# Banco Davivienda S.A. / PFDAVVNDA

## Second Quarter Results 2020 / 2Q20

Bogotá, Colombia. Aug 13th, 2020. – Banco Davivienda S.A. (BVC: PFDAVVNDA) announces its 2020 Second Quarter consolidated results. Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in Colombian Pesos (COP).

### HIGHLIGHTS

- 2Q20 results were impacted by the spread of the COVID-19 pandemic and the global economic slowdown. Accumulated net profit reached $346.2 billion, decreasing 54.2% compared to 2019, due to a 55.3% increase in provision expenses, which reached $1.9 trillion.

- COVID-19 pandemic drove the acceleration of the digital transformation process in 2Q20. Both digital loans and deposits doubled in comparison to 2019, while transactions through these channels rose by 30% over the year.

- DaviPlata, our e-wallet, reached 10 million customers as of June 2020, growing 52.0% over the quarter. We continue strengthening our partnerships with various players in the market and actively participating in the payment of subsidies granted by the National and local Governments.

- The 12-months Cost of Risk closed at 2.83%, growing over the quarter and over the year, impacted by higher provision expenses, in anticipation of impacts related to COVID-19.

- Given the current situation, we increased our investment portfolio to strengthen the Bank's liquidity ratios. As of June 2020, our consolidated liquidity coverage ratio stood at 1.55x compared to 1.34x by the end of March.

- We maintained adequate capital levels in accordance with regulations. The total Capital Adequacy Ratio stood at 11.0% by the end of 2Q20 and the Tier I ratio at 7.85%.

- In line with the sustainability strategy, the green financing portfolio reached $1.47 trillion as of June. On the social front, in July, we acquired a subordinated debt for $50 million dollars with the OPEC Fund. This credit will be directed to funding women SMEs, social housing, and sustainable projects. At the same time, it will strengthen the Bank's capital ratios (Tier II).

- During the COVID-19 crisis, we have ensured the continuity of our operation in 6 countries, serving over 16 million customers, with 17,186 employees, 668 branches, and 2,693 ATMs.

## ECONOMIC ENVIRONMENT COLOMBIA

The lockdowns enacted in response to COVID-19 drove the world economy to its worst recession in history. In 2Q20, the U.S. and the Euro Zone recorded a 9.5% and 12.1% annual GDP decline, while China experienced a 3.2% yearly growth, following a 6.8% drop in the first quarter of the year.

During the second quarter, the average Brent oil price fell to USD $29.69 due to the severe reduction in global demand following lockdowns and the initial reluctance of Russia and Saudi Arabia to reach an agreement regarding production cuts. As economies reopened, oil prices rebounded to levels slightly above USD $40 per barrel.

Meanwhile, the Economy Monitoring Indicator (ISE) shows that the Colombian economy contracted by an average of 18.6% between April and May. Although specific indicators revealed that this downward trend is easing as of June, this has been the most significant GDP drop ever recorded in Colombia.

To contain the damaging impact caused by Covid-19, the National Government declared an economic emergency. Under this provision, a new program known as the Formal Employment Support Program (PAEF) was created to help companies pay up to 50% of each employee's minimum wage. The program benefits employers able to prove that they have maintained employment levels during the crisis. Furthermore, an unconditional cash transfer program, known as Solidarity Income, was approved.

In terms of monetary policy, the Central Bank of Colombia continued to pursue its strategy of gradual policy rate cuts, which has been implemented since its March 27th meeting. In April, May, and June, the policy rate was reduced by 50 bps bringing the rate to 2.75% by the end of the first half of 2020.

The COP/USD exchange rate averaged $3,845.8 in the second quarter of the year, exceeding the average for the first three months of 2020. However, the COP appreciated throughout the quarter, closing at $3,758.9 on June 30th, following an increase in oil prices as mentioned above and a less turbulent international environment relative to the turmoil recorded between mid-March and early April.

Three main developments marked the fiscal scene. Fitch rating agency reduced Colombia's credit risk rating from BBB to BBB- with a negative outlook. The rating agency's concerns stem from a sharp rise of public debt, potential obstacles to pass needed fiscal reforms aimed at reducing it, and the lower expectations of economic growth in the coming years.

In addition, the Fiscal Rule Advisory Committee decided to invoke the suspension clause of the fiscal rule for 2020 and 2021, committing to return to a deficit trajectory consistent with the standards established in the Fiscal Rule as of 2022. Finally, the Ministry of Finance published the Medium-Term Fiscal Framework on June 26th, projecting an increase in the fiscal deficit target estimated for this year (2.2%) to 8.2%.

## ECONOMIC ENVIRONMENT CENTRAL AMERICA

The first cases of COVID-19, in Central America, were recorded in March. That same month, countries started to implement measures to contain the disease spread, which resulted in an adverse economic balance, reflected in the economic slowdown recorded in the first quarter of the year for the region.

The Gross Domestic Product fell by 1.5% year-over-year in Honduras, the most affected country, followed by a 0.4% annual growth in Panama and a 0.8% yearly increase in Costa Rica and El Salvador.

The service industries were the most harmed in the region, particularly tourism, restaurants, education, and trade. These results were partially offset by the performance of agricultural activities in most countries and the manufacturing industry in Costa Rica, mainly of medical supplies, which showed the highest resilience in the first quarter of the year.

Annual contractions of economic activity were more significant in April and May. According to the IMAE-IVAE indexes, economic activity in Honduras went down by 13.6% on average for these two months, while it fell by 15,3% in El Salvador, and 7,1% in Costa Rica. Each country resorted to different restriction schemes to prevent the spread of COVID-19, the most severe being those enacted in El Salvador, Honduras, and Panama, as opposed to the Costa Rican model.

In line with declining economic activity, inflation in the region slowed down. The average annual inflation in Costa Rica for the second quarter of 2020 was 0.6%, while in El Salvador it was -0.74% and in Honduras 2.76%. Panama's last inflation report was published at the end of March and showed an average inflation of -0.15% for the first quarter of the year.

In Costa Rica, low and stable inflation enabled the Central Bank to continue its growth-oriented policy to counteract the economic slowdown. In this sense, the monetary policy rate was slashed to 0.75% in June to provide an unprecedented stimulus since the Central Bank adopted the inflation-targeting framework. In Honduras, the monetary policy rate remained at 4.50% during 2Q20, but it was reduced to 3.75% in early August.

The Costa Rican Colon averaged ₡573.66 during the second quarter of the year and accumulated a 1.78% depreciation relative to the end of 2019. In Honduras, the Lempira recorded an accumulated depreciation of 0.32% at the end of the second quarter, and it averaged L24.97 between April and June.

Finally, Fitch downgraded Costa Rica's risk rating from "B+" to "B" in May and Standard & Poor's from "B+" to "B" in June. On the other hand, Standard & Poor's revised Panama’s outlook to negative, as Fitch did the same for El Salvador’s perspective, and Moody’s for Costa Rica’s outlook. The former is mainly attributed to a limited capacity of response to the current crisis in some countries.

## MAIN CONSOLIDATED FIGURES:

**Statement of Financial Condition**

| (COP billion) | | | | % Chg. | |
|---|---|---|---|---|---|
| **Assets** | **Jun. 19** | **Mar. 20** | **Jun. 20** | **Q/Q** | **Y/Y** |
| Cash and Interbank Funds | 10,643 | 12,661 | 13,664 | 7.9 | 28.4 |
| Investments | 11,864 | 14,070 | 16,114 | 14.5 | 35.8 |
| Gross Loan Portfolio | 91,266 | 109,422 | 109,543 | 0.1 | 20.0 |
| Loan Loss Reserves | -4,206 | -4,617 | -5,058 | 9.6 | 20.3 |
| Property, Plant and Equipment | 1,839 | 1,807 | 1,760 | -2.6 | -4.2 |
| Other Assets | 4,809 | 6,283 | 6,125 | -2.5 | 27.4 |
| **Total Assets** | **116,214** | **139,625** | **142,148** | **1.8** | **22.3** |
| **Liabilities** | | | | | |
| Repos and Interbank Liabilities | 2,631 | 469 | 3,585 | 100.0 | 36.3 |
| Demand Deposits | 38,167 | 49,416 | 51,928 | 5.1 | 36.1 |
| Term Deposits | 34,188 | 37,383 | 36,373 | -2.7 | 6.4 |
| Bonds | 11,167 | 13,377 | 13,208 | -1.3 | 18.3 |
| Credits | 12,083 | 19,098 | 17,758 | -7.0 | 47.0 |
| Other Liabilities | 6,124 | 6,976 | 6,394 | -8.3 | 4.4 |
| **Total Liabilities** | **104,360** | **126,720** | **129,246** | **2.0** | **23.8** |
| **Equity** | | | | | |
| Non-controlling Interest | 96 | 146 | 133 | -9.0 | 38.8 |
| Equity | 11,759 | 12,760 | 12,769 | 0.1 | 8.6 |
| Total Equity | 11,854 | 12,905 | 12,902 | 0.0 | 8.8 |
| **Total Liabilities and Equity** | **116,214** | **139,625** | **142,148** | **1.8** | **22.3** |

| **Income Statement** | **Quarterly Figures** | | | **% Chg.** | | **Accum. Figures** | | **% Chg.** |
|---|---|---|---|---|---|---|---|---|
| (COP billion) | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** | **Jun. 19** | **Jun. 20** | **Y/Y** |
| Interest Income | 2,611 | 2,815 | 3,047 | 8.2 | 16.7 | 5,258 | 5,862 | 11.5 |
| Loans | 2,371 | 2,695 | 2,720 | 0.9 | 14.7 | 4,753 | 5,415 | 13.9 |
| Investments | 211 | 90 | 303 | 100.0 | 43.5 | 450 | 393 | -12.7 |
| Other Income | 28 | 31 | 24 | -21.9 | -15.0 | 55 | 54 | -0.2 |
| Financial Expenses | 995 | 1,063 | 1,074 | 1.1 | 7.9 | 1,945 | 2,137 | 9.9 |
| Gross Financial Margin | 1,616 | 1,752 | 1,973 | 12.6 | 22.1 | 3,313 | 3,725 | 12.4 |
| Net Provision Expenses | 620 | 885 | 979 | 10.6 | 57.8 | 1,200 | 1,865 | 55.3 |
| Net Interest Margin | 995 | 867 | 994 | 14.6 | -0.1 | 2,113 | 1,861 | -11.9 |
| Operating Income | 345 | 314 | 279 | -11.1 | -19.2 | 656 | 593 | -9.6 |
| Operating Expenses | 892 | 981 | 1,039 | 6.0 | 16.5 | 1,760 | 2,020 | 14.8 |
| Exchange and Derivatives | -15 | 132 | -90 | -100.0 | -100.0 | -14 | 42 | 100.0 |
| Other Income and Expenses, net | 18 | -17 | -20 | -17.0 | -100.0 | 2 | -36 | -100.0 |
| Income Before Taxes | 451 | 316 | 124 | -60.8 | -72.5 | 996 | 440 | -55.9 |
| Income Tax | 89 | 91 | 2 | -97.4 | -97.4 | 241 | 93 | -61.3 |
| **Net Profit** | **362** | **225** | **122** | **-45.9** | **-66.4** | **755** | **346** | **-54.2** |

## MAIN RATIOS

| 12 Months | 2Q19 | 1Q20 | 2Q20 | Bps. Chg Q/Q | Bps. Chg Y/Y |
|---|---|---|---|---|---|
| NIM | 6.52% | 6.28% | 6.29% | 1 | -23 |
| Cost of Risk | 2.46% | 2.50% | 2.83% | 32 | 37 |
| Cost-to-Income | 46.0% | 46.5% | 47.3% | 75 | 128 |
| ROAE | 12.6% | 10.7% | 8.6% | 217 | -404 |
| ROAA | 1.30% | 1.08% | 0.84% | -24 | -46 |

| Annualized Quarter | 2Q19 | 1Q20 | 2Q20 | Bps. Chg Q/Q | Bps. Chg Y/Y |
|---|---|---|---|---|---|
| NIM | 6.46% | 6.11% | 6.39% | 29 | -7 |
| Cost of Risk | 2.72% | 3.24% | 3.58% | 34 | 86 |
| Cost-to-Income | 45.7% | 45.1% | 48.7% | 360 | 303 |
| ROAE | 12.4% | 7.0% | 3.8% | -326 | -868 |
| ROAA | 1.27% | 0.69% | 0.35% | -34 | -92 |

## COVID-19 RESPONSE

The Bank continued with the strategy mentioned in the first quarter of the year, focusing on the business continuity through robust risk management paying special attention to the evolution of liquidity, capital ratios and credit risk. Likewise, the Bank continued offering financial support to its customers through relief measures and different actions aimed to assist them under the current circumstances. The Bank has dedicated resources to guarantee the operation's continuity and protect the life and health of its employees and their families.

We will continue to closely follow the evolution of macroeconomic conditions and analyze the impacts on the business of the potential scenarios, which will depend mainly on the social isolation duration and how the economic rebound takes place at a local and global level.

## DIGITAL TRANSFORMATION

Our e-wallet, DaviPlata, reached 10 million customers by the end of June, rising 52% relative to March and adding 3.4 million customers during this period. Through DaviPlata, we have been able to participate actively in the distribution of more than 5.3 million subsidies granted by the government to Colombians during the COVID-19 crisis.

The bank's ongoing progress in digital transformation resulted in a higher number of digital customers, reaching 81% as of June 2020 compared to the 70% recorded last year. In Colombia, the corresponding figure was 84% and in Central America 45%. The number of digital customers increased 70% annually in the local operation and 30% in the international subsidiaries.

In Colombia, total digital loans and deposits increased by 91% and 111%, reaching an outstanding amount of $2.4 trillion and $1.3 trillion. As of June, digital loan products comprised 9.6% of the consumer portfolio, 3.1 pps higher than the figure recorded in June 2019. During the quarter, the most significant growth was registered by the Personal Mobile Loan product, where we started to disburse resources to self-employed customers with a coverage ratio of 80% by the National Guarantees Fund. Savings Accounts and Term Deposits exhibited the most significant growths among deposit products, increasing 21% and 25%.

In 2Q20 sales through digital channels accounted for 43% of total sales, compared to one year earlier when 34% of sales were digital and to two years ago when all purchases were made through physical channels. Digital channels have also gained ground in terms of transactionality increasing by 30% annually, while the number of branches continued its downward trend standing at 668 branches as of June 2020.

## STATEMENT OF FINANCIAL CONDITION

### Assets

| | Consolidated (COP Billion) | | | | | Colombia (COP Billion) | | | International (USD Million) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | % Chg. | | | % Chg. | | | % Chg. | |
| **Assets** | **Jun. 19** | **Mar. 20** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** |
| Cash and Interbank Funds | 10,643 | 12,661 | 13,664 | 7.9 | 28.4 | 5,890 | 7.4 | 0.7 | 2,070 | 16.9 | 38.4 |
| Investments | 11,864 | 14,070 | 16,114 | 14.5 | 35.8 | 12,187 | 17.7 | 28.4 | 1,387 | 11.8 | 20.1 |
| Gross Loans Portfolio | 91,266 | 109,422 | 109,543 | 0.1 | 20.0 | 87,167 | 2.8 | 19.5 | 5,957 | -1.8 | 4.3 |
| Loan Loss Reserves | -4,206 | -4,617 | -5,058 | 9.6 | 20.3 | -4,396 | 10.8 | 18.5 | -176 | 10.3 | 13.7 |
| Property, Plant and Equipment | 1,839 | 1,807 | 1,760 | -2.6 | -4.2 | 1,250 | -0.2 | -9.1 | 136 | -0.5 | -5.9 |
| Other Assets | 4,809 | 6,283 | 6,125 | -2.5 | 27.4 | 4,782 | -2.0 | 32.0 | 230 | 0.7 | 4.0 |
| Total Assets | 116,214 | 139,625 | 142,148 | 1.8 | 22.3 | 106,880 | 3.9 | 19.3 | 9,603 | 3.5 | 12.0 |

#### Q/Q Performance:

Assets reached $142.1 trillion, growing 1.8% over the quarter. Assets grew 4.0%, excluding the impact of COP appreciation during the quarter (7.36%).

Cash and interbank funds closed at $13.7 trillion, growing 7.9% over the quarter, mainly due to higher interbank funds in Central America (Costa Rica) in order to maintain short-term liquidity. The investment portfolio grew 14.5%, reaching $16.1 trillion, due to a higher position in debt instruments related to mandatory investments in Títulos de Solidaridad (TDS) in Colombia.

Gross loans reached $109.5 trillion, remaining stable over the quarter, as a result of a decrease in the consumer portfolio, compensated by an increase in the commercial and mortgages portfolios. Finally, loan loss reserves closed at $5.1 trillion, 9.6% higher than the previous quarter, reflecting the increase in provision expenses due to the current economic situation.

Y/Y Performance:

Total assets grew 22.3% year over year. Assets increased 15.7%, when excluding the impact of COP depreciation during the year (17.2%).

Cash and interbank funds increased by 28.4%, due to an increase in interbank funds in Central America, consistent with the quarterly dynamics. The investment portfolio grew 35.8%, mainly due to an increase in liquidity reserve and a higher position in debt securities in Colombia.

Gross loans grew 20.0% over the year, led by the commercial and consumer portfolios, which grew 18.0% and 28.5%, respectively, due to the loan growth recorded in the second half of 2019 and corporate disbursements made during the first quarter of the year. Finally, consolidated loan loss reserves grew 20.3% in anticipation of future deteriorations in Colombia and the subsidiaries.

## Gross Loans

| | Consolidated (COP Billion) | | | | | Colombia (COP Billion) | | | International (USD Million) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | % Chg. | | | % Chg. | | | % Chg. | |
| **Gross Loans** | **Jun. 19** | **Mar. 20** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** |
| Commercial | 45,911 | 53,411 | 54,168 | 1.4 | 18.0 | 42,348 | 5.9 | 17.8 | 3,147 | -4.9 | 1.3 |
| Consumer | 23,702 | 31,167 | 30,458 | -2.3 | 28.5 | 24,846 | -1.6 | 28.9 | 1,494 | 2.3 | 8.1 |
| Mortgage | 21,653 | 24,845 | 24,918 | 0.3 | 15.1 | 19,973 | 2.0 | 12.7 | 1,316 | 1.4 | 7.4 |
| Total | 91,266 | 109,422 | 109,543 | 0.1 | 20.0 | 87,167 | 2.8 | 19.5 | 5,957 | -1.8 | 4.3 |

Q/Q Performance:

As of June 2020, gross loans reached $109.5 trillion, remaining stable compared to the previous quarter, as a result of a reduction in the consumer portfolio due to lower economic dynamism in Colombia and Central America, which was offset by an increase in the commercial and mortgage portfolios. Gross loans grew 1.9%, excluding the impact of COP appreciation during the quarter (7.36%).

The consolidated commercial portfolio grew 1.4%, primarily led by the SMEs segment with a 9.1% growth rate, explained by disbursements related to support initiatives devised for companies to help them with payroll funding, working capital, among other fronts amid the COVID crisis. These lines consist of loans backed by the National Guarantee Fund, or credit promoted by second-floor banks, such as Bancóldex, Findeter and Finagro.

The consumer portfolio decreased by 2.3%. The exchange rate effect explains 1.3 pps of this reduction. In the Colombian operation, payroll loans and credit cards reduced their outstanding amounts due to the COVID-19 crisis. This result was offset by the increase in unsecured personal loans, granted mainly to independent workers with coverage from the National Guarantee Fund, to provide them with ongoing support.

The consolidated mortgage portfolio grew 0.3%, due to a greater extent to the leasing portfolio growth in Colombia.

In Central America, gross loans reached 5.9 billion USD, decreasing 1.8% over the quarter. The 4.9% reduction in the commercial portfolio was explained by the lower dynamism in Panama's disbursements, followed by Costa Rica and El Salvador. The consumer and mortgage portfolios increased by 2.3% and 1.4%, respectively.

Y/Y Performance:

Over the year, consolidated gross loans rose 20.0%, driven by the increase in the commercial and consumer portfolios. As mentioned before, this growth is mostly explained by the portfolio dynamics during the second half of 2019. Gross loans grew 13.9%, when excluding the impact of COP depreciation during the year (17.2%).

The consolidated commercial portfolio grew 18.0%, mainly due to disbursements made during the first quarter to corporate clients in lower risk sectors such as energy, telecommunications, and retailers.

The consumer portfolio increased by 28.5%, leveraged by the deepening strategy of customers with lower risk profiles in the second half of 2019. In addition, initiatives to support self-employees backed by the National Guarantee Fund with coverage up to 80%, contributed to annual growth. In Colombia, unsecured personal loans led among the products of this segment in terms of growth, followed by credit cards.

The mortgage portfolio grew 15.1%, due to residential housing especially in Colombia, where the portfolio increased by 19%. Leasing also contributed to annual growth, aligned with the quarterly results.

In international subsidiaries, gross loans in USD grew 4.3%, explained by the consumer portfolio (8,1%), mortgage portfolio (7,4%), and commercial portfolio with a growth of (1,3%). Credit cards and payroll loans in Honduras and El Salvador drove the consumer portfolio dynamics.

## Asset Quality and Coverage

| | Consolidated | | | Colombia | | | International | | |
|---|---|---|---|---|---|---|---|---|---|
| **PDL** | **2Q19** | **1Q20** | **2Q20** | **2Q19** | **1Q20** | **2Q20** | **2Q19** | **1Q20** | **2Q20** |
| Commercial | 4.22% | 3.81% | 3.77% | 4.97% | 4.67% | 4.51% | 1.53% | 1.23% | 1.11% |
| Consumer | 2.35% | 2.07% | 0.75% | 2.23% | 1.96% | 0.40% | 2.85% | 2.55% | 2.30% |
| Mortgage | 4.02% | 4.41% | 4.07% | 4.21% | 4.70% | 4.22% | 3.14% | 3.33% | 3.46% |
| Total (90)[1] | 3.68% | 3.45% | 3.00% | 4.06% | 3.87% | 3.27% | 2.19% | 2.00% | 1.93% |
| | | | | | | | | | |
| Mortgage (120) | 3.17% | 3.50% | 3.81% | 3.26% | 3.64% | 3.94% | 2.77% | 2.98% | 3.26% |
| Total (120)[2] | 3.48% | 3.25% | 2.94% | 3.83% | 3.63% | 3.21% | 2.11% | 1.92% | 1.89% |

[1] Total (90): Portfolio > 90 days / Gross loan portfolio.
[2] Total (120) includes: (Mortgage>120 days + Commercial> 90 days + Consumer> 90 days) / Gross loan portfolio.

| Portfolio | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Commercial | 45,447 | 5,904 | 2,817 | 54,168 |
| Consumer | 22,455 | 7,777 | 226 | 30,458 |
| Mortgage | 20,306 | 3,815 | 797 | 24,918 |
| **Total** | **88,208** | **17,496** | **3,840** | **109,543** |

Q/Q Performance:

As of June 2020, 90 days consolidated PDL ratio closed at 3.00%, decreasing 45 bps compared to the previous quarter. This is mainly explained by deferrals related to the COVID crisis.

The commercial portfolio PDL ratio stood at 3.77% in 2Q20, decreasing 4 bps relative to the previous quarter. In Colombia, the reduction is explained by the portfolio's growth and lower PDL formation due to deferrals. PDL ratio for the subsidiaries in Central America declined due to the implementation of reliefs and performance of the business segment in Costa Rica.

The consumer portfolio PDL ratio closed at 0.75%, decreasing 132 bps over the quarter. In Colombia, this behavior reflects relief measures and portfolio write-offs. The indicator decreased in international subsidiaries due to lower outstanding amount of past-due loans recorded on unsecured personal loans and credit cards in Costa Rica.

90 and 120 days PDL ratios for mortgage loans closed at 4.07% and 3.81%, respectively. The 90 days PDL ratio decreased 35 bps over the quarter due to reliefs granted and the growth dynamics of the portfolio in Colombia. On the other hand, the 120 days PDL increased by 31 bps relative to the figure recorded in 1Q20 due to the loan portfolio deterioration from customers who could not be covered by relief programs according to local regulation in Colombia. In international subsidiaries Panama's PDLs reflect higher levels of risk in particular segments.

In 2Q20, write-offs reached $514 billion, decreasing by 12.7% over the quarter.

| **Write-offs** | **Quarterly Figures** | | | **% Chg.** | |
|---|---|---|---|---|---|
| (COP billion) | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** |
| Total write-offs | 467 | 589 | 514 | -12.7 | 10.1 |

Y/Y Performance:

90 days consolidated PDL ratio decreased by 69 bps over the year due to the growth dynamic of the portfolio and the implementation of reliefs and write-offs, both in Colombia and Central America over 2Q20.

The commercial portfolio PDL ratio reduced by 45 bps relative to the previous year, mainly due to year to date growth in Colombia and reliefs in Central America. The ratio declined 46 bps in Colombia and 41 bps in Central America.

The consumer portfolio PDL ratio diminished 159 bps over the year. In Colombia, this ratio decreased by 183 bps, mainly as a result of reliefs, accelerated portfolio growth, and write-offs. In Central America, the indicator was reduced by 55 bps, mainly due to the increase in the portfolio, lower past-due loans related with the deferrals and the payment dynamics in Costa Rica and El Salvador, relative to 2Q19.

The 90 and 120 days PDL ratios for consolidated mortgage loans increased 5 and 64 bps, respectively, relative to 2Q20. In Colombia, 90 and 120 days PDL ratios deteriorated by 1 and 68 bps, mainly due to the increase in past-due loans relative to portfolio growth during the last 12 months, as well as loan securitizations. On the other hand, in the international operation, the ratios increased 32 and 50 bps, respectively, due to the deterioration of a particular portfolio segment in Panama.

Write-offs increased 10.1% over the year, reflecting higher write-offs in the consumer and mortgage segments in Colombia.

| **Write-offs** | **Accumulated Figures** | | **% Chg.** |
|---|---|---|---|
| (COP billion) | **Jun. 19** | **Jun. 20** | **Y/Y** |
| Write-offs | 920 | 1,104 | 19.9 |

## Coverage

| | **Coverage[3]** | | | **Total Reserves Coverage[4]** | | |
|---|---|---|---|---|---|---|
| **Coverage** | **2Q19** | **1Q20** | **2Q20** | **2Q19** | **1Q20** | **2Q20** |
| Commercial | 122.0% | 118.5% | 128.2% | 136.6% | 142.3% | 150.0% |
| Consumer | 271.4% | 274.4% | 821.3% | 291.8% | 305.8% | 966.5% |
| Mortgage | 38.3% | 39.5% | 55.6% | 68.3% | 62.4% | 74.8% |
| Total | 125.1% | 122.3% | 154.1% | 144.6% | 147.0% | 183.7% |

### Q/Q Performance:

The coverage ratio closed 2Q20 at 154.1%, increasing 318 bps relative to the previous quarter, and the total reserves coverage ratio stood at 183.7%, increasing 366 bps relative to 1Q20. In both periods, the ratio reflects the increase in asset allowances and equity reserves, as well as the effect of reliefs granted to customers from different portfolios.

Increases in loan loss reserves and equity reserves are driven by updates on economic scenarios, adjustments on stage classifications, and individual analysis allocating customers with higher risk into the stage 2.

### Y/Y Performance:

Coverage and Total Reserves Coverage ratios increased by 290 and 391 bps, respectively, due to increased loan loss reserve and equity reserves year to date. Additionally, due to the reliefs granted to our customers, the outstanding amount of past-due loans decreased driven by the consumer and mortgage portfolio dynamics.

## Funding Sources

| | Consolidated (COP Billion) | | | | | Colombia (COP Billion) | | | International (USD Million) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | % Chg. | | | % Chg. | | | % Chg. | |
| **Funding Sources** | **Jun. 19** | **Mar. 20** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** | **Jun. 20** | **Q/Q** | **Y/Y** |
| Demand deposits | 38,167 | 49,416 | 51,928 | 5.1 | 36.1 | 39,243 | 4.6 | 30.5 | 3,377 | 15.0 | 33.8 |
| Term deposits | 34,188 | 37,383 | 36,373 | -2.7 | 6.4 | 25,274 | 2.6 | 0.9 | 2,955 | -6.0 | 3.5 |
| Bonds | 11,167 | 13,377 | 13,208 | -1.3 | 18.3 | 11,184 | -3.8 | 12.5 | 539 | 25.0 | 40.8 |
| Credits | 12,083 | 19,098 | 17,758 | -7.0 | 47.0 | 12,718 | -5.6 | 69.5 | 1,342 | -3.2 | -6.1 |
| Total | 95,605 | 119,274 | 119,267 | 0.0 | 24.7 | 88,419 | 1.3 | 21.9 | 8,212 | 4.0 | 14.2 |

### Q/Q Performance:

As of June 2020, funding sources reached $119.3 trillion, remaining stable compared to the previous quarter, mainly due to the reduction in credits with entities (7.0%), term deposits (2.7%) and bonds (1.3%), offsetting the increase in demand deposits (5.1%). Funding sources grew 2.6%, excluding the impact of COP appreciation over the quarter (7.36%).

Demand deposits and term deposits closed at $51.9 and $36.4 trillion, respectively. In Colombia, demand deposits increased by 4.6% and term deposits by 2.6%. In Central America, demand deposits grew 15.0% while term deposits were reduced by 6.0%.

Bonds reached an outstanding amount of $13.2 trillion in 2Q20, decreasing 1.3% over the quarter. In Colombia, $444 billion in debt securities matured, explaining the 3.8% contraction in bonds. In Central America, bonds increased 25.0% as a result of the US$146 million issuance in Costa Rica and maturities amounting to US$36 million in the same country.

Credits with entities reached $17.8 trillion and decreased by 7.0%. In Colombia, the accelerated reduction of credits with foreign financial entities offset the acquisition of new obligations with multilateral organizations, reducing the outstanding amount of credit with entities by 5.6%. In Central America, the credit with entities were reduced by 3.2% due to maturities in Costa Rica and Panama.

Loans to funding ratio stood at 91.8%, 11 pps above the 1Q20 figure, due to the higher growth of funding sources compared to gross loans.

### Y/Y Performance:

Funding sources grew 24.7% over the year as a result of increased demand deposits and credits with entities during the first quarter of the year. Funding sources increased by 18.2%, excluding the impact of COP depreciation over the year (17.2%).

In Colombia, deposits increased mainly driven by a 30.5% growth in demand deposits, while term deposits increased by 0.9%. In the Central American operation, demand deposits grew by 33.8%, whereas term deposits increased by 3.5%.

Bonds increased 18.3% primarily due to the 12.5% growth in Colombia and 40.8% rise in Central America.

Credits with entities increased 47.0%, driven by the Colombian operation where credits increased by 69.5% due to the financial obligations acquired over the first and second quarters of the year. In Central America, credits decreased by 6.1% due to loan settlements and reduced financial commitments.

Due to the higher growth of funding sources over the year compared to gross loans, the loans to funding ratio decreased 3.6 pps during the year.

## Equity and Regulatory Capital

| **Total Regulatory Capital and Risk Weighted Assets** (COP Billion) | **Consolidated** 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y |
|---|---|---|---|---|---|
| Equity | 11,854 | 12,905 | 12,902 | 0.0 | 8.8 |
| Common Equity Tier I Capital | 8,718 | 9,972 | 9,805 | -1.7 | 12.5 |
| Tier II Capital | 3,486 | 3,948 | 3,942 | -0.1 | 13.1 |
| Total Regulatory Capital | 12,205 | 13,920 | 13,747 | -1.2 | 12.6 |
| Risk Weighted Assets | 97,936 | 117,293 | 117,847 | 0.5 | 20.3 |
| Capital Adequacy Ratio | 11.91% | 11.29% | 11.00% | -29 bps | -91 bps |
| Tier I | 8.51% | 8.08% | 7.85% | -24 bps | -66 bps |
| Tier II | 3.40% | 3.20% | 3.15% | -5 bps | -25 bps |

Q/Q Performance:

Consolidated equity closed at $12.9 trillion as of June 2020, remaining stable relative to the previous quarter.

The total capital adequacy ratio reached 11.00%, 29 bps lower than in 1Q20, mainly due to higher risk-weighted assets and a reduced weighting of subordinated debt, offset by the acquisition of a USD 50 million Tier II credit of with the OPEC Fund for International Development.
Considering that the minimum requirement under Colombian regulation is 9%, the total capital adequacy ratio stood 200 bps above this threshold. On the other hand, Tier I ratio decreased by 24 bps to 7.85% mainly due to increased risk weighted assets during the quarter.

As of June 2020, the density[3] of risk-weighted assets stood at 82.9%, declining 1.1 pps relative to 1Q20 figure (84.0%).

Y/Y Performance:

Consolidated equity grew 8.8% year over year, as a result of higher reserves during the first quarter of the year.

The total capital adequacy ratio decreased 91 bps, mainly due to the 23.0% increase in risk-weighted assets during the year. Tier I ratio declined 66 bps relative to 2Q19.

Risk-weighted assets density decreased 1.3 pps relative to 2Q19 figure (84.3%).

[3] Risk-Weighted Assets' Density: RWAs by Credit Risk / Total Assets.

| Income Statement | Quarterly Figures | | | % Chg. | | Accumulated Figures | | % Chg. |
|---|---|---|---|---|---|---|---|---|
| (COP billion) | 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y | Jun. 19 | Jun. 20 | Y/Y |
| Interest Income | 2,611 | 2,815 | 3,047 | 8.2 | 16.7 | 5,258 | 5,862 | 11.5 |
| Loan Income | 2,371 | 2,695 | 2,720 | 0.9 | 14.7 | 4,753 | 5,415 | 13.9 |
| Commercial | 897 | 991 | 1,052 | 6.2 | 17.3 | 1,852 | 2,043 | 10.3 |
| Consumer | 864 | 1,066 | 1,031 | -3.2 | 19.4 | 1,695 | 2,097 | 23.7 |
| Mortgage | 611 | 638 | 636 | -0.2 | 4.2 | 1,206 | 1,274 | 5.7 |
| Investment Income | 211 | 90 | 303 | 100.0 | 43.5 | 450 | 393 | -12.7 |
| Other Income | 28 | 31 | 24 | -21.9 | -15.0 | 55 | 54 | -0.2 |
| Financial Expenses | 995 | 1,063 | 1,074 | 1.1 | 7.9 | 1,945 | 2,137 | 9.9 |
| Demand Deposits | 200 | 232 | 241 | 3.8 | 20.3 | 389 | 473 | 21.8 |
| Term Deposits | 410 | 429 | 407 | -5.0 | -0.7 | 798 | 836 | 4.9 |
| Credits | 146 | 148 | 166 | 12.4 | 13.6 | 287 | 314 | 9.5 |
| Bonds | 192 | 217 | 220 | 1.3 | 14.4 | 378 | 437 | 15.8 |
| Other Expenses | 46 | 36 | 39 | 8.3 | -14.1 | 94 | 76 | -19.4 |
| Gross Financial Margin | 1,616 | 1,752 | 1,973 | 12.6 | 22.1 | 3,313 | 3,725 | 12.4 |
| Net Provision Expenses | 620 | 885 | 979 | 10.6 | 57.8 | 1,200 | 1,865 | 55.3 |
| Net Interest Margin | 995 | 867 | 994 | 14.6 | -0.1 | 2,113 | 1,861 | -11.9 |
| Operating Income | 345 | 314 | 279 | -11.1 | -19.2 | 656 | 593 | -9.6 |
| Operating Expenses | 892 | 981 | 1,039 | 6.0 | 16.5 | 1,760 | 2,020 | 14.8 |
| Personnel Expenses | 375 | 413 | 401 | -2.9 | 6.9 | 754 | 815 | 8.0 |
| Operation Expenses | 351 | 388 | 445 | 14.8 | 26.7 | 674 | 832 | 23.5 |
| Other Expenses | 166 | 180 | 193 | 7.5 | 16.6 | 331 | 373 | 12.4 |
| Exchange and Derivatives | -15 | 132 | -90 | -100.0 | -100.0 | -14 | 42 | 100.0 |
| Other Income and Expenses, net | 18 | -17 | -20 | -17.0 | -100.0 | 2 | -36 | -100.0 |
| Income before Taxes | 451 | 316 | 124 | -60.8 | -72.5 | 996 | 440 | -55.9 |
| Income Tax | 89 | 91 | 2 | -97.4 | -97.4 | 241 | 93 | -61.3 |
| **Net Profit** | **362** | **225** | **122** | **-45.9** | **-66.4** | **755** | **346** | **-54.2** |

## Net Profit

### Quarterly figures

### Q/Q Performance:

Net income for 2Q20 reached $121.6 billion, decreasing 45.9% relative to 1Q20, due to higher provision and operating expenses along with lower operating income. Consequently, the annualized quarter return on average equity (ROAE) decreased 3.26 pps from 7.0% to 3.8%.

Income from exchange and derivatives during the quarter showed a negative behavior mainly driven by derivatives on investment securities in local currency in Colombia, offset by the income associated with the Bank's investment strategy.

Net income in Colombia was $64.4 billion, decreasing 51.8% relative to the previous quarter. The gross financial margin increased by 14.7%, driven by investment income, which increased due to the recovery of the financial markets. However, higher provisions expenses, the growth of operating expenses and lower operating income impacted the results leading to lower net income.

In Central America, net income reached 14.4 million USD as of June 2020, decreasing 43.7% over the quarter. This result is explained by lower income from foreign exchange and derivatives, given the impact of the Colon appreciation on the CRC/USD hedging strategy. The gross financial margin decreased by 4.4%, due to lower investment income (-15.1%), which offsets the effect of the 0.6% increase in portfolio income.

## Y/Y Performance:

Consolidated profits decreased 66.4% over the year as a result of higher provision and operating expenses. Also, profits were affected by lower income related to the reduction in fees. As a result, the annualized-quarter ROAE decreased 8.68 pps relative to 2Q19.

Loan income in the Colombian operation increased by 13.2%. Investment income grew 49.3%, driven by the appreciation of public and private debt on the stock markets. Provision expenses increased by 43.4%, leading to a reduction in the net financial margin of 4.3%. Moreover, higher operating expenses and lower operating income resulted in a 78.6% decline in net profits on an annual basis.

In international subsidiaries, net profits in USD decreased by 23.1%. On the one hand, provision expenses increased by 11.4% leading to a 4.3% decrease in the net financial margin. On the other hand, operating income decreased by 20.5% due to lower commission and services income.

## Accumulated figures

## Y/Y Performance:

Accumulated profits decreased 54.2% over the year despite the 12.4% increase in the gross financial margin compared to the accumulated figure as of June 2019. This reduction was mainly driven by higher provision (45.1%) and operating expenses (14.8%) year to date. The 12-months ROAE was 8.57% by the end of 2Q20, 4 pps lower than the previous year.

In the Colombian operation, loan income increased 12.8%, leading to the 10.7% growth of the gross financial margin. However, provision expenses increased, while commissions income decreased, and operating expenses grew, impacting net profits, which declined by 69.3%.

In the international subsidiaries, accumulated profits increased 15.3% in USD, due to the 1.4% growth in the net financial margin and the higher net income from foreign exchange and derivatives throughout the year. This increase, explained by the CRC/USD hedging strategy, offset the higher provision and operating expenses.

## Gross Financial Margin

| Gross Financial Margin | Quarterly Figures | | | % Chg. | | Accumulated Figures | | % Chg. |
|---|---|---|---|---|---|---|---|---|
| (COP billion) | 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y | Jun. 19 | Jun. 20 | Y/Y |
| Loan Income | 2,371 | 2,695 | 2,720 | 0.9 | 14.7 | 4,753 | 5,415 | 13.9 |
| Investments and Interbank Income | 240 | 120 | 327 | 100.0 | 36.7 | 505 | 448 | -11.3 |
| Financial Income | 2,611 | 2,815 | 3,047 | 8.2 | 16.7 | 5,258 | 5,862 | 11.5 |
| Financial Expenses | 995 | 1,063 | 1,074 | 1.1 | 7.9 | 1,945 | 2,137 | 9.9 |
| Gross Financial Margin | 1,616 | 1,752 | 1,973 | 12.6 | 22.1 | 3,313 | 3,725 | 12.4 |

### Quarterly figures

### Q/Q Performance:

The consolidated gross financial margin reached $2.0 trillion in 2Q20, growing 12.6% over the quarter, as a result of higher investment income in Colombia and portfolio income in Central America, which exceeded the 1.1% increase in financial expenses.

In Colombia, the gross financial margin increased by 14.7% relative to the previous period, even though loan income decreased 0.9% affected by the reduction in consumer and mortgage portfolio income. This growth is mainly explained by a decrease in the financial expenses of term deposits (-7.0%) and the increase in investment income related to an appreciation of public debt securities in the market.

In the international subsidiaries, the gross financial margin decreased 4.4% in USD due to a 15.1% decrease in investment income and money market hedge. This result offsets the growth of the portfolio income (0.6%) and the reduction of financial expenses (-1.5%).

The annualized-quarter NIM closed at 6.39%, with an increase of 21 bps relative to 1Q20, as a result of the higher growth of the gross financial margin in the same period.

| NIM | | | | Bps. Chg | |
|---|---|---|---|---|---|
| Annualized Quarter | 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y |
| Total NIM | 6.46% | 6.11% | 6.39% | 29 | -7 |

### Y/Y Performance:

As of 2Q20, loan income increased 14.7%, investment income 43.5%, while financial expenses grew 7.9%. As a result, the gross financial margin increased 22.1% over the year.

In Colombia, loan income increased by 13.2% due to portfolio growth during the year. Investment income increased by 49.3% as a result of the appreciation of public debt securities. The growth in financial expenses (5.0%) was mainly driven by the interest in credits with entities (33.1%) and bond expenses (12.7%), these last are related to the bond issuances made in 1Q20 resulting in a higher outstanding amount. This explains the 22.3% increase in the gross financial margin.

In the international operation, the gross financial margin increased by 2.0% in USD over the year, explained by the growth of loan income led by the commercial segment (1.8%) and a 6.5% increase in investment income related to the appreciation of debt instruments. Financial expenses were reduced by 0.5% due to lower interest expenses on credits with entities.

The annualized-quarter NIM decreased 7 bps relative to the previous year due to the higher productive assets growth over the last year, compared to the increase in gross financial margin during the same period.

### Accumulated Figures

### Y/Y Performance:

The gross financial margin as of June 2020 closed at $3.7 trillion, increasing 14.4% compared to the previous year, mainly driven by a higher loan income led by the growth of the commercial (10.4%) and consumer (23.7%) loan portfolios income.

In Colombia, the accumulated gross financial margin reached $3.0 trillion, growing 10.7% as a result of higher income from the consumer and commercial portfolios given growth dynamics year to date. Investment income decreased 27.0% as a result of valuation changes in Tips and public debt instruments devaluation during the first quarter of the year. Lastly, financial expenses increased 7.6%.

In the international subsidiaries, gross financial margin totaled $187.4 million USD, increasing 4.3%. Consumer and mortgage portfolios' contributed the most to the income increase. Investment income increased 14.2% mainly due to higher yields on securities during the year.

12-months NIM closed at 6.29% in 2Q20, decreasing 23 bps relative to the figure recorded in 2Q19. The percentage growth of productive assets over the past 12 months exceeded the gross financial margin growth.

| **NIM** | | | | **Bps. Chg** | |
|---|---|---|---|---|---|
| 12 Months | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** |
| Total NIM | 6.52% | 6.28% | 6.29% | 1 | -23 |

## Provision Expenses

| **Provision Expenses** | **Quarterly Figures** | | | **% Chg.** | | **Accumulated Figures** | | **% Chg.** |
|---|---|---|---|---|---|---|---|---|
| (COP billion) | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** | **Jun. 19** | **Jun. 20** | **Y/Y** |
| Provision for credit losses | 765 | 1,023 | 1,084 | 6.0 | 41.8 | 1,453 | 2,107 | 45.1 |
| Loan recoveries | 137 | 137 | 105 | -23.5 | -23.4 | 245 | 243 | -1.1 |
| Net loan sales | 7 | 0 | 0 | 0.0 | -100.0 | 7 | 0 | -100.0 |
| **Net Provision Expenses** | **620** | **885** | **979** | **10.6** | **57.8** | **1,200** | **1,865** | **55.3** |

## Quarterly figures

### Q/Q Performance:

Gross consolidated provision expenses went up to $1.1 trillion in 2Q20, growing 6% relative to the previous quarter. This growth is related to updates in the expected credit loss model, including updated economic parameters, adjustments in stages classification, individual analysis to significant customers, as well as model calibration.

Loan recoveries decreased by 23.5%, mainly explained by customer relief measures and the economic slowdown in Colombia and Central America, which hinder the recovery process.

Provision expenses (net of recoveries) in 2Q20 closed at $979 billion, 10.6% higher than the previous quarter.

Consequently, annualized Cost of Risk closed at 3.58%, rising 34 bps relative to 1Q20.

| **Cost of Risk** | | | | **Bps. Chg** | |
|---|---|---|---|---|---|
| Annualized Quarter | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** |
| CoR | 2.72% | 3.24% | 3.58% | 34 | 86 |

### Y/Y Performance:

Over the last year, consolidated gross provision expenses grew 41.8%. In Colombia, provisions increased 43.4% due to higher provisions mainly in the consumer and the commercial portfolio. In international subsidiaries, gross provision expenses increased by 11.4%.

Consolidated loan recoveries decreased 23.4% in line with the quarter, which was mainly influenced by the slowdown of the economy which hinders recoveries. In Colombia, recoveries decreased 57,5% and in Central America there was a reduction of 3.3%.

Consequently, provision expenses (net of recoveries) in 2Q20 grew 57.8% year over year.

The annualized-quarter cost of risk increased 86 bps relative to 2Q19.

## Accumulated Figures

### Y/Y Performance:

As of June 2020, provision expenses (net of recoveries) reached $1.9 trillion, increasing 55.3% relative to the accumulated figure for the same period in 2019. This performance is the result of increased provision expenses, lower recoveries, and a reduction in portfolio sales.

12-months Cost of Risk[4] closed at 2.83%, increasing 37 bps relative to the figure recorded a year earlier, reflecting increased provision expenses.

[4] 12-months Cost of Risk = Accumulated Provision Expenses (12 months) / Gross Loans (Quarter Balance).

| Cost of Risk 12 months | 2Q19 | 1Q20 | 2Q20 | Bps. Chg Q/Q | Bps. Chg Y/Y |
|---|---|---|---|---|---|
| CoR | 2.46% | 2.50% | 2.83% | 32 | 37 |

## Operating Income

### Quarterly figures

### Q/Q Performance:

Net operating income reached nearly $278.9 billion in 2Q20, decreasing 11.1% quarter over quarter, reflecting mainly lower service income (-38,1%) and net commission income (-9.2%) driven by customers' relief measures during the quarter.

In Colombia, operating income decreased by 9.5% as a result of the reduction in commission income related to the lowering and/or elimination of fees as part of the measures taken during the COVID crisis. In order to support our customers, the bank eliminated some charges related to withdrawals and transfers, along with the handling fee for debit cards during April, May, and June. Commission expenses increased mainly due to the distribution of subsidies through DaviPlata, a field in which Davivienda has been actively participating since the beginning of the crisis.

In Central America, the bank adopted similar actions related to fees. In this sense, operating income decreased by 22.6%, due to lower commission income related to banking services from El Salvador and lower transactional fees, given lower economic activity.

### Y/Y Performance:

Operating income decreased by 19.2%, mainly explained by the reduction in net income derived from commissions and services compared to the figure reported for the same period of the previous year.

In Colombia, operating income decreased by 23.6% and in international subsidiaries by 20.5% as a result of the actions taken by the bank since the first quarter due to COVID-19 crisis.

### Accumulated Figures

### Y/Y Performance:

Accumulated operating income as of June 2020 decreased by 9.6% compared to the previous year, mainly due to lower net commission income related to the fees exemption measures in the context of the COVID-19 crisis.

## Operating Expenses

| Operating Expenses | Quarterly Figures | | | % Chg. | | Accumulated Figures | | % Chg. |
|---|---|---|---|---|---|---|---|---|
| (COP billion) | 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y | Jun. 19 | Jun. 20 | Y/Y |
| Personnel Expenses | 375 | 413 | 401 | -2.9 | 6.9 | 754 | 815 | 8.0 |
| Operating Expenses and Others[5] | 517 | 567 | 638 | 12.5 | 23.5 | 1,006 | 1,205 | 19.8 |
| **Total Expenses** | **892** | **981** | **1,039** | **6.0** | **16.5** | **1,760** | **2,020** | **14.8** |

### Quarterly figures

### Q/Q Performance:

Operating expenses reached $1.0 trillion, increasing by 6.0% relative to the previous quarter, mainly due to higher operating expenses in Colombia.

Operating expenses and others recorded a 12.5% increase concentrated in Colombia, where the growth was 15.6% due to higher administrative expenses, related to higher services during the COVID crisis and the digital transformation. Alongwith donations, insurance policies and deposits insurance expenses increased. Personnel expenses decreased by 2.9%due to lower sales commissions and incentives in Colombia (-5.6%) and Central America (-3.4%).

As a consequence of higher operating expenses, the annualized-quarter cost-to-income ratio for the quarter closed at 48.7%, increasing 360 bps than the figure recorded in 1Q20.

| Cost-to-Income | | | | Bps. Chg | |
|---|---|---|---|---|---|
| Annualized Quarter | 2Q19 | 1Q20 | 2Q20 | Q/Q | Y/Y |
| Cost-to-Income | 45.7% | 45.1% | 48.7% | 360 | 303 |

### Y/Y Performance:

As of June 2020, operating expenses increased by 16.5% compared to the second quarter of 2019, driven by higher operating expenses and others that grew 23.5%. In Colombia, this growth resulted from higher expenses related to the COVID crisis, aligned with the quarterly results. Personnel expenses increased by 6.9% mainly due to the increase in wages implemented in January of every year.

Therefore, the higher consolidated operating expenses over the year resulted in a 303 bps increase of the annualized-quarter cost-to-income ratio relative to the figure recorded in 2Q19.

[5] Other expenses include amortization and depreciation, intangible amortization, taxes and deposits insurance.

### Accumulated Figures

### Y/Y Performance:

Accumulated operating expenses as of June 2020 reached $2.0 trillion, increasing 14.8% compared to the same period of 2019. The increase in expenses was related to the digital strategy and COVID-19 related costs. Excluding these effects, operating expenses grew 8.2% compared to the previous year. Regarding increases in personnel expenses is mainly driven by wage adjustments made during the first quarter.

The 12-months cost-to-income ratio closed at 47.3% by the end of 2Q20 ,increasing 128 bps compared to a year earlier due to the growth of expenses over the past 12 months.

| **Cost-to-Income** | | | | **Bps. Chg** | |
|---|---|---|---|---|---|
| 12 months | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** |
| Cost-to-Income | 46.0% | 46.5% | 47.3% | 75 | 128 |

## Taxes

### Quarterly figures

| **Tax Rate** | | | | **Pps. Chg** | |
|---|---|---|---|---|---|
| Quarter | **2Q19** | **1Q20** | **2Q20** | **Q/Q** | **Y/Y** |
| Effective Tax Rate | 19.8% | 28.9% | 1.9% | -27.0 | -17.9 |

### Q/Q Performance:

The income tax amounting to $2.3 billion in 2Q20, decreased 97.4% over the quarter due to the 60.8% reduction of profits before taxes and the stability in the levels of tax-exempted income along with tax deductions.

### Y/Y Performance:

The income tax decreased 97.4% relative to the second quarter of the previous year as a result of the reduction of profits by 72.5% and the stability in the levels of tax-exempted income.

### Accumulated Figures

### Y/Y Performance:

Accumulated income tax as of June 2020 reached $93.5 billion, decreasing 61.3% compared to the same period of the previous year.

| **Tax Rate** | | | **Pps. Chg** |
|---|---|---|---|
| Accumulated | **Jun. 19** | **Jun. 20** | **Y/Y** |
| Effective Tax Rate | 25.2% | 21.6% | -3.6 |

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