days) / Total

Coverage indicator: Provisions /Past due Receivables (over 31 days)

#### 4.3. Liabilities analysis and structure

As of June 2010, Bank liabilities showed a growth of \$3.01 trillion as compared to those recorded as of the same date in 2009.

**Banco Davivienda – Liabilities performance**  
(Figures in trillion pesos)



**4.4. Borrowings from the public and bonds**

The traditional borrowings instrument showing the highest growth in the past 12 months in the Bank were bond issues, with 76%. Also outstanding is the growth in accounts.

**Banco Davivienda - Borrowing instruments**  
(Figures in billion pesos)

	June 2009	Partic.	June 2010	Partic.	Growth
Savings Accounts	7,206	47%	8,477	50%	18%
Checking Accounts	2,197	14%	2,655	16%	21%
Certificates	5,853	38%	5,881	35%	0%
Bonds	1,397	9%	2,462	14%	76%
<b>Borrowings from the Public</b>	<b>15,256</b>	<b>100%</b>	<b>17,014</b>	<b>100%</b>	<b>12%</b>

**4.5. Equity structure**

The Bank's equity closed as of June 2010 at \$2.9 trillion, \$434 billion more than as of June 2009.

As of June 2010 the qualifying capital amounted to \$2.99 trillion, while assets weighted by risk level added up to \$21.3 trillion. Together, these figures indicate a Bank's solvency ratio (qualifying capital / assets weighted by risk plus market risk) of 13.25%.

**4.6. Income Statement**

Results as of June 2010 amounted to \$246,832 million. These represent an increase of 10.1% as compared to the results of 2009.

**Banco Davivienda - Results as of June 2010**  
(figures in million pesos)

	<b>Jun 2009</b>	<b>Jun 2010</b>	<b>Growth</b>	
Financial Revenues	1.446.795	1.245.893	(200.902)	-13,9%
Financial Expenses	538.010	375.468	(162.542)	-30,2%
<b>Intermediation Profit</b>	<b>908.785</b>	<b>870.425</b>	<b>(38.360)</b>	<b>-4,2%</b>
Operating Expenses	530.583	631.870	101.287	19,1%
Income for Services	311.917	311.917	1	0,0%
<b>Operating Profit</b>	<b>690.119</b>	<b>550.472</b>	<b>(139.646)</b>	<b>-20,2%</b>
Provisions, Taxes & Other	465.852	303.640	(162.212)	-34,8%
<b>Net Profit</b>	<b>224.266</b>	<b>246.832</b>	<b>22.566</b>	<b>10,1%</b>

#### 4.7. Affiliates' performance

##### 4.7.1. Bancafé Panama

During 2010, there was a growth of 23.3% in assets and of 35.6% in profits driven maybe by the growth of the loan portfolio.

(Figures in million U.S. dollars)

	<b>Jun 2009</b>	<b>Jun 2010</b>	<b>Growth</b>	
			<b>Value</b>	<b>%</b>
Assets	425	524	99	23.3%
Liabilities	364	449	85	23.3%
Equity	61	76	14	23.4%
<b>Profits</b>	<b>5.3</b>	<b>7.2</b>	<b>1.9</b>	<b>35.6%</b>

##### 4.7.2. Bancafé International

The Financial Superintendence of Colombia approved, on October 15, 2009, the conversion from an Edge Act Corporation (Bancafé International) into an International Branch of Banco Davivienda. Additionally, the Office of Financial Regulation (OFR) approved the same conversion on August 9, 2010. For the second half of 2010 the approval from the FRB is expected.

(figures in million U.S. dollars)

	Jun 2009	Jun 2010	Growth	
			Value	Variation
Assets	123,9	111,1	-12,8	-10,3%
Liabilities	111,8	98,7	-13,1	-11,7%
Equity	12,1	12,3	0,2	2,0%
<b>Profits</b>	<b>-0,24</b>	<b>-0,33</b>	<b>-0,1</b>	<b>40%</b>

#### 4.7.3. Confinanciera

After a 2009 of permanent drop in vehicle sales, the first half of 2010 showed better dynamics and especially the month of June marked a new historic record in sales compared to June of previous years, totaling 20,382 units. The new trend experienced an increase in sales of the year to date of 24.5%. The segments of private, commercial cargo vehicles, taxis, SUVs and pickups, showed increases as compared to the previous year; only the passenger segment showed a lower sales data (-9.9%) in the same period.

The above contributed to Confinanciera being able to reverse the decreasing tendency in its loan portfolio balances and started to show positive growth indexes in the past few months. Notwithstanding the foregoing, the entity's assets decreased 2.3% by a reduction in a higher proportion of the company's investments, taking into account that the investment opportunities are less favorable than in the previous year. The results in Portfolio Quality were substantially better passing from 9.12% in December 2009 to 8.26% at the closing of June 2010.

As a result of greater credit dynamics and a better result in past due indexes, the company increased its profits by 25.6% in respect to the same period of 2009 by presenting a favorable balance of \$6,554 million at the closing of June 2010.

(figures in million pesos)

	Jun 2009	Jun 2010	Growth	
			Value	Variation
Assets	433.407	423.393	-10.014	-2,3%
Liabilities	374.194	361.901	-12.293	-3,3%
Equity	59.212	61.492	2.280	3,9%
<b>Profits</b>	<b>5.219</b>	<b>6.554</b>	<b>1.335</b>	<b>25,6%</b>

#### 4.7.4. Fiduciaria Davivienda

During the year 2010 its profits grew 20%. The initial return on equity was of 38% and the return on assets was of 32%.

(Figures in million pesos)

	Jun 2009	Jun 2010	Growth	
			Value	%
Assets	44,085	50,904	6,819	15%
Liabilities	5,113	6,443	1,330	26%
Equity	38,971	44,461	5,489	14%
Administered Assets *	1,375,471	1,871,707	496,236	36%
<b>Profits</b>	<b>6,301</b>	<b>7,569</b>	<b>1,269</b>	<b>20%</b>

\* Includes Consortiums

During the first half of the year this entity received the Collective Portfolio of Rentacafe. The assets administered grew 36%; the largest part is represented by investment trusts: Superior Collective Portfolio and collective portfolios with permanence agreement. Outstanding is the Pension Fund Dafuturo with a growth of 21% as of June 2010 in respect to the same period of 2009.

#### 4.7.5. Fiduciaria Fiducaf 

During 2010, the total business administered directly by the Fiduciaria amounted to \$6 trillion, with a positive variation of 3.9% as of June 2010. Of the total business, pension trusts had a participation of 79.2%, followed by the administration and payment trusts with 13.1% and guarantee and payment sources with 3.9%. The Cartera Colectiva Abierta (CCA) Rentacafe, was transferred mostly to Fidudavivienda closing with \$178,763 million in June 2010. In turn, in the first half of 2010 the operation of the (CCA) Rentaliquida was initiated, which administered amount as of June 30, 2010 is of \$22,750 million.

(Figures in million pesos)

	Jun 2009	Jun 2010	Growth	
			Value	%
Assets	63.640	74.374	10.734	16,9%
Liabilities	8.708	8.245	-462,3	-5,3%
Equity	54.932	66.128	11.196	20,4%
Administered Assets *	5.765.392	5.987.871	222.479	3,9%
<b>Profits</b>	<b>8.012,1</b>	<b>4.115</b>	<b>-3.897,2</b>	<b>-48,6%</b>

\* Includes Consortiums

#### 4.7.6. Davivalores

During the first half of 2010, profits decreased 68.7%. This drop is the results of an income reduction as compared to the previous year, mainly by the reduction in the commissions obtained by primary placements.

(Figures in million pesos)

	Jun 2009	Jun 2010	Growth	
			Value	Variation
Assets	9.311	10.330	1.019	10,9%
Liabilities	682	436	-245,9	-36,1%

Equity	8.629	9.894	1.265	14,7%
<b>Profits</b>	<b>837,9</b>	<b>262,2</b>	<b>-575,7</b>	<b>-68,7%</b>

#### **4.8. Risk analysis**

The risk management and administration at Banco Davivienda and the Bolivar Group is carried out through a strategy of synergy between the companies, consolidating a risk area for all companies which optimizes the technological academic resources for the development of measurement, analysis and control tools of the risks assumed. In Note 32 to the Financial Statements are included the detailed indicators for each of them.

#### **4.9. Credit Risk Administration System (SARC)**

The Bank has continued working in an adjustment process of the expected loss estimation models. A summary of these models is found in Note 32 to the Financial Statements. The provisions of Davivienda loan portfolio amounted to \$1.1 trillion at the closing of June 2010, covering 143% of the unproductive portfolio rated C,D,E.

#### **4.10. Market risk**

The Bank's Treasury performs in accordance with the guidelines and strategies defined by the Board of Directors, the Asset and Liability Management Committee and the Financial and Investment Risk Committee. The control of value creation of the different lines of business and/or portfolios is exercised by the Financial Risk Area as well as the identification, measurement and monitoring of the market risk. As of June 30, 2010 the statutory risk value (VeR), calculated as per the methodology described in chapter XXI of the Basic, Accounting and Financial Circular (External Circular 100 of 1995) from the Financial Superintendence of Colombia was of US \$119.4 million. The summary of the internal model used to calculate the value at risk is found in Note 32 to the Financial Statements, as well as the major results of the standard methodology.

#### **4.11. Liquidity risk**

For measuring the liquidity risk the guidelines established in Chapter VI of the Basic, Accounting and Financial Circular (External Circular 100 of 1995) issued by the Financial Superintendence of Colombia are applied, which establish the Rules Related to the Liquidity Risk Administration System, and defines the Liquidity Risk Indicator (IRL), which as of June 30, 2010 was of \$2.5 trillion. The guidelines of the Liquidity Risk Administration System (SARL) are explained in Note 32 of the Financial Statements.

#### **4.12. Operational Risk Administration System (SARO)**

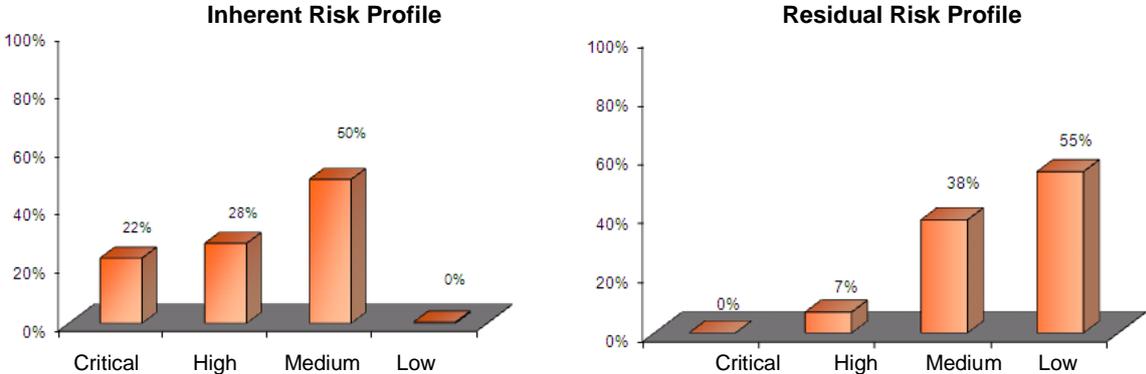
##### **Evolution of the Bank's Operational Risk Administration System**

Pursuant to the provisions of External Circular 041 of 2007, issued by the Financial Superintendence of Colombia, the Bank has implemented an Operational Risk Management System (SARO).

This system permits to identify the risks in each process carried out in the Bank, measure their critical extent, evaluate the quality and effectiveness of controls and make sure, through actions plans, that the risk profile and the possible exposure to losses by the Bank is duly controlled.

As observed in the graph, our residual risk profile permits to evidence the effective control of inherent risks rated as critical and high through action plans generated in the corresponding areas; in this manner, the bank continues to identify, assess and mitigate the risks in each one of its processes and areas.

The Risk Self-Evaluation methodologies gave as a result the following Risk Profile:



**4.13. Administrative aspects**

**4.13.1. Internal control**

**Evolution of Internal Control System**

Considering that the Financial Superintendence of Colombia in External Circular 014 of May 19, 2009, modified by External Circular 38 of September 29, 2009, requested compliance with Phase II of Internal Control System. The Chairman of the Board of Directors of Banco Davivienda S.A. and the Legal Representative, made the certification related to:

1. Establishment and disclosure of:
  - Politics and procedures for generation, disclosure and custody of the Bank’s information.
  - Accounting policies and procedures.
  - Policies and procedures for technology management.
  - Policies and procedures on control activities.
2. The application of policies and procedures referred to by paragraph 1.
3. Analysis of accounting information and disclosure systems, as well as the technology that supports them.

It is important to clarify that for the different components, improvement actions were identified, for which work plans have been defined that are underway and are the subject of follow up by the administration and by the different control bodies established.

**4.13.2. Audit committee**

During the first half of 2010, the Audit Committee, in fulfillment of legal regulations issued by the Financial Superintendence and the Audit Committee Regulations adopted by the Board of Directors of the Bank, verified the execution of the procedures carried out by the Bank

Administration in the disclosure of financial information, economic condition and adequate operation of the internal control system, especially the fulfillment of rules of Money Laundering Prevention actions, and made a follow up of same through the analysis of the reports presented by the Statutory Auditor, the Compliance Officer and the Internal Auditor in addition to the analysis of the communications from the Financial Superintendence.

The members of the Audit Committee consider that the internal control system of the Bank has been adequate and satisfactory, and that the actions carried out by the various areas are in conformity with the policies defined by the Bank and the regulations in effect and that, for that reason, there are no deficiencies that affect the quality and transparency of the financial information that is reflected in the financial statements evaluated at the closing of each accounting period, reflecting the actual economic situation of the Bank.

#### **4.13.3. Money Laundering and Terrorism Financing Risk Administration System (SARLAFT)**

As an integral part of the Money Laundering and Terrorism Financing Risk Administration System –SARLAFT- activities were carried out in accordance with the plan established for the first half of 2010.

Among the different functions and tasks performed, we consider relevant to underline:

- Presentation to the Board of Directors of the Compliance Officer reports corresponding to the first and second quarter.
- The training plan on Money Laundering and Terrorism Financing Prevention to Davivienda employees was continued.
- Presentation of mandatory reports to the Financial Information and Analysis Unit (UIAF), according to regulations in effect.
- Constant follow up and monitoring of operations carried out by Bank customers.
- Similarly, cooperation was provided with the answer of all requirements to control and monitoring entities.
- Within risk management actions, the administration of the implemented system was continued, carrying out the identification, measurement and follow up of the risks under the parameters established by the model adopted that covers the customer, product and entity matrices. As a result of this, it was found that Davivienda's SARLAFT risk is at a low exposure level.

#### **4.13.4. Legal situation**

The Bank currently does not have any processes against it that would affect its solvency situation or stability. The most important processes are listed in Note 19 of the Financial Statements.

#### **4.13.5. Administrative situation**

As of June 2010 the Bank has 9,182 employment positions under an indefinite term agreement, 63 at fixed term, 364 in training and 419 part time employees, for a total of 10,028.

**4.13.6. Intellectual property and copyrights**

Davivienda has established internally awareness programs to its employees, in order to achieve, through self-regulation, the compliance with the Intellectual Property and Copyrights rules. Additionally, these programs are reinforced by periodical Audit visits to the different areas of the Bank, in order to evaluate, among others, this issue.

**4.13.7. Operations with partners and administrators**

The operations carried out by Banco Davivienda with its partners and administrators conform to the entity’s general policies. These operations are detailed in Note 31 to the Financial Statements.

Credits and deposits with related parties (shareholders, Board members, administrators and other related parties) amount to \$271,723 and \$355.578 million, respectively.

For attendance to the Board of Directors meetings, fees and commissions were paid to its members and advisors for \$211 million.

**4.13.8. Intensity of business group relations**

Traditionally Banco Davivienda maintains business relations with companies of the same group, seeking a greater joint efficiency through the specialization of each company in those tasks in which they have competitive advantages.

Following is a summary of the major operations with related parties as of June 30, 2009, the detail of which is shown in Note 31 to the Financial Statements:

(Figures in million pesos)

Assets	1,760,846
Liabilities	950,742
Income	123,355
Expenses	49,930

There were no significant operations completed during the period ended on June 30, 2010 between Banco Davivienda and other entities by influence or in the interest of Sociedades Bolivar S.A., or between Sociedades Bolivar S.A. and other entities in the interest of Davivienda.

There were no major decisions made by Banco Davivienda or not made by influence or in the interest of Sociedades Bolivar S.A., or decisions made or not made by Sociedades Bolivar S.A. in the interest the Bank.

**4.13.9. Expenses of company directors**

Disbursements made to directors amount to \$3,387 million.

**4.13.10. Expenses of related advisors or managers**

Disbursements to advisors and managers are listed below:

(Figures in million pesos)

Board of Directors Fees	\$118
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#### **4.13.11. Donations**

During the first half of 2010 donations were made for \$2.192 million.

#### **4.13.12. Advertising and public relations expenses**

Advertising expenses amount to \$38,576 million and public relations expenses to \$314 million.

#### **4.13.13. Goods held abroad**

Money and other goods of the company held abroad amount to \$77,169 million and obligations in foreign currency to \$1,012,172 million.

#### **4.13.14. National and/or foreign investments**

The detail of investments of equity securities is disclosed in Note 5.9 of the Financial Statements. These amount to \$312,206 million, as follows:

National investments:	\$236.386
International investments:	\$ 75.820

#### **4.13.15. Foreseeable evolution of Banco Davivienda**

In the second half of 2010 it is expected to complete the migration of customers and applications, finishing the consolidation of the merger with Granbanco. Also, the capitalization of \$400 billion pesos will be made through the primary placement of shares, which will start to be traded in the stock exchange on October 5<sup>th</sup>.

#### **4.13.16. Important events occurred after the end of the period**

By means of Resolution 1515 of July 26, 2010, the Financial Superintendence of Colombia, authorized the registration in the National Register of Securities and Issuers, and the public offer of 50,000,000 of shares with preferential dividend and not entitled to vote of the Bank, which form a part of a share issue and placement program. The first phase was authorized for 26 million shares. Said phase will be placed from August 9<sup>th</sup> through 30<sup>th</sup> and will have a Subscription Price of \$16,129 and the total amount of the issue will be of \$419,355 million pesos.

#### **4.13.17. Certification and responsibility of financial information**

We certify that the Financial Statements and other relevant reports to the public do not contain any defects, inaccuracies or errors that may prevent knowing the true equity situation or the operations of Davivienda.

In accordance with the provisions of Article 57 of Decree 2649 of 1993, the information and disclosures integrated in the Financial Statements have been duly verified and obtained from the entity's accounting records, prepared pursuant to accounting standards and principles established in Colombia.

Davivienda has adequate systems for disclosure and control of financial information; for this purpose the corresponding procedures have been designed which permit to assure that this financial information is adequately presented, which operativity is verified by General Auditing and the Financial Direction.

Additionally, we inform that there are no significant deficiencies in the design and operation of internal controls that would have prevented the Bank from adequately recording, processing, summarizing or presenting its financial information, and there were no frauds that affected the quality of the financial information, or changes in its evaluation methodology .

Attached to this report are the Balance Sheet and Income Statement as of June 30, 2010. In these statements are recorded all assets and liabilities existing as of the closing date and these represent probable rights and future obligations, respectively. In addition, all transactions for the period were recorded and all economic facts have been recognized and correctly classified, described and disclosed. All items have been recognized for the proper amounts, in conformity items have been recognized for the proper amounts, in conformity with Article 57 of Decree 2649 of 1993.

The asseverations contained therein have been previously verified, pursuant to the regulations, and that the same have been faithfully taken from the books in conformity with article 37 of Law 222 of 1995 and there are adequate and financial information control and disclosure procedures in place and their operativity has been verified, in accordance with the provisions of article 47 of Law 964 of 2005.

We appreciate the commitment by all employees and the support from our stockholders, without which these results would not had been possible.

**Carlos Arango Uribe**  
Chairman of the Board of Directors

**Efraín E. Forero Fonseca**  
President