

A view of value at Davivienda

One late-February morning in 2018, Efraín Forero, President of Banco Davivienda, one of the most important banks in Colombia, was preparing his team for the Shareholders' Meeting that was going to take place on March 14. He received an unexpected phone call from Álvaro Castillo, executive Vice President of Davivienda, who told him that a new group of the bank's minority shareholders held a critical position with respect to the bank's social responsibility policy and, in particular, of the impacts that this policy could have on the shareholders' dividends. Álvaro shared this informal report with Efraín. Report indicated that a new group of shareholders expected a dividend close to the accounting income per share, of COP \$2841, according to the financial statements that were already public (see Annex 1) with respect to the dividend payout project of cop \$800 that had already been delivered to the shareholders in preparation for the following month's Shareholders' Meeting.

By the end of the phone call, Efraín and Álvaro saw that they needed to prepare the meeting in a way that would help the shareholders gain better understanding of the impact of the social responsibility policy and, in particular, of the information in the Social Financial Statement. Efraín immediately called the team responsible for preparing the Social Financial Statement in order to become involved in the details, and to analyze and reconstruct the Social Financial Statement based on the Fourth Financial Statement or Value Footprint methodology. This was an ideal occasion to assess the process and the usefulness of the reports vis-à-vis the bank's corporate social responsibility strategy over the last three year. Efraín knew that this new group of shareholders had the power to object to the bank's social responsibility initiatives and that it would be necessary to provide clear and simple information that all shareholders could understand.

The global banking industry

According to the Marketline (2018a) report, the Global banking industry was dedicated to the provision of financial services in savings, loans, and mortgages, etc. for consumers and companies. The same report indicates that for the 2013 - 2017 period, the industry grew –globally- by an annual 5.3%, highlighting a growth of 9.2% annually for the Asia-Pacific region, which represented 43.7% of the industry at global level.

With respect to the segmentation of the banking industry, the report identified the following categories: bank loans, marketable assets, interbank lending, liquid and other assets. Among these, the categories highlighted included the bank loan category as the biggest with 48.3% of the industry's total assets and as the most lucrative segment globally. According to the performance of the regions and the categories of products, an average annual growth of 5.7% was expected for the 2017-2022 period.

The global banking industry was typically tightly regulated by national organisms in each country as well as multilateral entities that establish the minimum capital requirements and the criteria for risk management (Basilea was the leader in this area), to protect people's savings and their use. It was also characterized by high level of concentration, few banks, and its clients or consumers' little power of negotiation. There were significant barriers to entry, given the complexities relating to the regulations for the operating permits; however, at the same time, the industry was growing in terms of financial service options based on digital platforms (Fintech). Finally, large multinational banks were present in most countries and these compete with domestic financial groups.

The banking sector in Colombia

In 2015, the banking industry in Colombia celebrated its first 150 years of existence. According to Dinero (2015), the banking industry began operations in the 19th century with a weak structure given the State's phase of institutional organization. It accelerated its process of organization and consolidation in the 20th century, and reached the 21st-century strengthened as "...one of the bastions of the national economy. Having overcome one of the most severe global financial crises of the last century (that of 2008), without having suffered any major hiccups is proof of this." According to the Marketline Report (2018b), the Colombian banking industry was highlighted because of its accelerated growth at a rate of 12.4% annually for the 2013-2017 period, in comparison to countries such as Mexico with 9.5% and the United States with only 4.6% of growth for the same period. Similarly, to the industry at global level, the segment with the greatest participation and profitability was the loan segment that, in Colombian, represents 7.2% of the industry's total assets.

The Colombian banking industry was incorporated into the Colombian financial system, which was defined and regulated by the Organic Statute of the Financial System through credit institutions, financial service companies, and other financial institutions with clearly differentiated functions. According to the same regulation, "banking establishments are financial institutions whose main function was the generation of resources in checking accounts, and the generation of other types of savings and fixed term deposits, with the primary purpose of conducting credit active operations."

In the 2007 - 2017 period around 50 credit institutions per year have been kept stable, with equal numbers of banks and finance companies in the first years and a greater concentration of banks towards the end of the period. This variation in the composition of credit institutions reveals the transformation of a specialized bank to the multibank model. In 2017, the participation of the number of banks reached 49%, followed by financing companies (25%) and financial cooperatives (12%) (see Annex 2).

According to the reports of Supertinanciera (2007 - 2017) for the year 2017 there was a high concentration in both portfolio and assets by the bank's top five positions in size: Bancolombia, Banco de Bogotá, Banco Davivienda, Banco BBVA and Banco de Occidente occupy 72% of the system's assets and loan portfolio. This information highlighted Davivienda's position as the country's second largest bank in terms of the system's loan portfolio.

Given the importance of the financial system to the country's economy, the State's institutional structure –based on the Political Constitution of 1991 and its Organic Statute¹- entrusted the Financial Superintendence of Colombia (Superfinanciera) with ensuring its solvency, discipline and supervision. This goal was developed on three fronts: in the first place, there was a supervision scheme of the financial system as a whole in order to maintain its stability, security and confidence; second, there was a scheme to promote, organize and develop the Colombian stock market; and, finally, there were strategies aimed at protecting the investors, savers, and insurers.

¹ The statute is regulated by Decree 663 of April 2, 1993.

Characteristics of banking institutions' public information²

Within the institutional scheme described above, banks as a fundamental part of the financial system were the object of regulation and supervision by the Superfinanciera. In general terms, regulations focus on the conditions of a bank's entrance into operation be it due to its creation, acquisition or merging, and subsequently on the banking management relating to aspects such as solvency, risk management and the level of customer charges accompanied by a profuse and complex provision of information on a highly frequent basis. Based on this regulatory scheme, the Superfinanciera exercises its function of supervision through the Comprehensive Supervisory Network whose aim is to evaluate entities' level of risk based on surveillance of the following aspects: Financial analysis, compliance, risk management, actuarial function, internal auditing, management team, board of directors, capital, liquidity, profitability, and risk management.

Based on previous reports, Superfinanciera allowed public access to consolidated and individual banks' reports and figures, among which the following stand out quality and portfolio coverage reports, solvency of investment portfolios, and the main variables. These reports were supplemented by relevant information that each controlled entity must provide in relation to decisions they make that affect both the entity and its link with the market.

In addition, bank institutions that issue securities in capital markets, such as Davivienda, were subject to a specific regime of financial and non-financial information, as detailed in Annex 3.

Financial reports were a fundamental part of the supervision system. As from 2015, these have to be presented according to International Financial Reporting Standards (IFRS)³. Following this particular regulation, the “entities subject to inspection, surveillance and control of the presentation of interim and year-end financial information, following the IAS 1 and IAS 34 principles relating to the presentation of financial statements.”

On another kind of reports, Fasecolda⁴ and Asobancaria prompt the bank and insurance entities to present sustainability reports, initiatives that were not mandatory and left up to the institutions.

Sustainability reports around the world

Sustainability reports were a company's means through which to demonstrate the added value it generates and its contribution to the sustainable development of society, communicating its performance –and impact- in environmental, social, economic, and governance issues.

The degree of maturity and evolution of public disclosure of non-financial information in general and of sustainability reports in particular, allow different participants to affirm that companies were facing a process of innovation in the management of organizations. This global trend was presented in Latin America from the work of companies, organizations, academics and professionals, which was expressed in proposals such as the CSR Management Manual in 2011 (www.fomin.org).

² Based on information published on the Financial Superintendencia of Colombia web page (www.superfinanciera.gov.co).

³ Law 1314 of July 13 2009

⁴ Fasecolda and Asobancaria are the industry associations of the financial sector in Colombia. <http://www.fasecolda.com/> and <http://www.asobancaria.com/>

This evolution had gone hand-in-hand with the increased number of sustainability reports published globally, which, according to the Corporate Register⁵ had been of approximately 21% between 2012 and 2016. Colombia presented an increase of 71% for the same period -distinguishing it from other Latin American countries- and it had also been the most consistent when comparing the number of organizations that, at some point, presented a sustainability report with the number of reports published in reference to 2016 (see Annex 4). Accordingly, the Global Reporting Initiative (Sustainability Disclosure Database to March 2018)⁶ showed an uneven evolution. At global level, reports published in 2017, were fewer than those published in 2013. Colombia, however, presented a net increase in the five-year period of almost 20% and exceeds the rest of the Spanish speaking countries, including Spain, in terms of the number of reports recorded in the database in 2017. In such terms, the country was second only to Brazil (see Annex 5). In the same sense, it is vital to highlight that by 2017 the reports of the Global & Accountability Institute Research⁷ evidenced the growth of the sustainability report of the companies that made up the S&P index and the Sustainability Database GRI⁸ evidenced the concentration of the report in large companies.

The sustainability report presented different approaches to this development, among which, approaches used according to the vision that they privilege. This includes "the comprehensive report" supported by the International Integrated Reporting Council (www.integratedreporting.org), and SASB developed in the USA (www.sasb.org), which targets investors, vis-à-vis the GRI focus, with a more participative approach involving the different stakeholders. In this respect, other innovative practices were involved, which, based on financial accounting, also propose new perspectives in accordance with companies' social and economic dimensions. These can also serve as bridges between financial and non-financial spheres, and can accelerate processes towards the production of integrated reports (Haller and Van Staden, 2014)."

The purpose of these models was to incorporate the perspective of how value was generated in a company and how it was distributed between the different and main stakeholders. This approach took account of interests of employees, State, community and environment, financiers, reinvestment in the company, and, of course -although it was no longer the only or main measurement-, the effective shareholder return. This methodology was applied in different parts of the world: in Italy (Bilancio Sociale), in Brazil (Estado demonstrativo do Valor adicionado), in the Anglo-Saxon world (South Africa, New Zealand, and intermittently in the UK), in Malaysia, in sub-Saharan Africa, and in different Latin American countries (Fourth Financial Statement or Value Footprint, with experiences in Chile, Mexico, Colombia, and Uruguay, among others). Some, more complex, even theoretical essays -also with an accounting basis- have been developed as academic proposals or collective initiatives (Reporting 3.0⁹).

Grupo Bolívar had been a pioneer in Colombia in implementing divulging practices of its management in terms of sustainability in line with its vision integrating such concepts in its management model.

⁵ www.corporateregister.com

⁶ www.globalreporting.org

⁷ <https://www.ga-institute.com/>

⁸ <https://database.globalreporting.org/>

⁹ Available at <https://reporting3.org>

Grupo Bolívar

Known as Grupo Bolívar in 2017, it began in 1939 with the constitution of Compañía de Seguros Bolívar S.A., and by 2017, it became one of Colombia's most important business clusters¹⁰. Its development, expansion, and consolidation -a story summarized in Annex 6- based on the group's organic growth through the constitution of partnerships and the acquisition of already constituted companies. Also, Group Bolívar's evolution highlighted its efforts in terms of the group's internationalization strategy, which began at the end of the 1990s, as well as the acquisition, in 2010, of Bancafé, converting it into the country's third-largest financial group. This was a milestone in its expansion process, which began in the 1960s under the leadership of José Alejandro Cortés, operating in insurance, construction, and financial activities sectors (El Espectador (2013) and Revista Semana (2015)).

As a consequence of the expansion process described above, by 2017 Grupo Bolívar had at least 25 companies organized in five different segments: Financial with Davivienda as its flagship brand; risk coverage with a number of companies consolidated as Seguros Bolívar S.A.; construction with Constructora Bolívar as its most widely recognized brand; the services sector; and, finally, the investment sector at local and international levels (see Annex 7).

Banco Davivienda

Banco Davivienda was the central branch of the Grupo Bolívar companies dedicated to the financial sector. According to the information published on Davivienda's webpage (www.Davivienda.com) and the corresponding information from Grupo Bolívar, Davivienda began operations in 1972 as a savings and housing corporation. From 2000 onwards, through a series of local purchases (Banco Superior (2005), Coltefinanciera (2006), Bancafé (2007)), it managed to consolidate itself in the local market, and, finally, in the decade beginning in 2010, it entered a phase of consolidation as a regional financial network. These processes increased Banco Davivienda's 3.8% market participation at the beginning of the 1990s to 12.9% in December 2017.

For a detailed description of Banco Davivienda, please follow the link: https://www.youtube.com/watch?time_continue=9&v=gViBpd_c6O0

Grupo Bolívar corporate social responsibility policy

According to the information on its webpage at the end of 2016 provided by the President of Grupo Bolívar Miguel Cortés Kotal and by the Vice-President of Social Responsibility, Fernando Cortés MacAllister: "Grupo Bolívar works tirelessly to generate greater value for its stakeholders, through experiences that are simple, friendly, and reliable, and that guarantee the environmental, economic, and social sustainability of the different companies in the group."

In his own words, Fernando Cortés understood corporate social responsibility "in the sense that we must construct an economic entity, which is viable and sustainable within a community which is also

¹⁰ Available at <https://www.lanota.com/index.php/Ranking-de-los-grupos-empresariales-colombianos.html>

sustainable in terms of its coexistence, development, and integrity. And, all this has to be done on a planet that is viable to human beings.”

Davivienda's social commitment was evident through its different programs (Seguros Bolívar, Constructora Bolívar, and Fundación Bolívar Davivienda), which encourage high impact programs and support transformative projects, building skills in people, communities, and organizations in order to create a more just, equal and innovative society.

Grupo Bolívar's consolidated and individual companies' sustainability reports could be found on its webpage.¹¹ The Group's strategy in terms of social responsibility had implied the definition of its stakeholders, adherence to global initiatives of good management practices linked to sustainable development, and the public divulgation of information regarding its management under national and internationally accepted standards of measurement and reporting.

Stakeholders

Sustainability management in companies identified relevant issues according to the strategy, the challenges of the environments and of the sector, internal and external commitments, stakeholders' expectations, and the results of the measurements with respect to global practices of sustainability and the principles leading organizations in terms of this management (see Annex 8).

Commitment to the Global Compact / www.pactoglobal-colombia.org

The United Nations Global Compact guidelines were implemented in 2007. These work towards the respect for and promotion of human rights, the right to free association, and protection of the environment. The companies work towards fighting corruption and for their strategies and actions to fulfill the Sustainable Development Goals (SDG).

GRI standard reporting / www.globalreporting.org

Since 2009, the companies had been producing sustainability reports based on the standards defined by the Global Reporting Initiative (GRI). The GRI was an organization that promotes the production of sustainability reports in all types of organizations by promoting a comprehensive framework for the production of sustainability reports based on social, economic, and environmental spheres.

Measurement standards

The results of measurements given by global tools were considered to define issues related to the companies' management. These include the Dow Jones Sustainability Index for Emerging Markets (DJSI), the United Nations Global Compact, and tools defined by Asobancaria and Fasescolda.

Dow Jones Sustainability Index / www.dowjones.com

In 2017, Davivienda was endorsed, for the fourth year running, in the Dow Jones Sustainability Index (DJSI). This recognition commits the bank to continuing to develop its sustainability strategy with the highest standards and implementation of good practices in order to position itself as a pacesetter for investors around the world.

Adoption of the Fourth Financial Statement or Value Footprint methodology/ www.huelladevalor.cl

In order to make the economic dimension of its sustainability reports even simpler, friendlier, and reliable, Grupo Bolívar had incorporated the Fourth Financial Statement or Value Footprint methodology. This methodology uses clear means to link the complex financial information with the

¹¹ <https://www.grupobolivar.com.co/wps/portal/sostenibilidad/informes>

demonstration of the value it generates, and how this was distributed among the different stakeholders.

In preparation for the Annual Meeting

The Social Financial Statement based on the Fourth Financial Statement methodology, had been incorporated into the reports since 2009 for the Grupo Bolívar and Seguros Bolívar and, since 2012, for DAVIVIENDA.

Efraín remembers Fernando Cortés MacAllister's enthusiasm in 2009, when one of his managers told him about a publication received back then (Zicari and Perera, 2008) and which he thought could be the basis for the reformulation of an Income Statement focusing on the value generated by the companies and how they distribute this value among the different stakeholders.

Through a basic exercise (see Student Example Template.xlsx), Efraín was able to understand how such a report would work in a generic company, making for sustainability reports with a simpler and friendlier perspective of the financial results. These were, at the same time, reliable as numbers based on companies' official financial information.

Efraín remembers that, in 2009, once he understood the general methodology, he met with his team and, based on report preparation outline (see Student Davivienda Template.xlsx), held a work meeting aiming to identify how the different elements of Davivienda's Income Statement could be categorized within the scheme of the Fourth Financial Statement.

Álvaro Carrillo, Davivienda's executive vice president -very enthusiastic and wanting to take into consideration everyone involved- contributed to the discussion that it was fundamental to understand that for a bank like Davivienda, sales were made up of interest income, which corresponds to profits from the collection of lending rates on banking products as credit portfolios (almost always referred to as portfolios), investments, and loans to other entities. The cost of goods sold, was made up of the interest expense equivalent to the necessary expenditure through payment of deposit rates in order to be able to acquire public funds through current accounts, checking accounts and term deposit certificates.

At that point in time, Anilsa Cifuentes, Director of Administration and Finance, said that as well as those described above, the bank has other types of operations that generate both income and expenses. In general, these operational income and expenses correspond to additional products and services that the bank offers and that were another source of value generation for the bank.

With regards this point, Efraín and his team demonstrated that the value generated by Davivienda corresponded to two equally important sources: the financial and the operational. Thus, it was important to understand the distribution of added value among the different stakeholders.

Efraín and Alejandra Cuéllar, Director of Social Responsibility and Public Relations, clearly saw the same stakeholders that they had reviewed in the basic exercise and in the definition of the Grupo Bolívar stakeholders (see Annex 8). Anilsa remarked that "as from this point, everything seems more simple, except for one small very bank-related detail: the impairment of the credit portfolios." Efraín asked for a simple explanation on the topic in order to decide where to incorporate it within the

construction of the Social Financial Statement. Anilsa indicated that, in essence, the impairment corresponds to “a new accounting convention, based on the precautionary principle to estimate possible future deterioration in credit recovery which would therefore reduce the value of assets, in the same way as depreciation and amortization.”

Having remembered those initial moments, Efraín began to prepare the Shareholders' Meeting considering two aspects: on the one hand, the reconstruction of Davivienda's Social Financial Statement for 2017 in order to ensure that the criteria followed had been consistent to the Fourth Financial Statement methodology and how these were defined originally. On the other, he focused on an analysis of how the use of this tool over the past three years has demonstrated the stability in the distribution of value among stakeholders (see Annex 9). He expected that these two analyses would help the group of minority shareholders to understand the context validating the Group's social responsibility policies, described in the sustainability report and, thus, understand that the dividends distribution policy points towards guaranteeing sustainable returns over time for all shareholders.

The day of the Meeting

Efraín was ready for the meeting; he knew that there were at least two extra challenges that will not be easy to deal with:

- The new minority group's understanding and acceptance of this new view of the results from the perspective of the distribution and generation of added value.
- The voluntary adoption of a methodology and criteria for the preparation of a financial statement without a general acceptance standard or an explicit regulatory framework.

It wasn't going to be the first time that Efraín would face such tension between the expectations of the shareholders and the sustainability of the bank. He thought that presenting the Social Financial Statement again, would allow him to more contextualize the bank's businesses from a perspective of its social purpose which involves the responsible management of public savings and which was not sufficiently observed in traditional financial statements, in themselves, complex and limited to few specialized readers.

Annex 1.

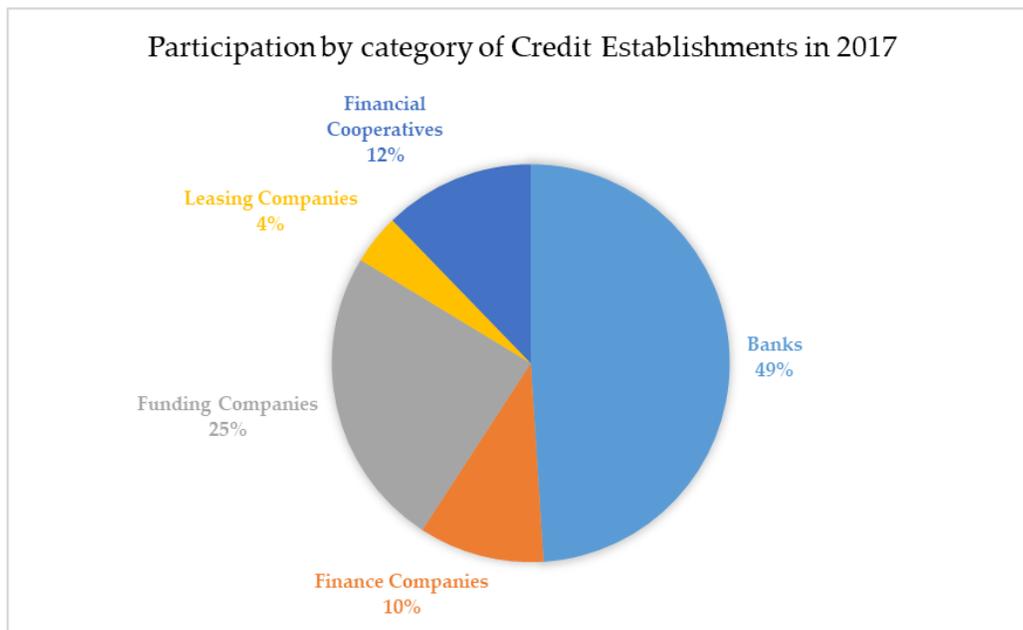
Banco Davivienda S.A. and its subsidiaries
Consolidated Income StatementFor the year ended December 31, 2017 with corresponding figures for the year ended December 31, 2016
(Millions of Colombian pesos (COP))

	Note	2017	2016
Interest Income		9,338,016	8,674,997
Loans		8,666,780	7,869,538
Investments and valuation, net	13.1	592,843	752,407
Interbank, overnight, repo and simultaneous operations funds		78,393	53,052
Interest Expenses		3,843,802	3,704,838
Depositss		2,611,615	2,516,333
Checking accounts		29,289	41,275
Savings accounts		865,218	935,030
Term Deposit Certificates		1,717,108	1,540,028
Bank loans and other financial obligations		382,655	334,114
Debt instruments issued		722,014	749,605
Others interests		127,518	104,786
Gross Financial Margin		5,494,214	4,970,159
Impairment of financial assets, net		1,975,362	1,234,705
Impairment of financial assets, net		2,311,779	1,479,683
Refund of financia assets, net		336,417	244,978
Net Financial Margin		3,518,852	3,735,454
Income from insurance transactions, net		89,649	85,763
Income from commissions and services, net	13.2	1,114,608	1,038,794
Results from investments in partnerships and joint ventures, net		4,350	3,229
Operational Expenses		3,190,350	2,935,001
Salaries and laboral benefits	13.3	1,358,562	1,281,743
Administratives and operational	13.4	1,721,403	1,551,915
Depreciation and amortisation		110,385	101,343
Gain (Loss) on foreign exchange, net		105,970	(36,707)
Derivates, net		(1,554)	214,917
Dividends received		7,262	5,426
Other income and expenses, net	13.5	39,189	232,184
Operational Margin		1,687,976	2,344,059
Income tax and other taxes	12.22	411,843	509,762
Deferred income and supplementary taxes	12.22	(6,848)	109,568
Profit attributable to the owners of the parent company		1,275,266	1,717,968
Income attributable to non-controlling interests		7,715	6,762
Net Income		1,282,981	1,724,729
Earnings per share (1)		\$ 2,841	\$ 3,819

(1) Calculated as Net Income for the year / average number of shares

Source: Davivienda (2017)

Annex 2.



Source: Authors, based on information from the Superfinanciera

Annex 3. Categories and information requirements for banks in the national securities register (RNV)

Type of information	Number of categories of information to be reported
Basic information	
Identification	3
Management and audit structures	2
Relevant information	
Accounting and finance	19
Juridical	15
Commercial and laboral	8
Corporate crisis	3
Issuance of securities	5
Securitization processes	5
Periodical information	
End of the year	3
Quarterly	1

Source: Authors, based on Resolution 400 of 1995

Annex 4. Evolution of Sustainability Reports

Regions	2016 (a)	2012	Δ 2016 / 2012	Organizations that have reported some time ago (b)	(a) / (b)
Global	9,460	7,829	21%	16,045	59%
Colombia	202	118	71%	246	82%
Other Iberoamericans countries					
Chile	118	88	34%	186	63%
Argentina	88	70	26%	145	61%
México	110	84	31%	152	72%
Brasil	311	303	3%	557	56%
España	464	431	8%	815	57%

Source: Own elaboration based on information retrieved from www.corporateregister.com in March, 2018

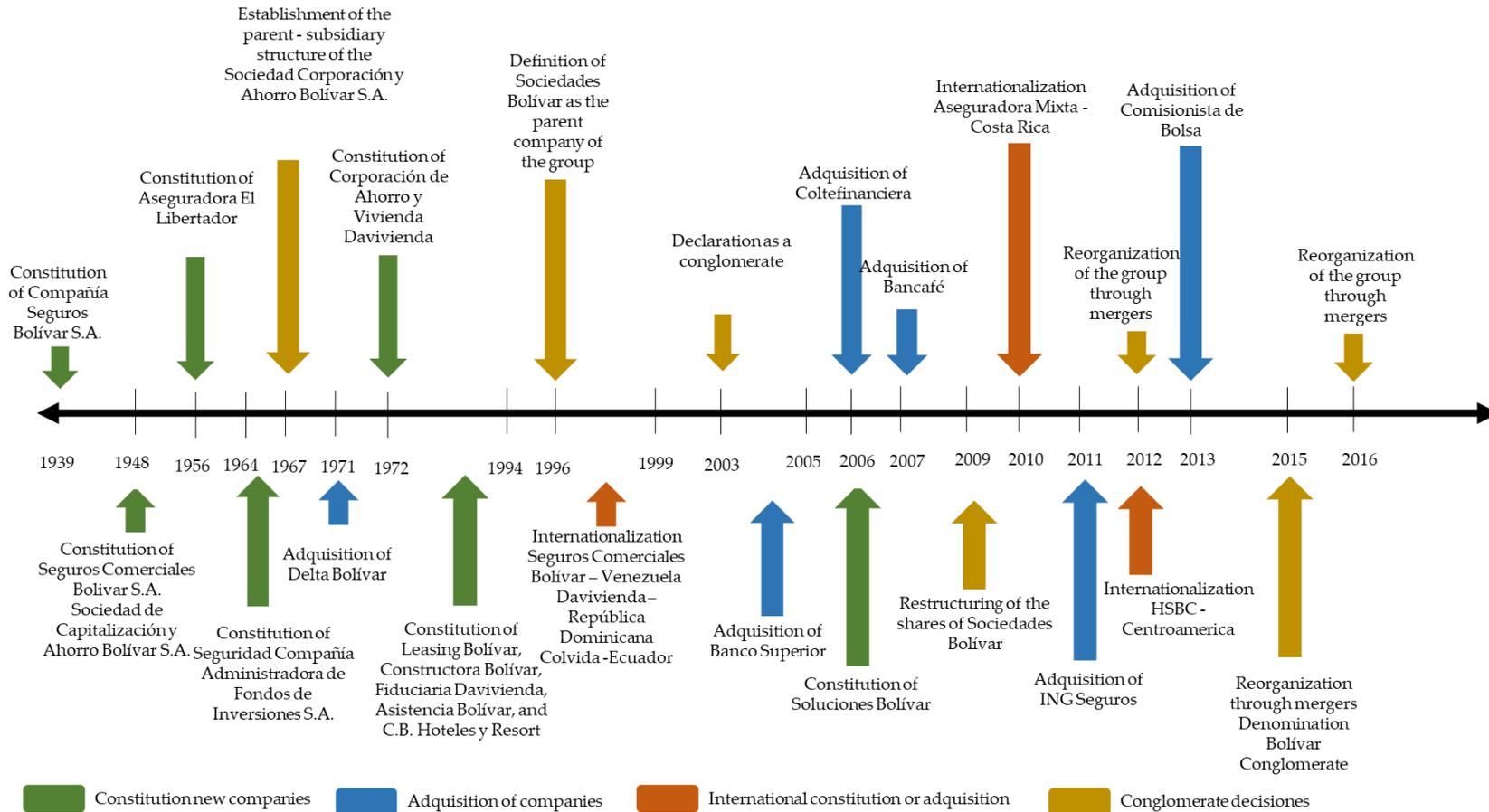
Annex 5. Evolution of the Global Reporting Initiative

Year of publication	Total	No GRI	GRI	Colombia	No GRI	GRI
2013	5,232	1,300	3,932	135	23	112
2014	5,832	1,592	4,240	178	49	129
2015	6,228	1,766	4,462	207	49	158
2016	6,866	2,382	4,484	191	49	142
2017	5,116	2,280	2,836	161	53	108

	Chile	Argentina	México	Brasil	España
2017	58	76	76	210	116

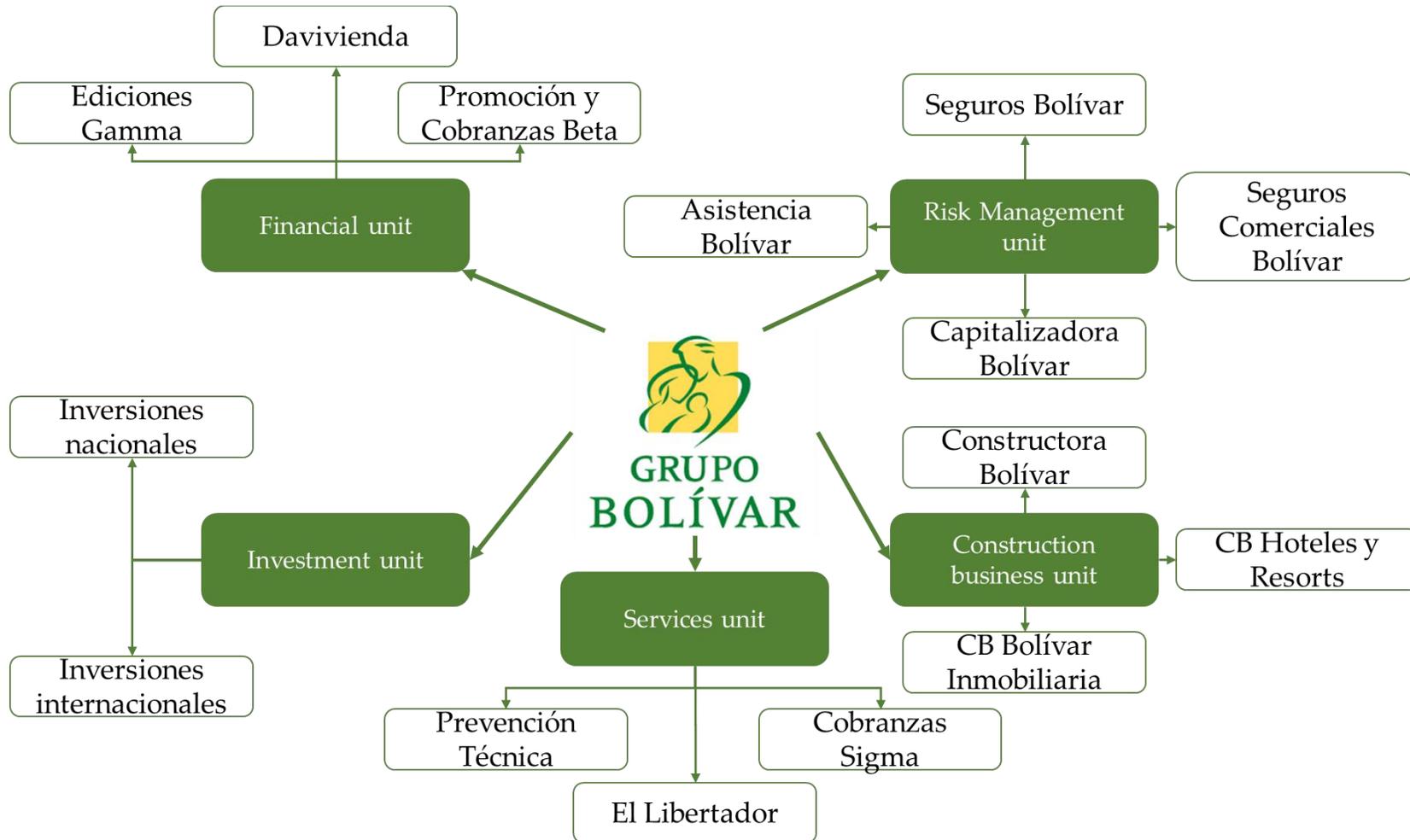
Source: Own elaboration based on information retrieved from www.GRI.com in March, 2018

Annex 6. Historical development of Grupo Bolívar



Source: Authors, based on information from the Grupo Bolívar' webpage

Annex 7. Grupo Bolívar Business Structure



Source: Authors, based on information from the Grupo Bolívar' webpage

Annex 8. Definition of Stakeholders



Source: Grupo Bolívar webpage www.grupobolivar.com.co

Annex 9. Last three years of the Social Financial Statement of Davivienda

Comparative Analysis of Davivienda's Fourth Financial Statement

	2017		2016		2015	
	Amount in Millions of Colombian Pesos (COP)	Relation to Total Income	Amount in Millions of Colombian Pesos (COP)	Relation to Total Income	Amount in Millions of Colombian Pesos (COP)	Relation to Total Income
Value-Added Generated						
Financial Income	9.338		8.675		6.531	
Operational Income	1.742		1.934		1.470	
Total Income	11.080		10.609		8.001	
Financial Costs	3.844		2.613		1.496	
Operational Costs	287		271		792	
Total Costs	4.131	37%	2.884	27%	2.288	29%
Total Value-Added Generated	6.949	63%	7.725	73%	5.713	71%

	2017		2016		2015	
	Amount in Millions of Colombian Pesos (COP)	In relation to distributed value	Amount in Millions of Colombian Pesos (COP)	In relation to distributed value	Amount in Millions of Colombian Pesos (COP)	In relation to distributed value
Value-Added Distributed						
Shareholders	417	6%	390	5%	350	6%
Employees	1.389	20%	1.292	17%	1.119	20%
Reinvestment	3.288	47%	2.956	38%	2.287	40%
Government	708	10%	957	12%	796	14%
Community and Environment	48	1%	39	1%	30	1%
Suppliers	1099	16%	999	13%	823	14%
Financiers	0	0%	1.092	14%	308	5%
Total Value-Added Distributed	6949	100%	7725	100%	5713	100%

Earnings per share	2841	3819	2784
Dividend per share	800	950	864
Dividend per share over Earnings per share	28,16%	24,88%	31,03%

Source: Own elaboration based on Social Financial Statement of Davivienda

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A view of value at Davivienda

Teaching Note

Using this case, students can reconstruct and analyze Davivienda's Social Financial Statement at the end of 2017 based on the Fourth Financial Statement methodology. Case can also bring opportunity to think about the potential and usefulness of the Fourth Financial Statement methodology as a link between Corporate Social Responsibility and Finance. The case can be used for courses in corporate social responsibility, accounting, and finance on management and accounting undergraduate programs, in the corresponding master's courses (MBA, Master's in Finance, in the Master's in Environmental Management, in the Master's in Management and Development Practices), and in Executive Education programs.

I. Abstract

Efraín Forero, President of Banco Davivienda, the second-largest credit bank in Colombia, is facing the challenge of preparing a presentation for the Shareholders' Meeting focusing on the results at the end of 2017. He had to be able to demonstrate and defend the strategic validity of the bank's social responsibility policies, including the dividend-distribution policy vis-à-vis a new group of minority shareholders who were critical of them.

Efraín together with Álvaro Carrillo, Executive Vice President of Davivienda, will rely on the Social Financial Statement, which is based on the Fourth Financial Statement or Value Footprint methodology, as a tool for shareholders to demonstrate the bank's potential to generate value and its distribution among different stakeholders.

The students will assume the challenge entrusted to Efraín and Álvaro to do that, first they will review the premises of this financial statement and next they discuss how the Fourth Financial Statement methodology allows an alternative view to the conventional financial approach by changing the focus from the last line of the income statement to a focus on responding to the different stakeholders with whom the company interacts and critically analyze its evolution over the past three years. In the process, they will know a potentially suitable tool to identify and communicate the strategic management of the company's value, they will go through the general process of its preparation and they will appreciate the particularities that can be presented in the banking industry.

II. Prior assignments

Students will have to carry out the following activities prior to the class in which the case will be discussed:

1. Read the Harvard article: "El Cuarto Estado Contable. Hacia una mayor transparencia corporativa, Adrian Zicari y Luis Perera, Harvard Business Review, Edición América Latina, November 2009. Available at: https://www.researchgate.net/publication/301682854_El_Cuarto_Estado_Financiero_mayor_transparencia_corporativa_HBR_Lat_Am_edition_2009
2. Analyze the application of the Fourth Financial Statement model in a basic approximation exercise (Student Example Template.xlsx), which will be delivered together with a suggested answer.

3. Additional assignment for the **short version (1 session)** of the teaching case: Reconstruct Davivienda's Social Financial Statement based on Student Davivienda Template v2.xlsx.
Note: should the teacher choose the long version (2 sessions), the Davivienda Fourth Financial Statement will be reconstructed during class time using Student Davivienda Template v1.xlsx.

Note: As a non-compulsory additional exploration students can be invited to navigate the sustainability section of the Grupo Bolívar web page:

https://www.grupobolivar.com.co/wps/portal/sostenibilidad/inicio/tut/p/z1/04_Sj9CPykssy0xPLMnMz0vMAfjo8ziLTx9nD0sTAz83AP9XQwcnby8jA38Qw0M_E30w8EKDHAARwP9KGL041EQhd_4cP0osBJfd2d3DwMDQ18LVxcnoAk-QZ6hzk6GnqEmUAV4zCjIDY0wyHRUBADk0PB1/dz/d5/L2dBISEvZ0FBIS9nQSEh/

III. Areas of discussion and times

The case is designed so that the professor can choose to discuss it for one or two sessions. The following distribution of discussion areas and times corresponds to the two-session version.

1. What is the Fourth Financial Statement or Value Footprint? What are its main characteristics and methodological challenges? (60 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> Contrast the students' answer to the prior exercise with the answer suggested and complete the analysis with Company B. 	30 minutes
<ul style="list-style-type: none"> Revision, reflection and discussion of the fundamental aspects of the Fourth Financial Statement 	30 minutes

2. How was Davivienda's Fourth Financial Statement constructed? (75 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> Construction of Davivienda's Fourth Financial Statement 	60 minutes
<ul style="list-style-type: none"> Comparison with the Social Financial Statement published by Davivienda 	15 minutes

3. How can the Fourth Financial Statement be drawn up to present the management of a company from a more comprehensive perspective? How does the Fourth Financial Statement allow for a numerically based discussion on the distribution of the value generated among different stakeholders and better manage existing tensions with them? (25 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> The use of the Fourth Financial Statement: Historical time series analysis and discussion on the defense of the dividends policy. 	25 minutes

Should the professor choose the one-session option, the times would be reallocated as indicated in the table below. TN Annex 1 details the changes in the management of each area:

1. What is the Fourth Financial Statement or Value Footprint? What are the main methodological characteristics and challenges? (30 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> Contrast the students' answer to the prior exercise with the suggested answer 	15 minutes
<ul style="list-style-type: none"> Revision, reflection and discussion of the fundamental aspects of the Fourth Financial Statement 	15 minutes

2. How was Davivienda's Fourth Financial Statement constructed? What is its critical vision of the Social Financial Statement published by Davivienda at the close of 2017? (30 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> Revision of the prior assignment for the construction of Davivienda's Fourth Financial Statement and comments 	20 minutes
<ul style="list-style-type: none"> Comparison with the Social Financial Statement published by Davivienda 	10 Minutes

3. How can the Fourth Financial Statement be used to present a company's management methods from a more comprehensive perspective? How does the Fourth Financial Statement allow for a numerically based discussion on the distribution of the value generated among different stakeholders and better manage existing tensions with them? (20 minutes)

ACTIVITY	TIME
<ul style="list-style-type: none"> The use of the Fourth Financial Statement: Historical time series analysis and discussion on the defense of the dividends policy 	20 minutes

IV. Learning goal

After reading, analyzing, and discussing this case, the students will be able to:

1. As a knowledge goal: to learn about the current evolution of the companies' public information towards comprehensive reports including financial and non-financial information.
2. As a skills development goal: apply the methodology for the construction of the Fourth Financial Statement or Value Footprint.
3. As an attitudes development goal: Encourage the participants to explore and promote new types of company reports according to their stakeholders' needs, critically arguing in favor of their benefits, limitations and challenges.

V. Notes for class discussion

The long version will be developed (in two sessions), however, as mentioned in the TN Annex 1, the exceptions that do not apply to the short version (one session) and to some of the sections for each area of discussion will be pointed out.

FIRST AREA OF DISCUSSION: (60 MINUTES) WHAT IS THE FOURTH FINANCIAL STATEMENT OR VALUE FOOTPRINT? WHAT ARE ITS MAIN CHARACTERISTICS AND METHODOLOGICAL CHALLENGES?

The professor begins the class by stimulating a discussion by asking the students what the Fourth Financial Statement or Value Footprint is?

The professor gathers the students' comments like the ones shown below on Board 1:

Board 1

What is the Fourth Financial Statement?

- It is a chart of accounts
- It is a sustainability report
- It is a metodología de preparación de reporte
- It is a reclassification of the Income Statement
- All of the above
- It is a new way of looking at company results from the stakeholders' perspective

The professor will ask one of the students to consider what they understood from the concept of Fourth Financial Statement from the required reading task assigned. One interpretation could be that the Fourth Financial Statement is a new approach and reclassification of the Income Statement that enables the calculation of the value generated by the company and its distribution among the previously identified stakeholders. As well as containing the distribution table, it also contemplates the additional information in order to build a sustainability report. It is worth highlighting that the

solution of this case will focus on the value generation and distribution table. The professor will present an initial value generation and distribution table presented below on Board 2:

Board 2

Value generation	Value distribution
+ Sales	+ Employees
- Direct costs	+ State
Local	+ Financiers
International	+ Community and environment
	+ Reinvestment
	+ Shareholders
ADDED VALUE	DISTRIBUTED VALUE

In test sessions for this case, it is common for students to jump forwards to concepts such as "value", "stakeholders", and some may even move forward to directly questioning the different sections of the Fourth Statement and to make specific statements such as: I don't know how to reach specific elements such as Reinvestment in the company; or I don't know how to discern between the cost and distribution elements, among other doubts to which the professor can reply that such issues will be dealt with as the case is developed as explained below.

In order to begin to close gaps with respect to the students' doubts in trying to solve the basic approximation exercise in relation to the Fourth Financial Statement model, the professor will project the answer provided in Student Example Template.xlsx (which coincides with the information in TN Annex 2). Below is a list of the main doubts students have had in the test sessions:

- In a breakdown of the costs for the allocation of national costs and the cost of goods sold, two costs necessary for value generation were added: Office supplies and Advertising (see the item relating to national costs). This usually generates an interesting discussion because the rule is not fixed or applicable in all cases. There may be cases of companies where these costs, given their relative importance and direct association to stakeholders, may be considered for the right side of the Fourth Financial Statement instead of the left; that is, for value assignment.
- In the value distribution, the Reinvestment in the company item shows the net profits plus those charges in the Income Statement that do not refer to transactions or cash flows (such as devaluation), minus the actual dividends paid to the owners. This section in test sessions also generates discussion, because it is difficult to see –from this new perspective- that the money retained in the organization corresponds to the profits without discounting those items, which do not reflect outflows but rather accumulation of possible losses or costs such as devaluations or provisions.

An additional discussion that may or may not be incorporated is the comparison of Company A with Company B (especially if the professor chooses the long version of the case). Should the professor decide to continue with the case discussion and omit the analysis of Company B, he or she can move directly to the section: "Topics that have to be made clear."

If the professor decide to go with the comparison with Company B, he or she will highlight that although the two companies seem identical in their composition of the Income Statement (as we can see in the TN Annex 2 and in the Excel file: Student Example Template.xlsx), by restricting the details of their figures in the Fourth Financial Statement, they reveal a very different policy of value

assignment for stakeholders. This supports the fact that this new perspective, allows a more direct view of how the value generated by the company is distributed among the stakeholders, beyond reaching the same financial result. In any case, the professor is reminded that this analysis is already contained in the required reading article.

Topics that have to be made clear:

1. On the construction of the Fourth Financial Statement:

Once students have understood what the Fourth Financial Statement is, the professor encourages a discussion on the methodology the students followed to solve the exercise by asking them what their first step was in constructing the Fourth Financial Statement? The professor will listen to the students' answers with respect to the methodology they used and the problems they found in constructing the Fourth Financial Statement in the basic example exercise. The students' comments can be summarized on Board 3.

Board 3

What was the first step you took in constructing the Fourth Statement?

- Look at the Income Statement.
- Attempt to replicate the table in the Harvard article.
- Look at the chart of accounts and redirect this to the logic of the Fourth Statement methodology.
- Face a frustrating aspect: it did not work
- I couldn't do anything.

These comments serve to make professors and students to reflect upon the challenge of building a Fourth Financial Statement and it is important to highlight that the professor will probably have to deal with his or her own resistance to the change of approach when compared to students that were able to be more open and prejudice-free in accepting this new perspective.

For the professor to ensure that the students have a clear understanding of the steps to the Fourth Financial Statement model, these can be outlined on Board 4:

Board 4

What procedure did you follow to construct the FFS?

- Deconstruct the Income Statement by looking at the detailed chart of accounts.
- Analyse the detailed chart of accounts.
- Resignify these accounts to see if they correspond to value generation or distribution:
 - Generation: establish the incomes and costs.
 - Distribution: identify the stakeholders that receive the value.
- Reconstruction according to the scheme.

Using the guide below, the professor can go into further detail with respect to each of the steps should this be required:

1. Carefully review the company chart of accounts and redirect the balances at the close of the exercise based on:
 - a. The concepts of Generated Value (Income minus the inputs necessary for value generation) and,
 - b. Distributed value (to each of the stakeholders mentioned previously).

There may be an account whose denomination may not be sufficiently descriptive of its content. This would require consultation with the area of finance with respect to its composition based on its relative importance.

Validate the redirection checker making sure that the value-added generated is equal to the value-added distributed.

2. Order the value-added distributed by the relative importance of the stakeholders.
3. Build the notes for the Fourth Financial Statement enriching the numerical expressions with qualitative and non-financial information supporting each of the components in the table.

As part of the presentation of the methodology, the professor will go into detail with respect to the following practical aspects or use the following comments in anticipation of possible questions with regards students' doubts with respect to more specific aspects of the Fourth Financial Statement:

With respect to the accounts that make up the value-added generated:

- The professor must emphasize that, as a rule, the value-added generated should be the same as the value-added presented by the company in its Income Statement. In practice, however, in different industries, such as the financial industry, operational and non-operational incomes may have to be included; as long as they can be easily linked to the conventional Income Statement (there may be other income items to be included such as income from investment in subsidiaries, among others).
- Another aspect to be highlighted by the professor is the importance of discerning between the input and what would ultimately constitute value distribution among suppliers. The professor can emphasize that the input (costs for value determination) are clearly identified tangible goods or services that contribute to income generation.

In relation to the distributed value-added generated, the professor may present the following possible dilemmas:

- Discern whether the value of people-intensive outsourcing are input or distribution of value to people, for example surveillance services, cleaning, outsourcing of contractors, among others.
- Discern which compulsory social security contributions represent distribution to people or to the State, for example, pension fund payments.
- Discern, identify and quantify all the components of implicit distribution to the State in an Income Statement, for example, those other than income tax, tariffs, duties, municipal licenses, laboral contributions, indirect taxation, among others.
- Discern the different aspects of value distributed to the community and in relation to the environment, for example, donations, community programs, environmental prevention, mitigation and reparation, and, in general, issues of corporate social responsibility.

- Compose the value retained in the company as an algebraic equation of the profits, minus the distributions, and plus all charges / credit in the Income Statement not attributable to a transaction based on the accrued.

The discussions above complete the specific comments for steps 1, 2, and 3. Following this, the professor will indicate a very important aspect, which, although not expanded on in this case, is part of the methodology: "the notes of the Fourth Financial Statement." Once the discussion on the steps to the construction of this statement of added value has been exhausted, the professor can make sure that the students have understood the premises and terms used. To ensure this the professor can ask the following question: At this stage, what constitutes value for the Fourth Financial Statement?

2. What is value?

Using Board 2 as support, the professor can make sure that the students can conclude that the definition of value in the Fourth Financial Statement corresponds to a dual perspective: the value-added generated (Income – Costs or Inputs of goods and services to obtain this added value) and the value-added distributed (among the stakeholders defined as relevant). In this dual perspective, a reclassification of the Income Statement implies that the value generated is equal to the added value distributed.

The discussion will introduce a change of approach in the paradigm: the financial value received by the stakeholders, and how this value is defined by subtraction in the case of the added value generated by the company and by composition in the case of the value distributed to its stakeholders.

Once the discussion on the value and the new approach to the Fourth Financial Statement has been exhausted, the professor will direct the discussion towards the theoretical premises that support the Fourth Financial Statement. To do so, he or she can ask the following question: Which accounting principles support a conventional Income Statement?

3. What are the theoretical premises on which the Fourth Financial Statement is based?

In this section, it is important for students to understand that the Fourth Financial Statement requires a deconstruction, resignification and reconstruction of the Income Statement, maintaining the generally accepted principles of accrual accounting, associated to the time of sale, to lead to the above-described definition of value.

The only variation on the generally accepted accounting principles is that all charges to the results that do not originate from a transaction are considered a retention of profits or reinvestment in the company (for example, devaluation, provisions, and accounting adjustments on the value of assets). Only the amount effectively paid is considered value distributed to the shareholder.

If the professor wants to enrich and extend the discussion on this point, he or she can expose the basic premises that support the financial statements, especially the Income Statement, and how the Fourth Financial Statement is supported by some of these and signifies others. To do so, the professor can use Board 4.

Board 5

Comparison of approaches

Income Statement

- Profit based on accrued sales revenue
- Future forecasts (provisions) and sanctions that are not reflected in the cash flow (devaluation, deterioration) are considered expenses.
- Profit is an opinion on company performance and does not correspond to the money distributed among shareholders.

Fourth Financial Statement

- The value based on accrued sales revenue.
- Any decrease in the Income Statement not due to transactions made or accrual is considered retention or reinvestment in the company.
- The value attributed to shareholders is what is effectively paid to them as dividends.

The professor will ask students to remember the basic accounting principles that support the Income Statement and highlight the importance of the accrual basis. He or she then compares this to the premises of the determination of the concept of value on which the Fourth Financial Statement is based to allow students to conclude that the Fourth Financial Statement maintains an accrual basis, it separates the provisions on the company's future value retention and considers the value distributed as only that which is effectively perceived by shareholders as dividends. All this reflects a restructuring of the Income Statement to a value perspective.

The Income Statement is based on accrual accounting principles (accounting period), allowing the partial and anticipated measurement of the entity's results, and which reflects permanent tension between the group of shareholders/owners, the company as an entity separate from them, and the different stakeholders.

Thus, the Fourth Financial Statement postulates three types of appropriation of future overall result in each of the annual measurement processes: those that emerge from the transactions made, leading to earnings or losses; those that are precautionary, generally of a negative sign, a product of accepted accounting conventions; and the voluntary decisions of the owners. In this line, all charges or credit to the Income Statement that do not come from transactions made on the basis of accrual are considered earnings retained ("reinvestments") in the company and only withdrawals of cash flow or dividends to the shareholders are considered realized gains, the non-distributed portion also being considered a retention / "reinvestment".

Once the concept of value for the Fourth Financial Statement has been defined together with its theoretical basis, the professor will shift the discussion towards the question: Who are the generic stakeholders to which the company belongs and who should be informed of the value that the company creates and distributes?

4. Who are the generic stakeholders who should be informed of the financial value that they receive from the company?

Based on Board 2, the professor will present the explanatory table of the added and generated value that is a main part of the Fourth Financial Statement. The table shows how this value is made up by subtraction in the case of the added value generated by the company, and by addition or composition in the case of the value distributed to the stakeholders.

The professor will focus first on the right hand side of the table for the discussion on the stakeholders (conventionally six): the people (employees, taskforce or people), the State, financiers or non-shareholder financial capital providers, owners or shareholders, the community and the environment, and the company itself through that which is retained/"reinvested," without prejudice to specific stakeholders according to the industry in question.

The professor can ask the students: What is new in this enunciation of generic stakeholders versus the traditional concept of stakeholders? Some students may point out that they find it interesting that the community and the environment are included as stakeholders and as a response to allocating value to company shares that demonstrate the exercise of its corporate social responsibility, which is not made explicit in a conventional Income Statement.

Next, the professor, will guide the discussion towards the left hand side of the table and focus on the methodology behind its construction. To demonstrate that simplicity does not necessarily imply an absence of technical complexities and decisions based on the reality of each industry, the professor can remind students of the previous assignment they completed and ask them the following question: How easy or difficult can it be for an organization to obtain the information required to construct the notes for the Fourth Financial Statement?

5. Availability or access to non-accounting information required for the Fourth Financial Statement

The points above will have allowed students to reflect upon the existing limitations with respect to the comprehensive construction of the Fourth Financial Statement, both in terms of value generation and distribution and in terms of the notes relating to the items in the table and how to overcome these by simplification or by planning the delivery of non-financial information, highlighting availability in different company sectors. The professor can ultimately stimulate the discussion on the convenience of localizing the Fourth Financial Statement in the financial area helping to assimilate it as part of the preparation of a sustainability or comprehensive report.

The main *takeaway* from this area consists in the students approaching the construction of a sustainability report, where they can analyze how, based on accounting and other information, the company can generate a reconstruction of its Income Statement that will show the value generated and how this value is distributed among the stakeholders identified. The students can replicate this experience in other organizations and allow any user to understand the sometimes-complex information presented in financial statements. This methodology requires the consensus and commitment of companies' management bodies as it requires access to more detailed information to that which is provided in conventional financial statements.

By the end of the presentation and discussion of the steps and challenges to the construction of the Fourth Financial Statement, the Banco Davivienda case offers the possibility to reconstruct the Fourth Financial Statement and to analyze, together with students, the particularities related to using this model in a financial entity and to be able to compare the students' reconstruction versus the Social Financial Statement published by the Bank on December 31, 2017.

SECOND AREA OF DISCUSSION: (75 minutes) How was Davivienda's Fourth Financial Statement constructed?

The professor will follow 2 steps in this section:

- a. He or she will discuss with the students the reconstruction of Davivienda's Fourth Financial Statement that they already constructed (short version) or that they are going to construct in class (long version). For the long version, case must be substituted for the Excel sheet: [Student Davivienda Template.v1.xlsx](#) (TN Annex 3).

- b. The professor will guide the discussion about the comparison of the students' Fourth Financial Statement with Davivienda's Social Financial Statement.

If the professor chooses the short version of the case, he or she will require one of the groups of students to present their reconstruction and to compare it to the solution suggested below.

Based on Annex 1 of the teaching case, the professor will discuss the following aspects in relation to Davivienda's Income Statement:

Banks income statement tend to be constructed in a particular fashion given the nature of banking activities. When compared to conventional income statements of any kind of company, they are different in the following ways:

- Sales are made up of interest income that corresponds to earnings through charges for bank products: loan portfolios (almost always referred to as portfolios), investments, and funds bank loans to other entities.
- The cost of sales is made up of the interest expenses that are equivalent to necessary expenditure through payment of deposit rates in order to be able to acquire public funds through current accounts, checking accounts, and term deposit certificates.
- The gross financial margin is equivalent to the gross margin and relates to the spread between the lending rate and the deposit rate.
- The impairment and refund of net financial assets refers to the difference between the creation of provisions to cover the losses from irrecoverable loans and the debt effectively recovered through collection of outstanding nonperforming loans.
- The net financial margin presents earnings after subtracting the bank's primary yield, which is the financial spread (gross financial margin) for loan loss provisions.
- Operational costs (personnel, systems, security, infrastructure costs, impairments) and additional income (from commissions and other bank activities) are subtracted from this margin in order to calculate the operational margin, equivalent to EBIT.
- Next, the income tax is subtracted in order to obtain net profits, which, in this statement, are known as net income.

If any of the students obtained the same result as the one suggested by the professor in TN Annex 4 (also annexed [Instructor Davivienda Template.xls](#)), the professor can use this answer as a basis. If, on the other hand, none of the students are able to do so, the professor will project his or her answer to supplement the following special aspects for the reconstruction of Davivienda's Fourth Financial Statement:

- By considering the income and interest expense, we can conclude that the bank is classifying two items that do not intrinsically correspond to the primary bank activity of intermediation, which consists in raising surplus funds to be placed in unprofitable funds through loans. Reference is made to bank loans and other financial obligations and to the debt instruments issued. Although these two sources of fundraising are valid and normal in the activity of any bank, they are not considered essential in classifying as interest expense, given that the activity is additional or supplementary to the central activity of credit intermediation. This inclusion means that Davivienda's Social Financial Statement and spread (which is at the heart of bank profits) extended, in 2017, to include outflows that are not directly involved in its generation.
- By taking a detailed look and discussing with the students what Davivienda is including in the value assignment "Suppliers", we can see that there is a large quantity of operational services essential to conducting the bank's activity, giving rise to the question of whether all the items classified as Suppliers really correspond to stakeholders, or whether some of these components

correspond to "costs" which should be included in the first part, subtracting operational income as operational costs. For example, payments for services such as cleaning and surveillance, maintenance and adjustments, advertising, electronic data processing, and rent. It is worth highlighting that the Fourth Financial Statement, by not being tied to strict accounting regulations and classifications, can make adjustments and reclassification in order to purge the value generated by the entity, beyond the rigid accounting classifications.

- The last aspect that can raise doubt is the reconstruction of Profit reinvestment in the company. The Fourth Financial Statement includes an additional item that does not correspond to transactions such as the deterioration of gross financial assets. This item identifies accounting provisions for potential losses in the loan portfolios assumed by the bank without discounting effective debt recovery on the default portfolio.

In the long version, the classification column for the Fourth Financial Statement is left in the supporting Excel sheet (NE Annex 3 which coincides with [Student Davivienda Template.v1.xlsx](#)) for students to simplify their reconstruction task, considering that not many people are familiar with banking jargon. However, this does not mean that additional questions by the students will not come up regarding doubts they may have with respect to other items.

Finally, the students' answer is compared to the Social Financial Statement, published by Davivienda in the Executive Summary of the 2017 Sustainability Report:

<https://www.davivienda.com/wps/wcm/connect/personas/52edfa5b-99b9-438e-b2d8-36453657a0f1/Brochure%2BColombia%2BDavivienda%2B2017.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18-NH941K82NG9J20OGP2BPTN39J7-52edfa5b-99b9-438e-b2d8-36453657a0f1-ma7mYgJ>

The students will then be asked the following questions:

How closely conceived is Davivienda's Social Financial Statement to the original concept of the Fourth Financial Statement?

Despite the fact that for teaching purposes, the Student Davivienda Template was designed to include rounding and simplification of some items, the Fourth Financial Statement constructed by the students must resemble, to some extent, the final percentages of value assignment published by Davivienda.

As the exercise is set out to coincide with Davivienda's effort as much as possible, this will not be a problem for the students. However, students are invited to question their presentation by attempting to answer the following: What changes would they make in Davivienda's Social Financial Statement?¹²

Students may mention the following aspects for improvement:

- There are no notes to contextualize this Fourth Financial Statement.
- There is no information to compare with the previous year's statement.
- The reclassifications they had doubts about should be taken into account (for example, the Suppliers classification and the bank's structural financial costs).
- The figures should not be presented as percentages and absolute values.

The *takeaway* for this area of discussion is as follows:

¹² If the professor wants to show students a good practice for the presentation of the Fourth Statement, he or she can direct them to the following EPM: <http://www.sostenibilidadgrupoepm.com.co/gestion-social-y-ambiental/grupos-de-interes/participacion-de-los-grupos-de-interes/>

- The Fourth Financial Statement can be applied to specialized industries, other than commercial and industrial ones, and they can be integrated into sustainability reports so as to include the financial information with a perspective of the value that the company contributes to society and how it distributes this among the main stakeholders.
- Despite the simplicity of the scheme for the preparation of the Fourth Financial Statement it is not exempt from conceptual discussions that the company must deal with through professional criteria when it comes to deciding what value generation is and what its distribution means, who the stakeholders that receive such value from the company are, and how to adjust the methodology to the particularities of each industry.

At this point, the discussion enables a connection with the historical analysis of the last three years of Davivienda's Social Financial Statement, by asking the following question: How could Efraín, with this Fourth Financial Statement, defend the dividend proposal and the social responsibility policy in the next Shareholders' Meeting?

THIRD AREA OF DISCUSSION: (20 MINUTES) HOW CAN THE FOURTH FINANCIAL STATEMENT BE USED TO PRESENT A COMPANY'S MANAGEMENT ASPECTS FROM A MORE COMPREHENSIVE PERSPECTIVE?

The professor can use Annex 9 of the teaching case to open a discussion with the students on the usefulness of the Fourth Financial Statement. To do so, he or she mentions that the Annex presents a more detailed template that Efraín could use with the shareholders, considering that Davivienda's Social Financial Statement only includes figures in percentages.

The professor will ask students to compare the evolution of the value-added generated by comparing its ratio to the total income. The students can discuss the growth trend of the income and costs; however, the value-added generated in relation to the income has decreased over the past year.

Students will be shown that most of the value generated is the net financial spread (interest income – interest expense), which is coherent with the bank's main business.

They will be asked to observe the evolution of the percentage of value assignment, pointing out the relative stability in almost all items with the exception of Reinvestment in the company. Some students will be curious as to why the Financiers item reflects a value of zero for the previous year. The professor can ask the student the following questions: What do you think the reason for this variation is? Could it be attributed to the fact that there is no additional interbank funding? Or, could it be an inconsistency in the reclassification of numbers?

Given that most of the audiences with which the case will be used have no experience in banking, the professor must explain that, in this case, the abrupt variation regarding Financiers complies by the second conclusion: inconsistency in the reclassification of the numbers. The professor will then proceed to present TN Annex 5 in order to correct inconsistencies and for the students to be able to conduct a second analysis of the percentages in the value assignment.

Using TN Annex 5, the professor will explain that by reassigning the cost of interbank financing of interest costs to value distribution "Financiers" to maintain the consistency of the classification between the years compared, we can see that the evolution of the behavior of all of the percentages stabilizes, including for the "Reinvestment in the company" item.

The professor will point out the usefulness of being able to compare statements from various years, in order to be able to detect inconsistencies and possible improvements that could be implemented, especially if the tool is to be used in the context of shareholders.

Finally, the professor will ask students the following question: If you were in Efraín's shoes which aspects of NT Annex 5 would you use to defend the dividend proposal and the social responsibility policy in the Shareholders' Meeting?

Some students may mention the little that Davivienda spends on Community and Environment; the professor can explain that this corresponds to direct expenditure, whereas many of the management aspects are conducted by the employees themselves (remember the social activities item in the sustainability report). To stop this form of management would imply the reduction of the personnel's pay, and it would affect company sustainability.

Other students may question the value assigned to Financiers, especially because its value has just been adjusted and brought into line, the professor may clarify that this allocation is inelastic because it corresponds to the borrowing requirement of the operation as a whole.

Other students may wonder about the value allocated to the shareholders: what would happen if we increase the 5% figure to 10%? The professor can mention that if the value allocated to shareholders were duplicated, this would imply that a smaller value is reinvested in the company, obeying a corporate structural policy to finance its sustainable growth.

The professor will round off the students' contributions by mentioning that Efraín may focus his argument at the Shareholders' Meeting on the fact that they have been consistent in the distribution of value, managing the vision and expectations of the different stakeholders, and that this strategy is what has allowed the group to grow, the international recognition of its sustainability management, the positive work environment, its involvement with communities, national recognition of the brand, and the valuation of its shares, which is precisely what has attracted new investors like them to become interested in participating in the bank's shareholder structure.

The *takeaway* from this closing section is as follows:

The cross-sectional analysis of the Fourth Financial Statement reveals the consistency of corporate social responsibility with the business model of a banking institution and it contextualizes the strategy of social responsibility and sustainability when compared to the limited scope and perspective of the conventional Income Statement.

TN Annex 1 Summary of guidelines for the short version (1 session)

Area de discussion	Modifications versus long version
First area of discussion	<ul style="list-style-type: none"> ○ Revision of the basic exercise for company A. ○ Reflection of elements of the Fourth Financial Statement: it is suggested that only Boards 1, 2, 4 and 5 are used.
Second area of discussion	<ul style="list-style-type: none"> ○ The reconstruction of Davivienda occurs as a prior assignment for the students and during class, they compare their results to the answer suggested by the professor and discuss elements of classification and doubts. ○ According to the experience and knowledge of students, greater or lesser emphasis will be placed on accounting aspects.
Third area of discussion	<ul style="list-style-type: none"> ○ The same procedure as for the long version is used.

TN Annex 2 – Wording and answer of Company B for the Basic Exercise

Ejercicio Sencillo de aproximación al Cuarto Estado Financiero - Solución Empresa B

A continuación se adjunta el Estado de Resultados de la empresa B, además del plan de cuentas que desglosa dicho estado financiero e información adicional.

Se solicita:

- 1) Clasificar las cuentas presentes en el plan de cuentas de acuerdo al rubro al que pertenecerían en el Cuarto Estado Financiero.
- 2) Realizar la presentación inicial del Cuarto Estado Financiero, de acuerdo a la clasificación realizada en el punto anterior.

Estado de resultados de la Empresa B

Ingresos por ventas	10.000.000
Costo de ventas	-6.200.000
Margen	3.800.000
Gastos de administración y ventas	-750.000
Utilidad operativa	3.050.000
Gastos financieros	-900.000
Utilidad antes de impuestos	2.150.000
Impuesto a la renta	-350.000
Utilidad del ejercicio	1.800.000

Plan de cuentas de la Empresa B

Nº Cuenta	Descripción	Clasificación Estados Financieros	Saldo 2009 \$	Clasificación Cuarto Estado
100	Venta de productos	Ingresos por ventas	10.000.000	
200	Costo de mercaderías nacionales	Costo de ventas	-2.700.000	
300	Costo de mercaderías importadas	Costo de ventas	-300.000	
400	Costo en remuneraciones	Costo de ventas	-2.900.000	
500	Depreciación de activos fijos	Costo de ventas	-300.000	
600	Salarios y beneficios sociales	Gastos de administración y ventas	-350.000	
700	Tasas y contribuciones	Gastos de administración y ventas	-25.000	
800	Insumos de oficina	Gastos de administración y ventas	-75.000	
900	Donaciones	Gastos de administración y ventas	-200.000	
1000	Publicidad	Gastos de administración y ventas	-100.000	
1100	Intereses por préstamos bancarios	Gastos financieros	-900.000	
1200	Impuesto a la renta	Impuesto a la renta	-350.000	
1300	Utilidad del ejercicio	Utilidad de ejercicio	1.800.000	

Datos adicionales

Pago de dividendos 200.000

Cuarto Estado Financiero de la Empresa B

Valor agregado generado	
Valor agregado generado	

Valor agregado distribuido	
Valor agregado distribuido	

TN Annex 2 – Wording and answer of Company B for the Basic Exercise (continued)

Ejercicio 1

Plan de cuentas de la Empresa B

N° Cuenta	Descripción	Clasificación Estados Financieros	Saldo 2009 \$	Clasificación Cuarto Estado
100	Venta de productos	Ingresos por ventas	10.000.000	Ventas
200	Costo de mercaderías nacionales	Costo de ventas	-2.700.000	Costos
300	Costo de mercaderías importadas	Costo de ventas	-300.000	Costos
400	Costo en remuneraciones	Costo de ventas	-2.900.000	Empleados
500	Depreciación de activos fijos	Costo de ventas	-300.000	Reinversión en la empresa
600	Salarios y beneficios sociales	Gastos de administración y ventas	-350.000	Empleados
700	Tasas y contribuciones	Gastos de administración y ventas	-25.000	Estado
800	Insumos de oficina	Gastos de administración y ventas	-75.000	Costos
900	Donaciones	Gastos de administración y ventas	-200.000	Comunidad
1000	Publicidad	Gastos de administración y ventas	-100.000	Costos
1100	Intereses por préstamos bancarios	Gastos financieros	-900.000	Financistas
1200	Impuesto a la renta	Impuesto a la renta	-350.000	Estado
1300	Utilidad del ejercicio	Utilidad de ejercicio	1.800.000	Reinversión en la empresa

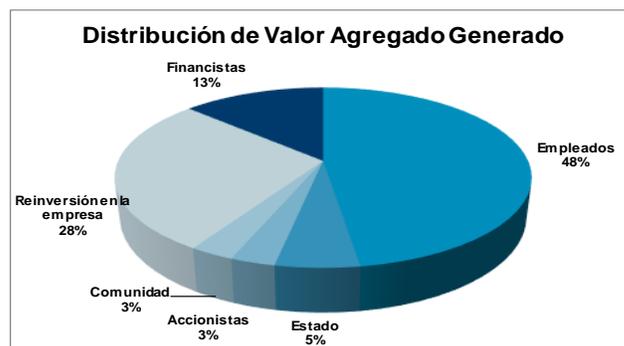
Cuarto Estado Financiero de la Empresa B

Valor agregado generado	
Ventas	10.000.000
Costos	-3.175.000
Costos nacionales	-2.875.000
Costos importados	-300.000
Valor agregado generado	6.825.000

Valor agregado distribuido	
Empleados	3.250.000
Estado	375.000
Accionistas	200.000
Comunidad	200.000
Reinversión en la empresa	1.900.000
Financistas	900.000
Valor agregado distribuido	6.825.000

Detalle de Costos Nacionales	
Mercaderías nacionales	-2.700.000
Insumos de oficina	-75.000
Publicidad	-100.000
Total	-2.875.000

Detalle de Reinversión en la empresa	
Depreciación de activos fijos	300.000
Utilidad del ejercicio	1.800.000
Dividendos pagados	-200.000
Total	1.900.000



TN Annex 3 – Student template _v1

Reconstrucción del "Cuarto Estado Financiero" de Davivienda

A continuación se adjunta el Estado de Resultados de la Davivienda, además del plan de cuentas que desglosa dicho estado financiero e información adicional. Se solicita:

- 1) Clasificar las cuentas presentes en el plan de cuentas de acuerdo al rubro al que pertenecerían en el "Cuarto Estado Financiero".
- 2) Realizar la presentación inicial del "Cuarto Estado Financiero", de acuerdo a la clasificación realizada en el punto anterior.
- 3) Realizar un gráfico de torta de los componentes del Valor Agregado Distribuido.

Nota: Este ejercicio didáctico aunque utiliza los datos financieros públicos de Davivienda para llegar a la misma distribución de valor, se basa en supuestos simplificados a fin de facilitar la reconstrucción.

Estado de resultados resumido de Davivienda

Ingresos por intereses	9.338
Egresos por intereses	-3.844
Margen financiero bruto	5.494
Deterioro y reintegro de activos financieros,	-1.975
Margen financiero neto	3.519
Otros ingresos y (egresos) operacionales	-1.831
Margen operacional	1.688
Impuesto a la renta y otros	-405
Utilidad del ejercicio	1.283

Plan de cuentas de la Empresa A

Descripción	Clasificación Estados Financieros	Saldo 2017 \$	Clasificación Cuarto Estado
Cartera	Ingresos por intereses	8.667	Ingresos financieros
Inversiones	Ingresos por intereses	593	Ingresos financieros
Fondos interbancarios	Ingresos por intereses	78	Ingresos financieros
Depósitos en cuenta corriente	Egresos por intereses	-29	Costos financieros
Depósitos de ahorro	Egresos por intereses	-865	Costos financieros
Certificados de depósitos a término	Egresos por intereses	-1.717	Costos financieros
Créditos de bancos y otras obligac financ	Egresos por intereses	-383	Costos financieros
Instrumentos de deuda emitidos	Egresos por intereses	-722	Costos financieros
Otros intereses	Egresos por intereses	-128	Costos financieros
Reintegro de activos financieros neto	Otros ingresos y (egresos) operacionales	336	Ingresos operacionales
Ingreso por operación de seguros, neto	Otros ingresos y (egresos) operacionales	90	Ingresos operacionales
Ingreso por operación de seguros	Otros ingresos y (egresos) operacionales	1.402	Ingresos operacionales
Resultados por invers en asoc y operac co	Otros ingresos y (egresos) operacionales	4	Ingresos operacionales
Ganancia (Pérdida) en cambios neto	Otros ingresos y (egresos) operacionales	106	Ingresos operacionales
Derivados (neto)	Otros ingresos y (egresos) operacionales	-2	Ingresos operacionales
Dividendos recibidos	Otros ingresos y (egresos) operacionales	7	Ingresos operacionales
Otros ingresos y gastos, neto	Otros ingresos y (egresos) operacionales	39	Ingresos operacionales
Otros egresos nota 13.4	Otros ingresos y (egresos) operacionales	-240	Ingresos operacionales
Gastos por operación de seguros	Otros ingresos y (egresos) operacionales	-287	Costos operacionales
Sueldos y prestaciones	Gastos de personal	-1.040	Empleados
Incentivos	Gastos de personal	-150	Empleados
Beneficios a empleados	Gastos de personal	-199	Empleados
Mantenimiento y adecuaciones	Gastos administrativos y operativos	-182	Proveedores
Servicios de aseo y vigilancia	Gastos administrativos y operativos	-58	Proveedores
Publicidad, propaganda y relaciones púb	Gastos administrativos y operativos	-120	Proveedores
Impuesto de renta y complementario	Gastos administrativos y operativos	-412	Estado
Contribuciones y otros	Gastos administrativos y operativos	-95	Estado
Arrendamientos	Gastos administrativos y operativos	-185	Proveedores
Procesamiento electrónico de datos	Gastos administrativos y operativos	-65	Proveedores
Honorarios	Gastos administrativos y operativos	-248	Proveedores
Transportes	Gastos administrativos y operativos	-111	Proveedores
Impuestos	Gastos administrativos y operativos	-208	Estado
Seguro Depósito	Gastos administrativos y operativos	-130	Proveedores
Impuesto de renta y complementario, dife	Gastos administrativos y operativos	7	Estado
Comunidad y medio ambiente	Gastos administrativos y operativos	-48	Comunidad y medio ambiente
Amortizaciones y depreciaciones	Gastos administrativos y operativos	-110	Reinversión
Deterioro de activos financieros bruto	Otros egresos	-2.312	Reinversión
Utilidad del ejercicio	Utilidad del ejercicio	1.283	Reinversión

Datos adicionales

Pago de dividendos -417

TN Annex 4 – Davivienda template for professors

Reconstrucción del "Cuarto Estado Financiero" de Davivienda

A continuación se adjunta el Estado de Resultados de la Davivienda, además del plan de cuentas que desglosa dicho estado financiero e información adicional.

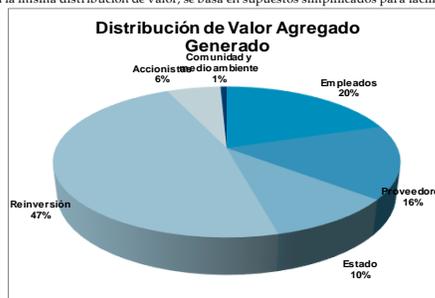
Se solicita:

- 1) Clasificar las cuentas presentes en el plan de cuentas de acuerdo al rubro al que pertenecerían en el Cuarto Estado Financiero.
- 2) Realizar la presentación inicial del "Cuarto Estado Financiero", de acuerdo a la clasificación realizada en el punto anterior.
- 3) Realizar un gráfico de torta de los componentes del Valor Agregado Distribuido.

Nota: Este ejercicio didáctico aunque utiliza los datos financieros públicos de Davivienda para llegar a la misma distribución de valor, se basa en supuestos simplificados para facilitar la reconstrucción.

Estado de resultados resumido de Davivienda

Ingresos por intereses	9.338
Egresos por intereses	-3.844
Margen financiero bruto	5.494
Deterioro y reintegro de activos financieros, neto	-1.975
Margen financiero neto	3.519
Otros ingresos y (egresos) operacionales	-1.831
Margen operacional	1.688
Impuesto a la renta y otros	-405
Utilidad del ejercicio	1.283



Taxonomía de cuentas del Estado de Resultados de Davivienda

Descripción	Clasificación Estados Financieros	Saldo 2017 \$	Clasificación Cuarto Estado
Cartera	Ingresos por intereses	8.667	Ingresos financieros
Inversiones	Ingresos por intereses	593	Ingresos financieros
Fondos interbancarios	Ingresos por intereses	78	Ingresos financieros
Depósitos en cuenta corriente	Egresos por intereses	-29	Costos financieros
Depósitos de ahorro	Egresos por intereses	-865	Costos financieros
Certificados de depósitos a término	Egresos por intereses	-1.717	Costos financieros
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Instrumentos de deuda emitidos	Egresos por intereses	-722	Costos financieros
Otros intereses	Egresos por intereses	-128	Costos financieros
Reintegro de activos financieros neto	Otros ingresos y (egresos) operacionales	336	Ingresos operacionales
Ingreso por operación de seguros, neto	Otros ingresos y (egresos) operacionales	90	Ingresos operacionales
Ingreso por operación de seguros	Otros ingresos y (egresos) operacionales	1.402	Ingresos operacionales
Resultados por invers en asoc y operac conjuntas	Otros ingresos y (egresos) operacionales	4	Ingresos operacionales
Ganancia (Pérdida) en cambios neto	Otros ingresos y (egresos) operacionales	106	Ingresos operacionales
Derivados (neto)	Otros ingresos y (egresos) operacionales	-2	Ingresos operacionales
Dividendos recibidos	Otros ingresos y (egresos) operacionales	7	Ingresos operacionales
Otros ingresos y gastos, neto	Otros ingresos y (egresos) operacionales	39	Ingresos operacionales
Otros egresos nota 13.4	Otros ingresos y (egresos) operacionales	-240	Ingresos operacionales
Gastos por operación de seguros	Otros ingresos y (egresos) operacionales	-287	Costos operacionales
Sueldos y prestaciones	Gastos de personal	-1.040	Empleados
Incentivos	Gastos de personal	-150	Empleados
Beneficios a empleados	Gastos de personal	-199	Empleados
Mantenimiento y adecuaciones	Gastos administrativos y operativos	-182	Proveedores
Servicios de aseo y vigilancia	Gastos administrativos y operativos	-58	Proveedores
Publicidad, propaganda y relaciones públicas	Gastos administrativos y operativos	-120	Proveedores
Impuesto de renta y complementario	Gastos administrativos y operativos	-412	Estado
Contribuciones y otros	Gastos administrativos y operativos	-95	Estado
Arrendamientos	Gastos administrativos y operativos	-185	Proveedores
Procesamiento electrónico de datos	Gastos administrativos y operativos	-65	Proveedores
Honorarios	Gastos administrativos y operativos	-248	Proveedores
Transportes	Gastos administrativos y operativos	-111	Proveedores
Impuestos	Gastos administrativos y operativos	-208	Estado
Seguro Depósito	Gastos administrativos y operativos	-130	Proveedores
Impuesto de renta y complementario, diferido	Gastos administrativos y operativos	7	Estado
Comunidad y medio ambiente	Gastos administrativos y operativos	-48	Comunidad y medio ambiente
Amortizaciones y depreciaciones	Gastos administrativos y operativos	-110	Reversión
Deterioro de activos financieros bruto	Otros egresos	-2.312	Reversión
Utilidad del ejercicio	Utilidad del ejercicio	1.283	Reversión

Datos adicionales

Pago de dividendos -417

Cuarto Estado Financiero de Davivienda

Valor agregado generado	
INGRESOS	11.081
Financieros	9.338
Operacionales	1.743
COSTOS	-4.131
Financieros	-3.844
Operacionales	-287
Valor agregado generado	6.950

Valor agregado distribuido	
Empleados	1.390
Proveedores	1.099
Estado	708
Reversión	3.288
Accionistas	417
Comunidad y medio ambiente	48
Valor agregado distribuido	6.950

TN Annex 5 – Comparative analysis of Davivienda's Fourth Financial Statement – Corrected

	2017		2016		2015	
	Valores en millones de pesos	Comparación sobre Ingresos	Valores en millones de pesos	Comparación sobre Ingresos totales	Valores en millones de pesos	Comparación sobre Ingresos totales
Valor Generado Davivienda						
Ingresos financieros	9.338		8.675		6.531	
Ingresos operacionales	1.742		1.934		1.470	
Total ingresos	11.080		10.609		8.001	
Costos financieros	2.994		2.613		1.496	
Costos operacionales	287		271		792	
Total costos	3.281	30%	2.884	27%	2.288	29%
Total Valor Agregado Generado	7.799	70%	7.725	73%	5.713	71%

	2017		2016		2015	
	Valores en millones de pesos	Comparación sobre Valor distribuido		Comparación sobre Valor distribuido	Valores en millones de pesos	Comparación sobre Valor distribuido
Valor Distribuido Davivienda						
Accionistas	417	5%	390	5%	350	6%
Empleados	1.389	18%	1.292	17%	1.119	20%
Reinversión en la empresa	3.288	42%	2.956	38%	2.287	40%
Estado	708	9%	957	12%	796	14%
Comunidad y medio ambiente	48	1%	39	1%	30	1%
Proveedores	1099	14%	999	13%	823	14%
Financistas	850	11%	1.092	14%	308	5%
Total VAD	7.799	100%	7.725	100%	5.713	100%

Utilidad contable por acción	2.841	3.819	2.784
Dividendo por acción	800	950	864
Dividendo por acción sobre Utilidad contable	28,16%	24,88%	31,03%

Fuente: Elaboración propia a partir de datos del Estado Financiero Social de Davivienda